LEXINGTON REALTY TRUST
Form 10-Q
May 07, 2010

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 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 ý 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 o Accelerated filer ý Non-accelerated filer o Smaller Reporting Company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No ý

Indicate the number of shares outstanding of each of the registrant's classes of common shares, as of the latest practicable date: 133,751,912 common shares, par value $0.0001 per share on May 3, 2010.

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

	2010	2009
Assets:		
Real estate, at cost	$ 3,497,762	$ 3,552,806
Less: accumulated depreciation and amortization	554,746	537,406
	2,943,016	3,015,400
Intangible assets, net	240,884	267,161
Cash and cash equivalents	69,692	53,865
Restricted cash	23,746	21,519
Investment in and advances to non-consolidated entities	58,845	55,985
Deferred expenses, net	40,050	38,245
Notes receivable, net	87,478	60,567
Rent receivable – current	10,689	11,463
Rent receivable – deferred	15,651	12,529
Other assets	46,547	43,111
Total assets	$ 3,536,598	$ 3,579,845
Liabilities and Equity:		
Liabilities:		
Mortgages and notes payable	$ 1,693,453	$ 1,857,909
Exchangeable notes payable	60,940	85,709
Convertible notes payable	101,757	--
Trust preferred securities	129,120	129,120
Contract right payable	14,654	15,252
Dividends payable	19,583	18,412
Accounts payable and other liabilities	39,699	43,629
Accrued interest payable	9,572	11,068
Deferred revenue - below market leases, net	104,966	107,535
Prepaid rent	25,720	13,975
	2,199,464	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,	101,778	101,778
liquidation preference $104,760; 2,095,200 shares		

issued and outstanding		
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, 133,654,086 and 121,943,258 shares issued and outstanding in 2010 and 2009, respectively	13	12
Additional paid-in-capital	1,841,114	1,750,979
Accumulated distributions in excess of net income	(917,212))	(870,862))
Accumulated other comprehensive income (loss)	(338))	673
Total shareholders' equity	1,251,444	1,208,669
Noncontrolling interests	85,690	88,567
Total equity	1,337,134	1,297,236
Total liabilities and equity	$ 3,536,598	$ 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 months ended March 31, 2010 and 2009
(Unaudited and in thousands, except share and per share data)

	2010	2009
Gross revenues:		
Rental	$78,798	$83,236
Advisory and incentive fees	414	463
Tenant reimbursements	9,706	9,797
Total gross revenues	88,918	93,496
Expense applicable to revenues:		
Depreciation and amortization	(43,867)	(43,720)
Property operating	(20,477)	(19,927)
General and administrative	(5,991)	(6,612)
Non-operating income	2,229	4,116
Interest and amortization expense	(31,895)	(32,804)
Debt satisfaction gains (charges), net	(1,185)	6,411
Change in value of forward equity commitment	2,077	(8,633)
Impairment charges and loan loss reserves	(26,447)	(1,085)
Loss before provision for income taxes, equity in earnings (losses) of non-consolidated entities and discontinued operations	(36,638)	(8,758)
Provision for income taxes	(641)	(671)
Equity in earnings (losses) of non-consolidated entities	5,239	(47,124)
Loss from continuing operations	(32,040)	(56,553)
Discontinued operations:		
Income (loss) from discontinued operations	8	(797)
Provision for income taxes	--	(52)
Debt satisfaction gains	3,808	--
Gains on sales of properties	446	3,094
Impairment charges	(1,548)	(9,512)
Total discontinued operations	2,714	(7,267)
Net loss	(29,326)	(63,820)
Less net (income) loss attributable to noncontrolling interests	2,559	(1,128)
Net loss attributable to Lexington Realty Trust shareholders	(26,767)	(64,948)
Dividends attributable to preferred shares – Series B	(1,590)	(1,590)
Dividends attributable to preferred shares – Series C	(1,702)	(2,111)
Dividends attributable to preferred shares – Series D	(2,926)	(2,926)
Dividends attributable to non-vested common shares	(62)	(128)
Net loss attributable to common shareholders	$(33,047)	$(71,703)

Income (loss) per common share–basic and diluted:		
Loss from continuing operations	$(0.29)	$(0.65)
Income (loss) from discontinued operations	0.02	(0.07)
Net loss attributable to common shareholders	$(0.27)	$(0.72)
Weighted average common shares outstanding–basic and diluted	121,472,739	99,954,569
Amounts attributable to common shareholders:		
Loss from continuing operations	$(35,761)	$(64,511)
Income (loss) from discontinued operations	2,714	(7,192)
Net loss attributable to common shareholders	$ (33,047)	$(71,703)

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 months ended March 31, 2010 and 2009
(Unaudited and in thousands)

	2010		2009	
Net loss	$(29,326)	)	$(63,820)	)
Other comprehensive loss:				
Change in unrealized gain on foreign currency translation, net	(740	)	(165)	)
Change in unrealized loss on interest rate swap, net	(271)	)	(100)	)
Change in unrealized loss from non-consolidated entities, net	--		(197)	)
Other comprehensive loss	(1,011)	)	(462)	)
Comprehensive loss	(30,337)	)	(64,282)	)
Comprehensive (income) loss attributable to noncontrolling interests	2,559		(1,128	)
Comprehensive loss attributable to Lexington Realty Trust shareholders	$(27,778)	)	$(65,410)	)

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 STATEMENT OF CHANGES IN EQUITY
Three months ended March 31, 2010 and 2009
(Unaudited and in thousands, except share amounts)

Three Months ended March 31,2010		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-controllin Interests
Balance December 31, 2009	$1,297,236	$ 327,867	$ 12	$ 1,750,979	$ (870,862))	$673	$88,567
Contributions from noncontrolling interests	694	--	--	--	--	--	694
Redemption of noncontrolling OP units for common shares	--	--	--	2	--	--	(2)
Issuance of Convertible Notes	13,134	--	--	13,134	--	--	--
Issuance of common shares, net	77,000	--	1	76,999	--	--	--
Dividends/distributions	(20,593))	--	--	--	(19,583))	--	(1,010)
Comprehensive loss:							
Net loss	(29,326))	--	--	--	(26,767))	--	(2,559
Other comprehensive loss:							
Change in unrealized gain on foreign currency translation, net	(740)	--	--	--	--	(740)	--
Change in unrealized loss on interest rate swap, net	(271)	--	--	--	--	(271)	--
Other comprehensive loss	(1,011)						

Comprehensive loss	(30,337))						
Balance March 31, 2010	$1,337,134	$ 327,867	$ 13	$ 1,841,114	$ (917,212))	$(338)	$85,690

Three Months ended March 31, 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
Contributions from noncontrolling interests	126	--	--	--	---	---	126
Redemption of noncontrolling OP units for common shares	--	--	--	517	--	--	(517)
Issuance of common shares, net	1,071	--	--	1,071	--	--	--
Dividends/distributions	(10,874))	--	--	--	(8,446))	--	(2,428)
Comprehensive income (loss):							
Net income (loss)	(63,820)	--	--	--	(64,948)	--	1,128
Other comprehensive loss:							
Change in unrealized gain on foreign currency translation, net	(165)	--	--	--	--	(165)	--
Change in unrealized loss on interest rate swap, net	(100)	--	--	--	--	(100)	--
Change in unrealized loss from non-consolidated entities, net	(197)	--	--	--	--	(197)	--
Other comprehensive loss	(462)						

Comprehensive loss	(64,282)						
Balance March 31, 2009	$1,427,112	$ 352,306	$ 10	$ 1,640,128	$(642,525))	$(16,112)	$93,305

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
Three months ended March 31, 2010 and 2009
(Unaudited and in thousands)

	2010	2009
Net cash provided by operating activities:	$39,715	$43,696
Cash flows from investing activities:		
Investment in real estate, including intangible assets	(13,399)	(11,358)
Net proceeds from sale of properties	1,247	10,927
Principal payments received on notes receivable	1,707	1,317
Investment in notes receivable	(27,842)	--
Distributions from non-consolidated entities in excess of accumulated earnings	1,177	1,269
Investment in and advances to/from non-consolidated entities	--	4,816
Increase in deferred leasing costs	(1,898)	(1,253)
Change in escrow deposits and restricted cash	(2,227)	7,013
Net cash (used in) provided by investing activities	(41,235)	12,731
Cash flows from financing activities:		
Dividends to common and preferred shareholders	(18,412)	(24,681)
Repurchase of exchangeable notes	(25,493)	(14,830)
Proceeds from convertible notes	115,000	--
Principal amortization payments	(15,412)	(15,765)
Principal payments on debt, excluding normal amortization	(105,055)	(187,039)
Change in revolving credit facility borrowing, net	(7,000)	10,000
Proceeds from term loans	--	165,000
Increase in deferred financing costs	(4,496)	(4,423)
Proceeds of mortgages and notes payable	2,450	--
Swap termination costs	--	(366)
Contributions from noncontrolling interests	694	126
Cash distributions to noncontrolling interests	(1,010)	(2,428)
Receipts (payments) on forward equity commitment, net	368	(2,241)
Issuance of common shares, net	75,713	(562)
Net cash provided by (used in) financing activities	17,347	(77,209)
Change in cash and cash equivalents	15,827	(20,782)
Cash and cash equivalents, at beginning of period	53,865	67,798
Cash and cash equivalents, at end of period	$ 69,692	$47,016

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

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LEXINGTON REALTY TRUST AND CONSOLIDATED SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 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 March 31, 2010, the Company owned or had interests in approximately 200 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 from which it was previously precluded 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 Lexington Realty Advisors, Inc. (“LRA”), a wholly-owned TRS. As of March 31, 2010, the Company controlled three operating partnerships: (1) Lepercq Corporate Income Fund L.P. (“LCIF”), (2) Lepercq Corporate Income Fund II L.P. (“LCIF II”) and (3) Net 3 Acquisition L.P. (“Net 3”).

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, including LCIF, LCIF II, Net 3, LRA and Six Penn Center L.P. 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 accounting guidance.

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 generally accepted accounting principles ("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 which entities should be consolidated, the determination of impairment of long-lived assets, notes receivable and equity method investments, valuation and impairment of assets held by equity method investees, 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 generally accepted accounting principles 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 payments as a component of rental revenue in the period received, provided that there are no further Company obligations under the lease. All above market lease assets, below market lease liabilities and deferred rent assets or liabilities for terminated leases are charged against or credited to rental revenue in the period the lease is terminated. All other capitalized lease costs and lease intangibles are accelerated via amortization expense to the date of termination.

Impairment of Real Estate. The Company evaluates the carrying value of all tangible and intangible real estate assets held 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 reserves.

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 March 31, 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.

Newly Adopted Accounting Guidance. In June 2009, the FASB issued guidance related to the consolidation of variable interest entities. The guidance requires reporting entities to evaluate former qualified special purpose entities for consolidation, changes the approach to determining a VIE's primary beneficiary from a quantitative assessment to a qualitative assessment designed to identify a controlling financial interest, and increases the frequency of required reassessments to determine whether a company is the primary beneficiary of a VIE. It also clarifies, but does not significantly change, the characteristics that identify a VIE. The guidance was effective for periods beginning after November 15, 2009. The guidance did 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 shared-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 months ended March 31, 2010 and 2009:

	2010	2009
BASIC AND DILUTED		
Loss from continuing operations attributable to common shareholders	$ (35,761)	$(64,511)
Income (loss) from discontinued operations attributable to common shareholders	2,714	(7,192)
Net loss attributable to common shareholders	$ (33,047)	$ (71,703)
Weighted average number of common shares outstanding	121,472,739	99,954,569

Income (loss) per common share:		
Loss from continuing operations	$ (0.29)	$(0.65)
Income (loss) from discontinued operations	0.02	(0.07)
Net loss attributable to common shareholders	$ (0.27)	$(0.72)

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

(4) Investments in Real Estate and Intangibles

In February 2010, the Company purchased an adjacent land parcel and parking lot in a sales/leaseback transaction with an existing tenant, Nevada Power Company, which occupies 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, which 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 three months ended March 31, 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 three months ended March 31, 2010, the Company sold three properties to unrelated third parties for an aggregate gross disposition price of $39,902, which includes the assumption of $38,101 of non-recourse mortgage debt. The Company recognized an aggregate gain on sale of properties of $446 and debt satisfaction gains of $3,808 as a result of these sales during the three months ended March 31, 2010. During the three months ended March 31, 2009, the Company sold one property to an unrelated third party for a gross sales price of $11,386, which resulted in an aggregate gain of $3,094. As of March 31, 2010, the Company had no properties classified as held for sale.

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

	Three Months ended March 31,	
	2010	2009
Total gross	$ 602	$ 7,335

revenues		
Pre-tax income (loss), including gains on sale	$ 2,714	$ (7,215)

(6) Impairments and Loan Loss Reserves

The Company assesses on a regular basis whether there are any indicators that the value of Company assets have become impaired. If an asset is determined to be impaired, the Company reduces the asset's carrying value to its estimated fair value. The Company estimates the fair value of these assets by using several techniques such as income and market valuation which primarily rely on unobservable inputs such as estimated capitalization rates which are within Level 3 of the fair value hierarchy.

During the three months ended March 31, 2010 and 2009, the Company recognized $27,995 and $10,597, respectively, of impairment charges, including amounts in discontinued operations, relating to real estate assets and certain loan assets.

- During the first quarter of 2010, the Company recognized aggregate impairment charges of $26,447 on five real estate assets, classified in continuing operations, as a result of triggering events with respect to the properties. The five real estate assets are non-core retail, multi-tenant or vacant properties. The Company is exploring the possible disposition of these properties and determined that the current market price for these assets is below their carrying values. These assets had an aggregate carrying value of $44,650 and were written down to their estimated fair value of $18,203.

- The Company recognized impairments of $1,548 and $9,512 during the three months ended March 31, 2010 and 2009, respectively, on real estate assets that were sold or were anticipated to be disposed of below their carrying value.

- During the first quarter of 2009, the Company agreed to the discounted payoff of two notes receivable with an aggregate carrying value of $4,950. The Company wrote the notes receivable down to the aggregate agreed upon discounted payoff amount of $3,865, which approximated fair value and recognized a loan loss reserve of $1,085 during the three months ended March 31, 2009.

The Company recorded an other-than-temporary impairment of $29,093 on its investment in Lex-Win Concord LLC during the three months ended March 31, 2009. The Company recorded additional other-than-temporary impairments during the remainder of 2009 on its investment in Lex-Win Concord LLC, reducing the carrying value of the Company's investment to zero at June 30, 2009.

(7) Notes Receivable

As of March 31, 2010 and December 31, 2009, the Company's notes receivable, including accrued interest, are comprised primarily of first and second mortgage loans on real estate aggregating $87,478 and $60,567, respectively, bearing interest, including imputed interest, at rates ranging from 4.6% to 16.0% and maturing at various dates between 2011 and 2022.

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During the three months ended March 31, 2010, the Company:

- funded a 15%, $11,497 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 $7,038 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 ownership pledges for and second mortgage liens against the five medical facilities, (iii) matures in December 2011 and (iv) requires payments of interest only at a rate of 14% for the first year and 16% thereafter.

(8) Fair Value Measurements

The following table presents the Company's assets and liabilities measured at fair value on a recurring and non-recurring basis as of March 31, 2010, aggregated by the level in the fair value hierarchy within which those measurements fall:

Description	Balance March 31, 2010	Fair Value Measurements Using (Level 1)	(Level 2)	(Level 3)
Forward purchase equity asset	$ 21,850	$ --	$ 21,850	$ --
Interest rate swap liability	$ (5,511)	$ --	$ (5,511)	$ --
Impaired real estate assets*	$ 18,203	$ --	$ --	$ 18,203

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

The following table presents the Company's assets and liabilities 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 measurement.

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The Company has estimated the fair value of its other financial instruments at amounts which are based upon interpretation of available market information and valuation methodologies (including discounted cash flow analysis). The table below sets forth the carrying amounts and fair values of the Company's financial instruments as of March 31, 2010 and December 31, 2009.

	As of March 31, 2010		As of December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Notes Receivable	$ 87,478	$ 71,891	$ 60,567	$ 44,092
Liabilities				
Debt	$ 1,999,924	$ 1,701,093	$ 2,087,990	$ 1,748,617

Cash Equivalents, Restricted Cash, Accounts Receivable and Accounts Payable. The Company estimates that the fair value approximates carrying value due to the relatively short maturity of the instruments.

(9) Investment in Non-Consolidated Entities

Net Lease Strategic Assets Fund L.P. ("NLS"). NLS is a co-investment program with a subsidiary of Inland American Real Estate Trust, Inc. ("Inland"). NLS was established to acquire single-tenant net-lease specialty real estate in the United States. Inland and the Company own 85% and 15%, respectively, of NLS's common equity, and the Company owns 100% of NLS's preferred equity.

Inland and the Company are currently entitled to a return on/of their respective investments as follows: (1) Inland, 9% on its common equity ($220,590 in common equity), (2) the Company, 6.5% on its preferred equity ($162,487 in preferred equity), (3) the Company, 9% on its common equity ($38,928 in common equity), (4) return of the Company preferred equity ($162,487 in preferred equity), (5) return of Inland common equity ($220,590 in common equity) (6) return of the Company common equity ($38,928 in common equity) and (7) any remaining cash flow is allocated 65% to Inland and 35% to the Company as long as the Company is the general partner, if not, allocations are 85% to Inland and 15% to the Company.

In addition to the capital contributions described above, the Company and Inland committed to invest up to an additional $22,500 and $127,500, respectively, in NLS to acquire additional specialty single-tenant net-leased assets.

LRA has entered into a management agreement with NLS whereby LRA will receive (1) a management fee of 0.375% of the equity capital, (2) a property management fee of up to 3.0% of actual gross revenues from certain assets for which the landlord is obligated to provide property management services (contingent upon the recoverability of such fees from the tenant under the applicable lease) and (3) an acquisition fee of 0.5% of the gross purchase price of each acquired asset by NLS.

The following is summary historical cost basis selected balance sheet data as of March 31, 2010 and December 31, 2009 and statement of operations data for the three months ended March 31, 2010 and 2009 for NLS:

	3/31/10	12/31/09

Real estate, including intangibles, net	$ 669,978	$ 682,165
Cash, including restricted cash	9,169	10,586
Mortgages payable	306,539	312,273
Noncontrolling preferred interest	176,920	175,730
Partners' capital	193,142	200,610

	2010	2009
Total gross revenues	$ 15,536	$ 15,409
Depreciation and amortization	(9,635)	(9,785)
Interest expense	(4,775)	(4,909)
Other expenses, net	(799)	(802)
Net income (loss)	$ 327	$ (87)

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During the three months ended March 31, 2010 and 2009, the Company recognized $4,722 and ($1,673), respectively, of equity in income (losses) relating to NLS based upon the hypothetical liquidation book value method. The difference between the assets contributed to NLS and the fair value of the Company's initial equity investment in NLS is $94,723 and is accreted into income over the estimated useful lives of NLS's assets. During each of the three months ended March 31, 2010 and 2009, the Company recorded earnings of $909 related to this difference, which is included in equity in earnings (losses) of non-consolidated entities on the accompanying Condensed Consolidated Statements of Operations.

Concord Debt Holdings LLC ("Concord") and Lex-Win Concord LLC ("Lex-Win Concord"). On December 31, 2006 in connection with the merger with Newkirk Realty Trust, Inc ("Newkirk"), the Company acquired a 50% interest in a co-investment program, Concord, which owns bonds and loans secured, directly and indirectly, by real estate assets. The other 50% interest in Concord was held by WRT Realty L.P. ("Winthrop"). The Company and Winthrop each contributed its interest in Concord to Lex-Win Concord.

The following is summary balance sheet data as of March 31, 2010 and December 31, 2009 and statement of operations data for the three months ended March 31, 2010 and 2009 for Lex-Win Concord:

	3/31/10	12/31/09
Assets	$ 570,031	$ 634,508
Liabilities	509,749	569,894
Noncontrolling preferred interest	8,192	5,720
Members' capital	52,090	58,894

	2010	2009
Income	$7,109	$12,529
Other-than-temporary impairment losses, loan losses and reserves	(8,774)	(40,289)
Interest and other expenses	(5,489)	(5,725)
Net loss	(7,154)	(33,485)
Net income attributable to noncontrolling interests	(2,475)	(1,877)
Net loss attributable to members	$(9,629)	$(35,362)

Unless they are designated as held for sale, Concord's loan assets are carried at cost, net of unamortized loan origination costs and fees, repayments and unfunded commitments unless such loan is deemed to be other-than-temporarily impaired. Concord's loan assets that are designated as held for sale are carried at the lower of cost or fair value. Concord's bonds are treated as available for sale securities and, accordingly, are marked-to-estimated fair value on a quarterly basis based on valuations performed by Concord's management.

During the first quarter of 2009, the Company recorded an other-than-temporary impairment of $29,093 on its investment in Lex-Win Concord and ultimately reduced its investment to zero as of June 30, 2009, as it determined that the fair value of its investment was below its carrying value and the decline was determined to be other-than-temporary. Concord incurred additional losses during 2009 and the first quarter of 2010, of which the Company's share is $15,402. The Company has not recorded these losses and has suspended them as the Company does not have any future obligation or the intent to fund the future operations of Concord.

Due to the continued decline in value of Concord's assets and resulting insufficient equity within Concord to finance its activities, Lex-Win Concord's management determined that Concord, and by extension, Lex-Win Concord, are VIEs. The Company's management performed an analysis and concurred with the assessment; however, the Company determined that it is not the primary beneficiary of these VIEs. The operations of the co-investment program are not controlled by the Company, and other than a non-recourse carve-out guaranty (for "bad boy" acts), the Company has not guaranteed any obligations of Concord. In addition, the Company has no obligation to fund the operations of Concord, and it does not plan to fund future operations of Concord. As a result, the Company will continue to account for the investment under the suspended equity method.

(10) Mortgages and Notes Payable

During the first quarter of 2010, the Company issued $115,000 aggregate principal amount of 6.00% Convertible Guaranteed Notes. The notes pay interest semi-annually in arrears and mature on January 15, 2030. The holders of the notes may require the Company to repurchase their notes on January 15, 2017, January 15, 2020 and January 15, 2025 for cash equal to 100% of the notes to be repurchased, plus any accrued and unpaid interest. The Company may not redeem any notes prior to January 15, 2017, except to preserve its REIT status. The notes have an initial conversion rate of 141.1383 common shares per $1,000 principal amount of the notes, representing a conversion price of approximately $7.09 per common share. The initial conversion rate is subject to adjustment under certain circumstances. The notes are convertible by the holders under certain circumstances for cash, common shares or a combination of cash and common shares at the Company's election. The notes are convertible prior to the close of business on the second business day immediately preceding the stated maturity date, at any time beginning on January 15, 2029 and also upon the occurrence of specified events. The notes had an outstanding balance of $101,757, net of a discount of $13,243 as of March 31, 2010. The notes had an initial aggregate discount of $13,566 which is being amortized as additional interest expense through January 2017. Coupon interest expense on the notes was $1,233 for the three months ended March 31, 2010 and discount amortization on the notes was $323 for the three months ended March 31, 2010. The notes had an effective interest rate of 8.0% for the three months ended March 31, 2010.

On February 13, 2009, the Company refinanced its (1) $200,000 unsecured revolving credit facility, which had $25,000 outstanding and was scheduled to expire in June 2009, and (2) $225,000 secured term loan, which had $174,280 outstanding and was scheduled to mature in 2009, with a secured credit facility consisting of a $165,000 term loan and an $85,000 revolving loan with KeyBank N.A. ("KeyBank"), as agent. The secured facility bears interest at 285 basis points over LIBOR and matures in February 2011, but can be extended to February 2012 at the Company's option. With the consent of the lenders, the Company can increase the size of (1) the term loan by $135,000 and (2) the revolving loan by $115,000 by adding properties to the borrowing base. Since inception, the Company increased the availability under the revolving loan by $65,000, by admitting additional lenders to the bank group, thus increasing the total facility to $315,000. The secured credit facility is secured by ownership interest pledges and guarantees by certain of the Company's subsidiaries that in the aggregate own interests in a borrowing base consisting of 77 properties. The borrowing availability of the facility is based upon the net operating income of the properties comprising the borrowing base as defined in the facility. As of March 31, 2010, the available additional borrowing under the facility was $150,000 less outstanding letters of credit of $7,483. As of March 31, 2010, $90,000 was outstanding under the secured term loan and no amounts were outstanding under the revolving loan. In connection with the refinancing and the subsequent increase in the availability under the facility, the Company incurred $585 and $4,397 in financing costs during the three months ended March 31, 2010 and 2009, respectively, and recognized $247 in debt satisfaction charges during the three months ended March 31, 2009. The secured facility is subject to financial covenants, which the Company was in compliance with at March 31, 2010.

The Company has $25,000 and $35,723 secured term loans with KeyBank. The loans are interest only at LIBOR plus 60 basis points and mature in 2013. These secured term loans contain financial covenants, which the Company was in compliance with as of March 31, 2010. Pursuant to the secured term loan agreements, the Company simultaneously entered into an interest-rate swap agreement with KeyBank to swap the LIBOR rate on the loans for a fixed rate of 4.9196% through March 18, 2013, and the Company assumed a liability for the fair value of the swap at inception of approximately $5,696 ($5,511 at March 31, 2010). The debt is presented net of a discount of $5,696 ($2,927 at March 31, 2010). The discount is being amortized as additional interest expense over the term of the loans.

During 2007, the Company issued an aggregate $450,000 of 5.45% Exchangeable Guaranteed Notes due in 2027. These notes can be put to the Company commencing in 2012 and every five years thereafter through maturity. The notes are exchangeable by the holders into common shares at a current price of $19.49 per share, subject to adjustment upon certain events, including increases in the Company's rate of dividends above a certain threshold and the issuance of stock dividends. Upon exchange, the holders of the notes would receive (1) cash equal to the principal amount of the note and (2) to the extent the conversion value exceeds the principal amount of the note, either cash or common shares at the Company's option. The notes had an outstanding balance of $60,940 and $85,709, net of a discount of $1,210 and $1,941, as of March 31, 2010 and December 31, 2009, respectively. The initial discount of $23,693 is being amortized as additional interest expense through January 2012, the first put date of the notes. Coupon interest expense on the notes was $973 and $2,706, respectively, for the three months ended March 31, 2010 and 2009, and the discount amortization on the notes was $191 and $530, respectively, for the three months ended March 31, 2010 and 2009. The notes had an effective interest rate of 7.1% and 7.0% for the three months ended March 31, 2010 and 2009, respectively. During the three months ended March 31, 2010 and 2009, the Company repurchased $25,500 and $22,500, respectively, original principal amount of the notes for cash payments of $25,493 and $14,830, respectively. This resulted in gains (charges) on debt extinguishment of ($760) and $6,658, respectively, including write-offs of $768 and $1,012, respectively, of the debt discount and deferred financing costs. As of March 31, 2010, $62,150 original principal amount of the notes was outstanding.

During the three months ended March 31, 2010, in connection with the satisfaction of mortgage notes, the Company incurred debt satisfaction charges of $425.

(11) Derivatives and Hedging Activities

Risk Management Objective of Using Derivatives. The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its debt funding and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to the Company's investments and borrowings.

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Cash Flow Hedges of Interest Rate Risk. The Company's objectives in using interest rate derivatives are to add stability to interest expense, to manage its exposure to interest rate movements and therefore manage its cash outflows as it relates to the underlying debt instruments. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy relating to certain of its variable rate debt instruments. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income (loss) and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings.

The Company has designated the interest-rate swap agreement with KeyBank as a cash flow hedge of the risk of variability attributable to changes in the LIBOR swap rate on $35,723 and $25,000 of LIBOR-indexed variable-rate secured term loans. Accordingly, changes in the fair value of the swap are recorded in other comprehensive income (loss) and reclassified to earnings as interest becomes receivable or payable. Because the fair value of the swap at inception of the hedge was not zero, the Company cannot assume that there will be no ineffectiveness in the hedging relationship. However, the Company expects the hedging relationship to be highly effective and will measure and report any ineffectiveness in earnings.

The interest rate swap liability had a fair value of $5,511 and $5,240 at March 31, 2010 and December 31, 2009, respectively. Although the Company has determined that the majority of the inputs used to value its interest rate swap liability fall within Level 2 of the fair value hierarchy, such as observable market interest rate curves, the credit valuation associated with the interest rate swap liability utilizes Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of March 31, 2010 and December 31, 2009, the Company determined that the credit valuation adjustment relative to the overall interest rate swap liability is not significant. As a result, the entire interest rate swap liability has been classified in Level 2 of the fair value hierarchy.

Amounts reported in accumulated other comprehensive income (loss) related to derivatives will be reclassified to interest expense as interest payments are made on these secured term loans. During the next 12 months, the Company estimates that an additional $1,683 will be reclassified as an increase to interest expense.

As of March 31, 2010, the Company had the following outstanding interest rate derivative that was designated as a cash flow hedge of interest rate risk:

Interest Rate Derivative	Number of Instruments	Notional
Interest Rate Swap	1	$60,723

Derivatives Not Designated as Hedges

The Company does not use derivatives for trading or speculative purposes. As of March 31, 2010, the Company had the following outstanding derivative that was not designated as a hedge in a qualifying hedging relationship:

Product	Number of Instruments	Notional
Forward purchase equity commitment	1	$25,875

During 2008, the Company entered into a forward purchase equity commitment with a financial institution to finance the purchase of 3,500,000 common shares of the Company at $5.60 per share, under the Company's common share repurchase plan as approved by the Board of Trustees. The Company has prepaid $15,576 with the remainder to be paid in October 2011 through (i) physical settlement or (ii) net cash settlement, net share settlement or a combination of both, at the Company's option. The Company agreed to make floating payments during the term of the forward purchase at LIBOR plus 250 basis points per annum, and the Company retains the cash dividends paid on the common shares; however, the counterparty retains any stock dividends as additional collateral. In addition, the Company may be required to make additional prepayments pursuant to the forward purchase equity commitment. The Company's third-party consultant determined the fair value of the equity commitment to be $21,850 and $20,141 at March 31, 2010 and December 31, 2009, respectively, and the Company recognized earnings (losses) during the three months ended March 31, 2010 and March 31, 2009 of $2,077 and ($8,633), respectively, primarily relating to the increase (decrease) in the fair value of the common shares held as collateral. The Company has determined that the forward purchase equity asset should fall within Level 2 of the fair value hierarchy as its value is based not only on the value of the Company's common share price but also on other observable inputs.

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the Condensed Consolidated Balance Sheets as of March 31, 2010 and December 31, 2009.

	As of March 31, 2010	As of December 31, 2009