

# CPA:14

2006 SECOND QUARTER REPORT

CORPORATE PROPERTY ASSOCIATES 14

GENERATING INCOME FOR INVESTORS SINCE 1997



A MEMBER OF THE

W. P. CAREY

GROUP

## Dear Fellow CPA®:14 Shareholders

We are pleased to provide you with updated information about CPA®:14's portfolio for the three-month period ended June 30, 2006.

Revenues, net income and cash flow from operating activities increased as compared to the same period in 2005. Our portfolio of single-tenant triple-net leased real estate assets continued to provide rising quarterly income to investors and as of June 30, 2006 consisted of 234 properties leased to 72 tenants, totaling approximately 24 million square feet located throughout the United States, Europe (Finland, France, The Netherlands) and the United Kingdom.

### Proposed Merger

In June 2006, we announced a proposed merger with CPA®:12, a non-traded REIT also managed by W. P. Carey & Co. LLC. Completion of the proposed merger and the asset sale is subject to the United States Securities and Exchange Commission ("SEC") approval along with other customary closing conditions. For further information, please reference [www.cpa14.com](http://www.cpa14.com), which contains our Form S-4 filed with the Securities and Exchange Commission on July 25, 2006.

### Portfolio Update

In May 2006, we sold a property in Rochester, MN for \$35.5 million and recognized a gain on the sale of \$14.2 million. In June 2006, we, together with our affiliate CPA®:15, completed the sale of a building in New York, NY for \$200 million and recognized a gain of \$16.2 million and paid a special distribution of \$.45 per share on July 14, 2006.

In June 2006, we, together with our affiliates CPA®:12 and CPA®:15 ("the venture"), approved a plan to restructure a master lease agreement with Starmark Holdings, LLC ("Starmark Holdings") covering 15 properties. Under the terms of the agreement, the master lease will be terminated and ten properties will be re-leased among three new tenants unaffiliated with Starmark Holdings, four properties will be sold to one of the new tenants, and one property will be held for use by the venture. In addition, as a result of the restructuring, we incurred a \$10.3 million impairment charge.

### Quarterly Distribution

Our second quarter 2006 distribution increased to \$.1929 per share, which equates to an annualized yield of 7.72% based on our original share price of \$10.00.

### Special Distribution

In addition to our quarterly distribution, CPA®:14 shareholders received a special distribution of \$.45 per share on July 14, 2006 as a result of the proceeds received on the sale of the Rochester,

MN and New York, NY facilities discussed previously in the *Portfolio Update* section.

### **Net Asset Value (NAV)**

Because of the proposed merger with CPA®:12, an interim adjustment has been made to CPA®:14's NAV. As of July 14, 2006, CPA®:14's NAV has been determined to be \$11.85 per share, which reflects adjustments for both the \$.45 special distribution resulting from the asset sales and the lease restructuring described above. For further information regarding the calculation of NAVs, please reference the Form 8-K issued on July 14, 2006 at [www.cpa14.com](http://www.cpa14.com).

### **Distribution Reinvestment and Share Purchase Plan (DRIP)**

As a reminder, our DRIP enables you to reinvest your quarterly distributions in new CPA®:14 shares at our current Net Asset Value and enjoy the effects of compounding returns. It's a convenient and cost-effective way to increase your investment portfolio. For more information about how you can take advantage of this program, please contact our Investor Relations Department at 1-800-WP CAREY or [IR@wpcarey.com](mailto:IR@wpcarey.com).

### **Shareholder Access**

Please consider receiving your future investor correspondence, such as this quarterly report, electronically. Register at [www.wpcarey.com/ShareholderAccess](http://www.wpcarey.com/ShareholderAccess) and you will find a convenient and cost-effective way to access your CPA®:14 investment information online 24 hours a day, seven days a week. In addition to lowering shareholder expenses, you will be able to access your current investment balances and distribution history, among other options.

On behalf of the entire CPA®:14 family, we thank you for your continued confidence and support.

With best regards,



Wm. Polk Carey    Gordon F. DuGan    Edward V. LaPuma  
*Chairman of the Board    Chief Executive Officer    President*

*Please note that this letter provides only a summary of the information contained in our quarterly report on Form 10-Q for the three-month period ended June 30, 2006, which we have filed with the Securities and Exchange Commission. We encourage you to read the full report, which can be found at [www.cpa14.com](http://www.cpa14.com).*

# Consolidated Statements of Cash Flows (Unaudited)

(in thousands except share amounts)

	Six months ended June 30,	
	2006	2005 (Revised)
<b>Cash flows from operating activities</b>		
Net income	\$ 38,083	\$ 23,678
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,949	12,352
Straight-line rent adjustments	(1,350)	(1,676)
Income from equity investments in excess of distributions received	10,009	(186)
Minority interest in income	1,028	1,014
Issuance of shares to affiliate in satisfaction of fees due	4,477	4,424
Increase (decrease) in prepaid and deferred rental income and security deposits	(1,407)	(4,076)
Realized gain on foreign currency transactions, net	(338)	(445)
Unrealized (gain) loss on foreign currency transactions, net	(229)	696
Unrealized gain on derivatives, net	(201)	(399)
Reversal of unrealized loss on derivatives	(229)	(7)
Realized loss (gain) on sale of securities and warrants	44	(2,192)
Gain from sale of real estate	(14,178)	(196)
Change in other operating assets and liabilities, net	868	(2,086)
Net cash provided by operating activities	52,526	30,901
<b>Cash flows from investing activities</b>		
Equity distributions received in excess of equity income	35,707	1,350
Capitalized expenditures	(164)	(50)
Proceeds from sale of real estate	35,512	2,000
Proceeds from sales of securities	2,986	7,000
Proceeds from sale of warrants	—	2,432
Funds placed in restricted account for future investment	(21,741)	—
Payment of deferred acquisition fees to an affiliate	(3,514)	(3,420)
Net cash provided by investing activities	48,786	9,312
<b>Cash flows from financing activities</b>		
Distributions paid	(26,274)	(25,835)
Proceeds from issuance of shares, net of costs	3,229	3,271
Proceeds from mortgages	12,000	—
Prepayment of mortgage principal	(24,167)	—
Payments of mortgage principal	(6,087)	(5,834)
Payment of financing costs	(156)	—
Purchase of treasury stock	(4,481)	(3,947)
Distributions to minority interest partner	(1,750)	(1,802)
Net cash used in financing activities	(47,686)	(34,147)
Effect of exchange rate changes on cash	99	(726)
Net increase in cash and cash equivalents	53,725	5,340
Cash and cash equivalents, beginning of period	37,871	36,395
Cash and cash equivalents, end of period	\$ 91,596	\$ 41,735

## Consolidated Balance Sheets (Unaudited)

(in thousands except share and per share amounts)

	June 30, 2006	December 31, 2005 (Note)
<b>Assets</b>		
Real estate, net	\$ 918,609	\$ 943,637
Net investment in direct financing leases	116,272	115,513
Equity investments	97,701	143,417
Cash and cash equivalents	91,596	37,871
Marketable securities	6,481	9,267
Other assets, net	68,916	45,331
Total assets	<u>\$ 1,299,575</u>	<u>\$ 1,295,036</u>
<b>Liabilities and Shareholders' Equity</b>		
Liabilities:		
Limited recourse mortgage notes payable	\$ 652,419	\$ 663,098
Accrued interest	4,151	4,358
Due to affiliates	6,410	4,894
Accounts payable, accrued expenses and other liabilities	6,625	5,887
Prepaid and deferred rental income and security deposits	20,394	20,296
Deferred acquisition fees payable to affiliate	12,910	16,424
Distributions payable	44,054	13,103
Total liabilities	<u>746,963</u>	<u>728,060</u>
Minority interest in consolidated entities	<u>24,303</u>	<u>25,012</u>
Commitments and contingencies		
Shareholders' equity:		
Common stock, \$.001 par value; 120,000,000 shares authorized; 70,951,150 and 70,308,710 issued and outstanding, respectively	71	70
Additional paid-in capital	643,714	636,009
Distributions in excess of accumulated earnings	(100,308)	(81,166)
Accumulated other comprehensive income	9,342	7,080
	<u>552,819</u>	<u>561,993</u>
Less, treasury stock at cost, 2,426,711 and 2,028,584 shares, respectively	(24,510)	(20,029)
Total shareholders' equity	<u>528,309</u>	<u>541,964</u>
Total liabilities and shareholders' equity	<u>\$ 1,299,575</u>	<u>\$ 1,295,036</u>

Note: The balance sheet at December 31, 2005 has been derived from the audited consolidated financial statements at that date.

## Consolidated Statements of Income (Unaudited)

(in thousands except share and per share amounts)

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
<b>Revenues</b>				
Rental income	\$ 28,389	\$ 28,407	\$ 56,723	\$ 56,731
Interest income from direct financing leases	3,501	3,445	6,983	7,090
Other operating income	881	748	1,323	1,366
	<u>32,771</u>	<u>32,600</u>	<u>65,029</u>	<u>65,187</u>
<b>Operating Expenses</b>				
Depreciation	(9,504)	(5,770)	(15,241)	(11,560)
Property expenses	(5,458)	(6,312)	(10,813)	(11,938)
General and administrative	(1,539)	(1,465)	(3,207)	(3,050)
	<u>(16,501)</u>	<u>(13,547)</u>	<u>(29,261)</u>	<u>(26,548)</u>
<b>Other Income and Expenses</b>				
Income from equity investments	9,357	3,931	13,615	7,742
Other interest income	691	813	1,152	1,171
Minority interest in income	(485)	(566)	(1,028)	(1,014)
Gain on derivative instruments and other gains, net	10	192	386	2,616
Gain (loss) on foreign currency transactions, net	226	52	567	(251)
Interest expense	(12,478)	(13,062)	(25,054)	(26,074)
	<u>(2,679)</u>	<u>(8,640)</u>	<u>(10,362)</u>	<u>(15,810)</u>
Income from continuing operations	13,591	10,413	25,406	22,829
<b>Discontinued Operations</b>				
(Loss) income from operations of discontinued properties	(1,760)	254	(1,501)	653
Gain on sale of real estate	14,178	—	14,178	196
Income from discontinued operations	<u>12,418</u>	<u>254</u>	<u>12,677</u>	<u>849</u>
<b>Net Income</b>	<u>\$ 26,009</u>	<u>\$ 10,667</u>	<u>\$ 38,083</u>	<u>\$ 23,678</u>
<b>Basic Earnings Per Share</b>				
Income from continuing operations	\$ .20	\$ .16	\$ .37	\$ .34
Income from discontinued operations	.18	—	.19	.01
Net Income	<u>\$ .38</u>	<u>\$ .16</u>	<u>\$ .56</u>	<u>\$ .35</u>
<b>Dividends Declared Per Share</b>	<u>\$ .1929</u>	<u>\$ .1909</u>	<u>\$ .3853</u>	<u>\$ .3813</u>
<b>Weighted Average Shares</b>				
<b>Outstanding - Basic</b>	<u>68,651,410</u>	<u>68,166,303</u>	<u>68,540,961</u>	<u>68,096,081</u>



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