LEXINGTON REALTY TRUST
Form 10-Q
November 05, 2010

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

FORM 10-Q

(Mark One)

T Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2010.

£ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Transition period from _________________ to ________________

Commission File Number 1-12386

LEXINGTON REALTY TRUST
(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	13-3717318 (I.R.S. Employer Identification No.)
One Penn Plaza – Suite 4015 New York, NY (Address of principal executive offices)	10119 (Zip code)

(212) 692-7200
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes T No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “accelerated filer”, “large accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer £ Accelerated filer T Non-accelerated filer £ Smaller Reporting Company £

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

Indicate the number of shares outstanding of each of the registrant's classes of common shares, as of the latest practicable date:134,650,918 common shares, par value $0.0001 per share on November 2, 2010.

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PART 1. - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
LEXINGTON REALTY TRUST AND CONSOLIDATED SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
September 30, 2010 and December 31, 2009
(Unaudited and in thousands, except share and per share data)

	2010	2009
Assets:		
Real estate, at cost	$3,417,177	$3,552,806
Less: accumulated depreciation and amortization	605,741	537,406
	2,811,436	3,015,400
Intangible assets, net	212,853	267,161
Cash and cash equivalents	59,277	53,865
Restricted cash	33,166	21,519
Investment in and advances to non-consolidated entities	70,353	55,985
Deferred expenses, net	38,978	38,245
Loans receivable, net	93,409	60,567
Rent receivable – current	7,831	11,463
Rent receivable – deferred	3,802	12,529
Other assets	54,024	43,111
Total assets	$3,385,129	$3,579,845
Liabilities and Equity:		
Liabilities:		
Mortgages and notes payable	$1,619,027	$1,857,909
Exchangeable notes payable	61,272	85,709
Convertible notes payable	102,726	--
Trust preferred securities	129,120	129,120
Contract right payable	14,397	15,252
Dividends payable	19,651	18,412
Accounts payable and other liabilities	44,840	43,629
Accrued interest payable	8,804	11,068
Deferred revenue - below market leases, net	98,880	107,535
Prepaid rent	15,918	13,975
	2,114,635	2,282,609
Commitments and contingencies		
Equity:		
Preferred shares, par value $0.0001 per share; authorized 100,000,000 shares,		
Series B Cumulative Redeemable Preferred, liquidation preference $79,000; 3,160,000 shares issued and outstanding	76,315	76,315
Series C Cumulative Convertible Preferred, liquidation preference $104,760; 2,095,200 shares issued and outstanding	101,778	101,778
Series D Cumulative Redeemable Preferred, liquidation preference $155,000; 6,200,000 shares issued and outstanding	149,774	149,774
Common shares, par value $0.0001 per share; authorized 400,000,000 shares, 134,330,111 and 121,943,258 shares issued and outstanding in 2010 and 2009, respectively	13	12

Additional paid-in-capital	1,846,958	1,750,979
Accumulated distributions in excess of net income	(974,236)	(870,862)
Accumulated other comprehensive income (loss)	(934)	673
Total shareholders’ equity	1,199,668	1,208,669
Noncontrolling interests	70,826	88,567
Total equity	1,270,494	1,297,236
Total liabilities and equity	$3,385,129	$3,579,845

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

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LEXINGTON REALTY TRUST AND CONSOLIDATED SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
Three and nine months ended September 30, 2010 and 2009
(Unaudited and in thousands, except share and per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Gross revenues:				
Rental	$79,484	$81,574	$233,986	$245,280
Advisory and incentive fees	254	388	869	1,434
Tenant reimbursements	8,077	9,989	25,676	29,317
Total gross revenues	87,815	91,951	260,531	276,031
Expense applicable to revenues:				
Depreciation and amortization	(41,165)	(42,198)	(124,497)	(127,033)
Property operating	(17,418)	(19,458)	(54,331)	(57,336)
General and administrative	(4,886)	(5,051)	(15,810)	(17,822)
Non-operating income	2,934	1,304	7,982	6,877
Interest and amortization expense	(30,958)	(31,875)	(94,453)	(97,038)
Debt satisfaction gains (charges), net	(11)	3,152	(773)	16,868
Change in value of forward equity commitment	4,940	7,031	5,400	2,596
Impairment charges and loan losses	--	(491)	(16,354)	(1,576)
Income (loss) before provision for income taxes, equity in earnings (losses) of non-consolidated entities and discontinued operations	1,251	4,365	(32,305)	1,567
Provision for income taxes	(451)	(658)	(1,697)	(1,649)
Equity in earnings (losses) of non-consolidated entities	5,459	(525)	16,066	(130,813)
Income (loss) from continuing operations	6,259	3,182	(17,936)	(130,895)
Discontinued operations:				
Income (loss) from discontinued operations	147	(2,083)	(932)	(3,479)
Provision for income taxes	--	(6)	(14)	(70)
Debt satisfaction gains, net	--	6,006	3,385	4,607
Gains on sales of properties	2,025	--	2,523	6,280
Impairment charges	(1,091)	(29,230)	(38,713)	(38,787)
Total discontinued operations	1,081	(25,313)	(33,751)	(31,449)
Net income (loss)	7,340	(22,131)	(51,687)	(162,344)
Less net (income) loss attributable to noncontrolling interests	(1,006)	2	7,153	(1,841)
Net income (loss) attributable to Lexington Realty Trust shareholders	6,334	(22,129)	(44,534)	(164,185)
Dividends attributable to preferred shares – Series B	(1,590)	(1,590)	(4,770)	(4,770)
Dividends attributable to preferred shares – Series C	(1,702)	(1,702)	(5,107)	(5,516)
Dividends attributable to preferred shares – Series D	(2,926)	(2,926)	(8,777)	(8,777)
Dividends attributable to non-vested common shares	(58)	(127)	(181)	(385)
Conversion dividend – Series C	--	--	--	(6,994)

Net income (loss) attributable to common shareholders	$58	$(28,474)	$(63,369)	$(190,627)
Income (loss) per common share–basic and diluted:				
Loss from continuing operations	$(0.01)	$(0.03)	$(0.28)	$(1.51)
Income (loss) from discontinued operations	0.01	(0.22)	(0.21)	(0.30)
Net income (loss) attributable to common shareholders	$0.00	$(0.25)	$(0.49)	$(1.81)
Weighted average common shares outstanding–basic and diluted	133,713,505	112,217,415	129,487,281	105,490,039
Amounts attributable to common shareholders:				
Loss from continuing operations	$(1,290)	$(3,243)	$(36,244)	$(158,833)
Income (loss) from discontinued operations	1,348	(25,231)	(27,125)	(31,794)
Net income (loss) attributable to common shareholders	$58	$(28,474)	$(63,369)	$(190,627)

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

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LEXINGTON REALTY TRUST AND CONSOLIDATED SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
Three and nine months ended September 30, 2010 and 2009
(Unaudited and in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Net income (loss)	$7,340	$(22,131)	$(51,687)	$(162,344)
Other comprehensive income (loss):				
Change in unrealized gain on foreign currency translation, net	--	55	(740)	(9)
Change in unrealized loss on interest rate swap, net	(145)	(208)	(867)	1,292
Change in unrealized loss from non-consolidated entities, net	--	--	--	26,174
Other comprehensive income (loss)	(145)	(153)	(1,607)	27,457
Comprehensive income (loss)	7,195	(22,284)	(53,294)	(134,887)
Comprehensive (income) loss attributable to noncontrolling interests	(1,006)	2	7,153	(1,841)
Comprehensive income (loss) attributable to Lexington Realty Trust shareholders	$6,189	$(22,282)	$(46,141)	$(136,728)

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

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LEXINGTON REALTY TRUST AND CONSOLIDATED SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
Nine months ended September 30, 2010 and 2009
(Unaudited and in thousands, except share amounts)

Nine Months ended September 30, 2010	Lexington Realty Trust Shareholders						
	Total	Preferred Shares	Common Shares	Additional Paid-in-Capital	Accumulated Distributions in Excess of Net Income	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interests
Balance December 31, 2009	$1,297,236	$327,867	$12	$1,750,979	$(870,862)	$673	$88,567
Contributions from noncontrolling interests	883	--	--	--	--	--	883
Redemption of noncontrolling OP units for common shares	--	--	--	1,897	--	--	(1,897)
Transfer of noncontrolling interest	(1,957)	--	--	--	--	--	(1,957)
Issuance of Convertible Notes	13,134	--	--	13,134	--	--	--
Issuance of common shares, net	80,949	--	1	80,948	--	--	--
Dividends/distributions	(66,457)	--	--	--	(58,840)	--	(7,617)
Comprehensive loss:							
Net loss	(51,687)	--	--	--	(44,534)	--	(7,153)
Other comprehensive loss:							
Change in unrealized gain on foreign currency translation, net	(740)	--	--	--	--	(740)	--
Change in unrealized loss on interest rate swap, net	(867)	--	--	--	--	(867)	--
Other comprehensive loss	(1,607)						
Comprehensive loss	(53,294)						
Balance September 30, 2010	$1,270,494	$327,867	$13	$1,846,958	$(974,236)	$(934)	$70,826

Nine Months ended September 30, 2009	Lexington Realty Trust Shareholders						
	Total	Preferred Shares	Common Shares	Additional Paid-in-Capital	Accumulated Distributions in Excess of Net Income	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interests
Balance December 31, 2008	$1,501,071	$352,306	$10	$1,638,540	$(569,131)	$(15,650)	$94,996
Effect of adoption of new accounting pronouncement by non-consolidated entity	--	--	--	--	11,647	(11,647)	--
Contributions from noncontrolling interests	1,554	--	--	--	--	--	1,554
Redemption of noncontrolling OP units for common shares	--	--	--	1,227	--	--	(1,227)
Issuance of common shares, net	18,637	--	1	18,636	--	--	--
Dividends/distributions	(28,038)	--	1	33,962	(58,924)	--	(3,077)
Conversion—Series C	--	(24,439)	--	31,433	(6,994)	--	--

Comprehensive income (loss):							
Net income (loss)	(162,344)	--	--	--	(164,185)	--	1,841
Other comprehensive income (loss):							
Change in unrealized gain on foreign currency translation	(9)	--	--	--	--	(9)	--
Change in unrealized loss on interest rate swap, net	1,292	--	--	--	--	1,292	--
Change in unrealized loss from non-consolidated entities, net	26,174	--	--	--	--	26,174	--
Other comprehensive income (loss)	27,457						
Comprehensive income (loss)	(134,887)						
Balance September 30, 2009	$1,358,337	$327,867	$12	$1,723,798	$(787,587)	$160	$94,087

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

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LEXINGTON REALTY TRUST AND CONSOLIDATED SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Nine months ended September 30, 2010 and 2009
(Unaudited and in thousands)

	2010	2009
Net cash provided by operating activities:	$112,880	$123,600
Cash flows from investing activities:		
Investment in real estate, including intangible assets	(26,012)	(24,822)
Net proceeds from sale of properties	71,572	90,842
Proceeds from sale of debt securities	--	9,451
Principal payments received on loans receivable	3,767	12,131
Investment in loans receivable	(37,564)	--
Distributions from non-consolidated entities in excess of accumulated earnings	1,356	5,859
Investment in and advances to/from non-consolidated entities	(2,610)	4,765
Increase in deferred leasing costs	(3,183)	(7,368)
Change in escrow deposits and restricted cash	(11,647)	7,071
Real estate deposits	(1,138)	--
Net cash (used in) provided by investing activities	(5,459)	97,929
Cash flows from financing activities:		
Dividends to common and preferred shareholders	(57,601)	(41,314)
Repurchase of exchangeable notes	(25,493)	(84,219)
Proceeds from convertible notes	115,000	--
Principal amortization payments	(27,844)	(33,430)
Principal payments on debt, excluding normal amortization	(243,792)	(261,156)
Change in revolving credit facility borrowing, net	11,772	5,000
Proceeds from term loans	--	165,000
Increase in deferred financing costs	(5,615)	(5,264)
Proceeds of mortgages and notes payable	59,769	11,540
Swap termination costs	--	(366)
Contributions from noncontrolling interests	883	1,554
Cash distributions to noncontrolling interests	(7,617)	(3,077)
Receipts (payments) on forward equity commitment, net	1,107	(2,231)
Issuance of common shares, net	75,695	15,101
Dividend reinvestment plan proceeds	1,727	--
Net cash used in financing activities	(102,009)	(232,862)
Change in cash and cash equivalents	5,412	(11,333)
Cash and cash equivalents, at beginning of period	53,865	67,798
Cash and cash equivalents, at end of period	$59,277	$56,465

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

LEXINGTON REALTY TRUST AND CONSOLIDATED SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010 and 2009
(Unaudited and dollars in thousands, except per share/unit data)

(1) The Company

Lexington Realty Trust (the "Company") is a self-managed and self-administered Maryland statutory real estate investment trust ("REIT") that acquires, owns and manages a geographically diversified portfolio of predominately net-leased office, industrial and retail properties. The Company also provides investment advisory and asset management services to investors in the net-lease area. As of September 30, 2010, the Company owned or had interests in approximately 195 consolidated properties in 40 states. The real properties owned by the Company are generally subject to net leases or similar leases where the tenant pays all or substantially all of the cost and/or cost increases for real estate taxes, insurance, utilities and ordinary maintenance of the property. However, certain leases provide that the Company is responsible for certain operating expenses.

The Company believes it has qualified as a REIT under the Internal Revenue Code of 1986, as amended (the "Code"). Accordingly, the Company will not be subject to federal income tax, provided that distributions to its shareholders equal at least the amount of its REIT taxable income as defined under the Code. The Company is permitted to participate in certain activities in order to maintain its qualification as a REIT, so long as these activities are conducted in entities which elect to be treated as taxable REIT subsidiaries ("TRS") under the Code. As such, the TRS will be subject to federal income taxes on the income from these activities.

The Company conducts its operations either directly or indirectly through operating partnerships in which the Company is the sole unit holder of the general partner and the sole unit holder of the limited partner that holds a majority of the limited partner interests ("OP units") or through a wholly owned TRS.

The unaudited condensed consolidated financial statements reflect all adjustments, which are, in the opinion of management, necessary to present fairly the financial condition and results of operations for the interim periods. For a more complete understanding of the Company's operations and financial position, reference is made to the consolidated financial statements (including the notes thereto) previously filed with the Securities and Exchange Commission ("SEC") on March 1, 2010 included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009 (the "Annual Report").

(2) Summary of Significant Accounting Policies

Basis of Presentation and Consolidation. The Company's condensed consolidated financial statements are prepared on the accrual basis of accounting. The financial statements reflect the accounts of the Company and its consolidated subsidiaries. The Company consolidates its wholly owned subsidiaries, partnerships and joint ventures which it controls (i) through voting rights or similar rights or (ii) by means other than voting rights if the Company is the primary beneficiary of a variable interest entity ("VIE"). Entities which the Company does not control and entities which are VIEs in which the Company is not the primary beneficiary are accounted for under appropriate U.S. generally accepted accounting principles ("GAAP").

The Company implemented new accounting guidance effective January 1, 2010 regarding VIEs. In accordance with the guidance, the Company re-evaluated all of its equity and loan investments and all other potential variable interests to determine if they are VIEs. For each of these investments, the Company has evaluated (1) the sufficiency of the entities' equity investments at risk to permit the entity to finance its activities without additional subordinated financial support; (2) that as a group the holders of the equity investments at risk have (a) the power through voting rights or

similar rights to direct the entities' activities that most significantly impact the entity's economic performance, (b) the obligation to absorb the expected losses of the entity and their obligations are not protected directly or indirectly and (c) the right to receive the expected residual return of the entity and their rights are not capped and (3) the voting rights of these investors are not proportional to their obligations to absorb the expected losses of the entity, their rights to receive the expected returns of the entity, or both, and that substantially all of the entities' activities do not involve or are not conducted on behalf of an investor that has disproportionately few voting rights.

If an investment is determined to be a VIE, the Company then performs an analysis to determine if the Company is the primary beneficiary of the VIE. GAAP requires a VIE to be consolidated by its primary beneficiary. The primary beneficiary is the party that has a controlling financial interest in an entity. In order for a party to have a controlling financial interest in an entity it must have (1) the power to direct the activities of a VIE that most significantly impact the entity's economic performance, and (2) the obligation to absorb losses of an entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE.

Consolidated Variable Interest Entities. The Company's consolidated VIEs were determined to be VIEs primarily because the entities' equity holders' obligation to absorb losses is protected or their equity investment at risk is not sufficient to permit the entities to finance their activities without additional financial support. The Company determined that it was the primary beneficiary of these VIEs as it has a controlling financial interest in the entities.

The Company determined that a wholly owned entity which owns an office building in Greenville, South Carolina is a VIE as the entity's obligation to absorb losses is protected. The tenant has an option to purchase the property on December 31, 2014 at fair market value, but not for less than $10,710 and not for greater than $11,550. If the tenant does not exercise the purchase option, the Company has the right to require the tenant to purchase the property for $10,710.

The Company had a loan which was made to a VIE, Camfex Associates Limited Partnership ("Camfex"). The Company determined that it was the primary beneficiary of the VIE and, accordingly, consolidated Camfex in its financial statements. Camfex owned two multi-tenanted office buildings in California and had outstanding third-party mortgage debt. In January 2010, one property was sold to its tenant/lender. During the first quarter of 2010, the Company took a deed in lieu of foreclosure on the second property and satisfied the third-party mortgage debt; thus Camfex was no longer a VIE of the Company. As of December 31, 2009, the aggregate assets of Camfex that could only be used to settle the obligations of the VIE were $37,808. These assets were primarily classified in real estate in the Company's Condensed Consolidated Balance Sheet. As of December 31, 2009, the aggregate liabilities of Camfex were $24,455 and were primarily classified in mortgage notes payable in the Company's Condensed Consolidated Balance Sheet. Neither creditors nor noncontrolling equity investors of the VIE have any recourse to the general credit of the Company.

Non-Consolidated Variable Interest Entities. At September 30, 2010 and December 31, 2009, the Company held variable interests in certain non-consolidated VIEs; however, the Company was not the primary beneficiary of these VIEs as the Company does not have a controlling financial interest in the entities. The Company determined Concord Debt Holdings LLC and related entities are VIEs. The Company's carrying value of these investments is zero and the Company has no obligation to fund future operations. (see note 9). The Company has certain acquisition commitments and/ or acquisition, development and construction arrangements with VIEs. The Company is obligated to fund certain amounts as discussed in note 15. During the second quarter of 2010, the Company determined that its subsidiary entity, which owns the Salt Lake City, Utah property, is a VIE as a result of a lease amendment entered into during the quarter. The lease amendment provided that the building lease is coterminous with the ground lease and are both with the same party. The Company determined that it was not the primary beneficiary of the VIE as it no longer has a controlling financial interest in the entity. However, in accordance with GAAP, the Company has not derecognized the real estate associated with the entity as a sale has not been consummated. As a result, the approximate $25,000 of real estate and $36,700 related non-recourse mortgage loan are included in the Company's Condensed Consolidated Balance Sheet at September 30, 2010.

Use of Estimates. Management has made a number of significant estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses to prepare these condensed consolidated financial statements in conformity with GAAP. These estimates and assumptions are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment. The current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions. Management adjusts such estimates when facts and circumstances dictate. The most significant estimates made include the recoverability of accounts receivable, allocation of property purchase price to tangible and intangible assets acquired and liabilities assumed, the determination of VIEs and which entities should be consolidated, the determination of impairment of long-lived assets, loans receivable and equity method investments, valuation of derivative financial instruments and the useful lives of long-lived assets. Actual results could differ materially from those estimates.

Fair Value Measurements. The Company follows the guidance in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 820, Fair Value Measurements and Disclosures ("Topic 820") to determine the fair value of financial and non-financial instruments. Topic 820 defines fair value, establishes a

framework for measuring fair value in GAAP and expands disclosures about fair value measurements. Topic 820 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three levels: Level 1 – quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities; Level 2 – observable prices that are based on inputs not quoted in active markets, but corroborated by market data; and Level 3 – unobservable inputs, which are used when little or no market data is available. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, as well as considering counterparty credit risk.

Revenue Recognition. The Company recognizes lease revenue on a straight-line basis over the term of the lease unless another systematic and rational basis is more representative of the time pattern in which the use benefit is derived from the leased property. Renewal options in leases with rental terms that are lower than those in the primary term are excluded from the calculation of straight-line rent if the renewals are not reasonably assured. In those instances in which the Company funds tenant improvements and the improvements are deemed to be owned by the Company, revenue recognition will commence when the improvements are substantially completed and possession or control of the space is turned over to the tenant. When the Company determines that the tenant allowances are lease incentives, the Company commences revenue recognition when possession or control of the space is turned over to the tenant for tenant work to begin. The lease incentive is recorded as a deferred expense and amortized as a reduction of revenue on a straight-line basis over the respective lease term. The Company recognizes lease termination fees as rental revenue in the period received and writes off unamortized lease-related intangible and other lease-related account balances, provided there are no further Company obligations under the lease. Otherwise, such fees and balances are recognized on a straight-line basis over the remaining obligation period.

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Impairment of Real Estate. The Company evaluates the carrying value of all tangible and intangible real estate assets held for investment for possible impairment when an event or change in circumstance has occurred that indicates its carrying value may not be recoverable. The evaluation includes estimating and reviewing anticipated future undiscounted cash flows to be derived from the asset. If such cash flows are less than the asset’s carrying value, an impairment charge is recognized to the extent by which the asset’s carrying value exceeds the estimated fair value. Estimating future cash flows is highly subjective and such estimates could differ materially from actual results.

Impairment of Equity Method Investments. On a quarterly basis, the Company assesses whether there are indicators that the value of its equity method investments may be impaired. An impairment charge is recognized only if the Company determines that a decline in the value of the investment below its carrying value is other-than-temporary. The assessment of impairment is highly subjective and involves the application of significant assumptions and judgments about the Company’s intent and ability to recover its investment given the nature and operations of the underlying investment, including the level of the Company’s involvement therein, among other factors. To the extent an impairment is deemed to be other-than-temporary, the loss is measured as the excess of the carrying amount of the investment over the estimated fair value of the investment.

Loans Receivable. Loans held for investment are intended to be held to maturity and, accordingly, are carried at cost, net of unamortized loan origination costs and fees, loan purchase discounts, and net of an allowance for loan losses when such loan is deemed to be impaired. Loan origination costs and fees and loan purchase discounts are amortized over the term of the loan. The Company considers a loan impaired when, based upon current information and events, it is probable that it will be unable to collect all amounts due for both principal and interest according to the contractual terms of the loan agreement. Significant judgments are required in determining whether impairment has occurred. The Company performs an impairment analysis by comparing either the present value of expected future cash flows discounted at the loan’s effective interest rate, the loan’s observable current market price or the fair value of the underlying collateral to the net carrying value of the loan, which may result in an allowance and corresponding charge to loan loss.

Acquisition, Development and Construction Arrangements. The Company evaluates loans receivable where the Company participates in residual profits through loan provisions or other contracts to ascertain whether the Company has the same risks and rewards as an owner or a joint venture partner. Where the Company concludes that such arrangements are more appropriately treated as an investment in real estate and the Company expects to receive less than 50% of the residual profits, the Company reflects such investment as part of investments in and advances to non-consolidated entities. In these cases, the loan receivable is treated as preference capital in the hypothetical joint venture rather than a loan receivable and no interest income is recorded.

Derivative Financial Instruments. The Company accounts for its interest rate swap agreements in accordance with FASB ASC Topic 815, Derivatives and Hedging ("Topic 815"). In accordance with Topic 815, these agreements are carried on the balance sheet at their respective fair values, as an asset if fair value is positive, or as a liability if fair value is negative. The interest rate swap is designated as a cash flow hedge whereby the effective portion of the swap's change in fair value is reported as a component of other comprehensive income (loss); the ineffective portion, if any, is recognized in earnings as an increase or decrease to interest expense.

Cash and Cash Equivalents. The Company considers all highly liquid instruments with original maturities of three months or less from the date of purchase to be cash equivalents.

Restricted Cash. Restricted cash is comprised primarily of cash balances held in escrow with lenders.

Environmental Matters. Under various federal, state and local environmental laws, statutes, ordinances, rules and regulations, an owner of real property may be liable for the costs of removal or remediation of certain hazardous or

toxic substances at, on, in or under such property as well as certain other potential costs relating to hazardous or toxic substances. These liabilities may include government fines, penalties and damages for injuries to persons and adjacent property. Such laws often impose liability without regard to whether the owner knew of, or was responsible for, the presence or disposal of such substances. Although the Company's tenants are primarily responsible for any environmental damage and claims related to the leased premises, in the event of the bankruptcy or inability of the tenant of such premises to satisfy any obligations with respect to such environmental liability, the Company may be required to satisfy any such obligations, should they exist. In addition, the Company as the owner of such properties may be held directly liable for any such damages or claims irrespective of the provisions of any lease. As of September 30, 2010, the Company was not aware of any environmental matter relating to any of its assets that would have a material impact on the financial statements.

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Reclassifications. Certain amounts included in the 2009 financial statements have been reclassified to conform to the 2010 presentation.

Recently Issued Accounting Guidance. In July 2010, the FASB issued guidance that will significantly expand the disclosures about the credit quality of financing receivables and the allowance for credit losses. The disclosures as of the end of the reporting period (such as accounting policies, ending balances of allowance for credit losses and credit quality indicators) are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period (such as modifications and roll forward of allowance for credit losses) are effective for interim and annual reporting periods beginning on or after December 15, 2010. Management has determined that the guidance will not have a material impact on the Company's financial position, results of operations or cash flows.

(3) Earnings Per Share

The Company's non-vested share-based payment awards are considered participating securities, and as such, the Company is required to use the two-class method for the computation of basic and diluted earnings per share. Under the two-class computation method, net losses are not allocated to participating securities unless the holder of the security has a contractual obligation to share in the losses. The non-vested share-based payment awards are not allocated losses as the awards do not have a contractual obligation to share in losses of the Company.

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for the three and nine months ended September 30, 2010 and 2009:

	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
BASIC AND DILUTED				
Loss from continuing operations attributable to common shareholders	$ (1,290)	$ (3,243)	$ (36,244)	$ (158,833)
Income (loss) from discontinued operations attributable to common shareholders	1,348	(25,231)	(27,125)	(31,794)
Net income (loss) attributable to common shareholders	$ 58	$ (28,474)	$ (63,369)	$ (190,627)
Weighted average number of common shares outstanding	133,713,505	112,217,415	129,487,281	105,490,039
Income (loss) per common share:				
Loss from continuing operations	$ (0.01)	$ (0.03)	$ (0.28)	$ (1.51)
Income (loss) from discontinued operations	0.01	(0.22)	(0.21)	(0.30)
Net income (loss) attributable to common shareholders	$ 0.00	$ (0.25)	$ (0.49)	$ (1.81)

For per common share amounts all incremental shares are considered anti-dilutive for periods that have a loss from continuing operations attributable to common shareholders. In addition, other common share equivalents may be anti-dilutive in certain periods.

During the second quarter of 2009, 503,100 Series C Cumulative Convertible Preferred Shares were converted into 2,955,368 common shares. In accordance with GAAP, the difference between the fair value of the securities transferred over the fair value of the securities issuable pursuant to the original conversion terms constitutes a deemed dividend, even though the conversion is for equivalent fair values and is dilutive to the common shareholders. Accordingly, the deemed dividend has been deducted from net loss attributable to Lexington Realty Trust shareholders to arrive at net loss attributable to common shareholders for the nine months ended September 30, 2009.

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(4) Investments in Real Estate and Intangibles

In February 2010, the Company purchased an adjacent land parcel and parking lot in a sale/leaseback transaction with an existing tenant, Nevada Power Company, which leases a property owned by the Company in Las Vegas, Nevada. The purchase price was $3,275, a portion of which was financed with a $2,450 non-recourse mortgage note that matures in September 2014 and bears interest at 7.5%. In connection with the transaction, the Nevada Power Company's lease on the Company's existing property was extended from January 2014 to January 2029.

During the first quarter of 2009, the Company acquired the remainder interests in land in Long Beach, California in connection with a tenant's lease surrender obligations for an estimated fair value of approximately $2,500 and recorded it as non-operating income, of which $1,125 was attributable to a noncontrolling interest in the property.

(5) Sales of Real Estate and Discontinued Operations

During the nine months ended September 30, 2010, the Company sold nine properties to unrelated third parties for an aggregate gross disposition price of $112,027, which includes the assumption of $38,101 of non-recourse mortgage debt. The Company recognized an aggregate gain on sale of properties of $2,523 and debt satisfaction gains of $3,808 as a result of these sales during the nine months ended September 30, 2010. During the nine months ended September 30, 2009, the Company sold eight properties to unrelated third parties for an aggregate gross sales price of $87,565, which resulted in an aggregate gain of $6,280 and debt satisfaction gains, net of $4,607. As of September 30, 2010, the Company had no properties classified as held for sale. (See note 10).

The following presents the operating results for the properties sold and properties classified as held for sale for the applicable periods:

	Three Months ended September 30,		Nine Months ended September 30,	
	2010	2009	2010	2009
Total gross revenues	$ 433	$ 5,373	$ 4,621	$ 22,209
Pre-tax income (loss), including gains on sale	$ 1,081	$ (25,307)	$ (33,737)	$ (31,379)

In June 2009, the Company received gross proceeds of $4,750 in a sale-leaseback transaction of land in Palm Beach Gardens, Florida. The Company is leasing back the land for 30 years and has an option to purchase the land in June 2014 and June 2015. In accordance with GAAP, the Company has not recognized a gain on the transaction as the Company is considered to have continued involvement in the property due to the purchase option.

(6) Impairments and Loan Losses

The Company assesses on a regular basis whether there are any indicators that the value of any Company asset has become impaired. Potential indicators may include an increase in vacancy at a property, tenant reduction in utilization of a property and tenant financial instability. If an asset is determined to be impaired, the Company reduces the asset's carrying value to its estimated fair value. During the nine months ended September 30, 2010 and 2009, the Company recognized $55,067 and $40,363, respectively, of impairment charges and loan losses, including amounts in discontinued operations, relating to real estate assets and certain loan assets as follows:

- During the nine months ended September 30, 2010, the Company recognized aggregate impairment charges of $12,430 on four real estate assets, classified in continuing operations. The Company factored the possible disposition of these properties into its evaluation and determined that the current market prices for these assets were

below their carrying values, which were determined not to be recoverable. The real estate assets are non-core retail or vacant properties. These assets had an aggregate carrying value of $21,148 and were written down to their estimated fair value of $8,718.

- The Company recognized impairments of $38,713 and $38,787 during the nine months ended September 30, 2010 and 2009, respectively, on real estate assets that were sold or were anticipated to be sold below their carrying value.

- During the second quarter of 2010, the Company recorded a $3,756 loan loss on a loan receivable as the tenant supporting the collateral declared bankruptcy and announced liquidation proceedings. In addition, the Company recognized an other-than-temporary impairment of $168 on a bond investment.

- During the first quarter of 2009, the Company agreed to the discounted payoff of two loans receivable with an aggregate carrying value of $4,950. The Company wrote the loans receivable down to the aggregate agreed upon discounted payoff amount of $3,865, which approximated fair value, and recognized a loan loss of $1,085. In addition, the Company sold investments in debt securities for $9,451 during the three months ended September 30, 2009 and realized a loss of $491.

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The Company recorded aggregate other-than-temporary impairments of $68,213 on its investment in Lex-Win Concord LLC during the six months ended June 30, 2009, reducing the carrying value of the Company's investment to zero at June 30, 2009. In addition, the Company recorded an impairment charge of $6,480 on its investment in a non-consolidated hotel real estate joint venture acquired in the merger with Newkirk Realty Trust ("Newkirk") during the third quarter of 2009 due to the expiration of the net-lease on the hotel.

(7) Loans Receivable

As of September 30, 2010 and December 31, 2009, the Company's loans receivable, including accrued interest and net of origination fees and loan losses, are comprised primarily of first and second mortgage loans on real estate aggregating $93,409 and $60,567, respectively. The loans bear interest, including imputed interest, at rates ranging from 4.6% to 16.0% and mature at various dates between 2010 and 2022.

During the nine months ended September 30, 2010, the Company:

- funded a 15%, $13,640 mortgage loan to an entity which owns an office building in Schaumburg, Illinois, which matures January 15, 2012 but can be extended one additional year by the borrower for a 50 basis point fee. The property is net leased to Career Education Corporation from January 1, 2011 through December 31, 2022 for an average annual rent of $3,968. In addition, the Company is obligated to lend an additional $4,894 over the two-year term of the mortgage upon the occurrence of certain events. If the borrower exercises the one-year extension option and certain other events occur, the Company will become obligated to lend an additional $12,199 for tenant improvement costs; and

- made a $17,000 loan to entities which own five medical facilities, which are primarily subject to net leases. The loan is (i) guaranteed by a parent entity and principal, (ii) principally secured by either ownership pledges for, second mortgage liens or mortgage liens against the five medical facilities, (iii) matures in December 2011 and (iv) requires payments of interest only at a rate of 14% through February 2011 and 16% thereafter.

(8) Fair Value Measurements

The following table presents the Company's assets and liabilities from continuing operations measured at fair value on a recurring and non-recurring basis as of September 30, 2010, aggregated by the level in the fair value hierarchy within which those measurements fall:

Description	Balance September 30, 2010	Fair Value Measurements Using (Level 1)	(Level 2)	(Level 3)
Forward purchase equity asset	$ 24,434	$ --	$ 24,434	$ --
Interest rate swap liability	$ (6,107)	$ --	$ (6,107)	$ --
Impaired real estate assets*	$ 8,594	$ --	$ --	$ 8,594
Impaired loan asset *	$ 6,860	$ --	$ --	$ 6,860

*Represents a non-recurring fair value measurement. See note 6 regarding impairments and loan

losses.

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The following table presents the Company's assets and liabilities from continuing operations measured at fair value on a recurring and non-recurring basis as of December 31, 2009, aggregated by the level in the fair value hierarchy within which those measurements fall:

Description	Balance December 31, 2009	Fair Value Measurements Using (Level 1)	(Level 2)	(Level 3)
Forward purchase equity asset	$ 20,141	$ --	$ 20,141	$ --
Interest rate swap liability	$ (5,240)	$ --	$ (5,240)	$ --
Impaired real estate assets*	$ 36,658	$ --	$ --	$ 36,658

*Represents a non-recurring fair value measurement.

The table below sets forth the carrying amounts and estimated fair values of the Company's financial instruments as of September 30, 2010 and December 31, 2009.

	As of September 30, 2010		As of December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				