

LEXINGTON REALTY TRUST

Form 10-Q

November 10, 2008

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

(Mark One)

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2008.**

**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

13-3717318

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

One Penn Plaza Suite 4015
New York, NY

10119

(Address of principal executive offices)

(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 No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a 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 No

Indicate the number of shares outstanding of each of the registrant's classes of common shares, as of the latest practicable date: 93,922,557 common shares, par value \$0.0001 per share on November 3, 2008.

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PART 1. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
LEXINGTON REALTY TRUST AND CONSOLIDATED SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

September 30, 2008 and December 31, 2007

(Unaudited and in thousands, except share and per share data)

	September 30, 2008	December 31, 2007
Assets:		
Real estate, at cost	\$ 3,836,321	\$ 4,109,097
Less: accumulated depreciation and amortization	439,531	379,831
	3,396,790	3,729,266
Properties held for sale discontinued operations	8,408	150,907
Intangible assets, net	375,212	516,698
Cash and cash equivalents	108,039	412,106
Restricted cash	27,481	41,026
Investment in and advances to non-consolidated entities	205,021	226,476
Deferred expenses, net	37,329	42,040
Notes receivable	68,631	69,775
Rent receivable current	16,630	25,289
Rent receivable deferred	16,967	15,303
Other assets	33,824	36,277
	\$ 4,294,332	\$ 5,265,163
Liabilities and Shareholders Equity:		
Liabilities:		
Mortgages and notes payable	\$ 2,052,955	\$ 2,312,422
Exchangeable notes payable	299,500	450,000
Trust preferred securities	129,120	200,000
Contract rights payable	14,435	13,444
Dividends payable	28,297	158,168
Liabilities discontinued operations	902	119,093
Accounts payable and other liabilities	33,974	49,442
Accrued interest payable	10,822	23,507
Deferred revenue below market leases, net	155,134	217,389
Prepaid rent	20,352	16,764
	2,745,491	3,560,229
Minority interests	624,839	765,863
	3,370,330	4,326,092
Commitments and contingencies (notes 6, 7, 12, 13 and 15)		
Shareholders equity:		

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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 \$129,915 and \$155,000, respectively; 2,598,300 and 3,100,000 shares issued and outstanding in 2008 and 2007, respectively	126,217	150,589
Series D Cumulative Redeemable Preferred, liquidation preference \$155,000; 6,200,000 shares issued and outstanding	149,774	149,774
Special Voting Preferred Share, par value \$0.0001 per share; 1 share authorized, issued and outstanding		
Common shares, par value \$0.0001 per share; authorized 400,000,000 shares, 65,666,569 and 61,064,334 shares issued and outstanding in 2008 and 2007, respectively	6	6
Additional paid-in-capital	1,097,176	1,033,332
Accumulated distributions in excess of net income	(525,788)	(468,167)
Accumulated other comprehensive income (loss)	302	(2,778)
Total shareholders' equity	924,002	939,071
	\$ 4,294,332	\$ 5,265,163

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

Table of Contents**LEXINGTON REALTY TRUST AND CONSOLIDATED SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

Three and nine months ended September 30, 2008 and 2007

(Unaudited and in thousands, except share and per share data)

	Three Months ended September 30,		Nine Months ended September 30,	
	2008	2007	2008	2007
Gross revenues:				
Rental	\$ 94,146	\$ 105,974	\$ 308,382	\$ 269,803
Advisory and incentive fees	396	239	1,072	12,182
Tenant reimbursements	10,927	10,057	31,178	22,114
Total gross revenues	105,469	116,270	340,632	304,099
Expense applicable to revenues:				
Depreciation and amortization	(51,197)	(63,843)	(191,596)	(164,785)
Property operating	(21,733)	(17,921)	(60,804)	(41,982)
General and administrative	(7,117)	(7,530)	(25,468)	(28,673)
Non-operating income	1,802	2,633	22,599	7,502
Interest and amortization expense	(37,279)	(48,129)	(120,519)	(114,747)
Debt satisfaction gains, net	2,309		39,020	
Gains on sale-affiliates			31,806	
Income (loss) before provision for income taxes, minority interests, equity in earnings (losses) of non-consolidated entities and discontinued operations	(7,746)	(18,520)	35,670	(38,586)
Provision for income taxes	(662)	(369)	(2,636)	(2,547)
Minority interests share of (income) losses	2,823	3,336	5,372	(3,546)
Equity in earnings (losses) of non-consolidated entities	(1,525)	4,054	(23,171)	45,951
Income (loss) from continuing operations	(7,110)	(11,499)	15,235	1,272
Discontinued operations:				
Income from discontinued operations	26	8,441	1,628	25,720
Provision for income taxes	(181)	(44)	(330)	(2,721)
Debt satisfaction charges	(120)	(3,596)	(433)	(3,685)
Gains on sales of properties	7,374	26,980	11,986	39,808
Impairment charges	(1,063)		(3,757)	
Minority interests share of income	(2,643)	(5,819)	(4,509)	(14,777)
Total discontinued operations	3,393	25,962	4,585	44,345
Net income (loss)	(3,717)	14,463	19,820	45,617
Dividends attributable to preferred shares Series B	(1,590)	(1,590)	(4,770)	(4,770)
Dividends attributable to preferred shares Series C	(2,110)	(2,519)	(6,740)	(7,556)

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Dividends attributable to preferred shares				
Series D	(2,926)	(2,925)	(8,777)	(7,372)
Redemption discount Series C			5,678	
Net income (loss) allocable to common shareholders	\$ (10,343)	\$ 7,429	\$ 5,211	\$ 25,919
Income (loss) per common share basic:				
Income (loss) from continuing operations, after preferred dividends	\$ (0.21)	\$ (0.29)	\$ 0.01	\$ (0.28)
Income from discontinued operations	0.05	0.41	0.07	0.67
Net income (loss) allocable to common shareholders	\$ (0.16)	\$ 0.12	\$ 0.08	\$ 0.39
Weighted average common shares outstanding basic	64,433,457	63,458,167	61,485,277	65,735,321
Income (loss) per common share diluted:				
Income (loss) from continuing operations, after preferred dividends	\$ (0.21)	\$ (0.29)	\$ (0.14)	\$ (0.28)
Income from discontinued operations	0.05	0.41	0.07	0.67
Net income (loss) allocable to common shareholders	\$ (0.16)	\$ 0.12	\$ (0.07)	\$ 0.39
Weighted average common shares outstanding diluted	64,433,457	63,458,167	101,789,804	65,735,321

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, 2008 and 2007

(Unaudited and in thousands)

	Three Months ended September 30,		Nine Months ended September 30,	
	2008	2007	2008	2007
Net income (loss)	\$ (3,717)	\$ 14,463	\$ 19,820	\$ 45,617
Other comprehensive income (loss):				
Change in unrealized gain (loss) in marketable equity securities		(1,140)	107	(1,661)
Change in unrealized gain (loss) on foreign currency translation	(299)	249	3	290
Change in unrealized gain (loss) on interest rate swap, net of minority interest share	(395)		900	(357)
Change in unrealized loss from non-consolidated entities, net of minority interest share	(431)	(2,443)	(3,424)	(2,443)
Less reclassification adjustment from losses included in net income (loss)			5,494	357
Other comprehensive income (loss)	(1,125)	(3,334)	3,080	(3,814)
Comprehensive income (loss)	\$ (4,842)	\$ 11,129	\$ 22,900	\$ 41,803

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

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

Nine months ended September 30, 2008 and 2007

(Unaudited and in thousands)

	2008	2007
Net cash provided by operating activities:	\$ 187,412	\$ 235,893
Cash flows from investing activities:		
Acquisition of interest in certain non-consolidated entities		(366,614)
Investment in real estate, including intangibles	(83,345)	(140,559)
Acquisitions of additional interests in LSAC		(24,199)
Net proceeds from sale of properties affiliates	95,576	
Purchase of minority interests	(5,311)	
Net proceeds from sale/transfer of properties	189,476	225,915
Proceeds from the sale of marketable equity securities	2,506	27,698
Real estate deposits	223	(722)
Principal payments received on loans receivable	1,480	8,429
Issuance of loans receivable	(1,000)	
Distributions from non-consolidated entities in excess of accumulated earnings	25,090	5,032
Investment in and advances to/from non-consolidated entities	(12,953)	(71,308)
Investment in marketable equity securities		(723)
Increase in deferred leasing costs	(10,142)	(3,823)
(Increase) decrease in escrow deposits	(849)	24,455
Net cash provided by (used in) investing activities	200,751	(316,419)
Cash flows from financing activities:		
Dividends to common and preferred shareholders	(213,010)	(106,374)
Repurchase of exchangeable notes	(117,758)	
Repurchase of trust preferred securities	(44,561)	
Principal payments on debt, excluding normal amortization	(205,215)	(650,202)
Dividend reinvestment plan proceeds		5,652
Principal amortization payments	(56,298)	(63,553)
Proceeds of mortgages and notes payable		246,965
Proceeds from term loans	70,000	225,000
Proceeds from trust preferred notes		200,000
Proceeds from exchangeable notes		450,000
Increase in deferred financing costs	(2,851)	(18,591)
Swap termination costs	(205)	
Contributions from minority partners		79
Cash distributions to minority partners	(145,185)	(67,522)
Proceeds from the sale of common and preferred shares, net	47,120	149,898
Repurchase of common and preferred shares	(23,792)	(143,709)
Partnership units repurchased	(475)	(3,602)

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Net cash (used in) provided by financing activities	(692,230)	224,041
Cash acquired in co-investment program acquisition		20,867
Cash associated with sale of interest in entity		(1,442)
Change in cash and cash equivalents	(304,067)	162,940
Cash and cash equivalents, at beginning of period	412,106	97,547
Cash and cash equivalents, at end of period	\$ 108,039	\$ 260,487

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**

September 30, 2008 and 2007

(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 and provides investment advisory and asset management services to investors in the net lease area. As of September 30, 2008, the Company owned or had interests in approximately 240 consolidated properties in 42 states and the Netherlands. The real properties owned by the Company are generally subject to net leases to tenants, which are generally characterized as leases in which the tenant pays all or substantially all of the cost and cost increases for real estate taxes, capital expenditures, 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 through (1) one of four operating partnerships in which the Company is the sole unit holder of the general partner and the sole unit holder of a limited partner that holds a majority of the limited partnership interests (OP Units): The Lexington Master Limited Partnership (MLP), Lepercq Corporate Income Fund L.P. (LCIF), Lepercq Corporate Income Fund II L.P. (LCIF II), and Net 3 Acquisition L.P. (Net 3), and (2) Lexington Realty Advisors, Inc. (LRA), a wholly-owned TRS.

During the nine months ended September 30, 2008, the Company repurchased approximately 1.2 million common shares/OP Units at an average price of approximately \$14.51 per common share/OP Unit aggregating \$16.7 million, in the open market and through private transactions with third parties. As of September 30, 2008, approximately 4.6 million common shares/OP Units were eligible for repurchase under the current authorization adopted by the Company's Board of Trustees.

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 on February 29, 2008 with the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

(2) **Summary of Significant Accounting Policies**

Basis of Presentation and Consolidation. The Company's unaudited 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, MLP, LRA and Six Penn Center L.P. Lexington Contributions, Inc. (LCI) and Lexington Strategic Asset Corp. (LSAC), each a formerly majority owned TRS,

were merged with and into the Company as of March 25, 2008 and June 30, 2007, respectively.

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Recently Issued Accounting Standards. In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, as amended (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. The provisions of SFAS 157 were effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years, except for those relating to non-financial assets and liabilities, which are deferred for one additional year, and a scope exception for purposes of fair value measurements affecting lease classification or measurement under SFAS 13 and related standards. The adoption of the effective portions of this statement did not have a material impact on the Company's financial position, results of operations or cash flows. The Company is evaluating the effect of implementing this statement as it relates to non-financial assets and liabilities, although the statement does not require any new fair value measurements or remeasurements of previously reported fair values.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 (SFAS 159). SFAS 159 permits entities to choose to measure many financial assets and liabilities and certain other items at fair value. An enterprise will report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The fair value option may be applied on an instrument-by-instrument basis, with several exceptions, such as investments accounted for by the equity method, and once elected, the option is irrevocable unless a new election date occurs. The fair value option can be applied only to entire instruments and not to portions thereof. SFAS 159 was effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. The Company did not elect to adopt the optional fair value provisions of this pronouncement and thus it did not have an impact on the Company's consolidated financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 141R (Revised 2007), Business Combinations (SFAS 141R). SFAS 141R requires most identifiable assets, liabilities, noncontrolling interests, and goodwill acquired in a business combination to be recorded at full fair value . SFAS 141R is effective for acquisitions in periods beginning on or after December 15, 2008.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements- an amendment of ARB 51 (SFAS 160). SFAS 160 will require noncontrolling interests (previously referred to as minority interests) to be treated as a separate component of equity, not as a liability or other item outside of permanent equity. SFAS 160 is effective for periods beginning on or after December 15, 2008. The adoption of this statement will result in the minority interest currently classified in the mezzanine section of the balance sheet to be reclassified as a component of shareholders' equity, and minority interests' share of income or loss will no longer be recorded in the statement of operations.

In December 2007, the FASB ratified EITF consensus on EITF 07-06, Accounting for the Sale of Real Estate Subject to the Requirements of FASB Statement No. 66, Accounting for Sales of Real Estate, When the Agreement Includes a Buy-Sell Clause (EITF 07-06). EITF 07-06 clarifies that a buy-sell clause in a sale of real estate that otherwise qualifies for partial sale accounting does not by itself constitute a form of continuing involvement that would preclude partial sale accounting under SFAS No. 66. EITF 07-06 was effective for fiscal years beginning after December 15, 2007. The adoption of EITF 07-06 did not have a material impact on the Company's financial position, results of operations or cash flows.

In June 2008, the FASB issued FSP EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities (FSP 03-6-1). FSP 03-6-1 requires unvested share based payment awards that contain nonforfeitable rights to dividends or dividend equivalents to be treated as participating securities as defined in EITF Issue No. 03-6, Participating Securities and the Two-Class Method under FASB Statement No. 128, and, therefore, included in the earnings allocation in computing earnings per

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share under the two-class method described in FASB Statement No. 128, Earnings per Share. FSP 03-06-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. Management is currently determining the impact the adoption of FSP 03-6-1 will have on the Company's financial statements.

In June 2007, the Securities and Exchange staff announced revisions to EITF Topic D-98 related to the release of SFAS 159. The Securities and Exchange Commission announced that it will no longer accept liability classification

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for financial instruments that meet the conditions for temporary equity classification under ASR 268, Presentation in Financial Statements of Redeemable Preferred Stocks and EITF Topic No. D-98. As a consequence, the fair value option under SFAS 159 may not be applied to any financial instrument (or host contract) that qualifies as temporary equity. This is effective for all instruments that are entered into, modified, or otherwise subject to a remeasurement event in the first fiscal quarter beginning after September 15, 2007. As the Company did not adopt the fair value provisions of SFAS 159, the adoption of this announcement did not have a material impact on the Company's financial position, results of operations or cash flows.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities- an amendment of SFAS No.133 (SFAS 161). SFAS 161, which amends SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, requires companies with derivative instruments to disclose information about how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133, and how derivative instruments and related hedged items affect a company's financial position, financial performance and cash flows. The required disclosures include the fair value of derivative instruments and their gains or losses in tabular format, information about credit-risk-related contingent features in derivative agreements, counterparty, credit risk, and the company's strategies and objectives for using derivative instruments. SFAS 161 is effective prospectively for periods beginning on or after November 15, 2008. The adoption of this statement is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

In May 2008, the FASB issued FSP APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement) (FSP 14-1). FSP 14-1 requires issuers of convertible debt that may be settled wholly or partly in cash to account for the debt and equity components separately. FSP 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods. Management is currently determining the impact the adoption of FSP 14-1 will have on the Company's financial statements.

Use of Estimates. Management has made a number of 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 unaudited condensed consolidated financial statements in conformity with U.S. generally accepted accounting principles. 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 impairment of long-lived assets 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 from those estimates.

Revenue Recognition. The Company recognizes revenue in accordance with Statement of Financial Accounting Standards No. 13, Accounting for Leases, as amended (SFAS 13). SFAS 13 requires that revenue be recognized 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 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, Loans Receivable and Equity-Method Investments. The Company evaluates the carrying value of all tangible and intangible assets held, including its loans receivable and its investments in non-consolidated entities (such as Lex-Win Concord, LLC), when a triggering event under Statement of Financial Accounting

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Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, as amended (SFAS 144) has occurred to determine if an impairment has occurred which would require the recognition of a loss. The evaluation includes estimating and reviewing anticipated future cash flows to be derived from the asset. However, estimating future cash flows is highly subjective and such estimates could differ materially from actual results.

Derivative Financial Instruments. The Company accounts for its interest rate swap agreements in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended (SFAS 133). In accordance with SFAS 133, 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 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 and amounts deposited with qualified intermediaries to complete potential tax-free exchanges.

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 and 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. 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, 2008, the Company was not aware of any environmental matter relating to any of its assets that could have a material impact on the financial statements.

Reclassifications. Certain amounts included in the 2007 financial statements have been reclassified to conform to the 2008 presentation.

Table of Contents(3) Earnings per Share

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, 2008 and 2007:

	Three Months ended September 30,		Nine Months ended September 30,	
	2008	2007	2008	2007
BASIC				
Income (loss) from continuing operations	\$ (7,110)	\$ (11,499)	\$ 15,235	\$ 1,272
Less preferred dividends	(6,626)	(7,034)	(14,609)	(19,698)
Income (loss) allocable to common shareholders from continuing operations	(13,736)	(18,533)	626	(18,426)
Total income from discontinued operations	3,393	25,962	4,585	44,345