Table of Contents

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

FORM 10-K

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

For the fiscal year ended December 31, 2007
or

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

For the transition period from to

Commission File Number: 001-33294

Fortress Investment Group LLC
(Exact name of registrant as specified in its charter)

Delaware 20-5837959 (State or other jurisdiction of
incorporation or organization) (I.R.S. Employer
Identification No.) 1345 Avenue of the Americas, New York, NY 10105 (Address of principal executive offices)
(Zip Code)
Registrant's telephone number, including area code: (212) 798-6100

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

Title
of each class: Name of exchange on which registered: Class A shares New York Stock Exchange (NYSE)
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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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. (Check One):

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 Exchange Act).
(Check One): Yes No

The aggregate market value of the Class A Shares held by non-affiliates as of June 30, 2007 (computed based on the closing price on such date as reported on the NYSE) was $2.2 billion.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the last practicable date.

Class A shares: 94,597,646 outstanding as of March 24, 2008.

Class B shares: 312,071,550 outstanding as of March 24, 2008.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for the registrant's 2008 annual meeting, to be filed within 120 days after the close of the registrant's fiscal year, are incorporated by reference into Part III of this Annual Report on Form 10-K.

FORTRESS INVESTMENT GROUP LLC
FORM 10-K

INDEX

Table of Contents

As used in this Annual Report on Form 10-K, unless the context otherwise requires:

''Fee Paying Assets Under Management,'' ''Management Fee Paying Assets Under Management,'' or ''MAUM,'' refers to th management fee paying assets we manage, including capital we have the right to call from our investors pursuant to their capital commitments to various funds. We are highlighting MAUM, rather than total assets under management (''AUM''), because it provides insight into our capacity to earn management fees. Our MAUM equals the sum of:

(i) the capital commitments or invested capital (or NAV, if lower) of our private equity funds, depending on which measure management fees are being calculated upon at a given point in time, which in connection with funds raised after March 2006 includes the mark-to-market value of public securities held within the funds,

(ii) the contributed capital of our publicly traded alternative investment vehicles, which we refer to as our ''Castles,''

(iii) the net asset value, or ''NAV,'' of our hedge funds; and

(iv) the NAV of our managed accounts, to the extent management fees are charged.

For each of the above, the amounts exclude assets under management for which we charge either no or nominal fees, generally related to our principal investments in funds as well as investments in funds by our principals, directors and employees.

Our calculation of MAUM may differ from the calculations of other asset managers and, as a result, this measure may not be comparable to similar measures presented by other asset managers. Our definition of MAUM is not based on any definition of assets under management contained in our operating agreement or in any of our Fortress Fund management agreements.

''Fortress,'' ''we,'' ''us,'' ''our,'' and the ''company'' refer, (i) following the consummation of the reorganization and the No transaction on January 17, 2007, collectively, to Fortress Investment Group LLC and its subsidiaries, including the Fortress Operating Group and all of its subsidiaries, and, (ii) prior to the consummation of the reorganization and the Nomura transaction on January 17, 2007, to the Fortress Operating Group and all of its subsidiaries, in each case not including funds that, prior to March 31, 2007, were consolidated funds, except with respect to our historical financial statements and discussion thereof unless otherwise specified. Effective March 31, 2007, all of our previously consolidated funds were deconsolidated. The financial statements contained herein represent consolidated financial statements of Fortress Investment Group LLC subsequent to the reorganization and combined financial statements of Fortress Operating Group, considered the predecessor, prior to the reorganization. See Part II, Item 8, ''Financial Statements and Supplementary Data.''

''Fortress Funds'' and ''our funds'' refers to the private investment funds and alternative asset companies that are managed by the Fortress Operating Group.

''Fortress Operating Group'' refers to the combined entities, which were wholly-owned by the principals prior to the Nomura transaction and in each of which Fortress Investment Group LLC acquired an indirect controlling interest upon completion of the Nomura transaction (described below).

''principals'' or ''Principals'' refers to Peter Briger, Wesley Edens, Robert Kauffman, Randal Nardone and Michael Novogratz, collectively, who prior to the completion of our initial public offering and the Nomura transaction directly owned 100% of the Fortress Operating Group units and following completion of our initial public offering and the Nomura transaction own a majority of the Fortress Operating Group units and all of the Class B shares, representing a majority of the total combined voting power of all of our outstanding Class A and Class B shares. The principals' ownership percentage is subject to change based on, among other things, equity offerings by Fortress and dispositions by the principals.

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements under Part I, Item 1, ‘‘Business,’’ Part I, Item 1A, ‘‘Risk Factors,’’ Part II, Item 7, ‘‘Management’s Discussion and Analysis of Financial Condition and Results of Operations,’’ Part II, Item 7A, ‘‘Quantitative and Qualitative Disclosures About Market Risk’’ and elsewhere in this Annual Report on Form 10-K may contain forward-looking statements which reflect our current views with respect to, among other things, future events and financial performance. Readers can identify these forward-looking statements by the use of forward-looking words such as ‘‘outlook,’’ ‘‘believes,’’ ‘‘expects,’’ ‘‘potential,’’ ‘‘continues,’’ ‘‘may,’’ ‘‘will,’’ ‘‘should,’’ ‘‘seeks,’’ ‘‘approximately ‘‘plans,’’ ‘‘estimates,’’ ‘‘anticipates’’ or the negative version of those words or other comparable words. Any forward-looking statements contained in this report are based upon the historical performance of us and our subsidiaries and on our current plans, estimates and expectations. The inclusion of this forward-looking information should not be regarded as a representation by us or any other person that the future plans, estimates or expectations contemplated by us will be achieved. Such forward-looking statements are subject to various risks and uncertainties and assumptions relating to our operations, financial results, financial condition, business prospects, growth strategy and liquidity. If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, our actual results may vary materially from those indicated in these statements. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report. We do not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

Table of Contents

PART I

Item 1. Business.

Fortress Investment Group LLC (NYSE listed under the symbol ‘‘FIG’’) is a leading global alternative asset manager with approximately $33.2 billion in fee paying assets under management as of December 31, 2007. We raise, invest and manage private equity funds and hedge funds. We earn management fees based on the size of our funds, incentive income based on the performance of our funds, and investment income from our principal investments in those funds.

Fortress was founded in 1998 as an asset-based investment management firm with a fundamental philosophy premised on alignment of interests with the investors in our funds. Our managed funds primarily employ absolute return strategies; we strive to have positive returns regardless of the performance of the markets. Investment performance is our cornerstone — as an investment manager, we earn more if our investors earn more. In keeping with our fundamental philosophy, we invest capital in each of our businesses. As of December 31, 2007, Fortress’s investments in and commitments to our funds were $1.2 billion, consisting of the net asset value of Fortress’s principal investments of $1.1 billion, and unfunded commitments to private equity funds of $0.1 billion.

We currently have more than 820 employees, including 323 investment professionals, at our headquarters in New York and our affiliate offices in Atlanta, Dallas, Frankfurt, Geneva, Hong Kong, London, Los Angeles, Munich, New Canaan, Rome, San Diego, San Francisco, Sydney, Tokyo and Toronto.

We have grown our fee paying assets under management significantly, from approximately $20.9 billion as of December 31, 2006, to approximately $33.2 billion as of December 31, 2007, or a 59% increase. We plan to continue to strategically grow our fee paying assets under management and will seek to generate superior risk-adjusted investment returns in our funds over the long term. We are guided by the following key objectives and values:

- generating top-tier risk-adjusted investment returns;
- introducing innovative new investment products, while remaining focused on, and continuing to grow, our existing lines of business;
- maintaining our disciplined investment process and intensive asset management; and
- adhering to the highest standards of professionalism and integrity.

Our Current Businesses

We are a global investment manager specializing in alternative assets. Our current offering of alternative investment products includes private equity funds and hedge funds. We refer to these investment products, collectively, as the Fortress Funds. As of December 31, 2007, we managed approximately $33.2 billion of alternative assets in two core businesses:

Private Equity Funds — a business that manages approximately $16.6 billion of MAUM comprised of two business segments: (i) funds that primarily make significant, control-oriented investments in North America and Western Europe, with a focus on acquiring and building asset-based businesses with significant cash flows. We also manage a family of ‘‘long dated value’’ funds focused on investing in undervalued assets with limited current cash flows and long investment horizons; and (ii) publicly traded alternative investment vehicles, which we refer to as ‘‘Castles,’’ that invest primarily in real estate and real estate related debt investments; and

Hedge Funds — a business that manages approximately $16.6 billion of MAUM comprised of two business segments: (i) liquid hedge funds — which invest globally in fixed income, currency, equity and commodity markets and related derivatives to capitalize on imbalances in the financial markets; and (ii) hybrid hedge funds — which make diversified investments globally in assets, opportunistic lending situations and securities through the capital structure with a value orientation, as well as investment funds managed by external managers.

1

Table of Contents

Principal Sources of Revenue

Overview

Our principal sources of revenues from the Fortress Funds consist of (i) management fees, which are typically earned as a percentage of fee paying assets under management, (ii) incentive income, which is typically earned as a percentage of profits, in some cases in excess of, or subject to achieving, specified thresholds, and (iii) investment income, which represents the returns on our principal investments in the Fortress Funds.

The following table provides the management fees and incentive income, on a segment reporting basis, of each of our core businesses for the previous three fiscal years (in thousands):

		2007	2006	2005
Private Equity Funds	Management Fees	$ 131,939	$ 84,279	$ 46,695
	Incentive Income	275,254	129,800	133,230
Castles	Management Fees	49,661	32,544	19,463
	Incentive Income	39,490	15,682	12,412
Hedge Funds Liquid	Management Fees	158,882	92,746	55,978
	Incentive Income	199,283	154,068	114,353
Hybrid	Management Fees	129,516	84,536	50,507
	Incentive Income	97,465	135,939	73,230

Certain of our segments are comprised of, and dependent on the performance of, a limited number of Fortress Funds. Each of these funds is material to the results of operations of its segment and the loss of any of these funds would have a material adverse impact on the segment. Moreover, the revenues we earned from certain funds individually exceeded 10% of our total revenues on an unconsolidated basis for fiscal 2007. For additional information regarding our segments, the information presented above, our total assets and our distributable earnings (as defined below), please see Part II, Item 7, ‘‘Management’s Discussion and Analysis of Financial Condition and Results of Operations — Segment Analysis’’ and Part II, Item 8, ‘‘Financial Statements and Supplementary Data.’’

Private Equity Funds

Overview

Our private equity business is made up primarily of a series of funds named the ‘‘Fortress Investment Funds’’ and organized to make control-oriented investments in cash flow generating, asset-based businesses in North America and Western Europe.

Fortress Investment Funds

Investors in our private equity funds commit capital at the outset of a fund, which is then drawn down as investment opportunities become available, generally over a one to three year investment period. Profits are returned to investors as investments are realized, generally over eight to ten years. Management fees of 1% to 1.5% are generally charged on committed capital during the investment period of a new fund, and then on invested capital (or NAV, if lower). Management fees are paid to us semi-annually in advance. We also earn a 20% share of the profits on each realized investment in a fund — our incentive income — subject to the fund’s achieving a minimum return with respect to the

Table of Contents

fund as a whole, that is, taking into account all gains and losses on all investments in the fund. In addition, we earn investment income on our principal investments in the Fortress Investment Funds. Over their lives, the Fortress Investment Funds seek to generate 20% annual net returns to investors and to return at least two times invested capital.

Long Dated Value Funds

In addition to our Fortress Investment Fund family of funds, we introduced in early 2005 a pioneering private equity fund product — the Long Dated Value family of funds — which focuses on making investments with long dated cash flows that may be undervalued because of the lack of current cash flows or because the investment is encumbered by a long term lease or financing, and that provide for significant capital appreciation over the long term. Over their lives, the Long Dated Value Funds seek to generate approximately 9% to 10% annual net returns to investors. The Long Dated Value Funds are generally similar in structure to the Fortress Investment Fund family of funds, including in terms of fees payable to us, except that the funds have an investment life of 25 years, reflecting the funds' investment profiles, and incentive income is distributed to us after all of a fund's invested capital has been returned, rather than as each investment is realized.

Real Assets Funds

Fortress established the Real Assets Funds in 2007 to generate superior risk adjusted returns by opportunistically investing in tangible and intangible assets with the potential to achieve significant value generally within a three-to-ten year time horizon. The investment program of these funds will focus on direct investments in four principal investment categories — real estate, capital assets, natural resources and intellectual property — but are also expected to include indirect investments in the form of interests in real estate investment trusts (''REITs''), master limited partnerships, corporate securities, debt securities and debt obligations — including those that provide equity upside — as well as options, royalties, residuals and other call rights that provide these funds with the potential for significant capital appreciation. The investments will be located primarily in North America and Western Europe, but may also include opportunities in Australia, Asia and elsewhere on an opportunistic basis.

Credit Opportunities Funds

Fortress established the Fortress Credit Opportunities Funds in 2008 to make opportunistic credit-related investments. Their investment objective is to generate significant current income and long-term capital appreciation through investments in a range of distressed and undervalued credit investments, including but not limited to residential loans and securities, commercial mortgage loans and securities, opportunistic corporate loans and securities, and other consumer or commercial assets and asset-backed securities.

Castles

We manage two publicly traded companies: Newcastle Investment Corp. (NYSE: NCT) and Eurocastle Investment Limited (Euronext Amsterdam: ECT), which we call our ''Castles.'' The Castles were raised with broad investment mandates to make investments in a wide variety of real estate related assets, including securities, loans and real estate properties. The companies have no employees; we provide each company with a management team pursuant to management agreements entered into with each company. Pursuant to our management agreements, we earn management fees from each Castle equal to 1.5% of the company's equity. In addition, we earn incentive income equal to 25% of the company's funds from operations (or ''FFO,'' which is the real estate industry's supplemental measure of operating performance) in excess of specified returns to the company's shareholders. In addition to these fees, we also receive from the Castles, for services provided, options to purchase shares of their common stock in connection with each of their common stock offerings. These options are vested immediately, become exercisable over thirty months, and have an exercise price equal to the applicable offering price.

3

Table of Contents

Hedge Funds

Overview

Our hedge fund business focuses on absolute returns and is comprised of two business segments: hybrid hedge funds and liquid hedge funds.

Liquid Hedge Funds

The liquid hedge funds, which invest daily in markets around the globe, seek to exploit opportunities in global currency, interest rate, equity and commodity markets and their related derivatives. Risk management is the cornerstone of the investment process, and the funds invest with a focus on preservation of capital. Investment opportunities are evaluated and rated on a thematic and an individual basis to determine appropriate risk-reward and capital allocations.

Drawbridge Global Macro Funds

The Drawbridge Global Macro Funds seek to generate 15% to 20% annual net returns to investors. The funds apply an investment process based on macroeconomic fundamental, market momentum and technical analyses to identify strategies offering a favorable risk-return profile. The funds' investment strategies are premised on the belief that imbalances in various financial markets are created from time to time by the influence of economic, political and capital flow factors. Directional and relative value strategies are applied to exploit these conditions. The funds have the flexibility to allocate capital dynamically across a wide range of global strategies, markets and instruments as opportunities change, and are designed to take advantage of a wide variety of sources of market, economic and pricing data to generate trading ideas.

The funds invest primarily in major developed markets; however, they also invest in emerging markets if market conditions present opportunities for attractive returns. While the funds pursue primarily global macro directional and relative value strategies, capital is allocated within the funds to particular strategies to provide incremental returns and diversity.

Management fees are charged based on the MAUM of the Drawbridge Global Macro Funds at a rate equal to 2% or 3% annually, payable quarterly in advance, depending on the investment and liquidity terms elected by investors. We earn incentive income of either 20% or 25% of the fund's profits, payable quarterly, depending on the investment and liquidity terms elected by investors. Investors in the Drawbridge Global Macro Funds may invest with the right to redeem without paying any redemption fee either quarterly, or annually after three years. However, unless a redemption fee is paid to the funds, full redemption by investors with quarterly liquidity takes a year, as the amount redeemed each quarter is limited to 25% of the investor's holding in the funds. Similarly, some investors with three-year liquidity may redeem annually before three years, subject to an early redemption fee payable to the funds.

Commodities Fund

This fund's principal investment objective is to seek a superior total return on its assets by executing a directional investment strategy in the global commodity and equity markets. This fund was established in 2007 and seeks to identify optimal risk-adjusted strategies by assessing opportunities along various points of the relevant commodity and equity supply chains. This fund expects to invest across multiple sectors within the commodity asset class ranging from energy to metals to agriculture and within the cyclical, industrial, and commodity equity universe.

Hybrid Hedge Funds

Our hybrid hedge funds are designed to exploit pricing anomalies that exist between the public and private finance markets. These investment opportunities are often found outside the traditionally broker-dealer mediated channels in which investments that are efficiently priced and intermediated by large financial institutions are typically presented to the private investment fund community. We have developed a proprietary network comprised of internal and external resources to exclusively source transactions for the funds.

Table of Contents

The funds are able to invest in a wide array of financial instruments, ranging from assets, opportunistic lending situations and securities throughout the capital structure with a value orientation. All of these investments are based on fundamental bottom up analysis and are typically event driven. The funds' diverse and idiosyncratic investments require significant infrastructure and asset management experience to fully realize value. We have developed a substantial asset management infrastructure with expertise in managing the funds' investments in order to be able to maximize the net present value of investments on a monthly basis. Our endowment strategy funds are designed to blend this direct bottom up investing style with third party managers to create excellent risk adjusted returns with an emphasis on capital preservation.

Drawbridge Special Opportunities Funds

The Drawbridge Special Opportunities Funds form the core of our hybrid hedge fund investing strategy. The Drawbridge Special Opportunities Funds seek to generate annual net returns to investors equal to the risk free interest rate plus 5% to 10%, by making investments that are generally expected to be liquidated or realized within five years. The funds opportunistically acquire a diversified portfolio of investments primarily throughout the United States, Western Europe and the Pacific region. The funds' investment program incorporates three complementary investment strategies, focusing on asset-based transactions, loans and corporate securities. The majority of the funds' investments are relatively illiquid, and the funds generally make investments that are expected to liquidate or be realized within a five year period.

Management fees are charged based on the MAUM of the Drawbridge Special Opportunities Funds at a rate equal to 2% annually, payable quarterly in advance. We generally earn incentive income of 20% of the fund's profits, payable annually. Investors in the Drawbridge Special Opportunities Funds may redeem annually on December 31. Because of the illiquid nature of the funds' investments, rather than receiving redemption proceeds immediately, redeeming investors may have to receive their redemption proceeds as and when the particular investments held by the fund at the time of redemption are realized.

Fortress Partners Funds

The Fortress Partners Funds were launched in July 2006. The Fortress Partners Funds seek to generate annual net returns to investors that are at least equal on a long term basis to returns of large capitalization equity indices, with lower risk when measured over a full market cycle. The funds invest with a broad mandate, similar to endowment portfolios of large universities. Investments are made both in Fortress Funds and in funds managed by other managers, and in direct investments that are sourced either by Fortress personnel or by third party fund managers with whom we have relationships.

Competition

The investment management industry is intensely competitive, and we expect the competition to intensify in the future. We face competition in the pursuit of outside investors for our investment funds, acquiring investments in attractive portfolio companies and making other investments. Depending on the investment, we expect to face competition primarily from other investment management firms, private equity funds, hedge funds, other financial institutions, corporate buyers and other parties. Many of our competitors are substantially larger and may have greater financial and technical resources than we possess. In addition, several of our competitors have recently raised, or are expected to raise, significant amounts of capital, and many of them have investment objectives similar to our objectives, which may create competitive disadvantages for us with respect to certain types of investment opportunities. Some of these competitors may have higher risk tolerances, make different risk assessments or have lower return thresholds, which could allow them to consider a wider variety of investments or bid more aggressively than we bid for investments that we want to make. Corporate buyers may be able to achieve synergistic cost savings with regard to an investment that may provide them with a competitive advantage relative to us when bidding for an investment.

Moreover, the allocation of increasing amounts of capital to alternative investment strategies by institutional and individual investors could lead to a reduction in the size and duration of pricing inefficiencies that many of our investment funds seek to exploit. Lastly, the market for qualified investment professionals is intensely competitive. Our ability to continue to compete effectively will depend upon our ability to attract, retain and motivate our employees.

Where Readers Can Find Additional Information

Fortress files annual, quarterly and current reports, proxy statements and other information required by the Securities Exchange Act of 1934, as amended (the ‘‘Exchange Act’’), with the Securities and Exchange Commission (‘‘SEC’’). Readers may read and copy any document that Fortress files at the SEC’s Public Reference Room located at 100 F Street, N.E., Washington, D.C. 20549, U.S.A. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room. Our SEC filings are also available to the public from the SEC’s internet site at http://www.sec.gov. Copies of these reports, proxy statements and other information can also be inspected at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005, U.S.A.

Our internet site is http://www.fortress.com. We will make available free of charge through our internet site our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and Forms 3, 4 and 5 filed on behalf of directors and executive officers and any amendments to those reports filed or furnished pursuant to the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Also posted on our website in the ‘‘Investor Relations — Governance Documents’’ section are charters for the company’s Audit Committee, Compensation Committee and Nominating, Corporate Governance and Conflicts Committee as well as our Corporate Governance Guidelines and our Code of Business Conduct and Ethics governing our directors, officers and employees. Information on, or accessible through, our website is not a part of, and is not incorporated into, this report.

Item 1A. Risk Factors

We face a variety of significant and diverse risks, many of which are inherent in our business. Described below are certain risks that we currently believe could materially affect us. Other risks and uncertainties that we do not presently consider to be material or of which we are not presently aware may become important factors that affect us in the future. The occurrence of any of the risks discussed below could materially and adversely affect our business, prospects, financial condition, results of operations or cash flow.

Risks Related To Our Business

We depend on Messrs. Briger, Edens, Kauffman, Nardone and Novogratz, and the loss of any of their services would have a material adverse effect on us.

The success of our business depends on the efforts, judgment and personal reputations of our principals, Peter Briger, Wesley Edens, Robert Kauffman, Randal Nardone and Michael Novogratz. Our principals’ reputations, expertise in investing, relationships with our investors and relationships with members of the business community on whom our funds depend for investment opportunities and financing, are each critical elements in operating and expanding our businesses. We believe our performance is strongly correlated to the performance of these individuals. Accordingly, the retention of our principals is crucial to our success. In addition, if any of our principals were to join or form a competitor, some of our investors could choose to invest with that competitor rather than in our funds. The loss of the services of any of our principals would have a material adverse effect on us, including our ability to retain and attract investors and raise new funds, and the performance of our funds. Two or more of our principals occasionally fly together, which concentrates the potential impact of an accident on our company. We do not carry any ‘‘key man’’ insurance that would provide us with proceeds in the event of the death or disability of any of our principals.

Table of Contents

Each of our principals has entered into an employment agreement with us. The initial term of these agreements is five years from the date of our initial public offering in February 2007, with automatic one-year renewals until a non-renewal notice is given by us or the principal. If a principal terminates his employment voluntarily or we terminate his employment for cause (as defined in the agreement), the principal will be subject to eighteen-month post-employment covenants requiring him not to compete with us. However, if we terminate a principal's employment without cause, the principal will not be subject to the non-competition provisions.

The principals have also entered into an agreement among themselves, which provides that, in the event a principal voluntarily terminates his employment with us for any reason prior to the fifth anniversary of the consummation of our initial public offering, the principal may be required to forfeit a portion of his Fortress Operating Group units (and the corresponding Class B shares) to the other principals who continue to be employed by the Fortress Operating Group. However, this agreement may be amended by the principals who are then employed by the Fortress Operating Group. We, our shareholders and the Fortress Operating Group have no ability to enforce any provision of this agreement or to prevent the principals from amending the agreement or waiving any of its obligations.

There is no guarantee that our principals will not resign, join our competitors or form a competing company, or that the non-competition provisions in the employment agreements would be upheld by a court. If any of these events were to occur, our business, prospects, financial condition and results of operation would be materially adversely affected.

Several of our funds have ''key man'' provisions pursuant to which the failure of one or more of our principals to be actively involved in the business provides investors with the right to redeem from the funds or otherwise limits our rights to manage the funds. The loss of the services of any one of Messrs. Briger, Edens or Novogratz, or both of Mr. Kauffman and Mr. Nardone, would have a material adverse effect on certain of our funds and on us.

Investors in most of our hedge funds may generally redeem their investment without paying redemption fees if the relevant principal ceases to perform his functions with respect to the fund for 90 consecutive days. In addition, the terms of certain of our hedge funds' financing arrangements contain ''key man'' provisions, which may result, under certain circumstances, in the acceleration of such funds' debt or the inability to continue funding certain investments if the relevant principal ceases to perform his functions with respect to the fund and a replacement has not been approved.

The loss or inability of Mr. Novogratz to perform his services for 90 days could result in substantial withdrawal requests from investors in our Drawbridge Global Macro funds (which as of December 31, 2007, had MAUM of approximately $8.1 billion) and, in the event that a replacement is not approved, the terests, which we account for as equity investments in real estate under current authoritative accounting guidance.

Table of Contents

Notes to Consolidated Financial Statements

We formed Carey Watermark Investors Incorporated (Carey Watermark) in March 2008 for the purpose of acquiring interests in lodging and lodging related properties. In April 2010, we filed a registration statement with the SEC to sell up to $1 billion of common stock of Carey Watermark in an initial public offering plus up to an additional $237.5 million of its common stock under a dividend reinvestment plan. This registration statement has not been declared effective by the SEC as of the date of this Report. As of and during the three and six months ended June 30, 2010 and 2009, the financial statements of Carey Watermark, which had no significant assets, liabilities or operations during either period, were included in our consolidated financial statements, as we owned all of Carey Watermark s outstanding common stock.

In June 2009, the Financial Accounting Standard Board (FASB) issued amended guidance related to the consolidation of variable interest entities (VIEs). The amended guidance affects the overall consolidation analysis, changing the approach taken by companies in identifying which entities are VIEs and in determining which party is the primary beneficiary, and requires an enterprise to qualitatively assess the determination of the primary beneficiary of a VIE based on whether the entity (1) has the power to direct matters that most significantly impact the activities of the VIE, and (2) has the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. The amended guidance changes the consideration of kick-out rights in determining if an entity is a VIE, which may cause certain additional entities to now be considered VIEs. Additionally, the guidance requires an ongoing reconsideration of the primary beneficiary and provides a framework for the events that trigger a reassessment of whether an entity is a VIE. We adopted this amended guidance on January 1, 2010, which did not require consolidation of any additional VIEs, but we have reflected the assets and liabilities related to previously consolidated VIEs, of which we are the primary beneficiary and which we consolidate, separately in our consolidated balance sheets for all periods presented. The adoption of this amended guidance did not affect our financial position and results of operations.

Additionally, in February 2010, the FASB issued further guidance, which provided a limited scope deferral for an interest in an entity that meets all of the following conditions: (a) the entity has all the attributes of an investment company as defined under AICPA Audit and Accounting Guide, Investment Companies, or does not have all the attributes of an investment company but is an entity for which it is acceptable based on industry practice to apply measurement principles that are consistent with the AICPA Audit and Accounting Guide, Investment Companies, (b) the reporting entity does not have explicit or implicit obligations to fund any losses of the entity that could potentially be significant to the entity, and (c) the entity is not a securitization entity, asset-based financing entity or an entity that was formerly considered a qualifying special-purpose entity. We evaluated our involvement with the CPA® REITs and concluded that all three of the above conditions were met for the limited scope deferral. Accordingly, we continued to perform our consolidation analysis for the CPA® REITs in accordance with previously issued guidance on VIEs.

In connection with the adoption of the amended guidance on consolidating VIEs, we performed an analysis of all of our subsidiary entities, including our venture entities with other parties, to determine whether they qualify as VIEs and whether they should be consolidated or accounted for as equity investments in an unconsolidated venture. As a result of our quantitative and qualitative assessment to determine whether these entities are VIEs, we identified four entities that were deemed to be VIEs. Three of these entities were deemed VIEs as the third-party tenant that leases property from each entity has the right to repurchase the property during the term of their lease at a fixed price. The fourth entity was deemed a VIE as a third party was deemed to have the right to receive the expected residual returns of the entity. The nature of operations and organizational structure of these four VIEs are consistent with our other entities (Note 1) except for the repurchase and residual returns rights of these entities.

After making the determination that these entities were VIEs, we performed an assessment as to which party would be considered the primary beneficiary of each entity and would be required to consolidate each entity s balance sheet and results of operations. This assessment was based upon which party (1) had the power to direct activities that most significantly impact the entity s economic performance and (2) had the obligation to absorb the expected losses of or right to receive benefits from the VIE that could potentially be significant to the VIE. Based on our assessment, it was determined that we would continue to consolidate the four VIEs. Activities that we considered significant in our assessment included which entity had control over financing decisions, leasing decisions and ability to sell the entity s assets.

Because we generally utilize non-recourse debt, our maximum exposure to any VIE is limited to the equity we have in each VIE. We have not provided financial or other support to any VIE, and there were no guarantees or other commitments from third parties that would affect the value of or risk related to our interest in these entities.

Acquisition Costs

In accordance with the FASB s revised guidance for business combinations, which we adopted on January 1, 2009, we immediately expense all acquisition costs and fees associated with transactions deemed to be business combinations, but we capitalize these costs for transactions deemed to be acquisitions of an asset. We may be impacted by the revised guidance through both the investments we make for our own portfolio as well as our equity interests in the CPA® REITs. To the extent we make investments for our own portfolio or on behalf of the CPA® REITs that are deemed to be business combinations, our results of operations will be negatively impacted by the immediate expensing of acquisition costs and fees incurred in accordance with the revised guidance, whereas in the past such costs and fees would generally have been capitalized and allocated to the cost basis of the acquisition. Post acquisition, there will be a subsequent positive impact on our results of operations through a reduction in depreciation expense over the estimated life of the properties.

Notes to Consolidated Financial Statements

During 2010, we entered into two investments that were deemed to be real estate asset acquisitions, and as a result we capitalized acquisition-related costs of $1.0 million and $1.1 million for the three and six months ended June 30, 2010, respectively, in each case inclusive of amounts attributable to noncontrolling interest of $0.6 million.

Acquisition-related costs and fees capitalized by the CPA® REITs totaled $17.0 million and $0.1 million for the three months ended June 30, 2010 and 2009, respectively, and $24.0 million and $10.9 million for the six months ended June 30, 2010 and 2009, respectively. In May 2010, we acquired a hotel investment on behalf of CPA®:17 Global that was deemed to be a business combination. In connection with this investment, CPA®:17 Global expensed acquisition-related costs and fees of $0.8 million. All investments structured on behalf of the CPA® REITs were deemed to be real estate asset acquisitions except for this hotel investment.

Note 3. Agreements and Transactions with Related Parties

Advisory Agreements with the CPA® REITs

We have advisory agreements with each of the CPA® REITs pursuant to which we earn certain fees. The agreements that are currently in effect expire on September 30, 2010, but were recently renewed for an additional year pursuant to their terms.

The following table presents a summary of revenue earned and cash received from the CPA® REITs in connection with providing services as the advisor to the CPA® REITs (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Asset management revenue	$ 19,080	$ 19,227	$ 37,900	$ 38,335
Structuring revenue	13,102	365	19,936	10,774
Wholesaling revenue	2,230	1,597	4,333	2,690
Reimbursed costs from affiliates	15,354	11,115	30,402	20,111
Distributions of available cash (CPA®:17 Global only)	1,187		1,693	583
	$ 50,953	$ 32,304	$ 94,264	$ 72,493

Asset Management Revenue

We earn asset management revenue totaling 1% per annum of average invested assets, which is calculated according to the advisory agreements for each CPA® REIT. A portion of this asset management revenue is contingent upon the achievement of specific performance criteria for each CPA® REIT, which is generally defined to be a cumulative distribution return for shareholders of the CPA® REIT. For CPA®:14, CPA®:15 and CPA®:16 Global, this performance revenue is generally equal to 0.5% of the average invested assets of the CPA® REIT. For CPA®:17 Global, we earn asset management revenue ranging from 0.5% of average market value for long-term net leases and certain other types of real estate investments up to 1.75% of average equity value for certain types of securities. For CPA®:17 Global, we receive up to 10% of distributions of available cash from its operating partnership. Distributions of available cash from CPA®:17 Global s operating partnership are recorded as income from equity investments in CPA® REITs within the investment management segment.

Under the terms of the advisory agreements, we may elect to receive cash or shares of restricted stock for any revenue due from each CPA® REIT. In both 2010 and 2009, we elected to receive all asset management revenue in cash, with the exception of CPA®:17 Global s asset management revenue, which we elected to receive in restricted shares. For both 2010 and 2009, we also elected to receive performance revenue from CPA®:16 Global in restricted shares, while for CPA®:14 and CPA®:15 we elected to receive 80% of all performance revenue in restricted shares, with the remaining 20% payable in cash.

Structuring Revenue

We earn revenue in connection with structuring and negotiating investments and related mortgage financing for the CPA® REITs. We may receive acquisition revenue of up to an average of 4.5% of the total cost of all investments made by each CPA® REIT. A portion of this revenue (generally 2.5%) is paid when the transaction is completed, while the remainder (generally 2%) is payable in annual installments ranging from three to eight years, provided the relevant CPA® REIT meets its performance criterion. Unpaid installments bear interest at annual rates ranging from 5% to 7%. Interest earned on unpaid installments was $0.3 million and $0.4 million for the three months ended June 30, 2010 and 2009, respectively, and $0.5 million and $0.7 million for the six months ended June 30, 2010 and 2009, respectively. For certain types of non-long term net lease investments acquired on behalf of CPA®:17 Global, initial acquisition revenue may range from 0% to 1.75% of the equity invested plus the related acquisition revenue, with no deferred acquisition revenue being earned. We may also be entitled, subject to CPA® REIT board approval, to fees for structuring loan refinancings of up to 1% of the principal amount. This loan refinancing revenue, together with the acquisition revenue, is referred to as structuring revenue. In addition, we may also earn revenue related to the sale of properties, subject to subordination provisions. We will only recognize this revenue if we meet the subordination provisions.

Table of Contents

Notes to Consolidated Financial Statements

Reimbursed Costs from Affiliates and Wholesaling Revenue

The CPA® REITs reimburse us for certain costs, primarily broker/dealer commissions paid on behalf of the CPA® REITs and marketing and personnel costs. In addition, under the terms of a sales agency agreement between our wholly-owned broker-dealer subsidiary and CPA®:17 Global, we earn a selling commission of up to $0.65 per share sold, selected dealer revenue of up to $0.20 per share sold and/or wholesaling revenue for selected dealers or investment advisors of up to $0.15 per share sold. We re-allow all or a portion of the selling commissions to selected dealers participating in CPA®:17 Global s offering and may re-allow up to the full selected dealer revenue to selected dealers. If needed, we will use any retained portion of the selected dealer revenue together with the wholesaling revenue to cover other underwriting costs incurred in connection with CPA®:17 Global s offering. Total underwriting compensation earned in connection with CPA®:17 Global s offering, including selling commissions, selected dealer revenue, wholesaling revenue and reimbursements made by us to selected dealers, cannot exceed the limitations prescribed by the Financial Industry Regulatory Authority (FINRA). The limit on underwriting compensation is currently 10% of gross offering proceeds. We may also be reimbursed up to an additional 0.5% of the gross offering proceeds for bona fide due diligence expenses.

Other Transactions with Affiliates

We are the general partner in a limited partnership (which we consolidate for financial statement purposes) that leases our home office space and participates in an agreement with certain affiliates, including the CPA® REITs, for the purpose of leasing office space used for the administration of our operations and the operations of our affiliates and for sharing the associated costs. This limited partnership does not have any significant assets, liabilities or operations other than its interest in the office lease. During each of the three month periods ended June 30, 2010 and 2009 and each of the six month periods ended June 30, 2010 and 2009, we recorded income from noncontrolling interest partners of $0.6 million and $1.2 million, respectively, in each case related to reimbursements from these affiliates. The average estimated minimum lease payments on the office lease, inclusive of noncontrolling interests, at June 30, 2010 approximates $2.9 million annually through 2016.

We own interests in entities ranging from 5% to 95%, as well as jointly-controlled tenant-in-common interests in properties, with the remaining interests generally held by affiliates, and own common stock in each of the CPA® REITs. We consolidate certain of these investments and account for the remainder under the equity method of accounting.

One of our directors and officers is the sole shareholder of Livho, Inc. (Livho), a subsidiary that operates a hotel investment. We consolidate the accounts of Livho in our consolidated financial statements in accordance with current accounting guidance for consolidation of VIEs because it is a VIE and we are its primary beneficiary.

Family members of one of our directors have an ownership interest in certain companies that own noncontrolling interests in one of our French majority-owned subsidiaries. These ownership interests are subject to substantially the same terms as all other ownership interests in the subsidiary companies.

An employee owns a redeemable noncontrolling interest in W. P. Carey International LLC (WPCI), a subsidiary company that structures net lease transactions on behalf of the CPA® REITs outside of the U.S., as well as certain related entities.

Included in Accounts payable, accrued expenses and other liabilities in the consolidated balance sheets at each of June 30, 2010 and December 31, 2009 are amounts due to affiliates totaling $0.9 million.

Note 4. Investments in Real Estate

Real Estate

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

	June 30, 2010	December 31, 2009
Land	$ 110,323	$ 98,971
Buildings	449,118	426,636

Less: Accumulated depreciation		(100,287)		(100,247)
	$	459,154	$	425,360

Table of Contents

Notes to Consolidated Financial Statements

Operating Real Estate

Operating real estate, which consists primarily of our self-storage investments and our Livho subsidiary, at cost, is summarized as follows (in thousands):

	June 30, 2010	December 31, 2009
Land	$ 16,257	$ 16,257
Buildings	69,703	69,670
Less: Accumulated depreciation	(13,061)	(12,039)
	$ 72,899	$ 73,888

Real Estate Acquired

In February 2010, we entered into a domestic investment that was deemed to be a real estate asset acquisition at a total cost of $47.6 million and capitalized acquisition-related costs of $0.1 million. We funded the investment with the escrowed proceeds of $36.1 million from a sale of property in December 2009 in an exchange transaction under Section 1031 of the Internal Revenue Code of 1986, as amended (the Code), and $11.5 million from our line of credit. In July 2010, we obtained non-recourse mortgage financing of $35.0 million for this investment at an annual interest rate of LIBOR plus 2.5% that has been fixed at 5.5% through the use of an interest rate swap. This financing has a term of 10 years.

In June 2010, a venture in which we and an affiliate hold 70% and 30% interests, respectively, and which we consolidate, entered into an investment in Spain for a total cost of $27.2 million, inclusive of noncontrolling interest of $8.4 million. We funded our share of the purchase price with proceeds from our line of credit. In connection with this transaction, which was deemed to be a real estate asset acquisition, we capitalized acquisition-related costs and fees totaling $1.0 million, inclusive of amounts attributable to noncontrolling interest of $0.6 million. Dollar amounts are based on the exchange rate of the Euro on the date of acquisition.

Impairment Charges

We periodically assess whether there are any indicators that the value of our real estate investments may be impaired or that their carrying value may not be recoverable. For investments in real estate in which an impairment indicator is identified, we follow a two-step process to determine whether the investment is impaired and to determine the amount of the charge. First, we compare the carrying value of the real estate to the future net undiscounted cash flow that we expect the real estate will generate, including any estimated proceeds from the eventual sale of the real estate. If this amount is less than the carrying value, the real estate is considered to be impaired, and we then measure the loss as the excess of the carrying value of the real estate over the estimated fair value of the real estate, which is primarily determined using market information such as recent comparable sales or broker quotes. If relevant market information is not available or is not deemed appropriate, we then perform a future net cash flow analysis discounted for inherent risk associated with each investment.

During the first quarter of 2010, we recognized an impairment charge of $2.3 million on a property to reduce the carrying value of a property to its estimated fair value, which reflects the estimated selling price. This property is being marketed for sale as a result of the tenant vacating the property.

During the second quarter of 2009, we recognized impairment charges totaling $0.9 million on two vacant properties to reduce these properties carrying values to their expected selling prices at that time. Refer to Note 13 for information on impairment charges on our discontinued operations.

Other

In connection with our acquisition of properties, we have recorded net lease intangibles of $39.7 million, which are being amortized over periods ranging from one year to 29 years. Amortization of below-market and above-market rent intangibles is recorded as an adjustment to lease revenues, while amortization of in-place lease and tenant relationship intangibles is included in Depreciation and amortization. Below-market rent intangibles are included in Accounts payable, accrued expenses and other liabilities in the consolidated financial statements. Net amortization of intangibles was $1.3 million and $1.6 million for the three months ended June 30, 2010 and 2009, respectively, and $3.1 million and $3.3 million for the six months ended June 30, 2010 and 2009, respectively.

Table of Contents

Notes to Consolidated Financial Statements

Note 5. Equity Investments in Real Estate and CPA® REITs

Our equity investments in real estate for our investments in the CPA® REITs and for our interests in unconsolidated real estate investments are summarized below.

CPA® REITs

We own interests in the CPA® REITs and account for these interests under the equity method because, as their advisor, we do not exert control but have the ability to exercise significant influence. Shares of the CPA® REITs are publicly registered and the CPA® REITs file periodic reports with the SEC, but the shares are not listed on any exchange and are not actively traded. We earn asset management and performance revenue from the CPA® REITs and have elected, in certain cases, to receive a portion of this revenue in the form of restricted common stock of the CPA® REITs rather than cash.

The following table sets forth certain information about our investments in the CPA® REITs (dollars in thousands):

	% of Outstanding Shares at		Carrying Amount of Investment at	
Fund	June 30, 2010	December 31, 2009	June 30, 2010 [(a)]	December 31, 2009 [(a)]
CPA®:14	8.9%	8.5%	$ 84,191	$ 79,906
CPA®:15	6.8%	6.5%	82,654	78,816
CPA®:16 Global	5.1%	4.7%	58,218	53,901
CPA®:17 Global[(b)]	0.5%	0.4%	5,374	3,328
			$ 230,437	$ 215,951

(a) Includes asset management fee receivable at period end for which shares will be issued during the subsequent period.

(b) CPA®:17 Global has been deemed to be a VIE in which we are not the primary beneficiary (Note 2).

The following tables present combined summarized financial information for the CPA® REITs. Amounts provided are the total amounts attributable to the CPA® REITs and do not represent our proportionate share (in thousands):

	June 30, 2010	December 31, 2009
Assets	$ 8,350,867	$ 8,468,955

Liabilities		(4,475,544)		(4,638,552)
Shareholders equity	$	3,875,323	$	3,830,403

	Three months ended June 30,				Six months ended June 30,			
	2010		2009		2010		2009	
Revenues	$	201,334	$	190,557	$	394,088	$	370,487
Expenses		(152,792)		(158,565)		(306,510)		(350,701)
Net income	$	48,542	$	31,992	$	87,578	$	19,786

We recognized income from our equity investments in the CPA® REITs of $4.0 million and $1.8 million for the three months ended June 30, 2010 and 2009, respectively, and $6.8 million and $0.6 million for the six months ended June 30, 2010 and 2009, respectively. Our proportionate share of income or loss recognized from our equity investments in the CPA® REITs is impacted by several factors, including impairment charges recorded by the CPA® REITs. During the three months ended June 30, 2010 and 2009, the CPA® REITs recognized impairment charges totaling $0.5 million and $15.0 million, respectively, which reduced the income we earned from these investments by less than $0.1 million and $0.8 million, respectively. During the six months ended June 30, 2010 and 2009, impairment charges recognized by the CPA® REITs totaled $10.7 million and $54.6 million, respectively, which reduced the income we earned from these investments by $0.7 million and $2.8 million, respectively.

Interests in Unconsolidated Real Estate Investments

We own interests in single-tenant net leased properties leased to corporations through noncontrolling interests in (i) partnerships and limited liability companies which we do not control, but over which we exercise significant influence, and (ii) as tenants-in-common subject to common control. All of the underlying investments are generally owned with affiliates. We account for these investments under the equity method of accounting (i.e., at cost, increased or decreased by our share of earnings or losses, less distributions, plus contributions and other adjustments required by equity method accounting, such as basis differences from other-than-temporary impairments).

Notes to Consolidated Financial Statements

The following table sets forth our ownership interests in our equity investments in real estate and their respective carrying values. The carrying value of these ventures is affected by the timing and nature of distributions (dollars in thousands):

	Ownership Interest	Carrying Value at	
Lessee	**at June 30, 2010**	**June 30, 2010**	**December 31, 2009**
Schuler A.G. (a) (b)	33%	$ 21,427	$ 23,755
The New York Times Company	18%	19,767	19,740
Carrefour France, SAS (a)	46%	16,294	17,570
U. S. Airways Group, Inc. (b)	75%	8,188	8,927
Medica France, S.A. (a) (c)	46%	4,656	6,160
Hologic, Inc. (b)	36%	4,555	4,388
Consolidated Systems, Inc. (b)	60%	3,380	3,395
Information Resources, Inc.	33%	2,918	2,270
Hellweg Die Profi-Baumarkte GmbH & Co. KG (a)	5%	2,656	2,639
Childtime Childcare, Inc.	34%	1,831	1,843
Federal Express Corporation	40%	1,708	1,976
The Retail Distribution Group (d)	40%		1,099
Amylin Pharmaceuticals, Inc. (e)	50%	(4,737)	(4,723)
		$ 82,643	$ 89,039

(a) Carrying value of the investment is affected by the impact of fluctuations in the exchange rate of the Euro.

(b) Represents tenant-in-common interest.

(c) The decrease in carrying value was due to cash distributions made to us by the venture.

(d) In March 2010, this venture sold its property, recognized a gain of $2.5 million and distributed the proceeds to the venture partners. We have no further economic interest in this venture.

(e) In 2007, this venture refinanced its existing non-recourse mortgage debt with new non-recourse financing of $35.4 million based on the appraised value of the underlying real estate of the venture and distributed the proceeds to the venture partners. Our share of the distribution was $17.6 million, which exceeded our total investment in the venture at that time.

As discussed in Note 2, we adopted the FASB s amended guidance on consolidating VIEs effective January 1, 2010. Upon adoption of the amended guidance, we re-evaluated our existing interests in unconsolidated entities and determined that we should continue to account for our interests in The New York Times and Hellweg ventures using the equity method of accounting primarily because the partners in each of these ventures has the power to direct the activities that most significantly impact the entity s economic performance, including disposal rights of the property. Carrying amounts related to these VIEs are noted in the table above. Because we generally utilize non-recourse debt, our maximum exposure to either VIE is limited to the equity we have in each VIE. We have not provided financial or other support to either VIE, and there are no guarantees or other commitments from third parties that would affect the value or risk of our interest in such entities.

The following tables present combined summarized financial information of our venture properties. Amounts provided are the total amounts attributable to the venture properties and do not represent our proportionate share (in thousands):

	June 30, 2010	December 31, 2009
Assets	$ 1,395,873	$ 1,452,103

Liabilities	(807,484)	(714,558)
Partners /members equity	$ 588,389	$ 737,545

Table of Contents

Notes to Consolidated Financial Statements

	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
Revenues	$ 37,849	$ 37,263	$ 76,058	$ 69,011
Expenses	(19,948)	(16,100)	(39,657)	(32,721)
Net income	$ 17,901	$ 21,163	$ 36,401	$ 36,290

We recognized income from these equity investments in real estate of approximately $3.7 million and $3.1 million for the three months ended June 30, 2010 and 2009, respectively, and $9.9 million and $5.7 million for the six months ended June 30, 2010 and 2009, respectively. Income from equity investments in real estate represents our proportionate share of the income or losses of these ventures as well as certain depreciation and amortization adjustments related to purchase accounting and other-than-temporary impairment charges.

Equity Investment in Direct Financing Lease Acquired

In March 2009, an entity in which we, CPA®:16 Global and CPA®:17 Global hold 17.75%, 27.25% and 55% interests, respectively, completed a net lease financing transaction with respect to a leasehold condominium interest, encompassing approximately 750,000 rentable square feet, in the office headquarters of The New York Times Company for approximately $233.7 million. Our share of the purchase price was approximately $40 million, which we funded with proceeds from our line of credit. We account for this investment under the equity method of accounting as we do not have a controlling interest in the entity but exercise significant influence over it. In connection with this investment, which was deemed a direct financing lease, the venture capitalized costs and fees totaling $8.7 million. In August 2009, the venture obtained mortgage financing on the New York Times property of $119.8 million at an annual interest rate of LIBOR plus 4.75% that has been capped at 8.75% through the use of an interest rate cap. This financing has a term of five years.

Note 6. Fair Value Measurements

Under current authoritative accounting guidance for fair value measurements, the fair value of an asset is defined as the exit price, which is the amount that would either be received when an asset is sold or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The guidance establishes a three-tier fair value hierarchy based on the inputs used in measuring fair value. These tiers are: Level 1, for which quoted market prices for identical instruments are available in active markets, such as money market funds, equity securities and U.S. Treasury securities; Level 2, for which there are inputs other than quoted prices included within Level 1 that are observable for the instrument, such as certain derivative instruments including interest rate caps and swaps; and Level 3, for which little or no market data exists, therefore requiring us to develop our own assumptions, such as certain securities.

Items Measured at Fair Value on a Recurring Basis

The following tables set forth our assets and liabilities that were accounted for at fair value on a recurring basis at June 30, 2010 and December 31, 2009 (in thousands):

		Fair Value Measurements at Reporting Date Using:		
Description	June 30, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)

Assets:				
Money market funds	$ 15,752	$ 15,752	$	$
Other securities	1,717			1,717
Total	$ 17,469	$ 15,752	$	$ 1,717
Liabilities:				
Derivative liabilities	$ 1,108	$	$ 1,108	$
Redeemable noncontrolling interest	7,119			7,119
Total	$ 8,227	$	$ 1,108	$ 7,119

Table of Contents

Notes to Consolidated Financial Statements

Description	December 31, 2009	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Assets:				
Money market funds	$ 4,283	$ 4,283	$	$
Other securities	1,687			1,687
Total	$ 5,970	$ 4,283	$	$ 1,687
Liabilities:				
Derivative liabilities	$ 634	$	$ 634	$
Redeemable noncontrolling interest	7,692			7,692
Total	$ 8,326	$	$ 634	$ 7,692

Assets and liabilities presented above exclude assets and liabilities owned by unconsolidated ventures.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3 Only)			
	Assets	Liabilities	Assets	Liabilities
	Other Securities	Redeemable Noncontrolling Interests	Other Securities	Redeemable Noncontrolling Interests
	Three months ended June 30, 2010		Three months ended June 30, 2009	
Beginning balance	$ 1,690	$ 7,411	$ 1,620	$ 15,326
Total gains or losses (realized and unrealized):				
Included in earnings		417		103
Included in other comprehensive income (loss)	4	(16)	6	10
Purchases, issuances and settlements	23		45	
Distributions paid		(155)		(201)
Redemption value adjustment		(538)		(112)
Ending balance	$ 1,717	$ 7,119	$ 1,671	$ 15,126

The amount of total gains or losses for the period included in earnings (or changes in net assets) attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	$	$	$	$

Table of Contents

Notes to Consolidated Financial Statements

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3 Only)			
	Assets	Liabilities	Assets	Liabilities
	Other Securities	Redeemable Noncontrolling Interests	Other Securities	Redeemable Noncontrolling Interests
	Six months ended June 30, 2010		Six months ended June 30, 2009	
Beginning balance	$ 1,687	$ 7,692	$ 1,628	$ 18,085
Total gains or losses (realized and unrealized):				
Included in earnings		592	(1)	338
Included in other comprehensive income (loss)	7	(17)	(1)	8
Purchases, issuances and settlements	23		45	
Distributions paid		(610)		(2,969)
Redemption value adjustment		(538)		(336)
Ending balance	$ 1,717	$ 7,119	$ 1,671	$ 15,126
The amount of total gains or losses for the period included in earnings (or changes in net assets) attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	$	$	$ (1)	$

Gains and losses (realized and unrealized) included in earnings for other securities are reported in Other income and (expenses) in the consolidated financial statements.

We account for the noncontrolling interest in WPCI as a redeemable noncontrolling interest (Note 10). We determined the valuation of the redeemable noncontrolling interest using widely accepted valuation techniques, including discounted cash flow on the expected cash flows of the investment as well as the income capitalization approach, which considers prevailing market capitalization rates.

Our financial instruments had the following carrying values and fair values as of the dates shown (in thousands):

	June 30, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Non-recourse debt	$ 206,247	$ 200,272	$ 215,330	$ 201,774
Line of credit	171,750	170,400	111,000	108,900
Other securities [(a)]	1,705	1,717	1,681	1,687

(a) Carrying value represents historical cost for other securities.

We determined the estimated fair value of our debt instruments and other securities using a discounted cash flow model with rates that take into account the credit of the tenants and interest rate risk. We estimated that our other financial assets and liabilities (excluding net investments in direct financing leases) had fair values that approximated their carrying values at both June 30, 2010 and December 31, 2009.

Items Measured at Fair Value on a Non-Recurring Basis

We perform a quarterly assessment of the value of certain of our real estate investments in accordance with current authoritative accounting guidance. As part of that assessment, we determined the valuation of these assets using widely accepted valuation techniques, including discounted cash flow on the expected cash flows of each asset as well as the income capitalization approach, which considers prevailing market capitalization rates. We reviewed each investment based on the highest and best use of the investment and market participation assumptions. We determined that the significant inputs used to value these investments fall within Level 3. We calculated the impairment charges recorded during the three and six months ended June 30, 2010 and 2009 based on contracted selling prices. The valuation of real estate is subject to significant judgment and actual results may differ materially if market conditions change.

Table of Contents

Notes to Consolidated Financial Statements

The following table presents information about our nonfinancial assets that were measured on a fair value basis for the three and six months ended June 30, 2010 and 2009. All impairment charges were measured using unobservable inputs (Level 3) (in thousands):

	Three months ended June 30, 2010		Six months ended June 30, 2010	
	Total Fair Value Measurements	**Total Impairment Charges**	**Total Fair Value Measurements**	**Total Impairment Charges**
Impairment Charges From Continuing Operations:				
Real estate	$	$	$ 1,011	$ 2,268
Impairment Charges From Discontinued Operations:				
Real estate	5,390	985	5,390	5,869
	$ 5,390	$ 985	$ 6,401	$ 8,137

	Three months ended June 30, 2009		Six months ended June 30, 2009	
	Total Fair Value Measurements	**Total Impairment Charges**	**Total Fair Value Measurements**	**Total Impairment Charges**
Impairment Charges From Continuing Operations:				
Real estate	$ 823	$ 900	$ 823	$ 900
Impairment Charges From Discontinued Operations:				
Real estate	4,229	1,380	4,229	1,380
	$ 5,052	$ 2,280	$ 5,052	$ 2,280

Note 7. Risk Management

In the normal course of our on-going business operations, we encounter economic risk. There are three main components of economic risk: interest rate risk, credit risk and market risk. We are subject to interest rate risk on our interest-bearing liabilities. Credit risk is the risk of default on our operations and tenants inability or unwillingness to make contractually required payments. Market risk includes changes in the value of our properties and related loans, changes in the value of our other securities and changes in the value of the shares we hold in the CPA® REITs due to changes in interest rates or other market factors. In addition, we own investments in the European Union and are subject to the risks associated with changing foreign currency exchange rates.

Concentrations of credit risk arise when a group of tenants is engaged in similar business activities or is subject to similar economic risks or conditions that could cause them to default on their lease obligations to us. We regularly monitor our portfolio to assess potential concentrations of credit risk. While we believe our portfolio is reasonably well diversified, it does contain concentrations in excess of 10% of current annualized lease revenues in certain areas, as described below. Although we view our exposure from properties that we purchased together with our affiliates based on our ownership percentage in these properties, the percentages below are based on our consolidated ownership and not on our actual ownership percentage in these investments.

At June 30, 2010, the majority of our directly owned real estate properties were located in the U.S. (90%), with Texas (21%) and California (14%) representing the most significant geographic concentrations, based on percentage of our annualized contractual minimum base rent for the second quarter of 2010. At June 30, 2010, our directly owned real estate properties contain concentrations in the following asset types: office (35%), industrial (32%) and warehouse/distribution (17%); and in the following tenant industries: business and commercial services (17%), retail stores (12%) and telecommunications (11%).

Note 8. Commitments and Contingencies

At June 30, 2010, 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.

We have provided certain representations in connection with divestitures of certain of our properties. These representations address a variety of matters including environmental liabilities. We are not aware of any claims or other information that would give rise to material payments under such representations.

Table of Contents

Notes to Consolidated Financial Statements
Note 9. Equity and Stock Based and Other Compensation
Stock Based Compensation

The total compensation expense (net of forfeitures) for our stock-based compensation plans was $2.5 million and $2.8 million for the three months ended June 30, 2010 and 2009, respectively, and $4.9 million and $5.3 million for the six months ended June 30, 2010 and 2009, respectively. The tax benefit recognized by us related to these plans totaled $1.1 million and $1.3 million for the three months ended June 30, 2010 and 2009, respectively, and $2.2 million and $2.3 million for the six months ended June 30, 2010 and 2009, respectively.
We have several stock-based compensation plans or arrangements, including the 2009 Share Incentive Plan, 1997 Share Incentive Plan (under which no further grants can be made), 2009 Non-Employee Directors Incentive Plan, 1997 Non-Employee Directors Plan (under which no further grants can be made), and Employee Share Purchase Plan. There has been no significant activity or changes to the terms and conditions of any of these plans or arrangements during 2010, other than those described below.
2009 Share Incentive Plan

In January 2010, the compensation committee of our board of directors approved long-term incentive awards consisting of 140,050 restricted stock units, which represent the right to receive shares of our common stock based on established restrictions, and 159,250 performance share units, which represent the right to receive shares of our common stock based on the level of achievement during a specified performance period of one or more performance goals, under the 2009 Share Incentive Plan. The restricted stock units are scheduled to vest over three years. Vesting of the performance share units is conditioned upon certain performance goals being met by us during the performance period from January 1, 2010 through December 31, 2012. The ultimate number of shares to be issued upon vesting of performance share units will depend on the extent to which we meet the performance goals and can range from zero to three times the original target awards noted above. The compensation committee set goals for the 2010 grant with the expectation that the number of shares to be issued upon vesting of performance share units will be at target levels. Based in part on our results through June 30, 2010 and expectations at that date regarding our future performance, we currently anticipate that the performance goals will be met at target levels for three of the four goals and at threshold level, or 0.5 times the original award, for one goal. As a result, we currently expect to recognize compensation expense totaling approximately $9.1 million over the vesting period, of which $0.8 million and $1.4 million was recognized during the three and six months ended June 30, 2010, respectively. We will review our performance against these goals periodically and update expectations as warranted.
Earnings Per Share

Under current authoritative guidance for determining earnings per share, all unvested share-based payment awards that contain non-forfeitable rights to distributions are considered to be participating securities and therefore are included in the computation of earnings per share under the two-class method. The two-class method is an earnings allocation formula that determines earnings per share for each class of common shares and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. Our unvested restricted stock units contain rights to receive non-forfeitable distribution equivalents, and therefore we apply the two-class method of computing earnings per share. The calculation of earnings per share below excludes the income attributable to the unvested restricted stock units from the numerator. The following table summarizes basic and diluted earnings per share for the periods indicated (in thousands, except share amounts):

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Net income attributable to W. P. Carey members	$ 23,432	$ 14,977	$ 37,845	$ 32,686
	(453)	(296)	(783)	(592)

Allocation of distribution equivalents paid on unvested restricted stock units in excess of net income				
Net income basic	22,979	14,681	37,062	32,094
Income effect of dilutive securities, net of taxes	233	62	331	193
Net income diluted	$ 23,212	$ 14,743	$ 37,393	$ 32,287
Weighted average shares outstanding basic	39,081,064	39,350,684	39,116,126	39,067,391
Effect of dilutive securities	429,167	714,811	451,457	713,317
Weighted average shares outstanding diluted	39,510,231	40,065,495	39,567,583	39,780,708

Securities included in our diluted earnings per share determination consist of stock options and restricted stock awards. Securities totaling 1.9 million shares and 1.8 million shares for the three months ended June 30, 2010 and 2009, respectively, and 1.9 million shares and 2.0 million shares for the six months ended June 30, 2010 and 2009, respectively, were excluded from the earnings per share computations above as their effect would have been anti-dilutive.

Table of Contents

Notes to Consolidated Financial Statements

Other

Included in distributions payable at December 31, 2009 is a special distribution of $0.30 per share, or $11.8 million, that was paid to shareholders in January 2010.

Note 10. Noncontrolling Interests

Noncontrolling interest is the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. There were no changes in our ownership interest in any of our consolidated subsidiaries for the three and six months ended June 30, 2010.

The following table presents a reconciliation of total equity, the equity attributable to our shareholders and the equity attributable to noncontrolling interests (in thousands):

	Total Equity	W. P. Carey Members	Noncontrolling Interests
Balance at January 1, 2010	$ 632,408	$ 625,633	$ 6,775
Shares issued	799	799	
Contributions	11,180		11,180
Redemption value adjustment	538	538	
Tax impact of purchase of WPCI interest	(1,637)	(1,637)	
Net income (loss)	37,431	37,845	(414)
Stock-based compensation expense	4,936	4,936	
Windfall tax provision share incentive plans	(159)	(159)	
Distributions	(41,824)	(40,974)	(850)
Change in other comprehensive loss	(9,665)	(9,178)	(487)
Shares repurchased	(904)	(904)	
Balance at June 30, 2010	$ 633,103	$ 616,899	$ 16,204

	Total Equity	W. P. Carey Members	Noncontrolling Interests
Balance at January 1, 2009	$ 646,335	$ 640,103	$ 6,232
Shares issued	874	874	
Contributions	1,583	102	1,481
Redemption value adjustment	336	336	
Net income (loss)	32,313	32,686	(373)
Stock-based compensation expense	5,260	5,260	
Windfall tax benefits share incentive plans	242	242	
Distributions	(39,661)	(39,005)	(656)
Deferred compensation obligation	9,461	9,461	
Change in other comprehensive loss	(248)	(244)	(4)
Shares repurchased	(11,514)	(11,514)	
Balance at June 30, 2009	$ 644,981	$ 638,301	$ 6,680

Redeemable Noncontrolling Interest

We account for the noncontrolling interest in WPCI as a redeemable noncontrolling interest, as it may become redeemable for cash in the event there are not enough shares of our common stock available to redeem the noncontrolling interest. At June 30, 2010, there were sufficient available shares to redeem this interest. The noncontrolling interest is reflected at estimated redemption value for all periods presented. Redeemable noncontrolling interests, as presented on the consolidated balance sheets, reflect an adjustment of $0.5 million and $6.8 million at June 30, 2010 and December 31, 2009, respectively, to present the noncontrolling interest at redemption value. Additionally, in December 2009, we purchased all of the interests in WPCI and certain related entities held by one of our officers for cash, at a negotiated fair market value of $15.4 million.

Table of Contents

Notes to Consolidated Financial Statements

The following table presents a reconciliation of redeemable noncontrolling interests (in thousands):

	2010	2009
Balance at January 1,	$ 7,692	$ 18,085
Redemption value adjustment	(538)	(336)
Net income	592	338
Distributions	(610)	(2,969)
Change in other comprehensive (loss) income	(17)	8
Balance at June 30,	$ 7,119	$ 15,126

Note 11. Income Taxes

Income tax provision for the three months ended June 30, 2010 and 2009 was $6.8 million and $3.7 million, respectively, while the income tax provision for the six months ended June 30, 2010 and 2009 was $10.9 million and $9.9 million, respectively. The difference in the provision for income taxes reflected in the consolidated statements of income as compared to the provision calculated at the statutory federal income tax rate is primarily attributable to state and foreign income taxes, the tax classification of entities in the consolidated group and various permanent differences between pre-tax GAAP income and taxable income.

We have elected to be treated as a partnership for U.S. federal income tax purposes. As partnerships, we and our partnership subsidiaries are generally not directly subject to tax. We conduct our investment management services primarily through taxable subsidiaries. These operations are subject to federal, state, local and foreign taxes, as applicable. We conduct business in the U.S. and the European Union, and as a result, we or one or more of our subsidiaries file income tax returns in the U.S. federal jurisdiction and various state and certain foreign jurisdictions. With few exceptions, we are no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations for years before 2006. Certain of our inter-company transactions that have been eliminated in consolidation for financial accounting purposes are also subject to taxation. Periodically, shares in the CPA® REITs that are payable to our taxable subsidiaries in consideration for services rendered are distributed from these subsidiaries to us.

At both June 30, 2010 and December 31, 2009, we had unrecognized tax benefits of $0.6 million (net of federal benefits) that, if recognized, would favorably affect the effective income tax rate in any future periods. We recognize interest and penalties related to uncertain tax positions in income tax expense. At both June 30, 2010 and December 31, 2009, we had $0.1 million of accrued interest and penalties related to uncertain tax positions.

During the next year, we currently expect the liability for uncertain taxes to be adjusted on a similar basis to the adjustments that occurred in 2009. Our tax returns are subject to audit by taxing authorities. Such audits can often take years to complete and settle. The tax years 2006-2010 remain open to examination by the major taxing jurisdictions to which we are subject.

Our wholly-owned subsidiary, Carey REIT II, Inc. (Carey REIT II), owns our real estate assets and has elected to be taxed as a REIT under Sections 856 through 860 of the Code. We believe we have operated, and we intend to continue to operate, in a manner that allows Carey REIT II to continue to qualify as a REIT. Under the REIT operating structure, Carey REIT II is permitted to deduct distributions paid to our shareholders and generally will not be required to pay U.S. federal income taxes. Accordingly, no provision has been made for U.S. federal income taxes in the consolidated financial statements.

Table of Contents

Notes to Consolidated Financial Statements

Note 12. Segment Reporting

We evaluate our results from operations by our two major business segments investment management and real estate ownership (Note 1). The following table presents a summary of comparative results of these business segments (in thousands):

	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
Investment Management				
Revenues [a]	$ 49,766	$ 32,304	$ 92,571	$ 71,910
Operating expenses [a]	(33,266)	(25,628)	(65,752)	(52,404)
Other, net [b]	4,611	2,718	8,020	2,358
Provision for income taxes	(6,780)	(3,440)	(10,658)	(9,205)
Income from continuing operations attributable to W. P. Carey members	$ 14,331	$ 5,954	$ 24,181	$ 12,659
Real Estate Ownership				
Revenues	$ 20,630	$ 20,931	$ 40,416	$ 40,515
Operating expenses	(10,186)	(10,923)	(22,857)	(20,943)
Interest expense	(3,765)	(3,805)	(7,476)	(8,000)
Other, net [b]	3,116	2,800	8,569	8,043
Provision for income taxes	29	(280)	(205)	(715)
Income from continuing operations attributable to W. P. Carey members	$ 9,824	$ 8,723	$ 18,447	$ 18,900
Total Company				
Revenues [a]	$ 70,430	$ 53,235	$ 133,021	$ 112,425
Operating expenses [a]	(43,486)	(36,551)	(88,643)	(73,347)
Interest expense	(3,765)	(3,805)	(7,476)	(8,000)
Other, net [b]	7,727	5,518	16,589	10,401
Provision for income taxes	(6,751)	(3,720)	(10,863)	(9,920)
Income from continuing operations attributable to W. P. Carey members	$ 24,155	$ 14,677	$ 42,628	$ 31,559

	Equity Investments in Real Estate at		Total Long-Lived Assets [d] at		Total Assets	
	June 30, 2010	December 31, 2009	June 30, 2010	December 31, 2009	June 30, 2010	December 31, 2009
Investment Management	$ 230,437	$ 215,951	$ 235,551	$ 222,453	$ 363,013	$ 343,989
Real Estate Ownership [c]	82,643	89,039	692,784	668,510	761,393	749,347

Total Company	$ 313,080	$ 304,990	$ 928,335	$ 890,963	$ 1,124,406	$ 1,093,336

(a) Included in revenues and operating expenses are reimbursable costs from affiliates totaling $15.4 million and $11.1 million for the three month periods ended June 30, 2010 and 2009, respectively, and $30.4 million and $20.1 million for the six months ended June 30, 2010 and 2009, respectively.

(b) Includes interest income, income from equity investments in real estate and CPA® REITs, income (loss) attributable to noncontrolling interests and other income and (expenses).

(c) Includes investments in France, Poland, Germany and Spain that accounted for lease revenues (rental income and interest income from direct financing leases) of $1.5 million and

$1.8 million for the three months ended June 30, 2010 and 2009, respectively, and $2.8 million and $3.6 million for the six months ended June 30, 2010 and 2009, respectively, as well as income from equity investments in real estate of $1.4 million and $1.3 million for the three months ended June 30, 2010 and 2009, respectively, and $3.0 million for each of the six months ended June 30, 2010 and 2009. These investments also accounted for long-lived assets at June 30, 2010 and December 31, 2009 of $64.3 million and $47.9 million, respectively.

(d) Includes net investments in real estate and intangible assets related to management contracts.

Table of Contents

Notes to Consolidated Financial Statements

Note 13. Discontinued Operations

From time to time, tenants may vacate space due to lease buy-outs, elections not to renew their leases, insolvency or lease rejection in the bankruptcy process. In these cases, we assess whether we can obtain the highest value from the property by re-leasing or selling it. In addition, in certain cases, we may elect to sell a property that is occupied. When it is appropriate to do so under current accounting guidance for the disposal of long-lived assets, we classify the property as an asset held for sale and the current and prior period results of operations of the property are reclassified as discontinued operations.

During the six months ended June 30, 2010, we sold four properties for a total of $9.2 million, net of selling costs, and recognized a net gain on these sales totaling $0.5 million, excluding impairment charges totaling $5.1 million that were previously recognized in 2009. In addition, in April and May 2010, we entered into two agreements to sell three properties for a total of approximately $5.6 million. In connection with these proposed sales, we recorded impairment charges totaling $1.0 million and $5.9 million in the three and six months ended June 30, 2010, respectively, to reduce the carrying values of these properties to their contracted selling prices. We completed one of these sales in July 2010.

In May 2009, we entered into an agreement to sell a property for approximately $3.3 million. In connection with the sale, we recorded an impairment charge of $0.6 million in the three and six months ended June 30, 2009 in order to reduce the carrying value of the property to its estimated selling price. We completed this sale in July 2009.

During the six months ended June 30, 2009, we sold two properties for a total of $3.8 million, net of selling costs, and recognized a net gain on sale of $0.3 million.

The results of operations for properties that are held for sale or have been sold are reflected in the consolidated financial statements as discontinued operations for all periods presented and are summarized as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2010	**2009**	**2010**	**2009**
Revenues	$ 492	$ 2,254	$ 1,419	$ 4,443
Expenses	(286)	(1,052)	(793)	(2,279)
Gain on sale of real estate	56	478	460	343
Impairment charges	(985)	(1,380)	(5,869)	(1,380)
(Loss) income from discontinued operations	$ (723)	$ 300	$ (4,783)	$ 1,127

Item 2. 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. Our MD&A should be read in conjunction with our 2009 Annual Report.

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 922 properties, including our own portfolio. We operate in two business segments investment management and real estate ownership, as described below.

Investment Management We provide services to four affiliated publicly-owned, non-listed real estate investment trusts: CPA®:14, CPA®:15, CPA®:16 Global and CPA®:17 Global. We structure and negotiate investments and debt placement transactions for the CPA® REITs, for which we earn structuring revenue, and manage their portfolios of real estate investments, for which we earn asset-based management and performance revenue. We earn asset-based management and performance revenue from the CPA® REITs based on the value of their real estate-related assets under management. As funds available to the CPA® REITs are invested, the asset base from which we earn revenue increases. In addition, we also receive a percentage of distributions of available cash from CPA®:17 Global s operating partnership. We may also earn incentive and disposition revenue and receive other compensation in connection with providing liquidity alternatives to CPA® REIT shareholders. Collectively, at June 30, 2010 the CPA® REITs owned all or a portion of over 790 properties, including certain properties in which we have an ownership interest. Substantially all of these properties, totaling approximately 95 million square feet (on a pro rata basis), were net leased to 221 tenants, with an occupancy rate of approximately 98%.

Real Estate Ownership We own and invest in commercial properties in the U.S. and the European Union that are then leased to companies, primarily on a triple-net leased basis, which requires each tenant to pay substantially all of the costs associated with operating and maintaining the property. We may also invest in other properties if opportunities arise. At June 30, 2010, our portfolio was comprised of our full or partial ownership interest in 167 properties, including certain properties in which the CPA® REITs have an ownership interest. Substantially all of these properties, totaling approximately 14 million square feet (on a pro rata basis), were net leased to 80 tenants, with an occupancy rate of approximately 92%.

Financial Highlights

(In thousands)

	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
Total revenue (excluding reimbursed costs from affiliates)	$ 55,042	$ 42,120	$ 102,585	$ 92,314
Net income attributable to W. P. Carey members	23,432	14,977	37,845	32,686
Cash flow from operating activities			36,291	34,683

Total revenue increased during the three and six months ended June 30, 2010 as compared to the same periods in 2009, primarily due to a higher volume of investments structured on behalf of the CPA® REITs. Revenue from our real estate ownership segment declined slightly compared to the prior year periods.

Net income increased during the three and six months ended June 30, 2010 as compared to the same periods in 2009. Results from operations in our investment management segment were significantly higher during the three and six months ended June 30, 2010 primarily due to a higher volume of investments structured on behalf of the CPA® REITs and lower impairment charges recognized by the CPA® REITs as compared to the respective prior year periods. Results from operations in our real estate ownership segment were flat for the three months ended June 30, 2010 as compared to the same period in 2009 and down significantly for the six months ended June 30, 2010 as compared to the same period in 2009. The decline in the six months ended June 30, 2010 was primarily due to impairment charges taken in that period in connection with the sale of properties.

Cash flow from operating activities increased slightly in the six months ended June 30, 2010 as compared to the prior year period. Increases in net income, which were driven primarily by revenues earned in connection with higher investment volume on behalf of the CPA® REITs, were partially offset by lower cash flow in our real estate ownership segment and a decline in the amount of deferred acquisition revenue received. Deferred acquisition revenue received was lower during the six months ended June 30, 2010 as compared to the same period in 2009, primarily due to a shift in the timing of when deferred acquisition revenue is received and lower investment volume by the CPA® REITs in prior year periods.

Our quarterly cash distribution increased to $0.506 per share for the second quarter of 2010, or $2.02 per share on an annualized basis.

We consider the performance metrics listed above as well as certain non-GAAP performance metrics, to be important measures in the evaluation of our results of operations, liquidity 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 seeking to increase value in our real estate ownership segment. Results of operations by reportable segment are described below.

Changes in Management

Gordon F. DuGan resigned as Chief Executive Officer and as a member of our board of directors effective July 6, 2010. Trevor P. Bond has been appointed as interim Chief Executive Officer effective July 6, 2010. Mr. Bond has served as a director since April 2007 and served as a director of several of the CPA® REIT programs between 2005 and 2007. Mr. Bond will also serve as interim Chief Executive Officer of CPA®:14, CPA®:15, CPA®:16 Global and CPA®:17 Global.

Also effective July 6, 2010, Mark J. DeCesaris was appointed as Chief Financial Officer. As a result of this appointment, Mr. DeCesaris also became Chief Financial Officer of CPA ®:14, CPA ® :15, CPA ®:16 Global and CPA®:17 Global. Mr. DeCesaris served as acting Chief Financial Officer of W. P. Carey, CPA®:14, CPA®:15, and CPA®:16 Global since November 2005 and CPA®:17 Global since October 2007.

Effective April 29, 2010, H. Cabot Lodge, III was appointed President of our UK subsidiary, W. P. Carey & Co. Ltd. Mr. Lodge will serve as head of European Investments and is based out of W. P. Carey s London office.

Current Trends

General Economic Environment

We and our managed funds 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. As of the date of this Report, we have seen signs of modest improvement in the global economy following the significant distress experienced in 2008 and 2009. We have also experienced increased investment volume, as well as an improved financing and fundraising environment. While these factors reflect favorably on our business, the economic recovery remains weak, and our business remains dependent on the speed and strength of the recovery, which cannot be predicted at this time. Nevertheless, as of the date of this Report, the impact of current financial and economic trends on our business segments, and our response to those trends, is presented below.

Tenant Defaults

As a net lease investor, we are exposed to credit risk within our tenant portfolio, which can reduce our results of operations and cash flow from operations. Within our managed CPA® REIT portfolios, tenant defaults can reduce our asset management revenue if they lead to a decline in the estimated annual net asset values of the CPA® REITs and can also reduce our income from equity investments in the CPA® REITs. Tenants experiencing financial difficulties may become delinquent on their rent and/or default on their leases and, if they file for bankruptcy protection, may reject our lease in bankruptcy court, all of which may require us or the CPA® REITs to incur impairment charges. Even where a default has not occurred and a tenant is continuing to make the required lease payments, we may restructure or renew leases on less favorable terms, or the tenant s credit profile may deteriorate, which could affect the value of the leased asset and could in turn require us or the CPA® REITs to incur impairment charges.

During 2008 and 2009, the CPA® REITs experienced a significant increase in tenant defaults as companies across many industries experienced financial distress due to the economic downturn and the seizure in the credit markets. Our experience for the first half of 2010 reflects an improvement from the unusually high level of tenant defaults experienced during 2008 and 2009. As of the date of this Report, we have no significant exposure to tenants operating under bankruptcy protection in our own portfolio, while in the CPA® REIT portfolios, tenants operating under bankruptcy protection, administration or receivership account for less than 1% of aggregate annualized lease revenues, a decrease from recent levels. We have observed that many of our tenants have benefited from continued improvements in general business conditions, which we anticipate will result in reduced tenant defaults going forward; however, it is possible that additional tenants may file for bankruptcy or default on their leases during 2010 and that economic conditions may again deteriorate.

To mitigate these risks, we have looked to invest in assets that we believe are critically important to a tenant s operations and have attempted to diversify the portfolios by tenant and tenant industry. We also monitor tenant performance through review of rent delinquencies as a precursor to a potential default, meetings with tenant management and review of tenants financial statements and compliance with any financial covenants. When necessary, our asset management process includes restructuring transactions to meet the evolving needs of tenants, re-leasing properties, refinancing debt and selling properties as well as protecting our rights when tenants default or enter into bankruptcy.

Foreign Exchange Rates

We have foreign investments and, as a result, are subject to risk from the effects of exchange rate movements. 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. Investments denominated in the Euro accounted for approximately 10% and 9% of our annualized lease revenues for the first six months of 2010 and 2009, respectively, and 26% and 29% of aggregate annualized lease revenues for the CPA® REITs for the same respective periods. The average rate for the U.S. dollar in relation to the Euro during the first six months of 2010 was relatively unchanged in comparison to the same period in 2009. However, the U.S. dollar has strengthened against the Euro, as the conversion rate at June 30, 2010 decreased 15% to 1.2208 from 1.4333 at December 31, 2009. This strengthening had a negative impact on our balance sheet at June 30, 2010 as compared to our balance sheet at December 31, 2009. A significant decline in the value of the Euro could have a material negative impact on our future results and, especially, on the future results, financial position and cash flows of the CPA® REITs, which have higher levels of international investments.

Capital Markets

We have recently seen a gradual improvement in capital market conditions. Capital inflows to both commercial real estate debt and equity markets have helped increase the availability of mortgage financing and asset prices have begun to recover from their credit crisis lows. Over the past few quarters, there has been continued improvement in the availability of financing; however, lenders remain cautious and are employing more conservative underwriting standards. We have seen commercial real estate capitalization rates begin to narrow from credit crisis highs, especially for higher quality assets or assets leased to tenants with strong credit. The improvement in financing combined with a stabilization of asset prices has helped to increase transaction activity, and our market has seen an increase in competition from both public and private investors.

Investment Opportunities

We earn structuring revenue on the investments we structure on behalf of the CPA® REITs. Our ability to complete these investments, and thereby to earn structuring revenue, fluctuates based on the pricing and availability of transactions and the pricing and availability of financing, among other factors.

As a result of the recent improving economic conditions, we have seen an increased number of investment opportunities that we believe will allow us to structure transactions on behalf of the CPA® REITs on favorable terms. Although capitalization rates have begun to narrow from credit crisis highs, we believe that the investment environment remains attractive and that we will be able to achieve the targeted returns of our managed funds. We believe that the significant amount of corporate debt that remains outstanding in the marketplace, which will need to be refinanced over the next several years, will provide attractive investment opportunities for net lease investors such as W. P. Carey and the CPA® REITs. To the extent that these trends continue during 2010, we believe that investment volume will benefit. However, we have recently seen an increasing level of competition for investments, both domestically and internationally, and further capital inflows into the market place could put additional pressure on the returns that we can generate from investments.

We structured investments on behalf of the CPA® REITs totaling $440.2 million during the first six months of 2010 and entered into two investments for our own real estate portfolio totaling $66.4 million. International investments comprised 48% of total investments during the first six months of 2010. We currently expect that international transactions will continue to form a significant portion of the investments we structure, although the relative portion of international investments in any given period will vary.

Financing Conditions

We have recently seen a gradual improvement in both the credit and real estate financing markets. During the first half of 2010, we saw an increase in the number of lenders for both domestic and international investments as market conditions improved. As a result, during the first half of 2010, we obtained non-recourse mortgage financing totaling \$243.5 million on behalf of the CPA® REITs. The financing bore a weighted average annual fixed interest rate and term of 6.1% and 8.7 years, respectively. When we obtain variable-rate debt, we generally attempt to implement interest rate caps or swaps to mitigate the impact of variable rate financing.

Real Estate Sector

As noted above, the commercial real estate market is impacted by a variety of macro-economic factors, including but not limited to growth in gross domestic product, or GDP, unemployment, interest rates, inflation, and demographics. Since the beginning of the current credit crisis, these macro-economic factors have negatively impacted the fundamentals of the commercial real estate market, resulting in higher vacancies, lower rental rates, and lower demand for vacant space. While more recently there have been some indications of stabilization in asset values, there is still general uncertainty surrounding commercial real estate fundamentals and property valuations. We and the CPA® REITs are chiefly affected by changes in the estimated annual net asset values of our properties, inflation, lease expirations, and occupancy rates.

Net Asset Values of the CPA ® REITs

We own shares in each of the CPA® REITs and earn asset management revenue based on a percentage of average invested assets for each CPA® REIT. As such, we benefit from rising investment values and are negatively impacted when these values decrease. As a result of the overall continued weakness in the economy during 2009 and consequent increase in tenant defaults, the estimated net asset valuations for CPA®:14, CPA®:15 and CPA®:16 Global at December 31, 2009 were down slightly from the estimated net asset valuations at December 31, 2008, which we expect will negatively impact our asset management revenue during 2010 by approximately $2.3 million. We anticipate that the negative impact of the 2009 tenant defaults will be partially mitigated by asset management revenues earned to the extent we structure new investments on behalf of CPA®:17 Global during 2010.

The estimated net asset valuations of the CPA® REITs are based on a number of variables, including individual tenant credits, tenant defaults, lease terms, lending credit spreads, and foreign currency exchange rates, among other variables. We do not control these variables and, as such, cannot predict how these variables will change in the future.

Inflation

Our leases and those of the CPA® REITs generally have rent adjustments that are either fixed or based on formulas indexed to changes in the consumer price index (CPI) or other similar indices for the jurisdiction in which the property is located. Because these rent adjustments may be calculated based on changes in the CPI over a multi-year period, changes in inflation rates can have a delayed impact on our results of operations. Rent adjustments during 2009 and, to a lesser extent, the first half of 2010 generally benefited from increases in inflation rates during the years prior to the scheduled rent adjustment date. However, we continue to expect that rent increases in our own portfolio and in the portfolios of the CPA® REITs will be significantly lower in coming years as a result of the current historically low inflation rates in the U.S. and the Euro zone.

Lease Expirations and Occupancy

We actively manage our own real estate portfolio and the portfolios of the CPA® REITs and begin discussing options with tenants in advance of the scheduled lease expiration. In certain cases, we obtain lease renewals from tenants; however, tenants may elect to move out at the end of their lease terms or may elect to exercise purchase options, if any, in their leases. In cases where tenants elect not to renew, we may seek replacement tenants or try to sell the property. As of the date of this Report, 16% of the leases in our own portfolio are scheduled to expire in the next twelve months, based on annualized contractual lease revenue. For those leases that we believe will be renewed, we expect that renewed rents may be below the tenants existing contractual rents and that lease terms may be shorter than existing terms, reflecting current market conditions. Lease expirations could also affect the cash flow of certain of the CPA® REITs, particularly CPA®:14 and CPA®:15.

Our occupancy rate declined from 94% at December 31, 2009 to 92% at June 30, 2010, primarily reflecting the impact of one tenant who vacated during April 2010. Based on tenant activity during 2009 and the first half of 2010, including lease amendments, early lease renewals and lease rejections in bankruptcy court, we expect that 2010 annualized contractual lease revenue will decrease by approximately 3% in our own portfolio and by approximately 4% in the CPA® REIT portfolios, as compared with 2009 annualized contractual lease revenue. This amount may fluctuate based on additional tenant activity and changes in economic conditions, both of which are outside of our control.

Fundraising

Fundraising trends for non-traded REITs overall include an increase in average monthly volume during the first six months of 2010, with significant increases over the second half of 2009. Additionally, the number of offerings has increased over 2009 levels. Consequently, there has been an increase in the competition for investment dollars.

We are currently fundraising for CPA®:17 Global. While fundraising trends are difficult to predict, our recent fundraising continues to be strong. We raised $288.3 million for CPA®:17 Global s initial public offering in the first six months of 2010 and, through the date of this Report, have raised more than $1.1 billion on its behalf since beginning fundraising in December 2007. We have made a concerted effort to broaden our distribution channels and are seeing a greater portion of our fundraising come from multiple channels as a result of these efforts. Increased competition has modestly impacted our 2010 fundraising efforts, particularly in the months of June and July.

CPA®:17 Global s initial public offering will terminate in November 2010, unless it is extended.

Table of Contents

In April 2010, we filed a registration statement with the SEC to sell up to $1 billion of common stock of Carey Watermark in an initial public offering for the purpose of acquiring interests in lodging and lodging related properties. This registration statement has not been declared effective by the SEC as of the date of this Report.

Proposed Accounting Changes

The International Accounting Standards Board and FASB are nearing the issuance of 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 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. At this time, we are unable to determine whether this proposal will have a material impact on our business.

Results of Operations

We evaluate our results of operations by our two major business segments investment management and real estate ownership. A summary of comparative results of these business segments is as follows:

Investment Management (in thousands)

	Three months ended June 30,			Six months ended June 30,		
	2010	**2009**	**Change**	**2010**	**2009**	**Change**
Revenues						
Asset management revenue	$ 19,080	$ 19,227	$ (147)	$ 37,900	$ 38,335	$ (435)
Structuring revenue	13,102	365	12,737	19,936	10,774	9,162
Wholesaling revenue	2,230	1,597	633	4,333	2,690	1,643
Reimbursed costs from affiliates	15,354	11,115	4,239	30,402	20,111	10,291
	49,766	32,304	17,462	92,571	71,910	20,661
Operating Expenses						
General and administrative	(16,750)	(13,477)	(3,273)	(33,017)	(30,659)	(2,358)
Reimbursable costs	(15,354)	(11,115)	(4,239)	(30,402)	(20,111)	(10,291)
Depreciation and amortization	(1,162)	(1,036)	(126)	(2,333)	(1,634)	(699)
	(33,266)	(25,628)	(7,638)	(65,752)	(52,404)	(13,348)
Other Income and Expenses						
Other interest income	289	377	(88)	539	733	(194)
Income from equity investments in CPA® REITs	3,957	1,779	2,178	6,836	575	6,261
Other income and (expenses)	214	60	154	23	195	(172)
	4,460	2,216	2,244	7,398	1,503	5,895
Income from continuing operations before income taxes	20,960	8,892	12,068	34,217	21,009	13,208
Provision for income taxes	(6,780)	(3,440)	(3,340)	(10,658)	(9,205)	(1,453)

Net income from investment management	14,180	5,452	8,728	23,559	11,804	11,755
Add: Net loss attributable to noncontrolling interests	568	605	(37)	1,214	1,193	21
Less: Net income attributable to redeemable noncontrolling interests	(417)	(103)	(314)	(592)	(338)	(254)
Net income from investment management attributable to W. P. Carey members	$ 14,331	$ 5,954	$ 8,377	$ 24,181	$ 12,659	$ 11,522

Asset Management Revenue

We earn asset-based management and performance revenue from the CPA® REITs based on the value of their real estate-related assets under management. This asset management revenue may increase or decrease depending upon (i) increases in the CPA® REIT asset bases as a result of new investments; (ii) decreases in the CPA® REIT asset bases as a result of sales of investments; (iii) increases or decreases in the annual estimated net asset valuations of CPA® REIT investment portfolios; and (iv) whether the CPA® REITs are meeting their performance criteria. Each CPA® REIT 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 CPA® REITs.

For the three and six months ended June 30, 2010 as compared to the same periods in 2009, asset management revenue decreased by $0.1 million and $0.4 million, respectively, primarily due to a decline in the annual estimated net asset valuations of CPA® REITs as of December 31, 2009 as described below, substantially offset by an increase in CPA®:17 Global s asset base as a result of new investments entered into during 2009 and 2010.

We obtain estimated net asset valuations for the CPA® REITs on an annual basis and sometimes on an interim basis, which occurs generally in connection with our consideration of potential liquidity events. Currently, annual estimated net asset valuations are performed for CPA®:14, CPA®:15 and CPA®:16 Global. The following table presents recent estimated net asset valuations per share for these REITs:

	December 31, 2009	December 31, 2008
CPA®:14	$ 11.80	$ 13.00
CPA®:15	10.70	11.50
CPA®:16 Global	9.20	9.80

Structuring Revenue

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

For the three and six months ended June 30, 2010 as compared to the same periods in 2009, structuring revenue increased by $12.7 million and $9.2 million, respectively, primarily due to higher investment volume in the current year periods. We structured real estate investments on behalf of the CPA® REITs totaling $291.1 million and $440.2 million for the three and six months ended June 30, 2010, respectively, compared to $2.5 million and $234.2 million for the three and six months ended June 30, 2009, respectively. Investments structured on behalf of the CPA® REITs in 2009 included the $233.7 million New York Times Company transaction entered into in March 2009, inclusive of our $40.0 million interest.

Reimbursed and Reimbursable Costs

Reimbursed costs from affiliates (revenue) and reimbursable costs (expenses) represent costs incurred by us on behalf of the CPA® REITs, consisting primarily of broker-dealer commissions and marketing and personnel costs, which are reimbursed by the CPA® REITs. Revenue from reimbursed costs from affiliates is offset by corresponding charges to reimbursable costs and therefore has no impact on net income.

For the three and six months ended June 30, 2010 as compared to the same periods in 2009, reimbursed and reimbursable costs increased by $4.2 million and $10.3 million, respectively, primarily due to a higher level of commissions paid to broker-dealers related to CPA®:17 Global s initial public offering as funds raised in the current year periods were higher than in the same periods in 2009.

General and Administrative

For the three months ended June 30, 2010 as compared to the same period in 2009, general and administrative expenses increased by $3.3 million due to increases in compensation-related costs of $2.7 million and underwriting costs in connection with CPA®:17 Global s initial public offering of $0.6 million. Compensation-related costs were higher in the current year period primarily due to increases in commissions to investment officers as a result of higher investment volume during the current year period. Underwriting costs related to CPA®:17 Global s offering are generally offset by wholesaling revenue, which we earn based on the number of shares of CPA®:17 Global sold.

For the six months ended June 30, 2010 as compared to the same period in 2009, general and administrative expenses increased by $2.4 million, primarily due to increases in compensation-related costs of $1.5 million and underwriting costs in connection with CPA®:17 Global s initial public offering of $1.4 million as described above. These increases were partially offset by a decrease in professional fees of $0.7 million. Compensation-related costs were higher in the current year period primarily due to a $2.7 million increase in commissions to investment officers as a result of the higher investment volume during the current year period, partially offset by a $0.9 million decrease in severance costs for former employees. Professional fees in the prior year period included transaction-related costs of $1.0 million incurred in connection with our consolidated subsidiary, Carey Storage, exchanging a 60% interest in its self storage portfolio to a third party for cash proceeds of $21.9 million plus a commitment to invest up to a further $8.1 million of equity during the first quarter of 2009.

Income from Equity Investments in CPA® REITs

Income or loss from equity investments in CPA® REITs represents our proportionate share of net income or loss (revenues less expenses) from our investments in the CPA® REITs in which, because of the shares we elect to receive from them for revenue due to us, we have a noncontrolling interest but exercise significant influence. The net income of the CPA® REITs fluctuates based on the timing of transactions, such as new leases and property sales, as well as the level of impairment charges.

For the three and six months ended June 30, 2010 as compared to the same periods in 2009, income from equity investments in CPA® REITs increased by $2.2 million and $6.3 million, respectively, primarily due to lower impairment charges recognized by the CPA® REITs in the current year periods, which are estimated to total approximately $0.5 million and $15.0 million during the three months ended June 30, 2010 and 2009, and $10.7 million and $54.6 million during the six months ended June 30, 2010 and 2009, respectively. In addition, CPA® 14 s results of operations during the first quarter of 2010 included a gain on extinguishment of debt of $11.4 million and are expected to include a gain of $12.9 million on deconsolidation of a subsidiary during the second quarter of 2010. For CPA®:17 Global, we receive up to 10% of distributions of available cash from its operating partnership. For the three months ended June 30, 2010 and 2009, we received $0.5 million and $1.2 million, respectively, in cash under this provision. For the six months ended June 30, 2010 and 2009, we received cash of $0.5 million and $1.7 million, respectively.

Provision for Income Taxes

For the three and six months ended June 30, 2010 as compared to the same periods in 2009, provision for income taxes increased by $3.3 million and $1.5 million, respectively, primarily as a result of structuring revenue recognized from increases in investment volume in the current year periods.

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

For the three and six months ended June 30, 2010 as compared to the same period in 2009, the resulting net income from investment management attributable to W. P. Carey members increased by $8.4 million and $11.5 million, respectively.

Real Estate Ownership (in thousands)

	Three months ended June 30,			Six months ended June 30,		
	2010	2009	Change	2010	2009	Change
Revenues						
Lease revenues	$ 15,833	$ 16,374	$ (541)	$ 31,844	$ 32,745	$ (901)
Other real estate income	4,797	4,557	240	8,572	7,770	802
	20,630	20,931	(301)	40,416	40,515	(99)
Operating Expenses						
Depreciation and amortization	(4,653)	(5,538)	885	(9,658)	(10,060)	402
Property expenses	(2,379)	(1,921)	(458)	(4,628)	(3,371)	(1,257)
General and administrative	(1,381)	(857)	(524)	(2,715)	(2,774)	59
Other real estate expenses	(1,773)	(1,707)	(66)	(3,588)	(3,838)	250
Impairment charges		(900)	900	(2,268)	(900)	(1,368)
	(10,186)	(10,923)	737	(22,857)	(20,943)	(1,914)
Other Income and Expenses						
Other interest income	47	39	8	70	90	(20)
Income from equity investments in real estate	3,681	3,096	585	9,944	5,687	4,257
Other income and (expenses)	(172)	67	(239)	(645)	3,086	(3,731)
Interest expense	(3,765)	(3,805)	40	(7,476)	(8,000)	524
	(209)	(603)	394	1,893	863	1,030
Income from continuing operations before income taxes	10,235	9,405	830	19,452	20,435	(983)
Provision for income taxes	29	(280)	309	(205)	(715)	510
Income from continuing operations	10,264	9,125	1,139	19,247	19,720	(473)
(Loss) income from discontinued operations	(723)	300	(1,023)	(4,783)	1,127	(5,910)
Net income from real estate ownership	9,541	9,425	116	14,464	20,847	(6,383)
Less: Net income attributable to noncontrolling interests	(440)	(402)	(38)	(800)	(820)	20
Net income from real estate ownership attributable to W. P. Carey members	$ 9,101	$ 9,023	$ 78	$ 13,664	$ 20,027	$ (6,363)

Our evaluation of the sources of lease revenues is as follows (in thousands):

	Six months ended June 30, 2010	Six months ended June 30, 2009
Rental income	$ 26,652	$ 27,453
Interest income from direct financing leases	5,192	5,292
	$ 31,844	$ 32,745

Table of Contents

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 direct ownership of real estate (in thousands):

	Six months ended June 30, 2010	Six months ended June 30, 2009
CheckFree Holdings, Inc. (a)	$ 2,537	$ 2,477
The American Bottling Company	2,189	2,298
Bouygues Telecom, S.A. (a) (b) (c)	2,174	3,068
Orbital Sciences Corporation (d)	1,955	1,385
JP Morgan Chase Bank, N.A. (e)	1,517	
Titan Corporation	1,457	1,457
AutoZone, Inc.	1,105	1,103
Unisource Worldwide, Inc. (f)	960	835
Quebecor Printing, Inc.	958	970
Sybron Dental Specialties Inc.	909	977
Jarden Corporation	807	807
BE Aerospace, Inc.	786	786
CSS Industries, Inc.	785	785
Eagle Hardware & Garden, a subsidiary of Lowe s Companies	771	771
Omnicom Group Inc. (g)	771	626
Career Education Corporation	751	751
Sprint Spectrum, L.P.	712	712
Enviro Works, Inc. (c)	640	723
Other (a)(b)	10,060	12,214
	$ 31,844	$ 32,745

(a) These revenues are generated in consolidated ventures, generally with our affiliates, and include lease revenues applicable to noncontrolling interests totaling $1.8 million for each of the six month periods ended June 30, 2010 and 2009.

(b) Amounts are subject to fluctuations in foreign currency exchange rates.

(c) Decrease was due to lease restructuring in 2009.

(d) Increase was due to an expansion at this facility completed in January 2010.

(e) We acquired this investment in February 2010, which we funded with the escrowed proceeds from the sale of a property in December 2009 in an exchange transaction under Section 1031 of the Code.

(f) Increase was due to change in estimate of unguaranteed residual value.

(g) Increase reflects adjustments to above-market rent intangibles.

Table of Contents

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 ventures. Amounts provided are the total amounts attributable to the ventures and do not represent our proportionate share (dollars in thousands):

Lessee	Ownership Interest at June 30, 2010	Six months ended June 30, 2010	Six months ended June 30, 2009
The New York Times Company [a]	18%	$ 13,285	$ 8,401
Carrefour France, SAS [b]	46%	9,993	10,543
Federal Express Corporation	40%	3,548	3,509
Medica France, S.A.[b]	46%	3,238	3,329
Schuler A.G. [b]	33%	3,081	3,121
Information Resources, Inc.	33%	2,350	2,486
U. S. Airways Group, Inc. [c]	75%	2,211	
Amylin Pharmaceuticals, Inc. [d]	50%	2,014	1,671
Hologic, Inc.	36%	1,764	1,658
Consolidated Systems, Inc.	60%	911	911
Childtime Childcare, Inc.	34%	657	665
The Retail Distribution Group [e]	40%	205	489
		$ 43,257	$ 36,783

(a) We acquired our interest in this investment in March 2009.

(b) Revenue amounts are subject to fluctuations in foreign currency exchange rates.

(c) In the third quarter of 2009, we recorded an adjustment to record this entity under the equity method of accounting. During the six months ended June 30, 2009, this entity recorded lease revenue of $1.6 million.

(d) Increase was due to a CPI-based (or equivalent) rent increase and lease restructuring.

(e) In March 2010, this venture completed the sale of this property.

The above table does not reflect our share of interest income from our 5% interest in a venture that acquired a note receivable in April 2007. The venture recognized interest income of $13.1 million and $12.9 million for the six months ended June 30, 2010 and 2009, respectively. This amount represents total amount attributable to the entire venture, not our proportionate share, and is subject to fluctuations in the exchange rate of the Euro.

Lease Revenues

Our net leases generally have rent adjustments based on formulas indexed to changes in the CPI or other similar indices for the jurisdiction in which the property is located, sales overrides or other periodic increases, which are intended to increase lease revenues in the future. We own international investments and, therefore, lease revenues from these investments are subject to fluctuations in exchange rate movements in foreign currencies.

For the three and six months ended June 30, 2010 as compared to the same periods in 2009, lease revenues decreased by $0.5 million and $0.9 million, respectively, primarily due to the impact of recent activity, including lease restructurings, lease expirations and property sales, which resulted in reductions to lease revenues of $1.8 million and $1.1 million, respectively. Lease revenues also decreased $0.8 million and $1.6 million, respectively, in connection with a change in the accounting for an investment to the equity method from a proportionate consolidated method beginning in the third quarter of 2009. These decreases were partially offset by increases in lease revenues of $2.5 million and $1.5 million, respectively, as a result of investments we entered into in February and June 2010 and an expansion we placed into service in January 2010, as well as scheduled rent increases at several properties.

Depreciation and Amortization

For the three and six months ended June 30, 2010 as compared to the same periods in 2009, depreciation and amortization decreased by $0.9 million and $0.4 million, respectively, primarily due to a $1.0 million write-off of intangible assets as a result of a lease termination in June 2009, resulting in higher amortization in 2009. This decrease was partially offset by depreciation and amortization of $0.3 million and $0.5 million incurred in the three and six month current year periods, respectively, on investments entered into during 2010.

Table of Contents

Property Expenses

For the three and six months ended June 30, 2010 as compared to the same periods in 2009, property expenses increased by $0.5 million and $1.3 million, respectively, primarily due to increases in reimbursable tenant costs.

Impairment Charges

For the six months ended June 30, 2010, we recognized an impairment charge of $2.3 million to reduce the carrying value of a property to its estimated fair value, which reflects the estimated selling price. This property is being marketed for sale as a result of the tenant vacating the property.

For each of the three and six months ended June 30, 2009, we recognized impairment charges totaling $0.9 million to reduce the carrying values of two properties to their expected selling prices at that time.

Income from Equity Investments in Real Estate

Income from equity investments in real estate represents our proportionate share of net income or loss (revenue less expenses) from investments entered into with affiliates or third parties in which we have a noncontrolling interest but exercise significant influence.

For the three months ended June 30, 2010 as compared to the same period in 2009, income from equity investments in real estate increased by $0.6 million, primarily due to income recognized from an equity investment that had previously been accounted for under a proportionate consolidation method.

For the six months ended June 30, 2010 as compared to the same period in 2009, income from equity investments in real estate increased by $4.3 million, primarily due to a $2.5 million gain recognized by us in connection with a venture, Retail Distribution, selling its property in March 2010, as well as income of $0.9 million recognized from an equity investment that had previously been accounted for under a proportionate consolidation method. In addition, income earned from our investment in The New York Times transaction completed in March 2009 contributed a $0.3 million increase to income.

Other Income and (Expenses)

Other income and (expenses) generally consists of gains and losses on foreign currency transactions and derivative instruments. We and certain of our foreign consolidated subsidiaries have intercompany debt and/or advances that are not denominated in the entity s functional currency. When the intercompany debt or accrued interest thereon is remeasured against the functional currency of the entity, a gain or loss 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.

For the three and six months ended June 30, 2010, we recognized other expenses of $0.2 million and $0.7 million, respectively, compared to other income of $0.1 million and $3.1 million, respectively, in the same periods in 2009. Other expenses in the current year periods were primarily due to realized and unrealized losses recognized on foreign currency transactions as a result of changes in foreign currency exchange rates on notes receivable from international subsidiaries. The other income in the six months ended June 30, 2009 was primarily comprised of a $7.0 million gain recognized by Carey Storage on the repayment of the $35.0 million outstanding balance on its secured credit facility for $28.0 million in January 2009, partially offset by a third party investor s profit sharing interest in the gain totaling $4.2 million. Fluctuations in foreign currency exchange rates did not have a significant impact during the comparable 2009 periods.

(Loss) Income from Discontinued Operations

For the three and six months ended June 30, 2010, we recognized losses from discontinued operations of $0.7 million and $4.8 million, respectively, primarily due to impairment charges recognized on properties sold or held for sale of $1.0 million and $5.9 million, respectively, to reduce the carrying values of these properties to their contracted selling prices.

For the three and six months ended June 30, 2009, we recognized income from discontinued operations of $0.3 million and $1.1 million, respectively, which primarily consisted of income generated from the operations of discontinued properties of $1.2 million and $2.2 million, respectively, and net gains on the sales of these properties of $0.5 million and $0.3 million, respectively, partially offset by impairment charges of $1.4 million recognized in each of the three and six month periods ended June 30, 2009 on properties sold or being marketed for sale.

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

For the three months ended June 30, 2010 as compared to the same period in 2009, the resulting net income from real estate ownership attributable to W. P. Carey members increased by $0.1 million.
For the six months ended June 30, 2010 as compared to the same period in 2009, the resulting net income from real estate ownership attributable to W. P. Carey members decreased by $6.4 million.

Financial Condition

Sources and Uses of Cash During the Period

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 and performance revenue, the performance of the CPA® REITs relative to their performance criteria, the timing of purchases and sales of real estate, timing of proceeds from non-recourse mortgage loans and receipt of lease revenue, the timing and characterization of distributions from equity investments in real estate and the CPA® REITs, the timing of certain payments, and 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 rates. Despite this fluctuation, 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 short-term and long-term liquidity needs. We may also use existing cash resources, the proceeds of non-recourse mortgage loans, unused capacity on our line of credit and the issuance of additional 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 period are described below.

Operating Activities

Cash flow from operating activities increased slightly in the six months ended June 30, 2010 as compared to the prior year period. Increases in net income, which were driven primarily by revenues earned in connection with higher investment volume on behalf of the CPA® REITs, were partially offset by lower cash flow in our real estate ownership segment and a decline in the amount of deferred acquisition revenue received.

During the six months ended June 30, 2010, we received revenue of $20.2 million in cash from providing asset-based management services to the CPA® REITs as compared to $18.6 million in the 2009 period. This amount does not include revenue received from the CPA® REITs in the form of shares of their restricted common stock rather than cash (see below). During the current year period, we received revenue of $11.1 million in connection with structuring investments and debt refinancing on behalf of the CPA® REITs as compared to $6.1 million in the comparable prior year period. Deferred acquisition revenue received was lower during the six months ended June 30, 2010 as compared to the same period in 2009, primarily due to a shift in the timing of when deferred acquisition revenue is received and lower investment volume by the CPA® REITs in prior year periods. For CPA®:14, CPA®:15 and CPA®:16 Global, we receive deferred acquisition revenue in annual installments each January. For CPA®:17 Global, such revenue is received annually based on the quarter that a transaction is completed. This change for CPA®:17 Global has the effect of spreading the revenue received throughout the year as compared to receiving all deferred revenue in January.

During the six months ended June 30, 2010, our real estate ownership segment provided cash flows (contractual lease revenues, net of property-level debt service) of approximately $21.7 million, which represents a decrease of $4.3 million from the 2009 period, primarily due to lower contractual lease revenues received in the current period as a result of recent activity, including lease restructurings, lease expirations and property sales.

In 2010, we elected to continue to receive all performance revenue from CPA®:16 Global as well as asset management revenue from CPA®:17 Global in restricted shares of their common stock rather than cash, while for CPA®:14 and CPA®:15, we elected to receive 80% of all performance revenue in their restricted shares, with the remaining 20% payable in cash.

In addition to cash flow from operations, we may use the following sources to fund distributions to shareholders: distributions received from equity investments in excess of equity income, net contributions from noncontrolling interests, borrowings under our line of credit and existing cash resources.

Investing Activities

Our investing activities are generally comprised of real estate transactions (purchases and sales) and capitalized property related costs. During the six months ended June 30, 2010, we used $74.9 million to acquire a domestic investment and an investment in Spain. We funded the domestic investment with $36.1 million from the escrowed proceeds of a sale of a property in December 2009 in an exchange transaction under Section 1031 of the Code as well as $11.5 million from our line of credit. The investment in Spain was funded with contributions received from an affiliate who holds a noncontrolling interest in the investment of $9.9 million and proceeds from our line of credit. In connection with this investment, we paid foreign valued-added taxes of $4.2 million, which we expect to recover in the future. Cash inflows during this period included $7.8 million in distributions from equity investments in real estate and the CPA® REITs in excess of equity income, inclusive of distributions of $3.6 million received from the Retail Distributions venture in connection with the sale of its property as well as proceeds of $9.2 million from the sale of four properties.

Financing Activities

During the six months ended June 30, 2010, we paid distributions to shareholders of $52.5 million, inclusive of a special distribution of $0.30 per share, or $11.8 million, that was paid in January 2010 to shareholders of record at December 31, 2009, and paid distributions of $2.1 million to affiliates who hold noncontrolling interests in various entities with us and a third-party who holds a profit sharing interest in Carey Storage. We also made scheduled mortgage principal payments of $10.3 million and received mortgage loan proceeds totaling $6.3 million, including $4.7 million obtained as a result of refinancing a maturing non-recourse mortgage loan and an additional $1.6 million obtained by Carey Storage that is secured by individual mortgages on, and cross-collateralized by, four properties in the Carey Storage portfolio. Borrowings under our line of credit increased overall by $60.8 million since December 31, 2009 and were comprised of gross borrowings of $83.3 million and repayments of $22.5 million. Borrowings under our line of credit were used primarily to finance our portion of the investments we acquired in 2010 and to fund distributions to shareholders. In addition, we received contributions of $11.2 million from holders of noncontrolling interests, including the $9.9 million received in connection with the investment in Spain.

Summary of Financing

The table below summarizes our non-recourse long-term debt and credit facility (dollars in thousands):

	June 30, 2010	December 31, 2009
Balance		
Fixed rate	$ 137,960	$ 147,060
Variable rate [(a)]	240,037	179,270
	$ 377,997	$ 326,330
Percent of total debt		
Fixed rate	36%	45%
Variable rate [(a)]	64%	55%
	100%	100%
Weighted average interest rate at end of period		
Fixed rate	6.1%	6.2%
Variable rate [(a)]	2.5%	2.9%

(a) Variable rate debt at June 30, 2010 included (i) $171.8 million outstanding under our line of credit, (ii) $12.6 million that has been effectively converted to fixed rates through interest rate swap derivative instruments and (iii) $50.7 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. The interest rate for one of these loans, which had an outstanding balance of $6.2 million at June 30, 2010, is scheduled to reset to a new rate in October 2010 based on market rates at that time.

Cash Resources

At June 30, 2010, our cash resources consisted of the following:

- Cash and cash equivalents totaling $39.4 million. Of this amount, $5.2 million, at then current exchange rates, was held in foreign bank accounts, and we could be subject to restrictions or significant costs should we decide to repatriate these amounts;
- A line of credit with unused capacity of $78.3 million, all of which is available to us and may also be used to loan funds to our affiliates. Our lender has issued letters of credit totaling $6.8 million on our behalf in connection with certain contractual obligations, which reduce amounts that may be drawn under this facility; and
- We also had unleveraged properties that had an aggregate carrying value of $306.8 million, although given the current economic environment, 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 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. A summary of our unsecured credit facility is provided below (in thousands):

	June 30, 2010		December 31, 2009	
	Outstanding Balance	Maximum Available	Outstanding Balance	Maximum Available
Line of credit	$ 171,750	$ 250,000	$ 111,000	$ 250,000

We have a $250.0 million unsecured revolving line of credit that is scheduled to mature in June 2011. Pursuant to its terms, the line of credit can be increased up to $300.0 million at the discretion of the lenders and, at our discretion, can be extended for an additional year subject to satisfying certain conditions and the payment of an extension fee equal to 0.125% of the total commitments under the facility at that time.

The line of credit provides for an annual interest rate, at our election, of either (i) LIBOR plus a spread that ranges from 75 to 120 basis points depending on our leverage or (ii) the greater of the lender s prime rate and the Federal Funds Effective Rate plus 50 basis points. At June 30, 2010, the average interest rate on advances under the line of credit was 1.2%. In addition, we pay an annual fee ranging between 12.5 and 20 basis points of the unused portion of the line of credit, depending on our leverage ratio. Based on our leverage ratio at June 30, 2010, we paid interest at LIBOR plus 90 basis points and paid 15 basis points on the unused portion of the line of credit. The line of credit has financial covenants that among other things require us to maintain a minimum equity value, restrict the amount of distributions we can pay and require us to meet or exceed certain operating and coverage ratios. We were in compliance with these covenants at June 30, 2010.

Cash Requirements

During the next twelve months, we expect that cash payments will include paying distributions to shareholders and to affiliates who hold noncontrolling interests in entities we control and making scheduled mortgage principal payments, including mortgage balloon payments totaling $16.8 million, as well as other normal recurring operating expenses. Additionally, as described above, our line of credit matures in June 2011 and can be extended for an additional year, if necessary.

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 line of credit.

Off-Balance Sheet Arrangements and Contractual Obligations

The table below summarizes our debt, off-balance sheet arrangements and other contractual obligations at June 30, 2010 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	$ 206,247	$ 23,855	$ 50,622	$ 14,851	$ 116,919
Line of credit Principal	171,750	171,750			
Interest on borrowings [(a)]	62,910	14,170	20,004	15,307	13,429
Operating and other lease commitments [(b)]	13,262	1,114	2,202	2,148	7,798
Property improvement commitments	214	214			
Other commitments [(c)]	152	152			

$	454,535	$	211,255	$	72,828	$	32,306	$	138,146

(a) Interest on un-hedged variable rate debt obligations was calculated using the applicable annual variable interest rates and balances outstanding at June 30, 2010.

(b) Operating and other lease commitments consist primarily of the total minimum rents payable on the lease for our principal offices. We are reimbursed by affiliates for their share of the future minimum rents under an office cost-sharing agreement. These amounts are allocated among the entities based on gross revenues and are adjusted quarterly. The table above excludes the rental obligation under a ground lease of a venture in which we own a 46% interest. This obligation totals approximately $2.6 million over the lease term through January 2063.

(c) Includes estimates for accrued interest and penalties related to uncertain tax positions and a commitment to contribute capital to an investment in India.

Amounts in the table above related to our foreign operations are based on the exchange rate of the Euro at June 30, 2010. At June 30, 2010, we had no material capital lease obligations for which we are the lessee, either individually or in the aggregate.

We have investments in unconsolidated ventures that own single-tenant properties net leased to corporations. Generally, the underlying investments are owned with our affiliates. Summarized financial information for these ventures and our ownership interest in the ventures at June 30, 2010 are presented below. Summarized financial information provided represents the total amounts attributable to the ventures and does not represent our proportionate share (dollars in thousands):

Lessee	Ownership Interest at June 30, 2010	Total Assets	Total Third Party Debt	Maturity Date
Federal Express Corporation	40%	43,482	39,539	1/2011
Information Resources, Inc.	33%	47,293	21,529	1/2011
Childtime Childcare, Inc.	34%	9,514	6,354	1/2011
U. S. Airways Group, Inc.	75%	30,273	18,569	4/2014
The New York Times Company	18%	240,789	117,920	9/2014
Carrefour France, SAS [a]	46%	127,151	98,013	12/2014
Consolidated Systems, Inc.	60%	16,869	11,454	11/2016
Amylin Pharmaceuticals, Inc. [b]	50%	54,974	70,700	7/2017
Medica France, S.A. [a]	46%	41,749	34,275	10/2017
Hologic, Inc.	36%	26,984	14,494	5/2023
Schuler A.G. [a]	33%	63,524		N/A
		$ 702,602	$ 432,847	

(a) Dollar amounts shown are based on the exchange rate of the Euro at June 30, 2010.

(b) In 2007, this venture refinanced its existing non-recourse mortgage debt with new non-recourse financing of $35.4 million based on the appraised value of the underlying real estate of the venture and distributed the proceeds to the venture partners.

The table above does not reflect our acquisition in April 2007 of a 5% interest in a venture that made a loan (the note receivable) to the holder of a 75% interest in a limited partnership owning 37 properties throughout Germany at a total cost of $336.0 million. In connection with this transaction, the venture obtained non-recourse financing of $284.9 million having a fixed annual interest rate of 5.5% and a term of 10 years. Under the terms of the note receivable, the venture will receive interest that approximates 75% of all income earned by the limited partnership, less adjustments. All amounts are based on the exchange rate of the Euro at the date of acquisition.

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 and state 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 with provisions of such indemnification specifically addressing 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.

Item 3. 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 market risk as a result of concentrations in certain tenant industries.
We do not generally use derivative instruments to manage foreign currency exchange rate risk exposure and do not use derivative instruments to hedge credit/market risks or for speculative purposes.
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 mortgage financing on a long-term, fixed-rate basis. However, from time to time, we or our venture 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. Interest rate swaps are agreements in which a series of interest rate flows are exchanged 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. We estimate that the fair value of our interest rate swaps, which is included in Accounts payable, accrued expenses and other liabilities in the consolidated financial statements, was a net liability of $1.1 million at June 30, 2010.
At June 30, 2010, a significant portion (approximately 53%) 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 estimated fair value of these instruments is affected by changes in market interest rates. The annual interest rates on our fixed rate debt at June 30, 2010 ranged from 4.9% to 7.8%. The annual interest rates on our variable rate debt at June 30, 2010 ranged from 1.3% to 7.3%. Our debt obligations are more fully described under Financial Condition in Item 2 above. The following table presents principal cash flows based upon expected maturity dates of our debt obligations outstanding at June 30, 2010 (in thousands):

	2010	2011	2012	2013	2014	Thereafter	Total	Fair value
Fixed rate debt	$ 2,526	$ 26,205	$ 31,775	$ 2,678	$ 2,486	$ 72,290	$ 137,960	$ 132,005
Variable rate debt	$ 6,178	$ 174,244	$ 2,555	$ 2,699	$ 2,869	$ 51,492	$ 240,037	$ 238,667

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 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 June 30, 2010 by an aggregate increase of $10.5 million or an aggregate decrease of $10.1 million, respectively.
Annual interest expense on our unhedged variable rate debt that does not bear interest at fixed rates at June 30, 2010 would increase or decrease by $1.8 million for each respective 1% change in annual interest rates. As more fully described under Financial Condition Summary of Financing in Item 2 above, a portion of the debt classified as variable

rate debt in the tables above bore interest at fixed rates at June 30, 2010 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 we are subject to risk from the effects of exchange rate movements of 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 obligations to the lender and the tenant s rental obligations to us in the same currency.

We are generally a net receiver of the foreign currency (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 Euro. For the six months ended June 30, 2010, we recognized net realized and unrealized foreign currency transaction losses of $0.2 million and $0.9 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 wholly-owned subsidiaries.

Through the date of this Report, we had not entered into any foreign currency forward exchange contracts to hedge the effects of adverse fluctuations in foreign currency exchange rates. We have obtained non-recourse mortgage financing at fixed rates of interest in the local currency. To the extent that currency fluctuations increase or decrease rental revenues as translated to dollars, the change in debt service, as translated to dollars, will partially offset the effect of fluctuations in revenue and, to some extent, mitigate the risk from changes in foreign currency rates.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Our disclosure controls and procedures include our controls and other procedures designed to provide reasonable assurance that information required to be disclosed in this and other reports filed under the Securities Exchange Act of 1934 (the Exchange Act) is recorded, processed, summarized and reported within the required time periods specified in the SEC s rules and forms and that such information is accumulated and communicated to management, including our interim chief executive officer and chief financial officer, to allow timely decisions regarding required disclosures. It should be noted that no system of controls can provide complete assurance of achieving a company s objectives and that future events may impact the effectiveness of a system of controls.

Our interim chief executive officer and chief financial officer, after conducting an evaluation, together with members of our management, of the effectiveness of the design and operation of our disclosure controls and procedures at June 30, 2010, have concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) were effective at June 30, 2010 at a reasonable level of assurance.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 6. Exhibits

The following exhibits are filed with this Report, except where indicated.

Exhibit No.	Description
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following materials from W.P. Carey & Co. LLC s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets at June 30, 2010 and December 31, 2009, (ii) Consolidated Statements of Income for the three months and six months ended June 30, 2010 and 2009, (iii) Consolidated Statements of Comprehensive Income for the three months and six months

ended June 30, 2010 and 2009, (iv) Consolidated Statements of Cash Flows for the six months ended June 30, 2010 and 2009, and (v) Notes to Consolidated Financial Statements.*

* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

W. P. Carey & Co. LLC

Date: 8/6/2010	By: /s/ Mark J. DeCesaris Mark J. DeCesaris Managing Director and Chief Financial Officer (Principal Financial Officer)
Date: 8/6/2010	By: /s/ Thomas J. Ridings, Jr. Thomas J. Ridings, Jr. Executive Director and Chief Accounting Officer (Principal Accounting Officer)

Table of Contents

EXHIBIT INDEX

The following exhibits are filed with this Report, except where indicated.

Exhibit No.	Description
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following materials from W.P. Carey & Co. LLC s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets at June 30, 2010 and December 31, 2009, (ii) Consolidated Statements of Income for the three months and six months ended June 30, 2010 and 2009, (iii) Consolidated Statements of Comprehensive Income for the three months and six months ended June 30, 2010 and 2009, (iv) Consolidated Statements of Cash Flows for the six months ended June 30, 2010 and 2009, and (v) Notes to Consolidated Financial Statements.*

* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.