

W. P. CAREY

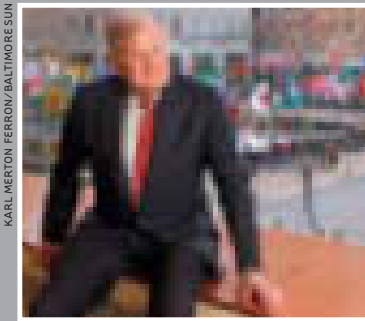
W. P. CAREY & CO. LLC

30 *years of*
MEETING INVESTOR NEEDS



May 2003

This past April 3rd we celebrated the 30th anniversary of the founding of W. P. Carey & Co. As part of the celebrations we had the opportunity to ring the closing bell of the New York Stock Exchange. While I stood on the platform



KARL MEERTON FERRON/BALTIMORE SUN

above the trading floor filled with hundreds of cheering stock traders, colleagues, family and friends, I couldn't help but be proud of what we have accomplished over the past 30 years.

I started W. P. Carey in the spring of 1973 to provide financing to companies looking to grow and expand their businesses. In providing this needed capital I realized that such investments, if properly structured and managed, could provide growing, sustainable and largely counter-cyclical returns for investors. In 1979 we launched Corporate Property Associates, our successful series of limited partnerships. Eleven years later, in 1990, we introduced CPA[®]:10, our first publicly held non-traded real estate investment trust (REIT). Since then, we launched four additional REITs — CIP[®], CPA[®]:12, CPA[®]:14 and CPA[®]:15.

In 1998, in an effort to provide our investors with liquidity and additional tax benefits, we merged our original partnerships, CPA[®]:1 through 9, to create Carey Diversified LLC, which listed on the New York Stock Exchange (NYSE).

Two years later, with 93% of shareholder approval, Carey Diversified LLC was merged with its management company W. P. Carey & Co., Inc. to create W. P. Carey & Co. LLC, which is listed on the NYSE under the symbol WPC.

What first began as a financing company in 1973 has since evolved into the world's largest publicly traded limited liability company. Today, W. P. Carey and its affiliated REITs serve as the preeminent providers of net lease financing to corporate America. They own and/or manage a net-leased portfolio of more than 550 commercial and industrial facilities located throughout the U.S. and Europe.

Much of our success over the past 30 years has been due to our philosophy to run W. P. Carey like owners and to employ talented individuals to ensure its future success. Gordon F. DuGan, W. P. Carey's President, is a part of this next generation of leaders. This past year he assumed the role of Co-CEO and I have the utmost confidence in his ability and the abilities of our employees, to lead W. P. Carey over the next 30 years. As the Company's largest shareholder, I could not be more pleased with the outlook and prospects for W. P. Carey.

On behalf of the entire W. P. Carey family, I thank you for your continued confidence and support over the past 30 years.

Most sincerely,



FINANCIAL HIGHLIGHTS

Year Ended December 31,
2002

OPERATIONS (in thousands)

Total Revenues	\$	161,604
Net Income	\$	46,588
Funds From Operations (FFO) ⁽¹⁾	\$	102,012

PER SHARE

Diluted Earnings Per Share	\$	1.28
Diluted Funds From Operations (FFO)	\$	2.81
Dividends	\$	1.72
Weighted Average Listed Shares Outstanding (Diluted)		36,265,230

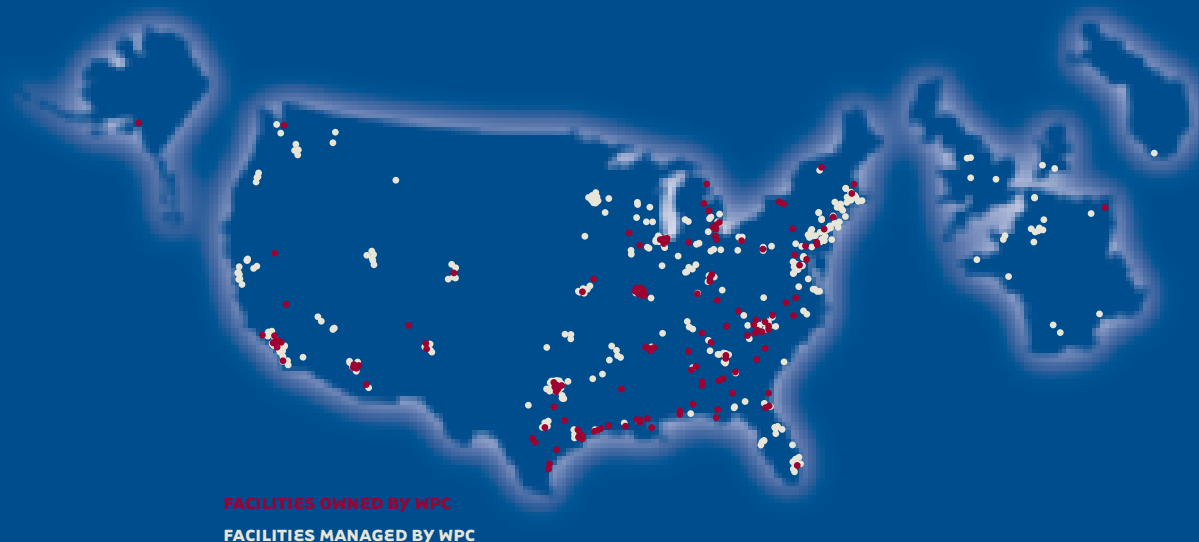
STOCK DATA

Price Range (January 1, 2002 through December 31, 2002)	\$18.77-\$26.00
Total Return for 2002	14.4%
Number of Shareholders	21,801

⁽¹⁾Funds from operations (FFO) is calculated as net income, excluding gains (or losses) from debt restructuring and sales of property, plus certain noncash items (primarily real estate depreciation, amortization, impairments and deferred taxes) and after adjustments for unconsolidated partnerships and joint ventures. FFO is a supplemental measure of performance and does not represent net income or cash flows generated from operating activities in accordance with accounting principles generally accepted in the United States of America. It should not be considered an alternative to net income as an indication of the Company's operating performance or to cash flows as a measure of liquidity or as an indicator of the Company's ability to fund its cash needs. The reconciliation between net income and funds from operations can be found on page 11.

THE W. P. CAREY GROUP PORTFOLIO OF FACILITIES

Located in (from left) United States, United Kingdom, The Netherlands, Finland and (below) France



**DEAR FELLOW
SHAREHOLDERS:**

As you may know by now, 2002 was a record year for W. P. Carey. We are pleased to report that

W. P. Carey experienced another strong year despite the third consecutive annual decline of the broader markets. Among the financial highlights were:

- a 17% increase in Funds From Operations (FFO is a widely accepted supplemental measure of performance) per diluted share,
- a 30% increase in net income,
- a 25% increase in diluted earnings per share (EPS), and
- a 25% increase in revenues.

In addition, we were able to provide our investors with double-digit returns. W. P. Carey's share price at year-end 2002 was \$24.75, up from \$23.20 at year-end 2001. This appreciation, coupled with an annual dividend of \$1.72, created a total return of 14%. These results, which follow strong returns in 2001 and 2000, further reflect the strength of W. P. Carey's

underlying business. We are pleased that our fellow investors continued to benefit from attractive returns as owners in our business.

A RECORD YEAR OF ACQUISITIONS

In 2002, we challenged ourselves to invest \$1 billion in critical, high-quality corporate real estate assets. We are pleased to report that W. P. Carey and its affiliated REITs exceeded this goal by completing more than \$1 billion in transactions with 25 companies throughout the U.S. and Europe.

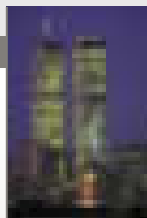
This record acquisitions volume is more than double the \$395 million we completed in 2001 with 20 companies and can be attributed to some degree to the recent U.S. recession and the accompanying weakness in global and domestic capital markets. These factors have made sale-leaseback financing increasingly attractive to companies looking for alternative sources of capital. As we do not expect a quick recovery of the capital markets, we anticipate another strong year for W. P. Carey and our Acquisitions Department.

In 2002, W. P. Carey's acquisitions for its own portfolio included the purchase of a 36% interest (acquired in conjunction with its affiliate CPA®:15) in two facilities leased to Hologic, Inc., a leading provider of women's diagnostic imaging systems and state-of-the-art digital radiography systems, and the purchase of three facilities from BE Aerospace, Inc., a leading



*Wm. Polk Carey opens
W. P. Carey & Co., Inc.
at 67 Wall Street*

1973



Center opens

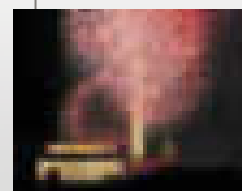
1974

*The
World
Trade*

*Dreyfus offers the
first Money Market
Fund to individual
investors*

*America celebrates
its 200th anniversary*

1976



manufacturer of aircraft seating and cabin interior products for commercial aircraft and corporate jets.

In addition, we continue to invest in net-leased facilities through an increasing ownership interest in our CPA® series of publicly held non-traded REITs. We currently have approximately \$30 million invested in these funds and believe they are a sound, stable investment that aligns us well with our managed entities.

Overall, the majority of the sale-leaseback transactions in 2002 were completed on behalf of our newest REIT, CPA®:15. We expect this trend to continue as this fund has significantly more capital available to invest than its affiliates CIP®, CPA®:12 and CPA®:14, whose funds are mostly invested. Since W. P. Carey currently receives management fees from its affiliated REITs, as well as fees for finding, negotiating and financing their acquisitions, their continued growth bodes well for the future of W. P. Carey. This past year, for the first time in its history, more than half of W. P. Carey's revenue was derived from its investment management business, rather than its portfolio of net-leased facilities — a trend we expect to continue.

INVESTING FOR THE LONG RUN®

In 2002, we continued to provide our investors with solid, gradually rising quarterly income. This in turn offered our investors



*Above from left:
Wm. Polk Carey,
Chairman,
Gordon F. DuGan,
President and
Francis J. Carey,
Vice Chairman*

the opportunity to achieve long-term capital growth. While our business performed very well overall, and extremely well relative to almost any measure this past year, our investment philosophy remains focused on the long-term and running W. P. Carey as owners.

Our success in adhering to this investment philosophy over the past 30 years has enabled W. P. Carey and its affiliated REITs to steadily generate a strong and growing stream of income for their investors through various cycles and market conditions. The W. P. Carey Group's current



Corporate Property Associates opens for investment

1979

W. P. Carey Director Dr. Lawrence R. Klein wins Nobel Prize in Economics



1980

IBM introduces the Personal Computer

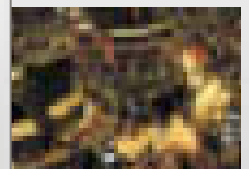
1981

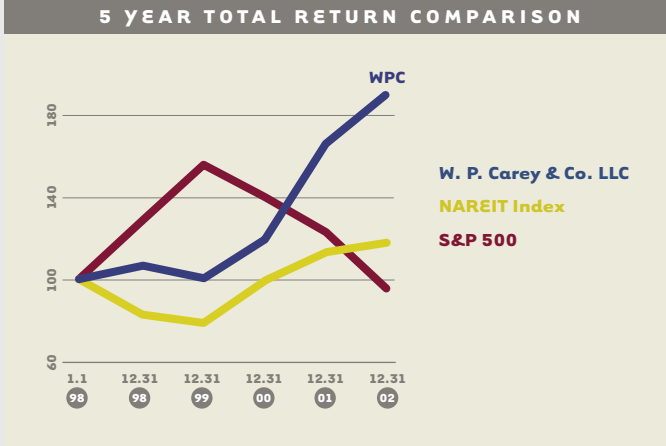


Leveraged buyout craze kicks off after W. P. Carey provides William E. Simon funding for Gibson Greetings LBO

1982

New York Stock Exchange experiences first 100 million share day





portfolio consists of more than 550 facilities comprised of 75 million square feet located throughout the U.S. and Europe with an estimated value of more than \$5 billion.

IMPROVED ACCESS TO CAPITAL

W. P. Carey has been raising funds from investors since 1979. Our strong track record of performance over the years continues to attract investors who, through their investments, provide us with the capital needed to provide sale-leaseback financing to various high-quality companies. Traditionally, our funds have been sold by American Express Financial Advisors and more than 20 other broker/dealers and

financial advisors with considerable success. In an effort to improve our access to this growing investment capital, we expanded our pool of potential investors by adding UBS PaineWebber and A. G. Edwards & Sons, Inc. to our selling group.

As a result of these new agreements, CPA[®]:15 successfully sold out its initial \$400 million of registered shares during the first eleven months of its offering. We have since registered to sell an additional \$690 million worth of CPA[®]:15 shares. As of March 31, 2003 a total of \$637 million has been raised from investors. If we are successful in these efforts, CPA[®]:15 will become the first W. P. Carey fund to raise more than \$1 billion in equity from investors. This is an incredible feat when you consider that CPA[®]:s:1 through 9 raised a total of just over \$400 million in 11 years.

W. P. Carey also completed a \$172 million commercial mortgage-backed securitization (CMBS) on behalf of itself, CIP[®], CPA[®]:12 and CPA[®]:14 in an added effort to access the capital markets. This offered us an innovative way to lock in low interest rates for the future. This issuance, considered to be the largest of its kind backed by a single underlying asset pool consisting solely of single-tenant, triple-net leases underwritten as real estate loans, received triple-A ratings from Moody's Investors Service and Fitch Ratings on \$120 million worth of the bonds.



Under terms of an antitrust agreement, AT&T divests its 22 Bell System companies

1984

President Reagan signs into law the first version of the Gramm-Rudman-Hollings Act in order to control the U.S. National Deficit



1985

"Black Monday" Dow Jones Industrial Average plummets 508.32 points

1987



The World Wide Web debuts, popularizes Internet

1990

THE FUTURE

While no one can predict the future course of the stock markets, the U.S. economy or world events, we have been successful over the past 30 years at building a business to withstand the changing conditions and circumstances likely to affect our core business and therefore our end results.

In many sectors, companies are facing a decline in sales, stiffer competition from imports, and a lack of pricing power. Companies that are not hiring typically do not need more space, and those that do, have more alternatives because of rising commercial vacancy rates and weakening real estate prices. For W. P. Carey, the weakness in real estate fundamentals cuts both ways — demand is soft, which may lead to lower rental revenues as leases expire. However, historically low interest rates, which currently accompany this economic weakness, make our investment products attractive to investors seeking income-generating investments and enable us to obtain mortgage financing on attractive terms.

In the near-term, we expect our affiliated REITs to remain attractive to investors seeking income stability, diversification and an investment that doesn't correlate to the traded markets. Their steady income stream is dependent upon long-term leases, not on real estate prices, which may decline in the short run.

PROVIDING PEACE OF MIND

We believe that 2003 will be another successful year for W. P. Carey, with solid results that have the potential to match those in 2001 and 2002 and believe we are well positioned to continue to operate profitably in the current climate of market weakness. We remain confident that we can maintain the stable income and strong dividends that have become hallmarks of W. P. Carey and continue to provide peace of mind to our investors.

Sincerely,



WM. POLK CAREY
Chairman



FRANCIS J. CAREY
Vice Chairman



GORDON F. DuGAN
President

CPA®:11

*Launches as
W. P. Carey's first
non-traded real
estate investment
trust (REIT)*

*The Dow Jones
Industrial Average
tops 3000 for the
first time*

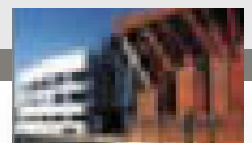
1991

*Bottom of the
general real
estate cycle*

CI[®]

*CPA®:11, which
later becomes
Carey Institutional
Properties, opens for
investment*

1992



*W. P. Carey surpasses
\$1 billion in assets
under management*

W. P. Carey's management business continues to provide the primary growth component of the company's two-pronged, long-term growth strategy.

Our management business centers on the acquisition of single-tenant commercial and industrial facilities and the creation and management of a series of successful publicly held non-traded real estate investment trusts (REITs).

**OUR GROWING
MANAGEMENT BUSINESS**

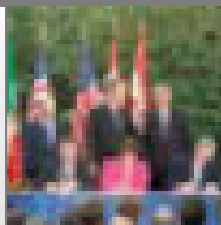
The four REITs we currently manage include Carey Institutional Properties (CIP®), founded in 1991; Corporate Property Associates (CPA®) 12, founded in 1994; CPA®:14, founded in 1997; and CPA®:15, founded in 2001. As of March 31, 2003, our total portfolio of owned and/or managed facilities consisted of more than 550 facilities comprised of 75 million square feet net-leased to 256 tenants with an estimated value of more than \$5 billion.



CIP®, our most mature REIT, grew substantially upon its merger with its affiliate CPA®:10 in April 2002. As a result of the merger, CIP®'s diversified portfolio includes 110 facilities comprised of approximately 8.4 million square feet net-leased to 47 tenants throughout the U.S. and Europe.*

CPA®:12 has a diversified portfolio of 129 facilities comprised of 10.3 million square feet net-leased to 57 tenants throughout the U.S. and France.*

*The United States,
Canada and Mexico
sign the North
American Free Trade
Agreement*



CPA®:12
Opens for investment

1994

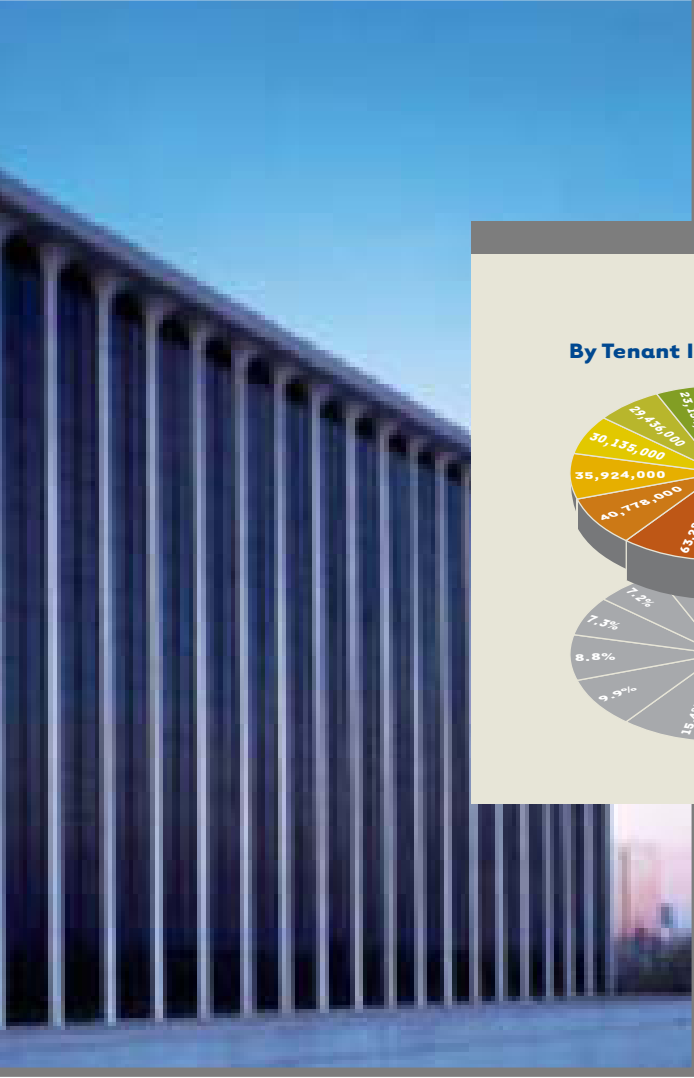
*The Dow Jones
Industrial Average
increases by 33.5%
and closes the year
above 5000*

1995



*W. P. Carey surpasses
\$2 billion in assets
under management*

1996

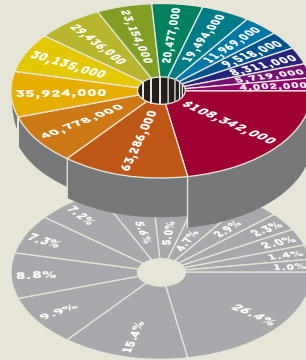


PORTFOLIO DIVERSIFICATION

Based on Contractual Annualized Rents

Total Rent = \$410,545,000*

By Tenant Industry



- Industrial**
- Wholesale Trade**
- Financial**
- Communications**
- Consumer – Non-Cyclical**
- Retail**
- Basic Materials**
- Technology**
- Miscellaneous**
- Hotels**
- Transportation – Air**
- Furniture and Equipment Stores**
- Educational Services**
- Motion Pictures**

*Includes facilities owned and/or managed by W. P. Carey & Co. LLC

CompuCom Systems, Inc.
Dallas, TX

tered to sell an additional \$690 million in shares. If we are successful in these efforts, CPA[®]:15 will become the first W. P. Carey fund to raise more than \$1 billion

CPA[®]:14's assets increased approximately 20% in 2002 to \$1,319,897,000. It remains our largest income-generating fund with more than 188 facilities comprised of approximately 23.7 million square feet net-leased to 71 tenants throughout the U.S. and Europe.*

CPA[®]:15, our newest REIT, sold out its initial \$400 million offering within the first year of its program. In order to meet this increased investor demand we have regis-

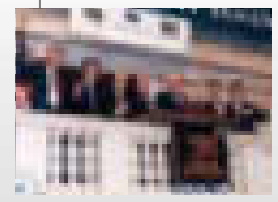
tered to sell an additional \$690 million in shares. If we are successful in these efforts, CPA[®]:15 will become the first W. P. Carey fund to raise more than \$1 billion in equity from investors. As of March 31, 2003 a total of \$637 million was raised from investors. CPA[®]:15 maintains a diversified portfolio of 88 facilities comprised of 12.7 million square feet net-leased to 27 tenants throughout the U.S. and Europe.*

W. P. Carey and its affiliates are a leading provider of sale-leaseback financing to corporate America. This type of financing enables a company to sell its corporate

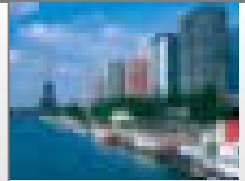
*As of 3/31/03.

CPA[®]:H
Opens for investment
1997

CPA[®]:1-9
consolidates to
create Carey
Diversified LLC



Carey Diversified LLC
begins trading on
the NYSE under the
ticker symbol CDC
1998



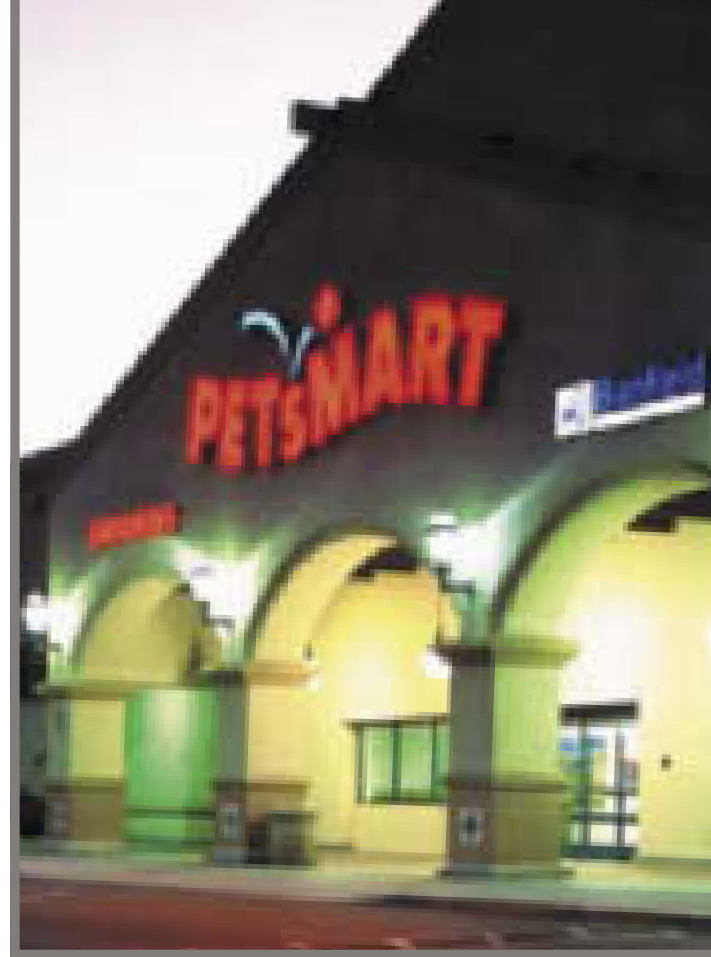
**W. P. Carey opens its
Paris office**

facility to W. P. Carey or an affiliate and then lease it back under a long-term net lease, typically 20 years. Usually, the lease is triple-net, which requires the tenant to pay for the maintenance, insurance and taxes on the facility. In addition, we also finance build-to-suit transactions in which we provide funding for the construction of a facility and then lease it back to the tenant.

Our 30-year track record of success is based largely on our immediate access to more than \$1.5 billion in capital, a disciplined and carefully refined acquisition process and a high degree of diligence, knowledge and skill on the part of our Acquisitions Department and Investment Committee.

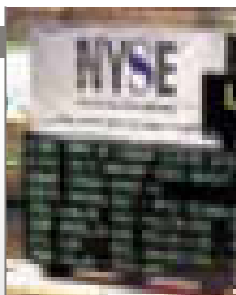
Every acquisition is carefully underwritten, and because our leases are long-term and our tenant corporations are responsible for payment of rent, we thoroughly examine the credit of the lessee and any guarantor of its lease. Protective covenants, typical of private placements of long-term debt, are frequently included. This exacting approach puts us in a better position to avoid defaults and vacancies should the tenant's business needs or financial circumstances change.

Our successful CPA® series of income generating REITs was created from funds raised from investors, primarily individuals,



through outside brokerage firms. In 2002, we expanded our access to the growing investment capital market by adding UBS PaineWebber and A. G. Edwards & Co. to our qualified group of broker/dealers. They join American Express Financial Advisors and more than 20 other broker/dealers and financial advisors.

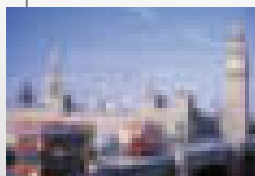
In 2002, we completed in excess of \$1 billion in acquisitions, primarily on behalf of our affiliated REITs. This success has resulted in asset and revenue growth for our affiliates as well as for W. P. Carey. We earn fees for finding, negotiating and underwriting acquisitions, and for arranging



The Dow Jones Industrial Average tops 10,000 for the first time

1999

W. P. Carey opens its London office



W. P. Carey & Co., Inc. merges with Carey Diversified LLC to create W. P. Carey & Co. LLC and ...



... trades on the NYSE under the ticker symbol WPC

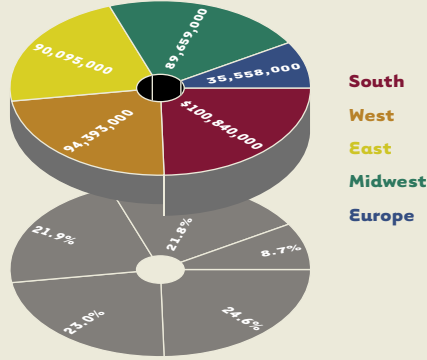
2000

PORTFOLIO DIVERSIFICATION

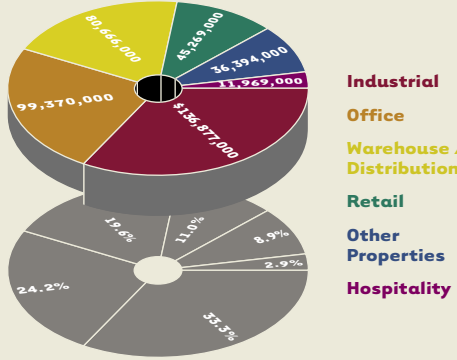
Based on Contractual Annualized Rents

Total Rent = \$410,545,000*

By Geography



By Facility Type



*Includes facilities owned and/or managed by W. P. Carey & Co. LLC

PETSMART, Inc.
Westlake
Village, CA

mortgage financing used to boost the overall rate of return. In many acquisitions, particularly multi-facility transactions involving large equity investments, W. P. Carey allocates an equity interest in the holding to two or even three of the REITs, thereby reducing the overall risk to any one REIT.

While most acquisitions continue to be in the U.S., we are increasingly acquiring facilities in attractive locations in Europe, providing further diversification and exposure to potentially more profitable markets.

Once a fund's capital is fully invested, subsequent acquisitions are often replace-

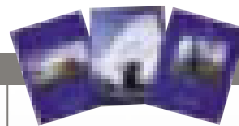
ments for existing facilities as the equity required for each new purchase arises mostly from rents or sale proceeds. Over time, the fund's equity in each facility tends to increase, partly when the real estate increases in value, and largely because of the equity build-up in each facility as the mortgage on it is paid down. As a result, the fund's net asset value can grow even though few facilities are added. In addition, its revenues can also increase as sale proceeds are deployed into attractive, new facilities and rents are adjusted for inflation.

NASDAQ declines 39% by end of year, due in large part to the collapse of the "internet bubble"



Terrorists attack the World Trade Center and Pentagon

2001



CPA[®]15

Opens for investment and is expected to be W. P. Carey's first billion-dollar program

President Bush signs corporate reform bill in response to spate of corporate scandals

2002

**OUR PORTFOLIO:
STRONG AND STEADY PROFITS**

W. P. Carey & Co.'s portfolio of net-leased commercial facilities plays a key stabilizing role in the company's unique strategy



Construction of the Los Angeles Unified School District's new high school.

for increasing earnings and shareholder value.

Our portfolio consists of 183 single-tenant facilities in 34 states in the U.S., and six facilities in France. They are leased to 99 tenants

and comprised of approximately 18 million square feet. Rents that the portfolio produces account for less than one-half of the company's income. The majority is generated by the company's activities in managing the four REITs it sponsors. As our REIT management business continues to grow, income from the management business will make up an increasing percentage of the total.

Meanwhile, the portfolio, with a current asset value of approximately \$800 million continues to be a stable and somewhat counter-cyclical source of income. During 2002, we sold eleven facilities in ten states

for \$15.3 million. We also sold six other facilities in four states that were master-leased to a single company. We received \$26 million from this sale.

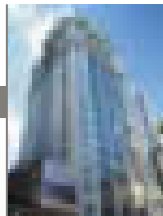
Our largest and most unusual single-facility transaction in 2002 was the \$24 million sale of the former Santee Dairies Inc. milk processing and bottling plant to the Los Angeles Unified School District for a new high school. The 18-acre facility, acquired by CPA[®]:3 in 1983, was operated by Santee under a 14-year lease, and re-leased in 1997 to Copeland Beverage, which went into receivership in 1999. The sale transaction provided for a subsidiary to assist the school district's facilities services division, on a fee basis, by conducting environmental investigations of the vacant facility, preparing remediation reports, and designing a 2,112 seat high school. At the district's request, our development company subsequently agreed to manage construction of the new facility — as it might do for corporate clients on build-to-suit projects — under an arrangement that provides our development company special incentive fees for completion prior to September 1, 2004.

When we acquire a facility, we typically leverage our returns by obtaining a non-recourse mortgage often at a fixed rate. During 2002, we refinanced many of the facilities owned and managed by W. P. Carey to take advantage of near record-low interest rates, thereby improving our portfolio's profitability.



The euro currency debuts in twelve European countries

W. P. Carey completes a record \$1 billion in sale-leaseback transactions in 2002

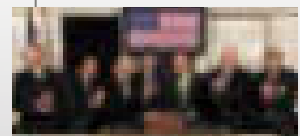


W. P. Carey acquires the Candler Tower on 42nd Street, its first facility in New York City



W. P. Carey & Co. LLC celebrates its 30th Anniversary and ...

... surpasses \$5 billion in assets under management



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FUNDS FROM OPERATIONS

In thousands

	Twelve Months Ended December 31, 2002
Net income	\$ 46,588
Gain on sale of real estate	(15,323)
Non-cash settlement income	(2,097)
Funds from operations of equity investees in excess of equity income (loss)	7,508
Depreciation, amortization, deferred taxes and other noncash charges	37,740
Minority interest in income (loss)	(120)
Straight-line rents	(639)
Writeoff of straight-line rents	142
Impairment charge on real estate investments	29,410
SAB 101 adjustment	(1,197)
Funds from operations	\$102,012

W. P. Carey & Co. LLC**SELECTED FINANCIAL DATA***In thousands except per share amounts*

	1998	1999	2000	2001	2002
OPERATING DATA⁽¹⁾					
Revenues	\$ 76,547	\$ 78,670	\$110,064	\$129,268	\$161,604
Income (loss) from continuing operations ⁽²⁾	34,583	29,147	(12,060)	33,614	46,674
Basic earnings (loss) from continuing operations per share	1.37	1.14	(.40)	.98	1.31
Diluted earnings (loss) from continuing operations per share	1.37	1.14	(.40)	.96	1.28
Net income (loss)	38,464	34,039	(9,278)	35,761	46,588
Basic earnings (loss) per share	1.55	1.33	(.31)	1.04	1.31
Diluted earnings (loss) per share	1.55	1.33	(.31)	1.02	1.28
Cash dividends paid	30,820	42,525	49,957	58,048	60,708
Cash provided by operating activities	51,944	48,186	58,222	58,877	75,896
Cash (used in) provided by investing activities	(71,525)	(55,173)	41,138	(13,368)	51,921
Cash (used in) provided by financing activities	6,668	3,392	(91,452)	(46,815)	(115,261)
Cash dividends declared per share	1.65	1.67	1.69	1.70	1.72
BALANCE SHEET DATA					
Real estate, net ⁽³⁾	\$453,181	\$501,350	\$433,867	\$435,629	\$440,193
Net investment in direct financing leases	295,826	295,556	287,876	258,041	189,339
Total assets	813,264	856,259	904,242	915,883	893,524
Long-term obligations ⁽⁴⁾	254,827	310,562	176,657	287,903	226,102

(1) Certain prior year amounts have been reflected as discontinued operations in accordance with Statement of Financial Accounting Standards No. 144 "Accounting for Impairment or Disposal of Long-Lived Assets".

(2) Includes gain (loss) on sale of real estate.

(3) Includes real estate accounted for under the operating method, operating real estate and real estate under construction, net of accumulated depreciation.

(4) Represents mortgage and note obligations and deferred acquisition fees due after more than one year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dollar amounts in thousands

OVERVIEW

The following discussion and analysis of financial condition and results of operations of W. P. Carey & Co. LLC ("WPC") should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2002. The following discussion includes forward-looking statements. Forward-looking statements, which are based on certain assumptions, describe future plans, strategies and expectations of WPC. Such statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievement of WPC to be materially different from the results of operations or plan expressed or implied by such forward looking statements. Accordingly, such information should not be regarded as representations by WPC that the results or conditions described in such statements or objectives and plans of WPC will be achieved.

WPC was formed in 1998 through the acquisition of nine affiliated real estate limited partnerships that had been managed by an affiliate of WPC as general partner and, at that time, became listed on the New York Stock Exchange. In June 2000, WPC acquired the net lease real estate management operations of its former manager, Carey Management, LLC. As a result of the June 2000 acquisition, WPC is currently the Advisor to four publicly-owned real estate investment trusts: Carey Institutional Properties Incorporated ("CIP®"), Corporate Property Associates 12 Incorporated ("CPA®:12"), Corporate Property Associates 14 Incorporated ("CPA®:14") and Corporate Property Associates 15 Incorporated ("CPA®:15") (collectively, the "CPA® REITs").

CRITICAL ACCOUNTING POLICIES

Certain accounting policies are critical to the understanding of WPC's financial condition and results of operations. Management believes that an understanding of financial condition and results of operations requires an understanding of accounting policies relating to the use of estimates and revenue recognition.

The preparation of financial statements requires that management make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses. For instance, WPC must assess its ability to collect rent and other tenant-based receivables and determine an appropriate allowance for uncollected amounts. Because fewer than 30 lessees represent more than 75% of annual rents, WPC believes that it is necessary to evaluate specific situations rather than solely use statistical methods. WPC generally recognizes a provision for uncollected rents and other tenant receivables which typically ranges between 0.5% and 2% of lease revenues (rental income and interest income from

direct financings leases) and will measure its allowance against actual rent arrearages and adjust the percentage applied. Based on actual experience during 2002, WPC recorded a provision equal to approximately 2% of lease revenues. As of December 31, 2002, WPC had rent arrearages from two tenants of approximately \$2,225 that is at risk of default.

WPC also uses estimates and judgments when evaluating whether long-lived assets are impaired. When events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, WPC performs projections of undiscounted cash flows, and if such cash flows are insufficient, the assets are adjusted (i.e., written down) to their estimated fair value. An analysis of whether a real estate asset has been impaired requires WPC to make its best estimate of market rents, residual values and holding periods. In its evaluations, WPC generally obtains market information from outside sources; however, such information requires Management to determine whether the information received is appropriate to the circumstances. As WPC's investment objectives are to hold properties on a long-term basis, holding periods used in the analyses generally range from five to ten years. Depending on the assumptions made and estimates used, the future cash flow projected in the evaluation of long-lived assets can vary within a range of outcomes. WPC will consider the likelihood of possible outcomes in determining the best possible estimate of future cash flows. Because in most cases, each of WPC's properties is leased to one tenant, WPC is more likely to incur significant writedowns when circumstances change because of the possibility that a property will be vacated in its entirety and, therefore, it is different from the risks related to leasing and managing multi-tenant properties. Events or changes in circumstances can result in further noncash writedowns and impact the gain or loss ultimately realized upon sale of the assets. WPC performs a review of its estimate of residual value of its direct financing leases at least annually to determine whether there has been an other than temporary decline in WPC's current estimate of residual value of the underlying real estate assets (i.e., the estimate of what WPC could realize upon sale of the property at the end of the lease term). If the review indicates a decline in residual value that is other than temporary, a loss is recognized and the accounting for the direct financing lease will be revised to reflect the decrease in the expected yield using the changed estimate, that is, a portion of the future cash flow from the lessee will be recognized as a return of principal rather than as revenue.

Real estate accounted for under the operating method is stated at cost less accumulated depreciation. Costs directly related to the development of rental properties are capitalized. Capitalized development and construction costs include costs essential to the development of the property, development and construction costs, interest, property taxes, insurance, salaries and other projects costs incurred during the period of development. Interest capitalized for the years ended December 31, 2002, 2001 and 2000 was \$216, \$443 and \$81, respectively.

When assets are identified by Management as held for sale, WPC discontinues depreciating the assets and estimates the sales price, net of selling costs, of such assets. If in Management's opinion, the net sales price of the assets which have been identified for sale is less than the net book value of the assets, an impairment charge is recognized and a valuation allowance is established. If circumstances arise that previously were considered unlikely and, as a result, WPC decides not to sell a property previously classified as held

for sale, the property is reclassified as held and used. A property that is reclassified is measured and recorded individually at the lower of (a) its carrying amount before the property was classified as held for sale, adjusted for any depreciation expense that would have been recognized had the property been continuously classified as held and used, or (b) the fair value at the date of the subsequent decision not to sell. The results of operations and gain or loss on sales of real estate for properties sold or classified as held for sale after January 1, 2002 are reflected in the consolidated statements of operations as “Discontinued Operations” for all periods presented.

In connection with the net lease real estate asset management business, WPC earns transaction and asset-based fees. Transaction fees are primarily earned in connection with investment banking services provided in connection with structuring acquisitions, refinancing and dispositions on behalf of the affiliated real estate investment trusts. Transaction fees are earned upon consummation of a transaction, that is, when a purchase has been completed by the affiliate. Completion of a transaction includes determining that the purchaser and seller are bound by a contract and all substantive conditions of closing have been performed. When these conditions are met, acquisition-based services have been completed and the fees are recognized.

Asset-based management fees are earned when services are performed. A portion of the fees are subject to subordination provisions pursuant to the Advisory Agreements and are based on whether each CPA® REIT has met specific performance criteria on a quarterly basis. In connection with determining whether management and performance fees are recorded as revenue, Management performs analyses on a quarterly basis to measure whether subordination provisions have been met. Revenue is only recognized for performance based fees when the specific performance criteria are achieved.

WPC accounted for its acquisition of business operations of Carey Management in 2000 as a purchase. The excess of the purchase price over the fair value of the net assets acquired was recorded as goodwill. WPC evaluates goodwill for possible impairment at least annually using a two-step process. To identify any impairment, WPC first compares the estimated fair value of the reporting unit (management services segment) with its carrying amount, including goodwill. WPC calculates the estimated fair value of the management services segment by applying a multiple, based on comparable companies, to earnings. If the fair value of the management services segment exceeds its carrying amount, goodwill is considered not impaired and no further analysis is required. If the carrying amount of the management services unit exceeds its estimated fair value, then the second step is performed to measure the amount of the impairment charge.

For the second step, WPC would determine the impairment charge by comparing the implied fair value of the goodwill with its carrying amount and record an impairment charge equal to the excess of the carrying amount over the fair value. The implied fair value of the goodwill is determined by allocating the estimated fair value of the management services segment to its assets and liabilities. The excess of the estimated fair value of the management services segment over the amounts assigned to its assets and liabilities is the implied fair value of the goodwill. WPC has performed its annual test for impairment of its management services segment, the reportable unit of measurement, and concluded that the goodwill is not impaired.

Costs incurred in connection with leases are capitalized and amortized on a straight-line basis over the terms of the related leases and included in property expense. Unamortized leasing costs are also charged to property expense upon early termination of the lease. Costs incurred in connection with obtaining mortgages and debt financing are capitalized and amortized over the term of the related debt and included in interest expense. Unamortized financing costs are included in charges for early extinguishment of debt if a loan is retired and the costs have not been fully amortized.

Stated rental revenue is recognized on a straight-line basis and interest income from direct financing leases is recognized such that WPC earns a constant rate of return on its net investment, over the terms of the respective leases. Unbilled rents receivable represent the amount by which straight-line rental revenue exceeds rents currently billed in accordance with the lease agreements. Most of WPC's leases provide for periodic rent increases based on formula indexed to increases in the Consumer Price Index ("CPI"). CPI-based and other contingent-type rents are recognized currently. WPC recognizes rental income from sales overrides when reported by lessees, that is, after the level of sales requiring a rental payment is reached.

WPC accounts for its investments in unconsolidated joint ventures under the equity method of accounting as it may exercise significant influence, but does not control these entities. These investments are recorded initially at cost, as Equity Investments and subsequently adjusted for its proportionate share of earnings and cash contributions and distributions. On a periodic basis, Management assesses whether there are any indicators that the value of equity investments may be impaired and whether or not that impairment is other than temporary. An investment's value is impaired only if Management's estimate of the net realizable value of the investment is less than the carrying value of the investment. To the extent impairment has occurred, the charge shall be measured as the excess of the carrying amount of the investment over the fair value of the investment.

Significant management judgment is required in developing WPC's provision for income taxes, including (i) the determination of partnership-level state and local taxes, and (ii) for its taxable subsidiaries, estimating deferred tax assets and liabilities and any valuation allowance that might be required against the deferred tax assets. The valuation allowance is required if it is more likely than not that a portion or all of the deferred tax assets will not be realized. WPC has not recorded a valuation allowance based on Management's belief that operating income of the taxable subsidiaries will be sufficient to realize the benefit of these assets over time. For interim periods, income tax expense for taxable subsidiaries is determined, in part, by applying an effective tax rate which takes into account statutory federal, state and local tax rates.

Public business enterprises are required to report financial and descriptive information about their reportable operating segments. WPC's management evaluates the performance of its owned and managed real estate portfolio as a whole, but allocates its resources between two operating segments: real estate operations with domestic and international investments and management services.

RESULTS OF OPERATIONS

Year-Ended December 31, 2002 Compared to Year-Ended December 31, 2001

WPC reported net income of \$46,588 and \$35,761 and income from continuing operations of \$46,674 and \$33,614 for the years ended December 31, 2002 and 2001, respectively. The results are not fully comparable due to the adoption of Statement of Financial Accounting Standard (“SFAS”) No. 142 “Goodwill and other Intangibles” in 2002. SFAS No. 142 discontinued the amortization of goodwill and indefinite-lived intangibles assets and is not retroactively applicable to 2001. If the accounting change for amortization had been retroactively applied, the overall increase in net income and income from continuing operations would have been \$6,204 and \$8,437, respectively (also see Note 20 to the accompanying consolidated financial statements). The results for 2002 reflect a change in the composition of revenue and earnings from WPC’s business segments with substantial growth in the revenues and net operating income of its management services operations and a decline in the revenues and net operating income of its real estate operations. The results from continuing operations for 2002 and 2001 include asset impairment charges of \$21,186 and \$9,997, respectively, representing the writedown of assets to estimated fair value. In addition, the results from 2002 include a gain of \$11,160 on the sale of a property in Los Angeles, California. SFAS No. 144, “Accounting for the Impairment of Long-Lived Assets” requires that for disposal activities initiated after January 1, 2002, including the sale of properties, the revenues and expenses relating to the assets held for sale or sold be presented as a discontinued operation for all periods presented in the financial statements. Because WPC sells properties in the ordinary course of business, and may reinvest the proceeds of sale to purchase new properties, WPC evaluates its ability to fund distributions to shareholders by considering the combined effect of income from continuing operations and discontinued operations.

Excluding the effect of the change in the amortization of goodwill and indefinite-lived intangible assets, the gain on the sale of the Los Angeles property and the noncash asset impairment charges, the increase in income from continuing operations, as adjusted, of \$8,466 for the comparable years was primarily due to increases in management income and a decrease in interest expense. These were partially offset by increases in general and administrative expenses and the provision for income taxes, and, to a lesser extent, decreases in income from equity investments and lease revenues. The increase in impairment charges was the result of a comprehensive, independent review of the estimated residual values on its properties classified as net investments in direct financing leases. WPC determined that an other than temporary decline in estimated residual value had occurred at several properties, primarily the properties leased to Gibson Greeting, Inc. and Brodart Co. and the net investment in direct financing leases was revised using the changed estimates. The resulting changes in estimated residual value resulted in the recognition of impairment charges on direct financing leases of \$14,880 in 2002. WPC also incurred an impairment charge of \$4,596 on its investment in the operating partnership units of MeriStar Hospitality Corporation due to the deterioration in the operating results of MeriStar. The per share price of MeriStar’s common stock has continued to decline since December 31, 2002 when it was \$6.60, and was \$3.32 as of March 19, 2003. Management will continue to evaluate whether further impairment charges will be necessary.

Net operating income from real estate operations (income before gains and losses, income taxes, minority interest, and discontinued operations) was \$13,116 and \$31,140 in 2002 and 2001, respectively (also see Note 17 to the accompanying consolidated financial statements). Excluding impairment charges, operating income from real estate operations would have reflected a decrease of \$6,835 for the comparable years (\$5,854 when discontinued operations are considered). The decrease in real estate operating income was primarily due to decreases in other income, income from equity investments and lease revenues. These were partially offset by a decrease in interest expense.

Other income generally consists of lease termination payments and other non-rent related revenues from real estate operations, including, but not limited to, settlements of claims against former lessees. WPC receives settlements in the ordinary course of business; however, the timing and amount of such settlements cannot always be estimated. The results for 2001 included settlements totaling \$4,665 from (a) New Valley Corporation in the final settlement of a claim relating to termination of a lease in 1993 for WPC's property in Moorestown, New Jersey, and (b) Harcourt General Corporation, the guarantor of a lease with General Cinema Corporation for a property in Burnsville, Minnesota. The settlement with Harcourt General resulted from the termination of the General Cinema lease in connection with General Cinema's plan of reorganization. The Burnsville property was sold in January 2002. WPC is continuing to seek settlements with other former lessees; however, the timing of such settlements and the amounts that may ultimately be received cannot be estimated.

The decrease in income from equity investments was due to MeriStar's poor performance, high leverage and limited liquidity. MeriStar, a real estate investment trust that owns hotel properties, has been affected by a decline in travel, including business travel. WPC recorded a loss of \$3,019 on the MeriStar equity investment in 2002, compared with income of \$436 for 2001. Management does not expect an improvement in MeriStar's results in 2003. In February 2003, MeriStar's credit rating was downgraded by two major ratings agencies. WPC's income from equity investments will benefit from the acquisition, in December 2002, of a 36% equity interest in two properties leased to Hologic, Inc. from an affiliate, CPA[®]:15, advised by WPC. The lease has an initial term of 20 years with four five-year renewal terms with current annual rents of \$3,156 of which WPC's share is \$1,136. It is likely that mortgage financing will be placed on the Hologic properties in 2003.

Lease revenues decreased by \$1,245 for the comparable years primarily as a result of the sale of properties during 2001, including the property leased to Duff-Norton, Inc. in July 2001 which had annual rents of \$1,164, the sale of four properties classified as held for sale as of December 31, 2001 (and not included in discontinued operations), the termination of WPC's lease with Thermadyne Holdings Corp. during 2002, and to a lesser extent, the reclassification of WPC's investment in the properties leased to Childtime Childcare, Inc., as an equity investment during 2002 subsequent to its contribution of its 33.93% interest to a limited partnership. This was partially offset by a new lease in France with Bouygues Télécom, S.A. and an increase in rent from the expansion of the property leased to AT&T, both of which went into effect in the fourth quarter of 2001. Lease revenues also benefited from the acquisition of three properties leased to BE Aerospace Inc. in the third quarter of 2002 as well as several rent increases on existing leases. Annual rent

from the BE Aerospace lease is \$1,421. After obtaining \$9,200 of mortgage financing in October 2002, annual cash flow (contractual rent less mortgage debt service) from the BE Aerospace properties will be approximately \$750. Lease revenues are expected to decline for 2003 as a result of several large terminations and sales including the leases with The Gap, Inc. that ended in January 2003. Future lease revenues are also affected by the change in estimates for direct financing leases and interest income from direct financing leases will be reduced by approximately \$1,100 in 2003, \$1,300 in 2004 and \$1,500 in 2005. This change in estimate has no effect on the contractual obligations of lessees and will not have any effect on cash flow.

The decrease in interest expense for the comparable years was primarily attributable to lower average outstanding balances on WPC's \$185,000 credit facility and a decrease in interest rates during the comparable periods. WPC's credit facility is indexed to the London Inter-Bank Offered Rate ("LIBOR") and the LIBOR benchmark rate declined in 2001 and 2002. The average outstanding balance on the credit facility decreased by approximately \$34,000 and the average interest rate decreased to 3.24% from 5.40% for the comparable years. In June 2002, WPC paid off \$12,580 in mortgage bonds on the Alpena and Petoskey hotel properties. The Petoskey property was subsequently sold in August 2002. The payoff of the bonds on the Alpena property has resulted in an annual decrease in interest expense of more than \$500. The Alpena and Petoskey bonds were also collateralized by mortgages and lease assignments on eight other properties. Subsequent to the payoff of the bonds, WPC was able to complete the sale of a portion of its property in McMinnville, Tennessee. The decrease in interest expense from the credit facility and the payoff of the Alpena and Petoskey mortgage bonds were partially offset by an increase in interest from mortgages placed on the Sprint Spectrum L.P. and Bouyges Telecom properties in 2001. During 2002, WPC obtained new financing of \$7,000 on a property leased to Quebecor, Inc. and \$9,200 on the newly-purchased BE Aerospace properties. A mortgage on the Quebecor property had been paid off in May 2001. Annual debt service on the Quebecor and BE Aerospace loans is \$1,313.

Property expenses decreased by \$347 for the comparable years. Property expenses for 2002 and 2001 include noncash charges of \$142 and \$1,321, respectively, in connection with the writeoff of accumulated straight-line rents as uncollectible in connection with the restructuring of the lease with Livho, Inc. Excluding the writeoffs, property expenses for the comparable years increased by \$832. The increases in property expenses were due to increases in real estate taxes, property insurance, property management and maintenance expenses. This was the result of the termination of the Thermadyne Holdings Corp. lease as well as an increase in costs related to properties that are either vacant or not subject to net leases, and charges of approximately \$200 to write off unamortized leasing costs in connection with a lease termination and the sale of a property. As of December 31, 2002, approximately 10% of WPC's annual lease revenues are from non-net leased properties. WPC has the primary obligation for all property expenses that are not net leased properties. Whenever a property becomes vacant, it is WPC's objective to either re-lease the vacant space or to market the property for sale. WPC attempts to remarket the property as a single-tenant net lease property; however, there is often a greater likelihood of re-leasing the property as a multi-tenant property. While WPC considers single-tenant net leasing to

be its core business, WPC has developed sufficient expertise to manage multi-tenant corporate properties. Therefore, remarketing strategies are based on what Management considers the best opportunity based on specific market conditions.

The increase in the gains in 2002 was due primarily to the \$11,160 gain recognized from the sale of the Los Angeles, California property. The property had not been leased since December 1999 at which time WPC commenced a redevelopment of the property. The property was sold to the Los Angeles Unified School District in June 2002, and WPC was engaged to manage the build-to-suit development of the property. Due to WPC's continuing involvement with the development of the property, the recognition of gain on sale and the subsequent build-to-suit development income on the project are being recognized using a blended profit margin under the percentage of completion method of accounting. The build-to-suit development agreement provides for fees of up to \$4,700 and an early completion incentive fee of \$2,000 if the project is completed before September 1, 2004. The subsidiary is obligated to share 10% of the early completion incentive fee, if achieved, with a joint venture partner. This joint venture partner has no other participation in the subsidiary's fees or its profit or loss. Because the early completion incentive is contingent, it is not included in the percentage of completion calculation and will only be recognized to earnings when the early completion deadline is met. For the year ended December 31, 2002, WPC recorded \$289 of build-to-suit development fee management income even though cash consideration received as of December 31, 2002 for services provided under the contract was approximately \$1,208.

For tax purposes, the sale of the Los Angeles property was structured as a Section 1033 noncash exchange which, under the Internal Revenue Code, would allow WPC to acquire like-kind real properties within a specified period in order to defer a taxable gain to shareholders of approximately \$20,000. If a like-kind exchange is completed, the taxable gain will not be recognized until the replacement properties acquired are subsequently sold. As of December 31, 2002, no replacement property has been identified.

Future operating cash flow will be affected by lease terminations and sales of properties. In December 2001, Thermadyne filed a petition of bankruptcy and subsequently vacated WPC's City of Industry, California property in February 2002. Annual rents were \$2,525. In December 2002, WPC entered into an agreement to re-lease a portion of the space for \$873 to a tenant which was occupying the space on a month-to-month basis, and is seeking to re-market the remaining space. In April 2002 Pillowtex, Inc. terminated its lease under its plan of reorganization, and vacated WPC's property in Salisbury, North Carolina in April. Pillowtex's annual rent was \$691. WPC is continuing to seek a new tenant for the Pillowtex property.

In January 2002, The Gap, Inc. notified WPC that it would not renew its lease which expired in February 2003. The lease provided annual rent of \$2,205. Based on current market rentals, WPC does not expect the rent for new leases on the Gap property to reach a level equal to the rents received from The Gap. Management believes that the prospects for leasing the Gap property on a long-term basis are good; however, it may take up to two years to remarket the property. WPC and the Gap negotiated a lease termination settlement and WPC received a payment of \$2,250 in March 2003.

In June 2002, Wozniak Industries, Inc. notified WPC that it would not renew its lease, which expires in December 2003 and Varo, Inc. did not renew its lease for a property in Garland, Texas and vacated in October 2002. A lessee at the multi-tenant property in Pantin, France, did not renew its lease in September 2002. Annual rents under the leases were approximately \$1,770. WPC is actively remarketing the Pantin property, and is in the process of negotiating with a new tenant and intends to sell the Varo property in “as-is” condition. The sale of the Wozniak property was completed in March 2003. In addition, various leases with annual rental income totaling approximately \$2,693 are due to expire in 2003, and WPC is either negotiating a renewal of the leases, negotiating with the tenants to sell the property or actively re-marketing the properties for lease or sale.

In November 2001, WPC evicted the lessee, Red Bank Distribution, Inc. from its property in Cincinnati, Ohio and entered into an agreement-in-principle that effectively terminated the net lease because of Red Bank’s inability to meet its annual rental lease obligation of \$1,579. At that time, WPC assumed control of the property and was managing a public warehousing operation that occupies a portion of the building. Management evaluated several alternatives, and in May 2002 signed a license agreement with a tenant to take over the operations of the property. The short-term agreement provides annual rent of \$300.

In February 2003, WPC sold its property in Winona, Minnesota to the lessee, Peerless Chain Company for \$10,800, comprised of cash of \$6,300 and two notes receivable with a fair value totaling \$2,250 and which mature in 2006 and 2008. WPC also received a note receivable of approximately \$1,700 for unpaid rents which is payable in equal monthly installments over 5 years. Annual rental income under the Peerless lease was \$1,561.

WPC has classified the Varo, Wozniak, Red Bank and Peerless properties as held for sale as of December 31, 2002 and included the revenue and expense from those properties in discontinued operations.

As of December 31, 2002, WPC has classified three additional properties as held for sale. Annual lease revenues from these properties approximate \$284. Over the past several years, WPC has pursued a strategy of selling its smaller properties as they do not generate significant cash flow and require more intensive asset management services. These properties include small retail properties that were originally leased under a master lease.

In December 2002, WPC entered into a series of agreements with Faurecia Exhaust Systems, Inc., the lessee of two properties in Toledo, Ohio. In consideration for terminating the existing lease and vacating one of the properties, WPC received a promissory note of \$4,240, which matured in January 2003 at which time it was paid. The term of the original lease had been scheduled to expire in 2007. In connection with vacating this property, WPC was assigned rights, by Faurecia, as landlord, to a sublease at the property. The sublease agreement provides for annual rents of \$357, through November 2005, and has been guaranteed by Faurecia. The terminated lease provided for annual rental income of \$1,617. WPC will recognize the restructuring consideration over a period equivalent to the former lease term. WPC is remarketing 750,000 square feet at the property. Concurrently, Faurecia entered into a separate lease agreement for the remaining property. The new Faurecia lease has a 20-year term at an annual rent of \$336.

Two leases with Federal Express Corporation were extended for five years, a lease with Verizon Communications, Inc. was extended for ten years, and leases with Honeywell, Inc.

for a portion of two properties in Houston, Texas were extended for three years. Annual rental income under the Federal Express, Verizon and Honeywell leases is \$804. New leases, each with ten-year terms, were entered into with Petrocon Engineering, Inc. and Tooling Systems, LLC, for a portion of a property in Beaumont, Texas and Frankenmuth, Michigan, respectively. Annual rental income from the two leases is \$580. Both had been tenants under short-term leases. Two leases with Lockheed Martin Corporation for a portion of properties located in Oxnard, California and Houston, Texas have been extended through December 2003 and December 2007, respectively, with an additional extension on the Oxnard property if Lockheed Martin has certain government contracts renewed. Annual rents under the two Lockheed leases are \$891. Lockheed also leases a property in King of Prussia, Pennsylvania which term expires in July 2003 and provides annual rent of \$974. Lockheed Martin is in the process of extending the King of Prussia lease for five years at an annual rent of \$797. Pre Finish Metals Incorporated renewed its lease, which had been scheduled to expire in June 2003, for five years at an annual rent of \$892.

WPC continues to monitor closely the financial condition of several lessees which it believes have been affected by current economic conditions and other trends. Such lessees include America West Holding Corp. and Livho, Inc., which each represent 3% of lease revenues. America West, an air carrier, has obtained a government guarantee for financing subsequent to September 11, 2001 and its financial prospects remain uncertain. Livho, the lessee of a Holiday Inn in Livonia, Michigan, is affected by the cyclical nature of the automotive industry. Due to Livho's declining operating results, WPC has agreed to amend its lease with Livho, with annual rent being reduced, effective in January 2003, to \$1,800 from \$2,520.

Because of the long-term nature of WPC's net leases, inflation and changing prices should not unfavorably affect revenues and net income or have an impact on the continuing operations of WPC's properties. WPC's leases usually have rent increase provisions based on the CPI and other similar indices and may have caps on such increases, or sales overrides, which should increase operating revenues in the future. Over the past several years, the CPI has had annual increases that range from 1.5% to 3%.

Net operating income from WPC's management services operations for the years ended December 31, 2002 and 2001 was \$37,732 and \$8,047, respectively (also see Note 17 to the accompanying consolidated financial statements). Results for 2002 include noncash charges for amortization of intangible assets of \$7,280 and results for 2001 include amortization of goodwill and intangible assets of \$11,903. Excluding the charges for amortization, operating income from management services would have been \$45,012 and \$19,950, respectively, for the years ended December 31, 2002 and 2001. As described below, the management revenues are comprised of transaction and asset-based fees. Transaction fees represented 56% of management revenues in 2002 as compared with 36% in 2001. The ability to generate transaction fees is, to a large extent, dependent on the ability of the CPA® REITs to raise capital and invest the capital raised in real estate. There can be no assurance that the factors for raising capital will continue to be favorable. WPC believes, therefore, that the increase or annual level of transaction fees should not be seen as a sustainable trend. While asset-based fees represented a lower proportion of management revenues in 2002, these revenues increased by 23%. The increase benefited from an

increase in the asset base of the CPA® REITs and that growth is also related to the ability of the CPA® REITs to raise capital.

Total revenues earned by the management services operations for the years ended December 31, 2002 and 2001 were \$84,255 and \$46,911, respectively. Management fee revenues were comprised of transaction fees of \$47,005 and \$17,160, respectively, and asset-based fees and reimbursements of \$37,250 and \$29,751, respectively, for the years ended December 31, 2002 and 2001. Transaction fees included fees from structuring acquisitions and financings on behalf of the CPA® REITs. WPC and affiliates structured more than \$981,000 of acquisitions on behalf of the CPA® REITs in 2002 as compared with \$395,000 in 2001. Management believes that acquisition volume in 2003 may meet or exceed 2002. Since December 31, 2002, WPC and affiliates have structured more than \$200,000 of acquisitions on behalf of the CPA® REITs.

The asset-based management income includes fees based on the value of CPA® REIT real estate assets under management. Total asset based management fees for the years ended December 31, 2002 and 2001 were \$26,453 and \$21,511, respectively. A portion of the CPA® REIT management fees is based on each CPA® REIT meeting specific performance criteria (the “performance fee”) and is earned only if the criteria are achieved. The performance criterion for Corporate Property Associates 10 Incorporated (“CPA®:10”) was satisfied during the second quarter of 2002, resulting in WPC’s recognition of \$1,463 in performance fees for the period June 2000 through March 2002. The performance criterion for CPA®:14 was satisfied for the first time during the second quarter of 2001, resulting in WPC’s recognition of \$3,112 for the period December 1997 through March 2001. Based on assets under management of the CPA® REITs as of December 31 2002, annualized management and performance fees under the advisory agreements are approximately \$32,005. As the real estate asset bases of CPA®:14 and CPA®:15 continue to increase, management and performance fees are expected to increase. CPA®:14 completed a public offering in 2001 and still has cash that it raised from its offering that is available for investment.

As of March 12, 2003, the CPA® REITs had approximately \$105,000 available for investment. CPA®:15 fully subscribed its initial \$400,000 “best efforts” public offering in November 2002. CPA®: 15 has filed a registration statement with the United States Securities and Exchange Commission to commence a second “best efforts” public offering of up to \$690,000. Management believes that the CPA® REITs are benefiting from several trends including the increasing use of sale-leaseback transactions by corporations as an alternative source of financing and individual investors seeking dividend-paying investments. WPC cannot predict how long either trend will be sustained because much of it is determined by factors which are beyond the control of the company. During 2002, CPA®:15 entered into a sales agreement with UBS PaineWebber and A.G. Edwards which commenced selling of CPA®:15 during the second and fourth quarter, respectively.

In April 2002, the shareholders of CPA®:10 and CIP®, approved a merger agreement providing for the merger of CPA®:10 into CIP®. The merger, which was effective on May 1, 2002, did not result in a change in assets under management, so that the asset-based fees earned by WPC were not affected by the merger. As a result of the merger, WPC received \$248 in property disposition fees which were earned in April 2002 when subordination provisions in the CPA®:10 Advisory Agreement were met.

During September 2002, WPC completed a commercial mortgage-backed securitization which obtained \$172,335 of limited recourse mortgage financing, primarily on behalf of three CPA® REITs. The loans were pooled into a trust, Carey Commercial Mortgage Trust, a non-affiliate whose assets consist solely of the loans. The trust offered \$148,206 of collateralized mortgage obligations in a private placement to institutional investors. A subordinated interest of \$24,129 was retained by the CPA® REITs (of which a 1% interest is held by WPC). Through this securitization, WPC enabled the CPA® REITs to obtain mortgage financing on favorable terms and to find a potential new source of future mortgage financing.

The provision for income tax expense for the year ended December 31, 2002 increased by \$9,723 over the comparable year ended December 31, 2001 and resulted from the growth of the management services operations. Income tax expense increased because approximately 90% of management revenues are earned by a taxable, wholly-owned subsidiary which reflected a substantial increase in earnings for the comparable periods.

The increase in general and administrative expenses was attributable to the growth of the management services operations. A significant portion of the increase represents costs that vary with acquisition and asset management activity. The overall percentage increase in general and administrative expenses was significantly lower than the percentage increase in management revenues. The portion of personnel costs necessary to administer the CPA® REITs is reimbursed to WPC by the CPA® REITs and is included in management income. Reimbursement for personnel-related costs for the comparable years ended December 31, 2002 and 2001 were \$6,565 and \$5,255, respectively. Of the increase in personnel costs for the comparable years, \$927 reflected an increase in the non-cash charges relating to WPC's share incentive plans. Equity awards are generally amortized over a four-year vesting period.

Year-Ended December 31, 2001 Compared to Year-Ended December 31, 2000

WPC reported net income of \$35,761 and a net loss of \$9,278, and income from continuing operations of \$33,614 and loss from continuing operations of \$12,060, for the years ended December 31, 2001 and 2000, respectively. The results for 2001 and 2000 are not fully comparable, primarily due to the acquisition of the management operations in June 2000 and the related charge in 2000 of \$38,000 in connection with terminating its management contract. Excluding the charge on the termination of the management contract in 2000, net income and income from continuing operations for the comparable periods would have increased by \$7,039 and \$7,674, respectively.

Net operating income from real estate operations (real estate segment income before gains and losses, income taxes, minority interest and the charge on the contract termination) was \$31,140 and \$24,116 in 2001 and 2000, respectively (also see Note 17 to the accompanying consolidated financials statements). The results for 2001 and 2000 include asset impairment charges of \$9,997 and \$8,809, respectively, representing noncash impairment writedowns of assets to estimated fair value. Excluding the effect of the writedowns, operating income from real estate operations for 2001 would have reflected an increase of \$8,620 over 2000.

The increase in real estate operating income was primarily due to decreases in interest expense and depreciation. The decrease in interest expense was attributable to lower

average outstanding balances on WPC's \$185,000 credit facility and a decrease in interest rates during 2001. Interest expense on the credit facility decreased by \$6,292 over 2000. The average balance outstanding on the credit line was \$104,000 in 2001 and \$146,000 in 2000 and the average LIBOR-based interest rate declined from 7.77% to 5.29%. As of December 31, 2001, advances outstanding on the credit facility were \$95,000. The decrease in interest expense from the credit facility was partially offset by an increase in mortgage interest due to placement of mortgages on the Cendant Operations, Inc. and Sprint Spectrum properties in December 2000 and July 2001, respectively, resulting in higher interest charges from mortgages. The decrease in depreciation of \$2,980 to \$10,023 in 2001 was primarily due to the disposition of the majority interest in the Federal Express Corporation property in Colliersville, Tennessee in December 2000 to an affiliate and the reclassification of a property located in Los Angeles, California to real estate under development in December 1999 at which time depreciation was no longer incurred.

Other income primarily consists of nonrecurring items including, but not limited to, consideration from lease termination and settlements. In 2001, WPC received a \$2,500 final settlement of a claim against New Valley and \$2,165 from a settlement with the guarantor of a lease with General Cinema for a property in Burnsville, Minnesota.

The increase in property expenses in 2001 of \$1,385 to \$6,877 was primarily due to an increase in real estate taxes and utilities on vacant and partially vacant properties of \$691 and an increase in the provision for uncollected rents of \$2,098 and was partially offset by decreases in management fees of \$1,908. Effective with the cancellation of its Management Agreement in June 2000, WPC no longer incurred management fees. The provision for uncollected rents included a writeoff of accumulated straight-line rents of \$1,321 that was recorded in connection with amending a lease.

The decrease in lease revenues of \$6,193 to \$72,111 in 2001 was primarily as a result of the sale of a 60% majority interest in the Federal Express property to an affiliate in December 2000 and the restructuring of a lease with Livho, Inc., the lessee of the Holiday Inn in Livonia, Michigan, and was partially offset by rent increases on various leases and increased rents from the completion of expansions at existing properties. The lease restructuring with Livho, Inc. resulted in a decrease in rental income of \$658. During the year ended December 31, 2000, revenues from the Federal Express lease were \$5,404. The remaining 40% interest in the property is accounted for under the equity method of accounting.

WPC incurred impairment charges of \$12,643 in 2001 including a writedown of \$6,749 in its equity investment in MeriStar as a result of a decrease in MeriStar's earnings and the uncertainty regarding its distribution rate which was reduced in the fourth quarter of 2001. WPC incurred a \$2,000 impairment loss on the Red Bank property as a result of the eviction (i.e., a change in circumstances which required an evaluation for possible impairment). The remaining impairment losses primarily related to the writedowns of several under-performing properties which WPC entered into commitments to sell.

Net operating income from WPC's management services operations for the years ended December 31, 2001 and 2000 was \$8,047 and \$9,361, respectively, and is not fully comparable as the acquisition of the management services operations occurred June 29, 2000. Results for the years ended December 31, 2001 and 2000 include noncash charges for

amortization of goodwill and intangible assets of \$11,903 and \$5,958, respectively. Excluding amortization charges, operating income from management services would have been \$19,950 and \$15,319 for the years ended December 31, 2001 and 2000, respectively. The provision for income taxes for the year ended December 31, 2001 increased by \$4,332 over the year ended December 31, 2000. The increase is a result of 80% of management revenues being earned by a taxable, wholly-owned subsidiary.

Total revenues earned by the management services operations for the years ended December 31, 2001 and 2000 were \$46,911 and \$25,271, respectively. Management fee revenues were comprised of transaction fees of \$17,160 and \$14,894 and asset-based management fees and reimbursements of \$29,751 and \$10,377 for the years ended December 31, 2001 and 2000, respectively. Transaction fees included fees from structuring acquisition and refinancing transactions on behalf of the CPA® REITs. WPC and affiliates structured approximately \$395,000 of acquisitions in 2001. Total asset based fees for the years ended December 31, 2001 and 2000 were \$21,511 and \$6,809, respectively.

The increase in general and administrative expenses was primarily due to the acquisition of the management services operations in 2000. Approximately 89% of the increase in general and administrative costs resulted from personnel-related costs.

FINANCIAL CONDITION

WPC's cash balances increased to \$21,304 from \$8,870 and overall debt decreased from \$296,000 to \$235,000. Management believes that WPC will generate sufficient cash from operations and, if necessary, from the proceeds of limited recourse mortgage loans, unsecured indebtedness and the issuance of additional equity securities to meet its short-term and long-term liquidity needs. WPC assesses its ability to obtain debt financing on an ongoing basis.

Cash flows from operating activities and distributions received from equity investments for the year ended December 31, 2002 of \$81,456 were sufficient to fund dividends to shareholders of \$60,708. Annual cash flow from operations is projected to fully fund distributions; however, the coverage of distributions may fluctuate on a quarterly basis due to the timing of certain compensation costs that are paid in the first quarter and the timing of transaction-related activity. In January 2002, WPC received its first installment of deferred acquisition fees of \$916 in connection with structuring transactions in 2000 on behalf of the CPA® REITs. Based on the high volume of property acquisitions WPC has structured on behalf of the CPA® REITs in 2002 and 2001, and Management's estimate of future acquisitions volume, the annual installment will increase to \$1,495 in 2003, subject to the subordination provisions of the CPA® REITs. The payments of the deferred acquisition fees by the CPA® REITs is subordinated to each CPA® REIT meeting specified certain performance criteria.

Investing activities included using \$13,983 for purchases of real estate, equity investments, securities and additional capital expenditures. The expenditures included using \$11,714 for the purchase of a 36% jointly-controlled tenancy-in-common interest in two properties leased to Hologic, \$640 for the purchase of a vacant parcel of land adjacent to existing properties in Broomfield, Colorado, \$413 for the final funding of the expansion at the AT&T property, \$975 to fund other improvements and \$241 to purchase a 1% interest

in the commercial mortgage-backed securitization structured by WPC on behalf of the CPA® REITs. In connection with the securitization, WPC received a capital distribution of \$1,255 from an equity investee which refinanced its mortgage debt.

WPC received \$50,247 in connection with the sales of properties and investments including the sale of the property in Los Angeles, California for \$24,000. The proceeds from the sale of the Los Angeles property were used to pay down a portion of WPC's balance on its credit facility. WPC used \$10,751 of cash proceeds from the sale of properties leased to Saint-Gobain Corporation, to pay off the limited recourse mortgage loan on the properties. The remaining net cash proceeds from the Saint-Gobain sale of \$15,174 were placed in an escrow account for the purpose of entering into a Section 1031 noncash exchange which, under the Internal Revenue Code, allowed WPC to acquire like-kind real properties within a stated period in order to defer a taxable gain. WPC used \$14,378 of the Saint-Gobain escrow to acquire three properties leased to BE Aerospace, Inc, and the remaining funds were utilized in the acquisition of the interest in the Hologic properties. Funds of \$9,366 from a property sale in 2001 which had been placed in an escrow account for the purpose of structuring a Section 1031 exchange were released in 2002 when an exchange was not completed. In January 2002, WPC paid an installment of deferred acquisition fees of \$524 to WPC's former management company relating to 1998 and 1999 property acquisitions. Deferred acquisition fees are payable over a period of no less than eight years. The remaining obligation as of December 31, 2002 is \$2,758. An installment of \$524 was paid in January 2003.

In addition to paying dividends to shareholders, WPC's financing activities for 2002 included reducing the outstanding balance of its credit facility by \$46,000 to \$49,000, paying off in full \$12,580 mortgage debt on the Alpena and Petoskey hotel properties, and obtaining new mortgages of \$16,200. WPC also made scheduled principal payment installments of \$8,428 on existing mortgages. WPC uses limited recourse mortgages as a substantial portion of its long-term financing because a lender of a limited recourse mortgage loan has recourse only to the properties collateralizing its loan and not to any of WPC's other assets. As of December 31, 2002, approximately 55% of the properties owned by WPC are unencumbered with mortgage debt.

WPC's raised \$10,086 from the issuance of shares primarily through WPC's dividend reinvestment and stock purchase plan, and the exercise of options by employees. WPC issued additional shares pursuant to its merger agreement for the management services operations (500,000 shares valued at \$10,440 were issued during 2002 based on meeting performance criteria as of December 31, 2001). For the year ended December 31, 2002, WPC met the FFO Target, and an additional 400,000 shares (\$8,910) will be issued during 2003. In connection with the acquisition of the majority interests in the CPA® partnerships on January 1, 1998, a CPA® partnership had not yet achieved a specified cumulative return for its limited partners. The subordinated preferred return would only be payable currently if WPC achieved a closing price equal to or in excess of \$23.11 for five consecutive trading days. On December 31, 2001, the closing price criterion was met, and the \$1,423 subordinated preferred return was paid to the former general partner in January 2002. WPC has no remaining obligations relating to January 1998 transactions.

In 2001, WPC entered into a revolving credit agreement for a \$185,000 line of credit which renewed and extended its original revolving unsecured line of credit. The credit agreement has a three-year term through March 2004. WPC has a one-time right to increase the commitment to up to \$225,000. The revolving credit agreement has financial covenants that require WPC to maintain a minimum equity value and to meet or exceed certain operating and coverage ratios. As advances on the credit facility are not restricted, WPC believes that the remaining capacity on the credit line allows WPC to meet its liquidity needs on a short-term basis, if necessary, and that renewing the facility after the current term is likely. As of December 31, 2002, WPC has \$136,000 of unused capacity under the credit facility. Over the past twelve months, WPC has substantially deleveraged as its overall debt has decreased from \$295,515 to \$235,049, or 20%. 78% of WPC's outstanding mortgage debt has fixed rates of interest that will partially protect WPC from increases in market rates from near-historical lows.

WPC expects to meet its capital requirements to fund future property acquisitions, construction costs on build-to-suit transactions, any capital expenditures on existing properties and scheduled debt maturities through long-term limited recourse mortgages, unsecured indebtedness and the possible issuance of additional equity securities. WPC is expected to incur capital expenditures on various properties during 2003 of approximately \$2,000, primarily related to tenant leasehold improvements, and for property improvements and upgrades to enhance a property's marketability for re-leasing. Commitments for capital expenditures on the Livonia hotel are currently estimated to be \$3,500 relating to a property improvement plan requirement necessary to renew the franchise license with Holiday Inn. The funds are expected to be paid out over a three-year period beginning in the second half of 2004. WPC is evaluating redevelopment plans for the Broomfield property but has not determined the cost of such redevelopment. In the case of limited recourse mortgage financing that does not fully amortize over its term or is currently due, WPC is responsible for the balloon payment only to the extent of its interest in the encumbered property because the holder has recourse only to the collateral. In the event that balloon payments come due, WPC may seek to refinance the loans, restructure the debt with the existing lenders or evaluate its ability to satisfy the obligation from its existing resources including its revolving line of credit, to satisfy the mortgage debt. To the extent the remaining initial lease term on any property remains in place for a number of years beyond the balloon payment date, WPC believes that the ability to refinance balloon payment obligations is enhanced. WPC also evaluates all its outstanding loans for opportunities to refinance debt at lower interest rates that may occur as a result of decreasing interest rates or improvements in the credit rating of tenants. There are \$2,500 and \$16,700 in scheduled balloon payments on limited recourse mortgage notes due in 2003 and 2004, respectively. WPC believes it has sufficient resources to pay off the loans in the event they are not refinanced.

WPC from time to time may offer to sell its Listed Shares, Future Shares and Warrants pursuant to a registration statement declared effective by the Securities and Exchange Commission in February 2001. The total amount of these securities will have an initial aggregate offering price of up to \$100,000 although WPC may increase this amount in the future. The shares and/or warrants may be offered and sold to or through one or more underwriters, dealers and agents, or directly to purchasers, on a continuous or delayed

basis. The prospectus included as part of the registration statement describes some of the general terms that may apply to these securities and the general manner in which they may be offered. The specific terms of any securities to be offered, the specific manner in which they may be offered and the specific use of proceeds, will be described in a supplement to the prospectus.

OFF-BALANCE SHEET AND AGGREGATE CONTRACTUAL AGREEMENTS

WPC has guaranteed loans of \$4,528 made to officers which are collateralized by shares of WPC owned by the officers and held by WPC and has provided a guarantee of \$2,000 related to the development project in Los Angeles (see discussion of the development project in the results of operations for the year ended December 31, 2002). These shares to officers were issued in connection with equity incentive plans and the acquisition of the management operations. WPC will not renew the guarantee on the officers' loans in 2003.

A summary of WPC's obligations, commitments and guarantees under contractual arrangements are as follows:

In thousands	Total	2003	2004	2005	2006	2007	There- after
OBLIGATIONS							
Limited recourse mortgage notes payable	\$186,049	\$11,180	\$25,391	\$ 8,264	\$24,894	\$14,600	\$101,720
Unsecured note payable	49,000		49,000				
Deferred acquisition fees	2,757	524	524	524	524	524	137
COMMITMENTS AND GUARANTEES							
Guarantee of officer loans	4,528	4,528					
Capital improvements	3,500		500	1,500	1,500		
Development project	2,000		2,000				
Share of minimum rents payable under office cost-sharing agreement	1,748	466	466	466	350		
	<u>\$249,582</u>	<u>\$16,698</u>	<u>\$77,881</u>	<u>\$10,754</u>	<u>\$27,268</u>	<u>\$15,124</u>	<u>\$101,857</u>

In connection with the purchase of many of its properties, WPC required the sellers to perform environmental reviews. Management believes, based on the results of such reviews, that WPC's 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 historical 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, WPC's leases generally require ten-

ants to indemnify WPC 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 WPC to extend leases until such time as a tenant has satisfied its environmental obligations. Certain of the leases allow WPC to require financial assurances from tenants such as performance bonds or letters of credit if the costs of remediating environmental conditions are, in the estimation of WPC, in excess of specified amounts. Accordingly, Management believes that the ultimate resolution of environmental matters will not have a material adverse effect on WPC's financial condition, liquidity or results of operations.

ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141 "Business Combinations" and No. 142 "Goodwill and Other Intangibles," which establish accounting and reporting standards for business combinations, certain assets and liabilities acquired in business combinations and asset acquisitions.

SFAS No. 141 requires that all business combinations and asset acquisitions initiated after June 30, 2001 be accounted for under the purchase method, establishes specific criteria for the recognition of intangible assets separately from goodwill and requires that unallocated negative goodwill be written off immediately as an extraordinary gain. Use of the pooling-of-interests method for business combinations is no longer permitted. The adoption of SFAS No. 141 did not have a material effect on WPC's financial statements.

SFAS No. 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition. SFAS No. 142 provides that goodwill and indefinite-lived intangible assets will no longer be amortized but will be tested for impairment at least annually. Intangible assets acquired and liabilities assumed in business combinations will only be amortized if such assets or liabilities are capable of being separated or divided and sold, transferred, licensed, rented or exchanged or arise from contractual or legal rights (including leases), and will be amortized over their useful lives. In accordance with the requirements of SFAS No. 142, WPC performed its annual tests for impairment of its management services segment, the reportable unit for measurement and concluded that the carrying value of goodwill is not impaired.

With the acquisition of real estate management operations in 2000, WPC allocated a portion of the purchase price to goodwill and other identifiable intangible assets. In adopting SFAS No. 142, WPC discontinued amortization of existing goodwill and certain intangible assets. During the year ended December 31, 2001, WPC recorded annual amortization charges of \$4,597 which beginning January 1, 2002 were no longer expensed under SFAS No. 142.

In June 2001, FASB issued SFAS No. 143 "Accounting for Asset Retirement Obligations." SFAS No. 143 was issued to establish standards for the recognition and measurement of an asset retirement obligation. SFAS No. 143 requires retirement obligations associated with tangible long-lived assets to be recognized at fair value as the liability is incurred with a corresponding increase in the carrying amount of the related long-lived asset. SFAS No. 143 is effective for financial statements issued for fiscal years beginning

after June 15, 2002. WPC does not expect SFAS No. 143 to have a material effect on its financial statements.

In August 2001, FASB issued SFAS No. 144 "Accounting for the Impairment of Long-Lived Assets" which addresses the accounting and reporting for the impairment and disposal of long-lived assets and supercedes SFAS No. 121 while retaining SFAS No. 121's fundamental provisions for the recognition and measurement of impairments. SFAS No. 144 removes goodwill from its scope, provides for a probability-weighted cash flow estimation approach for analyzing situations in which alternative courses of action to recover the carrying amount of long-lived assets are under consideration and broadens that presentation of discontinued operations to include a component of an entity. The adoption of SFAS No. 144 on January 1, 2002 did not have a material effect on WPC's financial statements; however, the revenues and expenses relating to an asset held for sale or sold are presented as a discontinued operation for all periods presented. The provisions of SFAS No. 144 are effective for disposal activities initiated by WPC's commitment to a plan of disposition after the date of adoption (January 1, 2002). As of December 31, 2002, the operations of eighteen properties have been classified as discontinued operations. Seven of the properties are classified as held for sale in the accompanying consolidated balance sheet as of December 31, 2002, one of which was subsequently sold.

In May 2002, FASB issued SFAS No. 145 "Rescission of SFAS Nos. 4, 44 and 64, Amendment of SFAS No. 13 and Technical Corrections" which eliminates the requirement that gains and losses from the extinguishment of debt be classified as extraordinary items unless it can be considered unusual in nature and infrequent in occurrence. The provisions of SFAS No. 145 are effective for fiscal years beginning after May 15, 2002. WPC did not elect early adoption. Upon adoption, WPC will no longer classify gains and losses for the extinguishment of debt as extraordinary items and will adjust comparative periods presented.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Exit or Disposal Activities". SFAS No. 146 addresses significant issues regarding the recognition, measurement, and reporting of costs that are associated with exit and disposal activities, including restructuring activities that are currently accounted for pursuant to the guidance that the Emerging Issues Task Force ("EITF") has set forth in EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. WPC does not expect SFAS No. 146 to have a material effect on its financial statements.

In October 2002, the FASB issued SFAS No. 147, "Acquisition of Certain Financial Institutions" which amends SFAS No. 72, SFAS No. 144 and FASB Interpretation No. 9. SFAS No. 147 provides guidance on the accounting for the acquisitions of certain financial institutions and includes long-term customer relationships as intangible assets within the scope of SFAS No. 144. WPC does not expect SFAS No. 147 to have a material effect on its financial statements.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure," which amends SFAS No. 123, Accounting for Stock Based Compensation. SFAS No. 148 provides alternative methods of transition for a

voluntary change to the fair value based method of accounting for stock based compensation (i.e., recognition of a charge for issuance of stock options in the determination of income). However, SFAS No. 148 does not permit the use of the original SFAS No. 123 prospective method of transition for changes to the fair value based method made in fiscal years beginning after December 15, 2003. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock based employee compensation, description of transition method utilized and the effect of the method used on reported results. The transition and annual disclosure provisions of SFAS No. 148 are to be applied for fiscal years ending after December 15, 2002. The new interim disclosure provisions are effective for the first interim period beginning after December 15, 2002. WPC is evaluating whether it will change to the fair value based method.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," ("FIN 45") which changes the accounting for, and disclosure of certain guarantees. Beginning with transactions entered into after December 31, 2002, certain guarantees are required to be recorded at fair value, which is different from prior practice, under which a liability was recorded only when a loss was probable and reasonably estimable. In general, the change applies to contracts or indemnification agreements that contingently require WPC to make payments to a guaranteed third-party based on changes in an underlying asset, liability, or an equity security of the guaranteed party. The accounting provisions only apply for certain new transactions entered into or existing guarantee contracts modified after December 31, 2002. The adoption of the accounting provisions of FIN 45 is not expected to have a material effect on WPC's financial statements. WPC has complied with the disclosure provisions.

On January 17, 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"), the primary objective of which is to provide guidance on the identification of entities for which control is achieved through means other than voting rights ("variable interest entities" or "VIEs") and to determine when and which business enterprise should consolidate the VIE (the "primary beneficiary"). This new model applies when either (1) the equity investors (if any) do not have a controlling financial interest or (2) the equity investment at risk is insufficient to finance that entity's activities without additional financial support. In addition, FIN 46 requires both the primary beneficiary and all other enterprises with a significant variable interest in a VIE to make additional disclosures. The transitional disclosure requirements will take effect immediately and are required for all financial statements initially issued after January 31, 2003. WPC is assessing the impact of this interpretation on its accounting for its investments in unconsolidated joint ventures and other entities. WPC is evaluating whether upon adoption in the third quarter of 2003 if it will consolidate certain equity investments and other entities. WPC's maximum loss exposure is the carrying value of its equity investments. WPC does not expect the adoption of the provisions of FIN 46 to have a material effect on its financial statements.

REPORT OF INDEPENDENT ACCOUNTANTS

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF W. P. CAREY & CO. LLC:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, members' equity and cash flows present fairly, in all material respects, the financial position of W. P. Carey & Co. LLC and its subsidiaries at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 20 to the consolidated financial statements, effective January 1, 2002, the Company adopted Statement of Financial Accounting Standard No. 142 "Goodwill and Other Intangibles," which requires that goodwill and indefinite-lived intangible assets are no longer amortized and are assessed for impairment annually. In addition, as discussed in Note 15 to the consolidated financial statements, effective January 1, 2002, the Company adopted Statement of Financial Accounting Standard No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets," which requires that the results of operations, including any gain or loss on sale, relating to real estate that has been disposed of or is classified as held for sale after the initial adoption be reported in discontinued operations for all periods presented.



New York, New York

March 19, 2005

W. P. Carey & Co. LLC**CONSOLIDATED BALANCE SHEETS***In thousands except share amounts*

	As of December 31,	
	2002	2001
ASSETS		
Real estate leased to others:		
Accounted for under the operating method, net of accumulated depreciation of \$41,716 and \$32,401 at December 31, 2002 and 2001	\$432,556	\$426,842
Net investment in direct financing leases	189,339	258,041
Real estate leased to others	621,895	684,883
Operating real estate, net of accumulated depreciation of \$1,665 and \$2,076 at December 31, 2002 and 2001	4,056	5,990
Real estate under construction and redevelopment	3,581	2,797
Equity investments	67,742	50,629
Assets held for sale	22,158	23,693
Cash and cash equivalents	21,304	8,870
Due from affiliates	40,241	18,789
Goodwill, net of accumulated amortization of \$4,363 at December 31, 2001	49,874	37,574
Intangible assets, net of accumulated amortization of \$18,543 and \$13,499 at December 31, 2002 and 2001	44,567	55,236
Other assets, net of accumulated amortization of \$1,927 and \$1,095 at December 31, 2002 and 2001 and reserve for uncollected rent of \$3,492 and \$3,278 at December 31, 2002 and 2001	18,106	27,422
Total assets	<u>\$893,524</u>	<u>\$915,883</u>
LIABILITIES, MINORITY INTEREST AND MEMBERS' EQUITY		
Liabilities:		
Mortgage notes payable	\$186,049	\$200,515
Notes payable	49,000	95,000
Accrued interest	1,319	1,312
Dividends payable	15,486	14,836
Due to affiliates	12,874	16,790
Accrued taxes	5,285	3,020
Prepaid rental income and security deposits	3,951	3,198
Accounts payable and accrued expenses	17,931	11,022
Deferred taxes, net	19,763	6,608
Other liabilities	9,494	3,123
Total liabilities	<u>321,152</u>	<u>355,424</u>
Minority interest	<u>1,484</u>	<u>794</u>
Commitments and contingencies		
Members' Equity:		
Listed shares, no par value, 35,944,110 and 34,742,436 shares issued and outstanding at December 31, 2002 and 2001	690,594	664,751
Dividends in excess of accumulated earnings	(111,970)	(97,200)
Unearned compensation	(5,671)	(4,454)
Accumulated other comprehensive loss	(2,065)	(3,432)
Total members' equity	<u>570,888</u>	<u>559,665</u>
Total liabilities, minority interest and members' equity	<u>\$893,524</u>	<u>\$915,883</u>

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

W. P. Carey & Co. LLC
CONSOLIDATED STATEMENTS OF OPERATIONS

In thousands except share and per share amounts

	For the Years Ended December 31,		
	2002	2001	2000
REVENUES			
Management income from affiliates	\$ 84,255	\$ 46,911	\$ 25,271
Rental income	47,865	45,756	50,281
Interest income from direct financing leases	23,001	26,355	28,023
Other interest income	1,727	1,023	452
Other income	1,258	5,960	2,626
Revenues of other business operations	3,498	3,263	3,411
	161,604	129,268	110,064
EXPENSES			
Interest	16,457	19,560	25,346
Depreciation	10,834	10,023	13,003
Amortization	9,214	13,857	6,934
General and administrative	42,594	29,331	16,474
Property expenses	6,530	6,877	5,492
Impairment charge on real estate and investments	21,186	9,997	8,809
Operating expenses of other business operations	2,338	2,376	2,535
Termination of management contract	—	—	38,000
	109,153	92,021	116,593
Income (loss) from continuing operations before income (loss) from equity investments, gain (loss) on sale, minority interest and income taxes	52,451	37,247	(6,529)
Income (loss) from equity investments	(443)	2,827	2,882
Income (loss) from continuing operations before gain (loss) on sale, minority interest and income taxes	52,008	40,074	(3,647)
Gain on sale of securities	94	44	281
Income (loss) from continuing operations before minority interest, income taxes and gain (loss) on sale of real estate	52,102	40,118	(3,366)
Minority interest in (income) loss	120	68	(1,517)
Income (loss) from continuing operations before income taxes and gain (loss) on sale of real estate	52,222	40,186	(4,883)
Provision for income taxes	(18,199)	(8,476)	(4,144)
Income (loss) from continuing operations before gain (loss) on sale of real estate	34,023	31,710	(9,027)
Discontinued operations:			
Income from operations of discontinued properties	5,774	4,793	5,020
Gain on sale of real estate	2,364	—	—
Impairment charges on properties held for sale	(8,224)	(2,646)	(2,238)
Income (loss) from discontinued operations	(86)	2,147	2,782
Gain (loss) on sale of real estate	12,651	1,904	(3,033)
Net income (loss)	\$ 46,588	\$ 35,761	\$ (9,278)

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

W. P. Carey & Co. LLC**CONSOLIDATED STATEMENTS OF OPERATIONS (continued)***In thousands except share and per share amounts*

	For the Years Ended December 31,		
	2002	2001	2000
Basic earnings (loss) per share			
Income (loss) from continuing operations	\$1.31	\$.98	\$(.40)
Discontinued operations	—	.06	.09
Net income (loss)	\$1.31	\$1.04	\$(.31)
Diluted earnings (loss) per share			
Income (loss) from continuing operations	\$1.28	\$.96	\$(.40)
Discontinued operations	—	.06	.09
Net income (loss)	\$1.28	\$1.02	\$(.31)
Weighted average shares outstanding			
Basic	35,530,334	34,465,217	29,652,698
Diluted	36,265,230	34,952,560	29,652,698

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

W. P. Carey & Co. LLC
CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY

For the years ended December 31, 2000, 2001 and 2002

	Shares	Paid-in Capital	Dividends in Excess of Accumulated Earnings	Unearned Compensation	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Treasury Shares	Total
Balance at January 1, 2000	25,771,303	\$526,130	\$(11,560)			\$(910)	\$ (1,060)	\$512,600
Shares issued in connection with services rendered and properties acquired	226,290	3,169						3,169
Shares issued in connection with acquisition	8,104,673	124,630						124,630
Shares and options issued under share incentive plans	347,100	6,311		\$(6,311)				—
Forfeitures	(8,050)	(160)		160				—
Dividends declared			(53,422)					(53,422)
Amortization of unearned compensation				860				860
Repurchase of shares	(836,600)						(14,271)	(14,271)
Cancellation of treasury shares		(15,331)					15,331	—
Net loss			(9,278)		\$(9,278)			(9,278)
Other comprehensive income:								
Change in unrealized depreciation of marketable securities					(1,155)			
Foreign currency translation adjustment					(1,060)			
					(2,215)	(2,215)		(2,215)
Comprehensive loss					\$(11,493)			
Balance at December 31, 2000	33,604,716	644,749	(74,260)	(5,291)		(3,125)	—	562,073

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

W. P. Carey & Co. LLC

CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY (continued)

For the years ended December 31, 2000, 2001 and 2002

	Shares	Paid-in Capital	Dividends in Excess of Accumulated Earnings	Unearned Compensation	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Treasury Shares	Total
Balance at December 31, 2000	33,604,716	644,749	(74,260)	(5,291)		(3,125)	—	562,073
Cash proceeds on issuance of shares, net	422,032	6,496						6,496
Shares issued in connection with services rendered and properties acquired	6,825	134						134
Shares issued in connection with acquisition	651,964	10,956						10,956
Shares and options issued under share incentive plans	63,749	1,235		(1,235)				
Forfeitures	(6,850)	(117)		117				
Dividends declared			(58,701)					(58,701)
Tax benefit – share incentive plans		1,298						1,298
Amortization of unearned compensation				1,955				1,955
Net income			35,761		\$35,761			35,761
Other comprehensive income:								
Change in unrealized depreciation of marketable securities					130			
Foreign currency translation adjustment					(437)			
					(307)	(307)		(307)
Comprehensive income					\$35,454			
Balance at December 31, 2001	34,742,436	664,751	(97,200)	(4,454)		(3,432)	—	559,665

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

W. P. Carey & Co. LLC

CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY (continued)

For the years ended December 31, 2000, 2001 and 2002

	Shares	Paid-in Capital	Dividends in Excess of Accumulated Earnings	Unearned Compensation	Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Treasury Shares	Total
Balance at December 31, 2001	34,742,436	664,751	(97,200)	(4,454)		(3,432)	—	559,665
Cash proceeds on issuance of shares, net	528,479	10,086						10,086
Shares issued in connection with services rendered	5,755	390						390
Shares issued in connection with acquisition	500,000	10,440						10,440
Shares and options issued under share incentive plans	170,768	3,913		(3,913)				
Forfeitures	(3,328)	(70)		70				
Dividends declared			(61,358)					(61,358)
Tax benefit – share incentive plans		1,084						1,084
Amortization of unearned compensation				2,626				2,626
Net income			46,588		\$46,588			46,588
Other comprehensive income:								
Change in unrealized depreciation of marketable securities					12			
Foreign currency translation adjustment					1,355			
					1,367	1,367		1,367
Comprehensive income					\$47,955			
Balance at December 31, 2002	35,944,110	\$690,594	\$(111,970)	\$(5,671)		\$(2,065)	—	\$570,888

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

W. P. Carey & Co. LLC**CONSOLIDATED STATEMENTS OF CASH FLOWS***In thousands*

	For the Years Ended December 31,		
	2002	2001	2000
Cash flows from operating activities:			
Net income (loss)	\$ 46,588	\$35,761	\$ (9,278)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Income from discontinued operations, including gain on sale	(8,138)	(4,793)	(5,020)
Depreciation and amortization	20,884	24,681	20,803
Equity income (loss) in excess of distributions	(54)	(232)	(180)
(Gain) loss on sales of real estate and securities, net	(12,745)	(1,948)	2,752
Minority interest in income (loss)	(120)	(68)	1,517
Straight-line rent adjustments and amortization of deferred income	(719)	(1,372)	(2,397)
Management income received in shares of affiliates	(13,439)	(11,489)	(2,747)
Impairment charges on real estate assets held for sale and investments	29,410	12,643	11,047
Increase in structuring fees receivable	(19,445)	(6,915)	(6,351)
Increase in deferred income taxes payable	13,155	5,272	1,336
Deferred acquisition fees received	916	—	—
Provision for uncollected rents	1,402	1,300	476
Costs paid by issuance of shares	500	278	1,482
Tax benefit – share incentive plans	1,084	1,298	—
Amortization of unearned compensation	2,626	1,955	860
Termination of management contract	—	—	38,000
Net changes in operating assets and liabilities, net of assets and liabilities acquired on acquisition	9,831	(2,797)	396
Net cash provided by continuing operations	71,736	53,574	52,696
Net cash provided by discontinued operations	4,160	5,303	5,526
Net cash provided by operating activities	75,896	58,877	58,222
Cash flows from investing activities:			
Distributions received from equity investments in excess of equity income (loss)	5,560	2,768	1,732
Capital distribution from equity investment	1,255	—	17,544
Purchases of real estate, equity investments and securities	(13,172)	(23,290)	(21,497)
Additional capital expenditures	(811)	(3,953)	(2,078)
Payment of deferred acquisition fees	(524)	(520)	(392)
Release of funds from escrow from sale of real estate	9,366		
Proceeds from sales of real estate, equity investments and securities	50,247	11,627	45,617
Cash acquired on acquisition of business operations	—	—	212
Net cash provided by (used in) investing activities	51,921	(13,368)	41,138

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

W. P. Carey & Co. LLC
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

In thousands

	For the Years Ended December 31,		
	2002	2001	2000
Cash flows from financing activities:			
Dividends paid	(60,708)	(58,048)	(49,957)
Payment of accrued preferred distributions	(1,423)	—	—
Contributions from (distributions to) minority interest	636	204	(1,321)
Payments of mortgage principal	(8,428)	(8,230)	(7,590)
Proceeds from mortgages and notes payable	79,200	97,627	64,397
Prepayments of mortgage principal and notes payable	(134,316)	(82,665)	(83,037)
Payment of financing costs	(308)	(1,874)	—
Proceeds from issuance of shares, net	10,086	6,496	—
Repurchase of shares	—	(325)	(13,944)
Net cash (used in) financing activities	(115,261)	(46,815)	(91,452)
Effect of exchange rate changes on cash	(122)	11	(40)
Net increase (decrease) in cash and cash equivalents	12,434	(1,295)	7,868
Cash and cash equivalents, beginning of year	8,870	10,165	2,297
Cash and cash equivalents, end of year	\$ 21,304	\$ 8,870	\$ 10,165

Noncash operating, investing and financing activities:

- A. The purchase of Carey Management LLC in June of 2000 consisted of the acquisition of certain assets and liabilities at fair value in exchange for the issuance of listed shares as follows:

Intangible assets and goodwill:

Management contracts	\$ 97,135	
Trade name	4,700	(indefinite-lived intangible asset at January 1, 2002)
Workforce	4,900	(reclassified as goodwill on January 1, 2002)
Goodwill	22,356	
	129,091	
Other assets and liabilities, net	(4,673)	
Issuance of shares	(124,630)	
Net cash acquired	\$ 212	

If specified performance criteria are achieved, the Company has an obligation to issue up to an additional 2,000,000 shares over four years. The performance criteria for the years ended December 31, 2001 and 2000 were achieved, and as a result 500,000 shares (\$10,440 and \$8,145) were issued for the years ended December 31, 2001 and 2000, respectively. For the year ended December 31, 2002, the Company met the FFO Target, and as a result 400,000 shares will be issued during 2003. At December 31, 2002, the cost of such issuable shares (\$8,910) has been included in goodwill and accounts payable to affiliates.

Effective January 1, 2001, the CPA, Partnerships became wholly-owned subsidiaries of the Company when 151,964 shares (\$2,811) were issued in consideration for acquiring the remaining special partner interests.

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

W. P. Carey & Co. LLC**CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)***In thousands*

B. The Company issued 5,755, 6,825 and 181,644 restricted shares valued at \$134 in 2002 and 2001 and \$2,424 in 2000, respectively, to certain directors, officers and affiliates in consideration of service rendered. Restricted shares and stock options valued at \$3,913, \$1,235 and \$6,295 in 2002, 2001 and 2000, respectively, were issued to employees and recorded as unearned compensation of which \$70, \$117 and \$160, respectively, was forfeited in 2002, 2001 and 2000. Included in compensation expense for the years ended December 31, 2002, 2001 and 2000 were \$2,626, \$1,955 and \$860, respectively, relating to equity awards from the Company's share incentive plans.

C. In 2002, the Company contributed its tenancy-in-common interest in properties leased to Childtime Childcare, Inc. to a limited partnership. Assets and liabilities were contributed as follows:

Land	\$1,674
Net investment in direct financing lease	2,413
Other assets, net	1
Mortgage payable	(1,134)
Equity investment	<u>\$2,954</u>

D. In 2002, \$15,714 was placed in an escrow account from the sale of properties and was subsequently used for the purchase of properties. During 2002, \$9,366 was released from an escrow account from the sale of a property in 2001.

The Company received a note receivable in 2001 of \$700 in partial consideration for a sale of property.

In 2000, the Company issued shares valued at \$778 to acquire real estate.

E. During 2001 the Company purchased an equity interest in an affiliate, W. P. Carey International LLC ("WPCI"), in consideration for issuing a promissory note of \$1,000. The promissory note was satisfied in 2002 through the issuance of 54,765 shares to WPCI.

Supplemental Cash Flows Information:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Interest paid, net of amounts capitalized	\$16,400	\$22,144	\$24,790
Income taxes paid	\$ 1,695	\$ 1,615	\$ 1,437

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS*All amounts in thousands except share and per share amounts***1. ORGANIZATION**

W. P. Carey & Co. LLC (the “Company”) commenced operations on January 1, 1998, pursuant to a consolidation transaction, when the Company acquired the majority ownership interests in the nine Corporate Property Associates (“CPA[®]”) Partnerships. The former General Partner interests in the CPA[®] Partnerships were retained by two special limited partners, William Polk Carey, formerly the Individual General Partner of the nine CPA[®] Partnerships, and Carey Management LLC (“Carey Management”).

On June 28, 2000 the Company acquired the net lease real estate management operations of Carey Management subsequent to receiving shareholder approval. The assets acquired included the Advisory Agreements with four affiliated publicly owned real estate investment trusts (the “CPA[®] REITs”), the Company’s Management Agreement, the stock of an affiliated broker-dealer, investments in the common stock of the CPA[®] REITs, and certain office furniture, fixtures, equipment and employees required to carry on the business operations of Carey Management. The purchase price consisted of the initial issuance of 8,000,000 shares with an additional 2,000,000 shares issuable over four years if specified performance criteria are achieved (of which 500,000 shares valued at \$8,145 and \$10,440 were issued during 2001 and 2002, respectively, and 400,000 shares valued at \$8,910 will be issued in 2003 based on meeting performance criteria as of December 31, 2000, 2001 and 2002, respectively). The initial 8,000,000 shares issued are restricted from resale for a period of up to three years and the additional shares are subject to Section 144 regulations. The acquisition of the interests in Carey Management was accounted for as a purchase and was recorded at the fair value of the initial 8,000,000 shares issued. The total initial purchase price was approximately \$131,300 including the issuance of 8,000,000 shares, transaction costs of \$2,605, the acquisition of Carey Management’s special limited partnership minority interests in the CPA[®] Partnerships and the value of restricted shares and options issued in respect of the interests of certain officers in a non-qualified deferred compensation plan of Carey Management. The Company has guaranteed loans of \$4,528 to these officers in connection with their acquisition of equity interests in the Company. The term of the guarantees expire in June 2003 and will not be renewed. The loans are collateralized by shares of WPC, owned by the officers and held by WPC.

The purchase price has been allocated to the assets and liabilities acquired based upon their fair market values. Intangible assets acquired, including the Advisory Agreements with the CPA[®] REITs, the Company’s Management Agreement, the trade name, and workforce (reclassified to goodwill on January 1, 2002), were determined pursuant to an independent valuation. The value of the Advisory Agreements and the Management

Agreement were based on a discounted cash flow analysis of the projected fees. The excess of the purchase price over the fair values of the identified tangible and intangible assets has been recorded as goodwill. The acquisition of the Company's Management Agreement was accounted for as a contract termination and the fair value of the Management Agreement of \$38,000 was expensed as of the date of the merger. For financial reporting purposes, the value of any additional shares issued under the acquisition agreement is recognized as additional purchase price and recorded as goodwill. Issuances based on performance criteria are valued based on the market price of the shares on the date when the performance criteria are achieved.

Effective January 1, 2001, the Company acquired all remaining minority interests in the CPA® Partnerships by issuing 151,964 shares at \$18.50 per share (\$2,811) to the remaining special limited partner of the CPA® Partnerships, William Polk Carey. The acquisition price was determined pursuant to an independent valuation of the CPA® Partnerships as of December 31, 2000.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

The consolidated financial statements include the Company and its wholly-owned and controlling majority-owned subsidiaries. All material inter-entity transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates relate to the assessment of recoverability of real estate, intangible assets and goodwill. Actual results could differ from those estimates.

Real Estate Leased to Others

Certain of the Company's real estate is leased to others on a net lease basis, whereby the tenant is generally responsible for all operating expenses relating to the property, including property taxes, insurance, maintenance, repairs, renewals and improvements. Expenditures for maintenance and repairs including routine betterments are charged to operations as incurred. Significant renovations which increase the useful life of the properties are capitalized. For the year ended December 31, 2002, lessees were responsible for the direct payment of real estate taxes of approximately \$6,627.

The Company diversifies its real estate investments among various corporate tenants engaged in different industries, by property type and geographically. No lessee currently represents 10% or more of total leasing revenues.

The leases are accounted for under either the direct financing or operating methods. Such methods are described below (also see Notes 4 and 5):

Direct financing method – Leases accounted for under the direct financing method are recorded at their net investment (Note 5). Unearned income is deferred and amortized to income over the lease terms so as to produce a constant periodic rate of return on the Company's net investment in the lease.

Operating method – Real estate is recorded at cost less accumulated depreciation, minimum rental revenue is recognized on a straight-line basis over the term of the related leases and expenses (including depreciation) are charged to operations as incurred.

Substantially all of the Company's leases provide for either scheduled rent increases, periodic rent increases based on formulas indexed to increases in the Consumer Price Index ("CPI") or sales overrides. Rents from sales overrides (percentage rents) are recognized as reported by the lessees, that is, after the level of sales requiring a rental payment to the Company is reached.

Operating Real Estate

Land and buildings and personal property are carried at cost less accumulated depreciation. Renewals and improvements are capitalized, while replacements, maintenance and repairs that do not improve or extend the lives of the respective assets are expensed as incurred.

Real Estate Under Construction and Redevelopment

For properties under construction, operating expenses including interest charges and other property expenses, including real estate taxes, are capitalized rather than expensed and rentals received are recorded as a reduction of capitalized project (i.e., construction) costs.

The amount of interest capitalized is determined by applying the interest rate applicable to outstanding borrowings to the average amount of accumulated expenditures for properties under construction during the period.

Equity Investments

The Company's interests in entities in which the Company's ownership is 50% or less and has the ability to exercise significant influence are accounted for under the equity method, i.e. at cost, increased or decreased by the Company's share of earnings or losses, less distributions.

Assets Held for Sale

Assets held for sale are accounted for at the lower of carrying value or fair value less costs to dispose. Assets are classified as held for sale when the Company has committed to a plan to actively market a property for sale and expects that a sale will be completed within one year. The results of operations and the related gain or loss on sale of properties classified as held for sale by the Company after December 31, 2001, are included in discontinued operations (see Note 15).

The Company recognizes gains and losses on the sale of properties when among other criteria, the parties are bound by the terms of the contract, all consideration has been

exchanged and all conditions precedent to closing have been performed. At the time the sale is consummated, a gain or loss is recognized as the difference between the sale price less any closing costs and the carrying value of the property.

Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price of the net lease real estate management operations over the fair value of net assets acquired. Other intangible assets represent cost allocated to trade names, advisory contracts with the CPA® REITs and the acquired workforce. Effective January 1, 2002, goodwill and indefinite-lived intangible assets are no longer amortized and workforce has been reclassified as goodwill. Intangible assets are being amortized over their estimated useful lives which range from 2½ to 16½ years (See Note 20).

Goodwill and intangible assets are as follows:

	2002	December 31, 2001
Management contracts	\$ 59,135	\$ 59,135
Workforce	—	4,700
Trade name	3,975	4,900
Goodwill	49,874	41,937
	<hr/>	<hr/>
	112,984	110,672
Less: accumulated amortization	18,543	17,862
	<hr/>	<hr/>
	\$ 94,441	\$ 92,810

Impairment of Long-lived Assets

When events or changes in circumstances indicate that the carrying amount may not be recoverable, the Company assesses the recoverability of its long-lived assets and certain intangible assets based on projections of undiscounted cash flows, without interest charges, over the life of such assets. In the event that such cash flows are insufficient, the assets are adjusted to their estimated fair value. The Company performs a review of its estimate of residual value of its direct financing leases at least annually to determine whether there has been an other than temporary decline in the Company's current estimate of residual value of the underlying real estate assets (i.e., the estimate of what the Company could realize upon sale of the property at the end of the lease term). If the review indicates a decline in residual value that is other than temporary, a loss is recognized and the accounting for the direct financing lease will be revised to reflect the decrease in the expected yield using the changed estimate, that is, a portion of the future cash flow from the lessee will be recognized as a return of principal rather than as revenue.

The Company tests goodwill for impairment at least annually using a two-step process. To identify any impairments, the Company first compares the estimated fair value of the reporting unit (management services segment) with its carrying amount, including goodwill. The Company calculates the estimated fair value of the management services segment by applying a multiple, based on comparable companies, to earnings. If the fair value of the management services segment exceeds its carrying amount, goodwill is considered not impaired. If the carrying amount of the management services unit exceeds its estimated fair value, then the second step is performed to measure the amount of impairment loss.

For the second step, the Company would compare the implied fair value of the goodwill with its carrying amount and record an impairment charge for the excess of the carrying amount over the fair value. The implied fair value of the goodwill is determined by allocating the estimated fair value of the management services segment to its assets and liabilities. The excess of the estimated fair value of the management services segment over the amounts assigned to its assets and liabilities is the implied fair value of the goodwill.

In accordance with the requirements of Statement of Financial Accounting Standards (“SFAS”) No. 142, “Goodwill and Other Intangibles,” the Company performed its annual tests for impairment of its management services segment, the reportable unit of measurement, and concluded that the goodwill is not impaired.

Depreciation

Depreciation is computed using the straight-line method over the estimated useful lives of the properties (generally forty years) and for furniture, fixtures and equipment (generally up to seven years).

Foreign Currency Translation

The Company consolidates its real estate investments in France. The functional currency for these investments is the Euro. The translation from the Euro to U. S. Dollars is performed for assets and liabilities using current exchange rates in effect at the balance sheet date and for revenue and expense accounts using a weighted average exchange rate during the period. The gains and losses resulting from such translation are reported as a component of other comprehensive income as part of members’ equity. The cumulative translation loss as of December 31, 2002 was \$1,315.

Cash Equivalents

The Company considers all short-term, highly liquid investments that are both readily convertible to cash and have a maturity of generally three months or less at the time of purchase to be cash equivalents. Items classified as cash equivalents include commercial paper and money market funds. Substantially all of the Company’s cash and cash equivalents at December 31, 2002 and 2001 were held in the custody of three financial institutions and which balances, at times, exceed federally insurable limits. The Company mitigates this risk by depositing funds with major financial institutions.

Other Assets and Liabilities

Included in other assets are accrued rents and interest receivable, deferred rent receivable, notes receivable, deferred charges and marketable securities. Included in other liabilities are accrued interest, accounts payable and accrued expenses, deferred rent and deferred income taxes. Deferred charges include costs incurred in connection with debt financing and refinancing and are amortized and included in interest expense over the terms of the related debt obligations. Deferred rent receivable is primarily the aggregate difference for operating method leases between scheduled rents which vary during the lease term and rent recognized on a straight-line basis.

Marketable securities are classified as available-for-sale securities and reported at fair value with the Company's interest in unrealized gains and losses on these securities reported as a component of other comprehensive income until realized. Such marketable securities had a cost basis of \$1,364 as of December 31, 2002 and 2001, and reflected a fair value of \$614 and \$363 at December 31, 2002 and 2001, respectively.

Due to Affiliates

Included in due to affiliates are deferred acquisition fees and amounts related to issuable shares for meeting the performance criteria in connection with the acquisition of Carey Management. Deferred acquisition fees are payable for services provided by Carey Management prior to the termination of the Management Contract, relating to the identification, evaluation, negotiation, financing and purchase of properties. The fees are payable in eight equal annual installments each January 1 following the first anniversary of the date a property was purchased.

Revenue Recognition

In connection with the acquisition of Carey Management described in Note 1, the Company earns transaction and asset-based fees. Structuring and financing fees are earned for investment banking services provided in connection with the analysis, negotiation and structuring of transactions, including acquisitions and dispositions and the placement of mortgage financing obtained by the CPA® REITs. Asset-based fees consist of property management, leasing and advisory fees and reimbursement of certain expenses in accordance with the separate management agreements with each CPA® REIT for administrative services provided for operation of such CPA® REIT. Receipt of the incentive fee portion of the management fee, however, is subordinated to the achievement of specified cumulative return requirements by the shareholders of the CPA® REITs. The incentive portion of management fees (the "performance fees") may be collected in cash or shares of the CPA® REIT at the option of the Company. During 2002, 2001 and 2000, the Company elected to receive its earned performance fees in CPA® REIT shares.

All fees are recognized as earned. Transaction fees are earned upon the consummation of a transaction and management fees are earned when services are performed. Fees subject to subordination are recognized only when the contingencies affecting the payment of such fees are resolved, that is, when the performance criteria of the CPA® REIT is achieved.

The Company also receives reimbursement of certain marketing costs in connection with the sponsorship of a CPA® REIT that is conducting a "best efforts" public offering. Reimbursement income is recorded as the expenses are incurred, subject to limitations on a CPA® REIT's ability to incur offering costs.

Income Taxes

The Company is a limited liability company and has elected partnership status for federal income tax purposes. The Company is not liable for federal income taxes as each member recognizes his or her proportionate share of income or loss in his or her tax return. Certain

wholly-owned subsidiaries are not eligible for partnership status and, accordingly, all tax liabilities incurred by these subsidiaries do not pass through to the members. Accordingly, the provision for federal income taxes is based on the results of those consolidated corporate subsidiaries that do not pass through any share of income or loss to members. The Company is subject to certain state and local taxes.

Deferred income taxes are provided for the corporate subsidiaries based on earnings reported. The provision for income taxes differs from the amounts currently payable because of temporary differences in the recognition of certain income and expense items for financial reporting and tax reporting purposes. Income taxes are computed under the asset and liability method. The asset and liability method requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between tax bases and financial bases of assets and liabilities (see Note 18).

Earnings Per Share

The Company presents both basic and diluted earnings per share ("EPS"). Basic EPS excludes dilution and is computed by dividing net income available to shareholders by the weighted average number of shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue shares were exercised or converted into common stock, where such exercise or conversion would result in a lower EPS amount.

Basic and diluted earnings (loss) per share were calculated as follows:

	For the Years Ended December 31,		
	2002	2001	2000
Net income (loss)	\$ 46,588	\$ 35,761	\$(9,278)
Weighted average shares – basic	35,530,334	34,465,217	29,652,698
Effect of dilutive securities – stock options and warrants	734,896	487,343	—
Weighted average shares – diluted	36,265,230	34,952,560	29,652,698
Basic earnings per share:			
Income (loss) from continuing operations	\$ 1.31	\$.98	\$ (.40)
Discontinued operations	—	.06	.09
Net income (loss)	\$ 1.31	\$ 1.04	\$ (.31)
Diluted earnings per share:			
Income (loss) from continuing operations	\$ 1.28	\$.96	\$ (.40)
Discontinued operations	—	.06	.09
Net income (loss)	\$ 1.28	\$ 1.02	\$ (.31)

For the years ended 2001 and 2000, respectively, 725,930 and 4,143,254 share options and warrants, were not reflected because such options and warrants were anti-dilutive, either because the exercise prices of the options were higher than the average share price or because the Company incurred a net loss.

The Company repurchased 836,600 of its shares outstanding during 2000 in connection with an announcement in December 1999 that it would purchase up to 1,000,000 shares.

Stock Based Compensation

The Company accounts for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations ("APB No. 25"). Under APB No. 25, compensation cost is measured as the excess, if any, of the quoted market price of the Company's shares at the date of grant over the exercise price of the option granted.

The Company has granted restricted shares and stock options to substantially all employees. Shares were awarded in the name of the employee, who has all the rights of a shareholder, subject to certain restrictions of transferability and a risk of forfeiture. The forfeiture provisions on the awards expire annually, over periods of four and three years for the shares and stock options, respectively. Shares and stock options subject to forfeiture provisions have been recorded as unearned compensation and are presented as a separate component of members' equity. Compensation cost for stock options and restricted stock, if any, is recognized ratably over the vesting period of three and four years, respectively.

All transactions with non-employees in which the Company issues stock as consideration for services received are accounted for based on the fair value of the stock issued or services received, whichever is more reliably determinable.

The Company has elected to adopt the disclosure only provisions of SFAS No. 123. If stock-based compensation cost had been recognized based upon fair value at the date of grant for options and restricted stock awarded under the two plans and amortized to expense over their respective vesting periods in accordance with the provisions of SFAS No. 123, pro forma net income (loss) would have been as follows:

	2002	Year Ended December 31,	
		2001	2000
Net income (loss) as reported	\$46,588	\$35,761	\$(9,278)
Add: Stock based compensation included in net income as reported, net of related tax effects	1,709	1,349	640
Less: Stock based compensation determined under fair value based methods for all awards, net of related tax effects	(2,887)	(2,391)	(1,359)
Pro forma net income (loss)	<u>\$45,410</u>	<u>\$34,719</u>	<u>\$(9,997)</u>
Net income (loss) per common share as reported			
Basic	\$ 1.31	\$ 1.04	\$ (.31)
Diluted	\$ 1.28	\$ 1.02	\$ (.31)
Pro forma net income (loss) per common share			
Basic	\$ 1.28	\$ 1.01	\$ (.34)
Diluted	\$ 1.25	\$.99	\$ (.34)

Reclassification

Certain prior year amounts have been reclassified to conform to the current year financial statement presentation.

3. TRANSACTIONS WITH RELATED PARTIES

The Company earns fees as the Advisor to the following real estate investment trusts (“REITs”): Carey Institutional Properties Incorporated (“CIP®”), Corporate Property Associates 12 Incorporated (“CPA®:12”), Corporate Property Associates 14 Incorporated (“CPA®:14”) and Corporate Property Associates 15 Incorporated (“CPA®:15”) (collectively, the “CPA® REITs”). Through April 30, 2002, the Company also earned fees as Advisor to Corporate Property Associates 10 Incorporated (“CPA®:10”). Effective May 1, 2002, CPA®:10 was merged into CIP®. Under the Advisory Agreements with the CPA® REITs, the Company performs various services, including but not limited to the day-to-day management of the CPA® REITs and transaction-related services. The Company earns an asset management fee of ½ of 1% per annum of Average Invested Assets, as defined in the Advisory Agreements, for each CPA® REIT and, based upon specific performance criteria for each REIT, may be entitled to receive performance fees, calculated on the same basis as the asset management fee, and is reimbursed for certain costs, primarily the cost of personnel. The Company had not recognized any performance fees under its Advisory Agreement with CPA®:10 since the Company’s management operations were acquired in June 2000. In April 2002, CPA®:10 met its “preferred return” at which time the performance criterion was met and the Company earned a performance fee of \$1,463, including \$267 relating to 2002. The performance criteria for CPA®:14 were initially satisfied in 2001, resulting in the Company’s recognition of \$2,459 for the period December 1997 through December 31, 2000 which had been deferred. For the years ended December 31, 2002, 2001 and 2000, asset-based fees and reimbursements earned were \$37,250, \$29,751 and \$10,377, respectively.

In connection with structuring and negotiating acquisitions and related mortgage financing for the CPA® REITs, the Advisory Agreements provide for transaction fees based on the cost of the properties acquired. A portion of the fees are payable in equal annual installments over no less than eight years (four years for CPA®:15), subject to each CPA® REIT meeting its “preferred return.” Unpaid installments bear interest at annual rates ranging from 6% to 7%. The Company’s broker-dealer subsidiary earns fees in connection with the public offerings of the CPA® REITs. The Company may also earn fees related to the disposition of properties, subject to subordination provisions and will only be recognized as such subordination provisions are achieved. The Company earned disposition fees of \$248 from CPA®:10, representing a percentage of the sales proceeds from CPA®:10 property sales for the period from June 28, 2000 through April 30, 2002, the date that CPA®:10 and CIP® merged. For the years ended December 31, 2002, 2001 and 2000, the Company earned transaction fees of \$47,005, \$17,160 and \$14,894, respectively.

Prior to the termination of the Management Agreement, Carey Management performed certain services for the Company and earned transaction fees in connection with the purchase and disposition of properties. The Company is obligated to pay deferred acquisition fees in equal annual installments over a period of no less than eight years. As of December 31, 2002 and 2001, unpaid deferred acquisition fees were \$2,758 and \$3,282, respectively, and bear interest at an annual rate of 6%. Installments of \$524, \$520 and \$392 were paid in January 2002, 2001 and 2000, respectively.

In 2002, the Company as Advisor to CIP®, CPA®:12 and CPA®:14 structured a securitization of mortgage loans. The three CPA® REITs and the Company obtained an aggregate

of \$172,335 of limited recourse mortgage financing collateralized by 62 properties and lease assignments. The loans were pooled into a trust, Carey Commercial Mortgage Trust, a non-affiliate, whose sole asset consists of the loans and sold interests in the trust as collateralized mortgages in a private placement to institutional investors. The Company and the three CPA® REITs agreed to acquire a separate class of subordinated interests in the trust totaling \$24,129 with each interest in proportion to the new mortgage financings completed in connection with the securitization, including the pro rata share from equity investments. In connection with the transaction, the Company acquired a \$241 subordinated interest, which is accounted for as an available for sale security.

The Company owns interests in entities which range from 33.93% to 50% and a jointly-controlled 36% tenancy-in-common interest in two properties subject to a net lease with the remaining interests held by affiliates. The Company has a significant influence in these investments, which are accounted for under the equity method of accounting.

The Company is a participant in an agreement with certain affiliates for the purpose of leasing office space used for the administration of the Company and other affiliated real estate entities and sharing the associated costs. Pursuant to the terms of the agreement, the Company's share of rental, occupancy and leasehold improvement costs is based on gross revenues. Expenses incurred were \$545, \$528 and \$348 in 2002, 2001 and 2000, respectively. The Company's share of minimum lease payments on the office lease is currently \$1,748 through 2006.

An independent director of the Company has an ownership interest in companies that own the minority interest in the Company's French majority-owned subsidiaries. The director's ownership interest is subject to the same terms as all other ownership interests in the subsidiary companies. A person who serves as a director and an officer of the Company is the sole shareholder of Livho, Inc., a lessee of the Company (see Note 8).

As of December 31, 2002, the Company owns a 10% interest in W.P. Carey International LLC ("WPCI"), which structures net lease transactions outside of the United States, the United Kingdom and France. The remaining 90% interest in WPCI is owned by William Polk Carey ("Carey"), Chairman of the Company. On March 19, 2003, the Company's Board of Directors approved a series of transactions which will result in Carey giving up his interest in WPCI and WPCI becoming a subsidiary of WPC. As part of this transaction, WPCI will distribute to Carey his capital contributions to WPCI of 492,881 shares of the Company as well as cash contributions of \$1,472. In connection with the transaction, the Company will contribute its share of fees derived from the acquisition, management and disposition of properties outside of the United States to WPCI as well as related costs. Two officers of WPCI will be granted restricted minority ownership interests which vest ratably over five years and options in WPCI pursuant to their employment agreements. The Company expects to complete the transfer during the second quarter of 2003, however, the terms of agreement provide for January 1, 2003 as the effective date.

In connection with the acquisition of the majority interests in the CPA® Partnerships on January 1, 1998 described in Note 1, a CPA® Partnership had not achieved the specified cumulative return as of the acquisition date. The subordinated preferred return was payable only if the Company achieved a closing price equal to or in excess of \$23.11 for five con-

secutive trading days. On December 31, 2001, the closing price criterion was met, and the \$1,423 subordinated preferred return was paid in January of 2002.

As described in Note 1, the Company's Management Agreement with Carey Management was cancelled effective with the acquisition of the business operations of Carey Management. The Company is now internally managed and, as a result of the cancellation of the Management Agreement and acquisition of Carey Management's workforce as of the date of the acquisition, no longer incurs management and performance fees nor reimburses a manager for the personnel costs for providing administrative services to the Company. For the year ended 2000, the Company incurred combined management and performance fees of \$1,924, and personnel reimbursements of \$861.

4. REAL ESTATE LEASED TO OTHERS ACCOUNTED FOR UNDER THE OPERATING METHOD

Real estate leased to others, at cost, and accounted for under the operating method is summarized as follows:

	2002	December 31, 2001
Land	\$ 83,545	\$ 84,199
Buildings and improvements	390,727	375,044
	474,272	459,243
Less: Accumulated depreciation	41,716	32,401
	<u>\$432,556</u>	<u>\$426,842</u>

The scheduled future minimum rents, exclusive of renewals, under non-cancelable operating leases amount to \$43,350 in 2003, \$38,072 in 2004, \$34,833 in 2005, \$32,113 in 2006, \$29,302 in 2007 and aggregate \$319,853 through 2022.

Contingent rentals (including percentage rents and CPI-based increases) were \$1,550, \$1,253 and \$1,047 in 2002, 2001 and 2000, respectively.

5. NET INVESTMENT IN DIRECT FINANCING LEASES

Net investment in direct financing leases is summarized as follows:

	2002	December 31, 2001
Minimum lease payments receivable	\$199,309	\$236,997
Unguaranteed residual value	185,487	254,520
	384,796	491,517
Less: Unearned income	195,457	233,476
	<u>\$189,339</u>	<u>\$258,041</u>

The scheduled future minimum rents, exclusive of renewals, under noncancelable direct financing leases amount to \$20,371 in 2003, \$20,323 in 2004, \$20,383 in 2005, \$19,232 in 2006, \$17,741 in 2007 and aggregate \$199,309 through 2022.

Contingent rentals (including percentage rents and CPI-based increases) were approximately \$2,710, \$2,331 and \$2,074 in 2002, 2001 and 2000, respectively.

6. MORTGAGE NOTES PAYABLE AND NOTES PAYABLE

Mortgage notes payable, substantially all of which are limited recourse obligations, are collateralized by the assignment of various leases and by real property with a carrying value of approximately \$311,897.

The interest rate on the variable rate debt as of December 31, 2002 ranged from 2.59% to 6.44% and mature from 2004 to 2016. The interest rate on the fixed rate debt as of December 31, 2002 ranged from 6.11% to 9.13% and mature from 2003 to 2013.

Scheduled principal payments for the mortgage notes and notes payable during each of the next five years following December 31, 2002 and thereafter are as follows:

Year Ending December 31,	Total Debt	Fixed Rate Debt	Variable Rate Debt
2003	\$ 11,180	\$ 9,827	\$ 1,353
2004	74,391	23,738	50,653
2005	8,264	6,572	1,692
2006	24,894	22,986	1,908
2007	14,600	12,481	2,119
Thereafter	101,720	69,911	31,809
Total	\$235,049	\$145,515	\$89,534

The Company has a credit facility of \$185,000 pursuant to a revolving credit agreement with The Chase Manhattan Bank in which numerous lenders participate. The Company has a one-time right to increase the commitment up to \$225,000. The revolving credit agreement has a remaining term through March 2004. As of December 31, 2002, the Company had \$49,000 drawn from the credit facility. As of March 12, 2003, the outstanding balance was \$42,000.

Advances, which are prepayable at any time, bear interest at an annual rate of either (i) the one, two, three or six-month LIBOR, as defined, plus a spread which ranges from 0.6% to 1.45% depending on leverage or corporate credit rating or (ii) the greater of the bank's Prime Rate and the Federal Funds Effective Rate, plus .50%, plus a spread of up to .125% depending upon the Company's leverage. At December 31, 2002 and 2001, the interest rate on advances on the line of credit was 2.59% and 3.22%, respectively. In addition, the Company pays a fee (a) ranging between 0.15% and 0.20% per annum of the unused portion of the credit facility, depending on the Company's leverage, if no minimum credit rating for the Company is in effect or (b) equal to .15% of the total commitment amount, if the Company has obtained a certain minimum credit rating.

The revolving credit agreement has financial covenants that require the Company to (i) maintain minimum equity value of \$400,000 plus 85% of amounts received by the Company as proceeds from the issuance of equity interests and (ii) meet or exceed certain operating and coverage ratios. Such operating and coverage ratios include, but are not limited to, (a) ratios of earnings before interest, taxes, depreciation and amortization to fixed charges for interest and (b) ratios of net operating income, as defined, to interest expense.

7. DIVIDENDS PAYABLE

The Company declared a quarterly dividend of \$.431 per share on December 11, 2002 payable on January 15, 2003 to shareholders of record as of December 31, 2002.

8. LEASE REVENUES

The Company's operations include the investment in and the leasing of industrial and commercial real estate. The financial reporting sources of the lease revenues for the years ended December 31, 2002, 2001 and 2000 are as follows:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Per Statements of Income:			
Rental income	\$47,865	\$45,756	\$50,281
Interest income from direct financing leases	23,001	26,355	28,023
Adjustment:			
Share of leasing revenues applicable to minority interests	(766)	(536)	(443)
Share of leasing revenues from equity investments	7,131	6,820	3,679
	<u>\$77,231</u>	<u>\$78,395</u>	<u>\$81,540</u>

For the years ended December 31, 2002, 2001 and 2000, the Company earned its net leasing revenues (i.e., rental income and interest income from direct financing leases) from over 80 lessees. A summary of net leasing revenues including all current lease obligors with more than \$1,000 in annual revenues is as follows:

	2002		2001		Years Ended December 31, 2000	
	\$	%	\$	%	\$	%
Dr Pepper Bottling Company of Texas	\$ 4,405	6%	\$ 4,354	6%	\$ 4,283	5%
Detroit Diesel Corporation	4,158	5	4,118	5	3,795	5
Gibson Greetings, Inc., a wholly-owned subsidiary of American Greetings, Inc.	4,149	5	4,107	5	4,046	5
Bouygues Télécom, S.A. (a)	2,952	4	1,181	2	185	—
Federal Express Corporation (b)	2,876	4	2,836	4	5,659	7
Orbital Sciences Corporation	2,655	3	2,655	3	2,655	3
Quebecor Printing Inc.	2,563	3	2,559	3	2,586	3
America West Holdings Corp.	2,539	3	2,539	3	2,539	3
Livho, Inc.	2,520	3	2,568	3	3,226	4
AutoZone, Inc.	2,411	3	2,400	3	2,378	3
The Gap, Inc.	2,205	3	2,205	3	2,205	3
Sybron International Corporation	2,164	3	2,164	3	2,164	3
CheckFree Holdings, Inc. (c)	2,108	3	2,088	3	1,681	2
Lockheed Martin Corporation	1,903	3	2,116	3	2,056	3
Unisource Worldwide, Inc.	1,732	2	1,734	2	1,725	2
Faurecia Exhaust Systems, Inc. (formerly AP Parts Manufacturing Company)	1,657	2	1,617	2	1,617	2
CSS Industries, Inc.	1,656	2	1,609	2	1,598	2
Information Resources, Inc. (c)	1,644	2	1,644	2	1,504	2
Sybron Dental Specialties Inc.	1,613	2	1,613	2	1,463	2
Brodart Co.	1,519	2	1,519	2	1,519	2
Sprint Spectrum L.P.	1,425	2	1,380	2	1,154	1
Eagle Hardware & Garden, Inc., a wholly-owned subsidiary of Lowe's Companies Inc.	1,313	2	1,186	2	1,288	2
AT&T Corporation	1,259	2	886	1	760	1
United States Postal Service	1,233	2	1,165	1	1,090	1
BellSouth Telecommunications, Inc.	1,224	2	1,224	2	1,224	1
Cendant Operations, Inc.	1,075	1	1,075	1	1,075	1
Anthony's Manufacturing Company, Inc.	1,019	1	988	1	945	1
Other (d)	19,254	25	22,865	29	25,120	31
	<u>\$77,231</u>	<u>100%</u>	<u>\$78,395</u>	<u>100%</u>	<u>\$81,540</u>	<u>100%</u>

(a) Net of proportionate share applicable to its minority interest owners.

(b) Represents the Company's 40% proportionate share of lease revenues from its equity ownership in 2001. The Company owned a 100% interest until December 2000.

(c) Represents the Company's proportionate share of lease revenue from its equity investment.

(d) Includes proportionate share of lease revenues from the Company's equity investments and net of proportionate share applicable to its minority interest owners.

9. GAINS AND LOSSES ON SALE OF REAL ESTATE AND SECURITIES

Significant sales of properties are summarized as follows:

2002

In July 2002, the Company sold six properties leased to Saint-Gobain Corporation located in New Haven, Connecticut; Mickelton, NJ; Aurora, Ohio; Mantua, Ohio and Bristol, Rhode Island for \$26,000 and recognized a gain on sale of \$1,796. The Company placed the proceeds of the sale in an escrow account for the purpose of entering into a Section 1031 noncash exchange which, under the Internal Revenue Code, would allow the Company to acquire like-kind property, and defer a taxable gain until the new property is sold, upon satisfaction of certain conditions (see Note 11).

At December 31, 2001, the Company's 18.3 acre property in Los Angeles, California was classified as held for sale. In June 2002, the Company sold the property to the Los Angeles Unified School District (the "School District") for \$24,000, less costs, and recognized a gain on sale of \$11,160 (see Note 21).

During 2002, the Company also sold properties in Fredericksburg, Virginia; Petoskey, Michigan; Urbana, Illinois; Maumelle, Arkansas; Burnsville, Minnesota; Colville, Washington; McMinnville, Tennessee; Frankenmuth, Michigan; College Station, Texas and Casa Grande and Glendale, Arizona for an aggregate of \$15,337 and recognized a net gain on sales of \$2,049.

2001

In July 2001, the Company sold a property located in Forrest City, Arkansas for approximately \$9,400, and recognized a gain of \$304. The sales proceeds were placed in an escrow account for the purposes of entering into a Section 1031 noncash exchange. In January 2002, the funds in the escrow account were transferred to the Company and the proposed noncash exchange was not completed.

During 2001, the Company sold nine other properties and an equity investment in a real estate partnership for \$12,061 (including \$11,361 in cash and a note receivable of \$700) and recognized a combined net gain of \$1,600 on the sales.

2000

In 1998, the Company acquired land in Collierville, Tennessee and entered into a build-to-suit commitment to construct four office buildings to be occupied by Federal Express Corporation ("Federal Express") at a cost of up to \$77,000. In February 2000, a net lease with Federal Express with an initial lease term of 20 years commenced at an annual rent of \$6,360. In order to mitigate the concentration of risk in a single lease, the Company agreed to sell a 60% majority interest in the subsidiary that owns the Federal Express property to CPA[®]:14 at a purchase price based on an independent appraisal. Based on such independent appraisal, the Company received \$42,287 and recognized a loss of \$2,262 in connection with the sale.

During 2000, the Company sold ten properties for \$3,372, net of costs, and incurred combined losses on the sales of \$775.

The Company recognized a gain of \$257 on the sale of 18,540 shares of common stock of Titan Corporation. The Company had previously exercised warrants that were granted in connection with structuring its net lease with Titan Corporation in 1991.

10. IMPAIRMENT CHARGES

Significant writedowns of properties and investments to estimated fair value based on an assessment of each asset's recoverability are summarized as follows:

The Company incurred impairment charges of \$29,410, \$12,643, and \$11,047 in 2002, 2001 and 2000, respectively, in connection with the writedown of real estate interests and other long-lived assets to estimated fair value based on the following:

2002

In connection with the Company's annual review of the estimated residual values on its properties classified as net investments in direct financing leases, the Company determined that an other than temporary decline in estimated residual value had occurred at several properties, and the accounting for the direct financing leases was revised using the changed estimates. The resulting changes in estimates resulted in the recognition of impairment charges of \$14,880 in 2002.

The Company owns 780,269 units of the operating partnership of MeriStar Hospitality Corporation ("MeriStar"), a publicly traded real estate investment trust which primarily owns hotels. Because of a continued and prolonged weakness in the hospitality industry, a substantial decrease in MeriStar's earnings and funds from operations and the risk that the decrease in MeriStar's distribution rate are projected to continue, the Company concluded that the underlying value of its investment in the operating partnership units has undergone an other than temporary decline. Accordingly, the Company wrote down its equity investment in MeriStar by \$4,596 in 2002 to reflect the investment at its estimated fair value. The Company recognized an impairment charge on the MeriStar investment in 2001 of \$6,749.

The Company owned a property in Winona, Minnesota which it sold in February 2003. Based on a deterioration in the financial condition of the lessee and its inability to meet its lease obligations, during 2002 the Company began negotiations to sell the property to the lessee. In connection with entering into a contract for the sale of the property, the property was written down to its estimated fair value less cost to sell and an impairment charge of \$4,000 was recognized in 2002.

The Company has recognized impairment charges of \$5,934 on other properties which were sold in 2002 or held for sale as of December 31, 2002.

The results of operations and the impairment charges on the properties classified as assets held for sale subsequent to December 31, 2001 are included in discontinued operations (see Note 15).

2001

The Company owned a property in Burnsville, Minnesota. During 2000, the tenant filed a petition of voluntary bankruptcy, and in March 2001 the lease was terminated. During 2000, the property had been written down to its estimated fair value and an impairment

charge of \$1,500 was recognized. In 2001, the Company entered into an agreement to sell the property for \$2,200. In connection with the proposed sale of the property, the Company recognized an impairment charge of \$763 in 2001 to write down the property to the anticipated sales price, less estimated costs to sell. The sale was completed in January 2002. In connection with termination of the lease, the Company received \$2,450 as a settlement from the lease guarantor, of which \$2,145 was included in other income in 2001.

The Company owns a property in Cincinnati, Ohio. In November 2001, the Company evicted the tenant due to its inability to meet its lease obligations and the Company assumed the management of public warehousing operations at the property, at which time the Company recognized an impairment charge of \$2,000 on the writedown of the property to its estimated fair value. In connection with the eviction, the Company was released from a subordinated mortgage loan obligation of \$2,097 in 2002.

The Company owns two properties located in Frankenmuth, Michigan and McMinnville, Tennessee leased to one tenant. The tenant terminated its master lease for the two properties in connection with its petition of voluntary bankruptcy in 1999. The Company recognized impairment charges on the McMinnville property of \$500 and \$2,677 for 2001 and 2000, respectively.

2000

The Company owns a property in Traveler's Rest, South Carolina. Based on the former tenant's deteriorating financial condition and its inability to meet its lease obligations, the lease was terminated in 2000. The tenant was subsequently liquidated. The property was written down to its estimated fair value and an impairment charge of \$2,657 was recognized during 2000.

In 2001 and 2000, the Company also recorded impairment charges of \$850 and \$1,514, respectively, on its assessments of the recoverability of a redeemable preferred limited partnership interest that was acquired in connection with the sale of a property in 1995 and debentures received in connection with a bankruptcy settlement with a former lessee.

11. ACQUISITION OF REAL ESTATE

In September 2002, the Company used \$14,379 from an escrow account which had been funded with proceeds from the sale of properties leased to Saint-Gobain (see Note 9) to purchase properties in Lenexa, Kansas; Winston-Salem, North Carolina and Dallas, Texas and entered into a master net lease with BE Aerospace, Inc. ("BE Aerospace"). The lease has an initial term of fifteen years with two ten-year renewal options. Initial annual rent is \$1,421 with stated annual increases of 1.5%. On October 29, 2002, the Company obtained limited recourse mortgage financing of \$9,200 collateralized by the BE Aerospace properties. The loan provides for monthly payments of interest and principal of \$56 at an annual interest rate of 6.11% and based on a thirty-year amortization schedule. The loan matures in November 2012 at which time a balloon payment is scheduled.

In December 2002, the Company purchased a 36% interest in two properties leased to Hologic, Inc. ("Hologic") from CPA[®]:15 for \$11,714. The properties, land and buildings located in Danbury, Connecticut and Bedford, Massachusetts, were purchased by CPA[®]:15 in August 2002. The lease has an initial term of 20 years with four five-year

renewal terms. Annual rent is \$3,156 with the first rent increase on the fifth anniversary of the lease and every five years thereafter. Rent increases are based on a formula indexed to increases in the CPI, capped at 5.1% for the first rent increase and 8.16% thereafter, during each five-year period.

As a result of purchasing the BE Aerospace property and the interest in the Hologic properties, the proposed Section 1031 noncash exchange resulting from the sale of the Saint-Gobain properties was completed.

In September 2002, the Company purchased 1.5 acres of land in Broomfield, Colorado for \$640. The land is adjacent to the Company's existing property. The Company intends to redevelop the property, with various alternatives currently being evaluated.

12. EQUITY INVESTMENTS

The Company owns 780,269 units of the operating partnership of MeriStar Hospitality Corporation ("MeriStar"), a publicly traded real estate investment trust which primarily owns hotels. The Company has the right to convert its units in the operating partnership to shares of common stock in MeriStar at any time on a one-for-one basis. The exchange of units for common stock would be a taxable transaction in the year of exchange. The Company's interest in the MeriStar operating partnership is being accounted for under the equity method. The carrying value of the equity interest in the MeriStar operating partnership was \$3,354 as of December 31, 2002.

The Company owns equity interests as a limited partner in three limited partnerships and in two limited liability companies, with the remaining interests owned by affiliates, that each own real estate net leased to a single tenant, including a newly-formed limited partnership which net leases properties to Childtime Childcare, Inc. ("Childtime"). In August 2002, the Company and an affiliate each contributed its tenancy-in-common interest in the Childtime properties to the limited partnership. The Company owns a 33.93% ownership interest as a limited partner. The Company is also accounting for its 36% tenancy-in-common interest in the Hologic properties under the equity method as the agreement provides for joint control with the affiliate.

The Company owns a 10% interest in WPCI. The remaining 90% of WPCI is owned by William Polk Carey, Chairman of the Company (also see Note 3).

The Company owns interests in four CPA® REITs with which it has advisory agreements. The interests in the CPA® REITs are accounted for under the equity method due to the Company's ability to exercise significant influence as the Advisor to the CPA® REITs. The CPA® REITs are publicly registered and their audited consolidated financial statements are filed with the SEC. In connection with earning performance fees the Company has elected to receive restricted shares of common stock in the CPA® REITs rather than

cash in consideration for such fees. As of December 31, 2002, the Company ownership in the CPA® REITs is as follows:

	Shares	% of Outstanding Shares
CIP®	612,575	2.12%
CPA®:12	626,377	2.03%
CPA®:14	1,014,619	1.52%
CPA®:15	51,749	0.13%

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

	2002	December 31, 2001
Assets (primarily real estate)	\$3,225,167	\$2,081,297
Liabilities (primarily mortgage notes payable)	1,680,372	951,884
Owner's Equity	\$1,544,795	\$1,129,413

	2002	Year Ended December 31, 2001 2000	
Revenue (primarily rental revenue)	\$229,799	\$175,925	\$146,003
Expenses (primarily interest on mortgages and depreciation)	(170,463)	(131,194)	(92,156)
Minority interest in income	(5,355)	(3,556)	(6,836)
Income from equity investments	22,257	16,399	18,291
Gain (loss) on sales	(418)	13,944	2,183
Income from continuing operations	75,820	71,518	67,485
Loss from discontinued operations	(1,084)	(343)	(361)
Extraordinary charges	(5,540)		
Net income	\$ 69,196	\$ 71,175	\$ 67,124

13. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company estimates that the fair value of mortgage notes payable and other notes payable was \$237,924 and \$295,843 at December 31, 2002 and 2001, respectively. The carrying value of the combined debt was \$235,049 and \$295,515 at December 31, 2002 and 2001, respectively. The fair value of fixed rate debt instruments was evaluated using a discounted cash flow model with rates that take into account the credit of the tenants and interest rate risk. The fair value of the note payable from the line of credit approximates the carrying value as it is a variable rate obligation with an interest rate that resets to market rates.

14. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

	Three Months Ended			
	March 31, 2002	June 30, 2002	Sept. 30, 2002	Dec. 31, 2002
Revenues	\$32,950	\$37,904	\$37,824	\$52,926
Expenses	18,668	20,448	21,999	48,038
Income (loss) from continuing operations ⁽¹⁾	12,698	24,830	12,223	(3,077)
Income (loss) from continuing operations per share –				
Basic	.36	.70	.34	(.08)
Diluted	.35	.69	.33	(.08)
Net income (loss)	13,729	23,593	12,985	(3,719)
Net income (loss) per share –				
Basic	.39	.66	.36	(.10)
Diluted	.38	.65	.36	(.10)
Dividends declared per share	.4280	.4290	.4300	.4310

Certain prior quarter amounts have been reflected as discontinued operations in accordance with Statement of Financial Accounting Standard No. 144 “Accounting for Impairment or Disposal of Long-Lived Assets”.

(1) Includes impairment charges on real estate and investments of \$21,186 for the three-month period ended December 31, 2002.

	Three Months Ended			
	March 31, 2001	June 30, 2001	Sept. 30, 2001	Dec. 31, 2001
Revenues	\$29,364	\$33,143	\$30,508	\$36,253
Expenses ⁽¹⁾	19,485	20,800	19,801	31,935
Income from continuing operations	11,411	10,492	9,660	2,051
Income from continuing operations per share –				
Basic	.33	.31	.28	.06
Diluted	.33	.30	.27	.06
Net income	12,639	11,752	11,237	133
Net income per share –				
Basic	.37	.34	.33	—
Diluted	.37	.34	.32	—
Dividends declared per share	.4225	.4250	.4260	.4270

Certain prior quarter amounts have been reflected as discontinued operations in accordance with Statement of Financial Accounting Standard No. 144 “Accounting for Impairment or Disposal of Long-Lived Assets”.

(1) Includes impairment charges on real estate and investments of \$763 and \$9,381 for the three-month periods ended September 30, 2001 and December 31, 2001, respectively.

15. DISCONTINUED OPERATIONS

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", effective for financial statements issued for fiscal years beginning after December 15, 2001, the results of operations and gain or loss on sales of real estate for properties sold or held for sale are to be reflected in the consolidated statements of operations as "Discontinued Operations" for all periods presented. The provisions of SFAS No. 144 are effective for disposal activities initiated by the Company's commitment to a plan of disposition after the date it is initially applied (January 1, 2002). Properties held for sale as of December 31, 2001 are not included in discontinued operations. Properties sold in 2002 (see Note 9) that were held for sale as of December 31, 2001 include properties in Los Angeles, California; Urbana, Illinois; Maumelle, Arkansas; Burnsville, Minnesota and Casa Grande, Arizona and, accordingly, the results of operations and the related gain or loss on sale for these properties are not included in "Discontinued Operations." The effect of suspending depreciation expense as a result of the classification of certain properties as held for sale was \$116, \$13 and \$15 for the years ended December 31, 2002, 2001 and 2000, respectively.

As of December 31, 2002, the operations of eighteen properties which have been sold or are held for sale as of December 31, 2002 are included as "Discontinued Operations." Amounts reflected in Discontinued Operations for the years ended December 31, 2002, 2001 and 2000 are as follows:

	2002	Year Ended December 31,	
		2001	2000
REVENUES			
Rental income	\$ 2,509	\$ 2,008	\$ 1,805
Interest income from direct financing leases	3,002	5,453	5,549
Revenues of other business operations	1,560	2,681	2,833
Other income	2,249	2	—
	<u>9,320</u>	<u>10,144</u>	<u>10,187</u>
EXPENSES			
Interest expense	796	2,037	2,091
Depreciation and amortization	467	510	506
Property expenses	607	161	152
General and administrative	46	348	33
Operating expenses of other business operations	1,630	2,295	2,385
Impairment charge on real estate	8,224	2,646	2,238
	<u>11,770</u>	<u>7,997</u>	<u>7,405</u>
(Loss) income before gain on sales	<u>(2,450)</u>	<u>2,147</u>	<u>2,782</u>
Gain on sales of real estate	2,364	—	—
(Loss) income from discontinued operations	<u>\$ (86)</u>	<u>\$ 2,147</u>	<u>\$ 2,782</u>

16. STOCK OPTIONS AND WARRANTS

In January 1998, an affiliate was granted warrants to purchase 2,284,800 shares exercisable at \$21 per share and 725,930 shares exercisable at \$23 per share as compensation for investment banking services in connection with structuring the consolidation of the CPA® Partnerships. The warrants are exercisable until January 2009.

The Company maintains stock option incentive plans pursuant to which share options may be issued. The 1997 Share Incentive Plan (the "Incentive Plan"), as amended, authorizes the issuance of up to 2,600,000 shares. The Company Non-Employee Directors' Plan (the "Directors' Plan") authorizes the issuance of up to 300,000 shares. Both plans were approved by a vote of the shareholders.

The Incentive Plan provides for the grant of (i) share options which may or may not qualify as incentive stock options, (ii) performance shares, (iii) dividend equivalent rights and (iv) restricted shares. Share options have been granted as follows: 877,337 in 2002 at exercise prices ranging from \$22.73 to \$24.01 per share, 465,000 in 2001 at exercise prices ranging from \$16.875 to \$21.86 per share and 922,152 in 2000 granted at exercise prices ranging from \$7.69 to \$16.50 per share. The options granted under the Incentive Plan have a 10-year term and vest ratably on the first, second and third anniversaries of the date of grant. The vesting of grants is accelerated upon a change in control of the Company and under certain other conditions.

The Directors' Plan provides for the same terms as the Incentive Plan. Share options for 21,822 shares were granted at exercise prices ranging from \$16.38 to \$20 per share in 2000. No share options were granted in 2002 and 2001.

Share option and warrant activity is as follows:

	Year Ended December 31,					
	2002		2001		2000	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	4,320,815	\$19.88	4,114,254	\$19.57	3,199,280	\$21.38
Granted	877,337	\$23.03	465,000	\$18.66	943,974	\$13.24
Exercised	(192,617)	\$12.69	(229,105)	\$12.21	—	—
Forfeited	(25,673)	\$19.17	(29,334)	\$16.62	(29,000)	\$16.25
Outstanding at end of year	4,979,862	\$20.26	4,320,815	\$19.88	4,114,254	\$19.57
Options exercisable at end of year	3,611,115	\$20.31	3,403,724	\$20.88	3,119,362	\$20.69

Stock options outstanding as of December 31, 2002 are as follows:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Options Outstanding at Dec. 31, 2002	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable at Dec. 31, 2002	Weighted Average Exercise Price
\$7.69	129,707	7.50	\$ 7.69	19,990	\$ 7.69
\$16.25 to \$24.01	4,850,155	6.88	\$20.59	3,591,125	\$20.38
	4,979,862	6.90	\$20.26	3,611,115	\$20.31

At December 31, 2001 and 2000, the range of exercise prices and weighted-average remaining contractual life of outstanding share options and warrants was \$7.69 to \$23.00 and 7.5 years, and \$7.69 to \$23.00 and 8.32 years, respectively.

The per share weighted average fair value of share options and warrants granted during 2002 were estimated to be \$1.26 using a Black-Scholes option pricing formula. The more significant assumptions underlying the determination of the weighted average fair value include a risk-free interest rate of 1.73%, a volatility factor of 21.83%, a dividend yield of 8.59% and an expected life of 2.99 years.

The per share weighted average fair value of share options and warrants granted during 2001 were estimated to be \$1.70 using a Black-Scholes option pricing formula. The more significant assumptions underlying the determination of the weighted average fair value include a risk-free interest rate of 4.87%, a volatility factor of 22.51%, a dividend yield of 8.04% and an expected life of 3.21 years.

The per share weighted average fair value of share options and warrants granted during 2000 were estimated to be \$3.80 using a Black-Scholes option pricing formula. The more significant assumptions underlying the determination of the weighted average fair value include a risk-free interest rate of 6.8%, a volatility factor of 22.53%, a dividend yield of 8.44% and an expected life of 10 years.

The Company has elected to adopt the disclosure only provisions of SFAS No. 123. If stock-based compensation cost had been recognized based upon fair value at the date of grant for options and restricted stock awarded under the two plans and amortized to expense over their respective vesting periods in accordance with the provisions of SFAS No. 123, pro forma net income (loss) would have been as follows:

	2002	Year Ended December 31,	
		2001	2000
Net income (loss) as reported	\$46,588	\$35,761	\$(9,278)
Add: Stock based compensation included in net income as reported, net of related tax effects	1,709	1,349	640
Less: Stock based compensation determined under fair value based methods for all awards, net of related tax effects	(2,887)	(2,391)	(1,359)
Pro forma net income (loss)	<u>\$45,410</u>	<u>\$34,719</u>	<u>\$(9,997)</u>
Net income (loss) per common share as reported			
Basic	\$ 1.31	\$ 1.04	\$ (.31)
Diluted	\$ 1.28	\$ 1.02	\$ (.31)
Pro forma net income (loss) per common share			
Basic	\$ 1.28	\$ 1.01	\$ (.34)
Diluted	\$ 1.25	\$.99	\$ (.34)

17. SEGMENT REPORTING

The Company has determined that it operates in two business segments, management services and real estate operations with domestic and international investments. The two segments are summarized as follows:

	Management	Real Estate	Other ⁽²⁾	Total Company
Revenues				
2002	\$ 84,255	\$ 73,851	\$3,498	\$161,604
2001	46,911	79,094	3,263	129,268
2000	25,271	81,382	3,411	110,064
Operating, interest, depreciation and amortization expenses ⁽¹⁾ (excluding income taxes):				
2002	\$ 46,975	\$ 59,840	\$2,338	\$109,153
2001	39,298	50,347	2,376	92,021
2000	15,979	60,079	2,535	78,593
Income (loss) from equity investments:				
2002	\$ 452	\$ (895)	—	\$ (443)
2001	434	2,393	—	2,827
2000	69	2,813	—	2,882
Net operating income ^{(3),(4),(5)} :				
2002	\$ 37,732	\$ 13,116	\$1,160	\$ 52,008
2001	8,047	31,140	887	40,074
2000	9,361	24,116	876	34,353
Total assets:				
2002	\$167,415	\$721,919	\$4,190	\$893,524
2001	124,902	782,984	7,997	915,883
Total long-lived assets:				
2002	\$ 70,089	\$663,721	\$4,056	\$737,866
2001	64,286	721,895	5,990	792,171

(1) Excludes the writeoff of an acquired management contract of \$38,000 in 2000.

(2) Primarily consists of the Company's other business operations.

(3) Management net operating income includes charges for amortization of intangibles of \$7,280 in 2002 and amortization of intangibles and goodwill of \$11,903 and \$5,958 in 2001 and 2000, respectively.

(4) Net operating income excludes gains and losses on sales, provision for income taxes and minority interest.

(5) Real estate net operating income excludes (loss) income from discontinued operations of \$(86), \$2,147 and \$2,782 in 2002, 2001 and 2000, respectively.

The Company acquired its first international real estate investment in 1998. For 2002, geographic information for the real estate operations segment is as follows:

	Domestic	International	Total Real Estate
Revenues	\$ 67,826	\$ 6,025	\$ 73,851
Operating, interest, depreciation and amortization expenses (excluding income taxes)	55,111	4,729	59,840
Income from equity investments	(895)	—	(895)
Net operating income ⁽²⁾	11,820	1,296	13,116
Total assets	666,281	55,638	721,919
Total long-lived assets	610,923	52,798	663,721

For 2001, geographic information for the real estate operations segment is as follows:

	Domestic	International	Total Real Estate
Revenues	\$ 75,333	\$ 3,761	\$ 79,094
Operating, interest, depreciation and amortization expenses (excluding income taxes)	46,922	3,425	50,347
Income from equity investments	2,393	—	2,393
Net operating income ⁽²⁾	30,804	336	31,140
Total assets	733,406	49,578	782,984
Total long-lived assets	675,919	45,976	721,895

For 2000, geographic information for the real estate operations segment is as follows:

	Domestic	International	Total Real Estate
Revenues	\$ 78,957	\$ 2,425	\$ 81,382
Operating, interest, depreciation and amortization expenses (excluding income taxes) ⁽¹⁾	57,376	2,703	60,079
Income from equity investments	2,813	—	2,813
Net operating income (loss) ⁽²⁾	24,394	(278)	24,116
Total assets	752,126	32,502	784,628
Total long-lived assets	717,545	29,803	747,348

(1) Excludes the writeoff of an acquired management contract of \$38,000 in 2000.

(2) Net operating income (loss) excludes gains and losses on sales, provision for income taxes, minority interest and the writeoff of an acquired management contract of \$38,000 in 2000.

18. INCOME TAXES

The components of the Company's provision for income taxes for the years ended December 31, 2002, 2001 and 2000 are as follows:

	2002	2001	2000
Federal:			
Current	\$ 2,548	\$ (82)	\$ 549
Deferred	8,756	4,783	848
	11,304	4,701	1,397
State and local:			
Current	2,496	1,988	2,176
Deferred	4,399	1,787	571
	6,895	3,775	2,747
Total provision	\$18,199	\$8,476	\$4,144

Deferred income taxes as of December 31, 2002 and 2001 consist of the following:

	<u>2002</u>	<u>2001</u>
Deferred tax assets:		
Net operating loss carry forward	—	\$1,531
Unearned compensation	\$ 834	544
Corporate fixed assets	2	98
Other long-term liabilities	243	115
	<u>1,079</u>	<u>2,288</u>
Deferred tax liabilities:		
Receivables from affiliates	13,533	4,975
Investments	7,309	3,921
	<u>20,842</u>	<u>8,896</u>
Net deferred tax liability	<u>\$19,763</u>	<u>\$6,608</u>

The difference between the tax provision and the tax benefit recorded at the statutory rate at December 31, 2002, 2001 and 2000 is as follows:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Income (loss) from taxable subsidiaries before income tax	\$35,296	\$ 3,236	\$(38,172)
Federal provision (benefit) at statutory tax rate (34%)	12,001	1,100	(12,978)
State and local taxes, net of federal benefit	3,617	1,137	557
Writeoff of management contract	—	—	12,920
Amortization of intangible assets	1,886	3,458	1,706
Other	(517)	794	34
	<u>16,987</u>	<u>6,489</u>	<u>2,239</u>
Tax provision – taxable subsidiaries	16,987	6,489	2,239
Other state and local taxes	1,212	1,987	1,905
Total tax provision	<u>\$18,199</u>	<u>\$ 8,476</u>	<u>\$ 4,144</u>

19. EMPLOYEE BENEFIT PLANS

The Company sponsors a qualified profit-sharing plan and trust covering substantially all of its full-time employees who have attained age twenty-one, worked a minimum of 1,000 hours and completed one year of service. The Company is under no obligation to contribute to the plan and the amount of any contribution is determined by and at the discretion of the Board of Directors. The Board of Directors can authorize contributions to a maximum of 15% of an eligible participant's total compensation, limited to \$30 annually per participant. For the years ended December 31, 2002 and 2001, amounts expensed by the Company for contributions to the trust were \$1,677 and \$1,388, respectively. Annual contributions represent an amount equivalent to 15% of each eligible participant's total eligible compensation for that period.

20. GOODWILL AND INTANGIBLE ASSETS

With the acquisition of real estate management operations in 2000, the Company allocated a portion of the purchase price to goodwill and other identifiable intangible assets. In

adopting SFAS No. 142, the Company discontinued its amortization of existing goodwill and indefinite-lived assets and performed its annual evaluation of testing for impairment of goodwill. Based on its evaluation, the Company concluded that its goodwill is not impaired.

Goodwill and other intangible assets as of December 31, 2002 are summarized as follows:

	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>
Amortized intangible assets:		
Management contracts	\$59,135	\$(18,543)
Unamortized goodwill and indefinite-lived intangible assets:		
Goodwill	49,874	
Trade name	3,975	
	<u>\$53,849</u>	

Included in goodwill is \$3,389 which prior to January 1, 2002 was recorded as work-force. Trade name had previously been amortized using a ten-year life; however, upon adoption of SFAS No. 142, trade name was determined to have an indefinite useful life because it is expected to generate cash flows indefinitely.

A summary of the effect of amortization of goodwill and intangible assets on reported earnings for the years ended December 31, 2002, 2001 and 2000 are as follows:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Goodwill amortization	—	\$ 4,127	\$ 1,746
Trade name amortization	—	470	255
Management contracts amortization	\$ 7,280	7,306	3,957
Net income (loss)	46,588	35,761	(9,278)
	<u>2002</u>	<u>2001</u>	<u>2000</u>
Reported net income (loss)	\$46,588	\$35,761	\$(9,278)
Add back: Goodwill amortization	—	4,127	1,746
Trade name amortization	—	470	255
Adjusted net income (loss)	<u>\$46,588</u>	<u>\$40,358</u>	<u>\$(7,277)</u>
Basic earnings per share:			
Reported net income (loss)	\$ 1.31	\$ 1.04	\$ (.31)
Add back: Goodwill amortization	—	.11	.05
Trade name amortization	—	.01	.01
Adjusted basic earnings (loss) per share	<u>\$ 1.31</u>	<u>\$ 1.16</u>	<u>\$ (.25)</u>
Diluted earnings per share:			
Reported net income (loss)	\$ 1.28	\$ 1.02	\$ (.31)
Add back: Goodwill amortization	—	.11	.05
Trade name amortization	—	.01	.01
Adjusted diluted earnings (loss) per share	<u>\$ 1.28</u>	<u>\$ 1.14</u>	<u>\$ (.25)</u>

Amortization of intangibles for the next five years is estimated to be \$6,686 in 2003 and 2004; \$6,596 in 2005, \$4,519 in 2006, and \$4,444 in 2007.

21. DEVELOPMENT CONTRACT

Subsequent to the sale of the property in Los Angeles to the School District in June 2002, a subsidiary of the Company entered into a build-to-suit development management agreement with the School District with respect to the development and construction of a new high school on the property. The subsidiary, in turn, engaged a general contractor to undertake the construction project. Under the build-to-suit agreement, the subsidiary's role is that of a development manager pursuant to provisions of the California Education Code. Liability for completion of the school is the responsibility of the general contractor, who is providing payment and performance bonds for the benefit of the School District and the subsidiary, although the subsidiary may be contingently liable to the School District. The Company's maximum liability for non-performance under the build-to-suit agreement is the amount of build-to-suit management fees paid to the Company, up to \$3,500. Upon delivery of the school, the Company is to be released from all contractual liability and in any event the general contractor is liable for all construction warranties. Under the build-to-suit agreement, the subsidiary and the Company expressly have no liability. Under the construction agreement with the general contractor, a subsidiary is acting as a conduit for the payments made by School District and is only obligated to make payments to the general contractor based on payments received, except for a maximum guarantee of up to \$2,000 for nonpayment. The guarantee ends upon completion of construction.

Due to the Company's continuing involvement with the development management agreement of the property, the recognition of gain on sale and the subsequent development management fee income on the build-to-suit project are being recognized using a blended profit margin under the percentage of completion method of accounting. The build-to-suit development agreement provides for fees of up to \$4,700 and an early completion incentive fee of \$2,000 if the project is completed before September 1, 2004. The subsidiary is obligated to share 10% of its early incentive fee with its joint venture partner. The joint venture partner has no participation in the other fees or the profit or loss of the subsidiary. The incentive fee is not included in the percentage of completion calculation. In addition, approximately \$2,000 of the gain on sale has been deferred and will be recognized only when the Company is released from its \$2,000 guarantee commitment. For the year ended December 31, 2002, the Company recognized \$289 of build-to-suit development fee management income.

22. ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141 "Business Combinations" which requires that all business combinations and asset acquisitions be accounted for under the purchase method, establishes specific criteria for the recognition of intangible assets separately from goodwill and requires that unallocated negative goodwill be written off immediately as an extraordinary gain. Use of the pooling-of-interests method for business combinations is no longer permitted. The adoption of SFAS No. 141 did not have a material effect on the Company's financial statements.

In June 2001, FASB issued SFAS No. 142 "Goodwill and Other Intangibles," which was adopted by the Company as of January 1, 2002. SFAS No. 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition. SFAS

No. 142 provides that goodwill and indefinite-lived intangible assets no longer be amortized and must be tested for impairment at least annually. Intangible assets acquired and liabilities assumed in business combinations are only amortized if such assets and liabilities are capable of being separated or divided and sold, transferred, licensed, rented or exchanged or arise from contractual or legal rights (including leases), and are amortized over their useful lives. The effect of SFAS No. 142 is described in Note 20.

In June 2001, FASB issued SFAS No. 143 "Accounting for Asset Retirement Obligations." SFAS No. 143 was issued to establish standards for the recognition and measurement of an asset retirement obligation. SFAS No. 143 requires retirement obligations associated with tangible long-lived assets to be recognized at fair value as the liability is incurred with a corresponding increase in the carrying amount of the related long-lived asset. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company does not expect SFAS No. 143 to have a material effect on its financial statements.

In August 2001, FASB issued SFAS No. 144 "Accounting for the Impairment of Long-Lived Assets" which addresses the accounting and reporting for the impairment and disposal of long-lived assets and supercedes SFAS No. 121 while retaining SFAS No. 121's fundamental provisions for the recognition and measurement of impairments. SFAS No. 144 removes goodwill from its scope, provides for a probability-weighted cash flow estimation approach for analyzing situations in which alternative courses of action to recover the carrying amount of long-lived assets are under consideration and broadens that presentation of discontinued operations to include a component of an entity. The adoption of SFAS No. 144 on January 1, 2002 did not have a material effect on the Company's financial statements; however, the revenues and expenses relating to an asset held for sale or sold have been presented as a discontinued operation for all periods presented. The provisions of SFAS No. 144 are effective for disposal activities initiated by the Company's commitment to a plan of disposition after the date it is initially applied (January 1, 2002). The effect of SFAS No. 144 on the Company's financial statements is described in Note 15.

In May 2002, FASB issued SFAS No. 145 "Rescission of SFAS Nos. 4, 44 and 64, Amendment of SFAS No. 13 and Technical Corrections" which eliminates the requirement that gains and losses from the extinguishment of debt be classified as extraordinary items unless it can be considered unusual in nature and infrequent in occurrence. The provisions of SFAS No. 145 are effective for fiscal years beginning after May 15, 2002. Early adoption is permitted. Upon adoption, the Company will no longer classify gains and losses for the extinguishment of debt as extraordinary items and will adjust comparative periods presented.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Exit or Disposal Activities". SFAS No. 146 addresses significant issues regarding the recognition, measurement, and reporting of costs that are associated with exit and disposal activities, including restructuring activities that are currently accounted for pursuant to the guidance that the Emerging Issues Task Force ("EITF") has set forth in EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31,

2002, with early application encouraged. The Company does not expect SFAS No. 146 to have a material effect on the Company's financial statements.

In October 2002, the FASB issued SFAS No. 147, "Acquisition of Certain Financial Institutions" which amends SFAS No. 72, SFAS No. 144 and FASB Interpretation No. 9. SFAS No. 147 provides guidance on the accounting for the acquisitions of certain financial institutions and includes long-term customer relationships as intangible assets within the scope of SFAS No. 144. The Company does not expect SFAS No. 147 to have a material effect on its financial statements.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure," which amends SFAS No. 123, Accounting for Stock Based Compensation. SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock based compensation (i.e., recognition of a charge for issuance of stock options in the determination of income.). However, SFAS No. 148 does not permit the use of the original SFAS No. 123 prospective method of transition for changes to the fair value based method made in fiscal years beginning after December 15, 2003. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock based employee compensation, description of transition method utilized and the effect of the method used on reported results. The transition and annual disclosure provisions of SFAS No. 148 are to be applied for fiscal years ending after December 15, 2002. The new interim disclosure provisions are effective for the first interim period beginning after December 15, 2002. The Company is evaluating whether it will change to the fair value based method.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," ("FIN 45") which changes the accounting for, and disclosure of certain guarantees. Beginning with transactions entered into after December 31, 2002, certain guarantees are required to be recorded at fair value, which is different from prior practice, under which a liability was recorded only when a loss was probable and reasonably estimable. In general, the change applies to contracts or indemnification agreements that contingently require the Company to make payments to a guaranteed third-party based on changes in an underlying asset, liability, or an equity security of the guaranteed party. The accounting provisions only apply for certain new transactions entered into and existing guarantee contracts modified after December 31, 2002. The adoption of the accounting provisions of FIN 45 is not expected to have a material effect on the Company's financial statements. The Company has complied with the disclosure provisions.

On January 17, 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"), the primary objective of which is to provide guidance on the identification of entities for which control is achieved through means other than voting rights ("variable interest entities" or "VIEs") and to determine when and which business enterprise should consolidate the VIE (the "primary beneficiary"). This new model applies when either (1) the equity investors (if any) do not have a controlling financial interest or (2) the equity investment at risk is insufficient to finance that entity's activities without additional financial support. In addition, FIN 46 requires both the primary

beneficiary and all other enterprises with a significant variable interest in a VIE to make additional disclosures. The transitional disclosures requirements will take effect immediately and are required for all financial statements initially issued after January 31, 2003. The Company is assessing the impact of this interpretation on its accounting for its investments in unconsolidated joint ventures. The Company is evaluating upon adoption in the third quarter of 2003 if it will consolidate certain equity investments and other entities. The Company's maximum loss exposure is the carrying value of its equity investments. The Company does not expect the adoptions of the provisions of FIN 46 to have a material effect on the Company's financial statements.

23. SUBSEQUENT EVENTS

On February 6, 2003, the Company sold a property located in Winona, Minnesota to the lessee, Peerless Chain Company ("Peerless") for \$10,800, which consisted of cash of \$6,300 and two notes receivable from the buyer with a fair value of \$2,250, with \$500 maturing in 2006 and \$4,000 maturing in 2008. The Company also received a note receivable of approximately \$1,700 for unpaid rents. The note is payable in equal monthly installments over 5 years.

In March 2003, the Company sold its property in Schiller Park, Illinois leased to Wozniak Industries, Inc. ("Wozniak") for \$2,390. Wozniak had previously notified the Company that it would not renew its lease which was scheduled to expire in December 2003. In connection with selling the property prior to the end of the lease term, the Company received a lease termination fee from Wozniak of \$290.

MARKET FOR THE COMPANY'S COMMON STOCK AND RELATED SHAREHOLDER MATTERS

Listed Shares are listed on the New York Stock Exchange. Trading commenced on January 21, 1998.

As of December 31, 2002 there were 21,801 shareholders of record.

DIVIDEND POLICY

Quarterly cash dividends are usually declared in December, March, June and September and paid in January, April, July and October. Quarterly cash dividends declared per share in 2002, 2001 and 2000 are as follows:

QUARTER	2002	2001	2000
1	\$.4280	\$.4225	\$.4225
2	.4290	.4250	.4225
3	.4300	.4260	.4225
4	.4310	.4270	.4225
Total:	\$1.7180	\$1.7005	\$1.6900

LISTED SHARES

The high, low and closing prices on the New York Stock Exchange for a Listed Share for each fiscal quarter of 2002, 2001, and 2000 were as follows (in dollars):

2000	HIGH	LOW	CLOSE
First Quarter	\$16.03	\$14.39	\$15.45
Second Quarter	17.02	15.51	15.60
Third Quarter	17.15	15.90	17.15
Fourth Quarter	18.10	16.11	18.10
2001	HIGH	LOW	CLOSE
First Quarter	\$20.60	\$18.26	\$19.35
Second Quarter	21.80	18.50	18.50
Third Quarter	22.05	19.25	21.35
Fourth Quarter	23.80	20.00	23.20
2002	HIGH	LOW	CLOSE
First Quarter	\$24.40	\$22.78	\$23.24
Second Quarter	24.15	22.30	22.50
Third Quarter	25.90	21.28	24.80
Fourth Quarter	25.40	22.95	24.75

REPORT ON FORM 10-K

The Advisor will supply to any shareholder, upon written request and without charge, a copy of the Annual Report on Form 10-K ("10-K") for the year ended December 31, 2002 as filed with the Securities and Exchange Commission ("SEC"). The 10-K may also be obtained through the SEC's EDGAR database at www.sec.gov.

DIRECTORS

Wm. Polk Carey
Chairman & Co-Ceo

Francis J. Carey
Vice Chairman

Gordon F. DuGan
President & Co-Ceo

Nathaniel S. Coolidge
Chairman of the Audit Committee; Former Head of Bond and Corporate Finance Department, John Hancock Mutual Life Insurance Company

Eberhard Faber, IV
Chairman of the Corporate Governance Committee; Former Director of the Federal Reserve Bank of Philadelphia

Dr. Lawrence R. Klein
Chairman of the Economic Policy Committee; Nobel Laureate in Economics; Benjamin Franklin Professor of Economics (Emeritus), University of Pennsylvania

Charles C. Townsend, Jr.
Chairman of the Compensation Committee; Former Head of Corporate Finance, Morgan Stanley & Co.

Reginald Winssinger
Chairman of Horizon New America National Portfolio Inc.

INVESTMENT COMMITTEE

George E. Stoddard
Chairman of the Investment Committee; Former Head of the Direct Placement Department, The Equitable Life Assurance Society of the United States

Frank J. Hoenemeyer
Vice Chairman of the Investment Committee; Former Vice Chairman and Chief Investment Officer, The Prudential Insurance Company of America

Nathaniel S. Coolidge
Member

Dr. Lawrence R. Klein
Member

Ralph F. Verni
Advisory Member; Former President & CEO State Street Research & Management

OFFICERS

Wm. Polk Carey
Chairman, Co-Ceo and Director

Francis J. Carey
Vice Chairman and Director

Gordon F. DuGan
President, Co-Ceo and Director

George E. Stoddard
Chief Investment Officer

John J. Park
Chief Financial Officer, Managing Director and Treasurer

Claude Fernandez
Managing Director and Chief Accounting Officer

Stephen H. Hamrick
Managing Director and National Marketing Director

Anne R. Coolidge
Managing Director — Acquisitions

Edward V. LaPuma
Managing Director — Acquisitions

W. Sean Sovak
Managing Director and Chief Acquisitions Officer

Thomas E. Zacharias
Managing Director — Asset Management

Benjamin P. Harris
Executive Director — Acquisitions

Susan C. Hyde
Executive Director and Director Of Investor Relations

Michael D. Roberts
Executive Director and Controller

Gordon J. Whiting
Executive Director — Acquisitions

Debra E. Bigler
Senior Vice President and Regional Director — Marketing

David S. Eberle
Senior Vice President and Regional Director — Marketing

Ted G. Lagreid
Senior Vice President and Regional Director — Marketing

David W. Marvin
Senior Vice President and Regional Director — Marketing

Donna M. Neiley
Senior Vice President — Asset Management

Anthony S. Mohl
Senior Director — Paris

James J. Longden
Director — United Kingdom

Robert C. Kehoe
First Vice President — Finance

C. Curtis Ritter
First Vice President and Director of Corporate Communications

Franck Ruimy
First Vice President — Asset Management

Gagan Singh
First Vice President — Finance

David G. Termine
First Vice President — Accounting

Kristin H. Bennett
Vice President — Marketing

Timothy W. Burdette
Vice President — Asset Management

Samuel W. Byram
Vice President — Marketing

Alistair D. Calvert
Vice President — Acquisitions

Kimberly J. Dussol
Vice President — Asset Management

Yasmin Guerrero
Vice President — Accounting

Nichole B. Lefort
Vice President — Marketing

Frank Machado
Vice President — Accounting

Marisa S. Mackey
Vice President — Acquisitions

John F. Moss
Vice President — Marketing

Louisa H. Quarto
Vice President — Marketing

Mykolas Rambus
Vice President and Chief Information Officer

Gino Sabatini
Vice President — Acquisitions

Paula M. Shober
Vice President — Marketing

Mark Wander
Vice President — Marketing

CORPORATE INFORMATION

Auditors
PricewaterhouseCoopers LLP

Counsel
Reed Smith LLP

Executive Offices
W. P. Carey & Co. LLC
50 Rockefeller Plaza
New York, NY 10020
212-492-1100
1-800-WP CAREY

Transfer Agent
Mellon Investor Services L.L.C.
85 Challenger Road
Ridgefield Park, NJ 07660
888-200-8690

Annual Meeting
Tuesday, June 10, 2003, 10:30 a.m.
at the Waldorf=Astoria Hotel,
Park Avenue & 50th Street,
The Starlight Roof, New York City

Form 10-K
A copy of the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission may be obtained without charge by writing the Executive Offices at the address at left.

Website
www.wpcarey.com

E-Mail
InvestorRelations@wpcarey.com

Trading Information
Shares of W. P. Carey & Co. LLC trade on the New York Stock Exchange under the symbol "WPC."

Dividend Information
The following table sets forth for the period indicated, the per share dividends paid to shareholders of record since inception:

<i>Record Date</i>	
March 31, 1998	\$.4125
June 30, 1998	\$.4125
September 30, 1998	\$.4125
December 31, 1998	\$.4125
March 31, 1999	\$.4175
June 30, 1999	\$.4175
September 30, 1999	\$.4175
December 31, 1999	\$.4175

Record Date, continued

March 31, 2000	\$.4225
June 30, 2000	\$.4225
September 30, 2000	\$.4225
December 31, 2000	\$.4225
March 30, 2001	\$.4225
June 30, 2001	\$.4250
September 30, 2001	\$.4260
December 31, 2001	\$.4270
March 29, 2002	\$.4280
June 28, 2002	\$.4290
September 30, 2002	\$.4300
December 31, 2002	\$.4310
March 30, 2003	\$.4320



W. P. CAREY & CO. LLC

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212-492-1100

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