LEXINGTON REALTY TRUST
Form 10-K
March 02, 2009

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

# FORM 10-K

(Mark One)

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2008

or

o 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<br>(State or other jurisdiction of incorporation or organization) | 13-3717318<br>(I.R.S. Employer Identification No.) |
| One Penn Plaza, Suite 4015<br>New York, NY<br>(Address of principal executive offices) | 10119-4015<br>(Zip Code) |

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

Securities registered pursuant to Section 12(b) of the Act:

| Title of Each Class | Name of Each Exchange on which Registered |
|---|---|
| Shares of beneficial interests, par value $0.0001, classified as Common Stock | New York Stock Exchange |
| 8.05% Series B Cumulative Redeemable Preferred Stock, par value $0.0001 | New York Stock Exchange |
| 6.50% Series C Cumulative Convertible Preferred Stock, par value $0.0001 | New York Stock Exchange |
| 7.55% Series D Cumulative Redeemable Preferred Stock, par value $0.0001 | New York Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No þ.

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ.

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 þ No o.
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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 definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ 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 Act). Yes ¨ No þ.

The aggregate market value of the voting shares held by non-affiliates of the Registrant as of June 30, 2008, which was the last business day of the Registrant's most recently completed second fiscal quarter was $846,151,259 based on the closing price of common shares as of that date, which was $13.63 per share.

Number of common shares outstanding as of February 23, 2009 was 100,641,638.

Certain information contained in the Definitive Proxy Statement for Registrant's Annual Meeting of Shareholders, to be held on May 19, 2009 is incorporated by reference in this Annual Report on Form 10-K in response to Part III, Item 10, 11, 12, 13 and 14.

TABLE OF CONTENTS


| Item of Form 10-K | Description | Page |
|---|---|---|
| | PART I | |
| 1 | Business | 1 |
| 1A. | Risk Factors | 9 |
| 1B. | Unresolved Staff Comments | 19 |
| 2. | Properties | 20 |
| 3. | Legal Proceedings | 32 |
| 4. | Submission of Matters to a Vote of Security Holders | 32 |
| | PART II | |
| 5. | Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities | 34 |
| 6. | Selected Financial Data | 37 |
| 7. | Management's Discussion and Analysis of Financial Condition and Results of Operations | 37 |
| 7A. | Quantitative and Qualitative Disclosures about Market Risk | 58 |
| 8. | Financial Statements and Supplementary Data | 60 |
| 9. | Changes in and Disagreements with Accountants on Accounting and Financial Disclosure | 101 |
| 9A. | Controls and Procedures | 101 |
| 9B. | Other Information | 101 |
| | PART III | |
| 10. | Trustees and Executive Officers of the Registrant | 101 |
| 11. | Executive Compensation | 101 |
| 12. | Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters | 101 |
| 13. | Certain Relationships and Related Transactions | 102 |
| 14. | Principal Accountant Fees and Services | 102 |
| | PART IV | |
| 15. | Exhibits and Financial Statement Schedules | 102 |
| Signatures | | 106 |

# PART I.

## Introduction

When we use the terms “Lexington,” the “Company,” “we,” “us” and “our,” we mean Lexington Realty Trust and all entit owned by us, including non-consolidated entities, except where it is clear that the term means only the parent company. References herein to our Annual Report are to our Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

All references to 2008, 2007 and 2006 refer to our fiscal years ended, or the dates, as the context requires, December 31, 2008, December 31, 2007, and December 31, 2006, respectively.

Newkirk Realty Trust, Inc., or Newkirk, was merged with and into us on December 31, 2006, which we refer to as the Newkirk Merger. Unless otherwise noted, (A) the information in this Annual Report regarding items in our Consolidated Statements of Operations as of December 31, 2006 and prior, does not include the business and operations of Newkirk, and (B) the information in this Annual Report regarding items in our Consolidated Balance Sheet as of December 31, 2005 and prior, does not include the assets, liabilities and minority interests of Newkirk.

## Cautionary Statements Concerning Forward-Looking Statements

This Annual Report, together with other statements and information publicly disseminated by us contain certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and include this statement for purposes of complying with these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, are generally identifiable by use of the words “believes,” “expects,” “intends,” “anticipates,” “estimates,” “proje or similar expressions. Readers should not rely on forward-looking statements since they involve known and unknown risks, uncertainties and other factors which are, in some cases, beyond our control and which could materially affect actual results, performances or achievements. In particular, among the factors that could cause actual results to differ materially from current expectations include, among others, those risks discussed below and under “Risk Factors” in Part I, Item 1A of the Annual Report and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7 of the Annual Report. We undertake no obligation to publicly release the results of any revisions to these forward-looking statements which may be made to reflect events or circumstances after the date hereof or to reflect occurrence of unanticipated events. Accordingly, there is no assurance that our expectations will be realized.

## Item 1. Business

### General

We are a self-managed and self-administered real estate investment trust, or REIT, formed under the laws of the State of Maryland. Our primary business is the acquisition, ownership and management of a geographically diverse portfolio of net leased office, industrial and retail properties. Substantially all of these properties are subject to triple net leases, which are generally characterized as leases in which the tenant bears all or substantially all of the costs and/or cost increases for real estate taxes, utilities, insurance and ordinary repairs. In addition, we acquire and hold investments in loan assets and debt securities related to real estate, which are primarily acquired and held through our 50% interest in Lex-Win Concord LLC, which we refer to as Lex-Win Concord.

As of December 31, 2008, we had ownership interests in approximately 225 consolidated real estate assets, located in 41 states and the Netherlands and containing an aggregate of approximately 40.2 million square feet of space, approximately 93.3% of which was subject to a lease. In 2008, 2007 and 2006, no tenant/guarantor represented greater than 10% of our annual base rental revenue.

In addition to our shares of beneficial interests, par value $0.0001 per share, which we refer to as common shares, we have three outstanding classes of beneficial interests classified as preferred stock, which we refer to as preferred shares: (1) 8.05% Series B Cumulative Redeemable Preferred Stock, which we refer to as our Series B Preferred Shares, (2) 6.50% Series C Cumulative Convertible Preferred Stock, which we refer to as our Series C Preferred Shares, and (3) 7.55% Series D Cumulative Redeemable Preferred Stock, which we refer to as our Series D Preferred Shares. Our common shares, Series B Preferred Shares, Series C Preferred Shares and Series D Preferred Shares are traded on the New York Stock Exchange, or NYSE, under the symbols “LXP”, “LXP pb”, “LXP pc” and “LXP pd” respectively.

We elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended, which we refer to as the Code, commencing with our taxable year ended December 31, 1993. If we qualify for taxation as a REIT, we generally will not be subject to federal corporate income taxes on our net income that is currently distributed to shareholders.

History

Our predecessor was organized in October 1993 upon the combination of two investment programs, Lepercq Corporate Income Fund L.P. and Lepercq Corporate Income Fund II L.P., which were formed to acquire net lease real estate assets that would provide current income. Our predecessor was merged into Lexington Corporate Properties Trust on December 31, 1997. On December 31, 2006, Lexington Corporate Properties Trust completed the Newkirk Merger. Newkirk's primary business was similar to our primary business. All of Newkirk's operations were conducted and all of its assets were held through its master limited partnership, The Newkirk Master Limited Partnership, which we refer to as the MLP. Newkirk was the general partner and owned, at the time of completion of the Newkirk Merger, a 31.0% general partner interest in the MLP. In connection with the Newkirk Merger, Lexington Corporate Properties Trust changed its name to Lexington Realty Trust, the MLP was renamed The Lexington Master Limited Partnership and one of our wholly-owned subsidiaries became the sole general partner of the MLP and another one of our wholly-owned susidiaries became the holder of a 31.0% limited partner interest in the MLP.

In the Newkirk Merger, each share of Newkirk's common stock was exchanged for 0.80 of our common shares and the MLP effected a 1.0 for 0.80 reverse unit-split. Each MLP unit, other than the MLP units held directly or indirectly by us, was redeemable at the option of the holder for cash based on a value of our common shares or, if we elected, for our common shares on a one-for-one basis. As of December 31, 2007, we owned approximately 50% of the limited partner interest in the MLP. As of December 31, 2008, the MLP was merged with and into us and we issued 6.4 million common shares for the MLP units we did not already own.

We are structured as an umbrella partnership REIT, or UPREIT, and a portion of our business is conducted through our three operating partnership subsidiaries: (1) Lepercq Corporate Income Fund L.P.; (2) Lepercq Corporate Income Fund II L.P.; and (3) Net 3 Acquisition L.P. We refer to these subsidiaries as our operating partnerships and to limited partner interests in these operating partnerships as OP units. The UPREIT structure enables us to acquire properties through our operating partnerships by issuing to a property owner, as a form of consideration in exchange for the property, OP units. The OP units are generally redeemable, after certain dates, for our common shares or cash in certain instances. We believe that this structure facilitates our ability to raise capital and to acquire portfolio and individual properties by enabling us to structure transactions which may defer tax gains for a contributor of property. As of December 31, 2008, there were approximately 5.3 million OP units outstanding, other than OP units held directly or indirectly by us.

Global Credit and Financial Crisis

There is considerable uncertainty as to how severe the current global credit and financial crisis may be and how long it may continue. The crisis has impacted our acquisition activity and our financing ability and has strained the resources of certain of our tenants and their customers. It is difficult for us to predict how severe the impact of the crisis will be to our business.

We lease our properties to tenants in various industries, including finance/insurance, aerospace/defense, energy, technology and automotive. Tenant defaults at our properties could negatively impact our operating results. Leased space was approximately 93.3% at December 31, 2008, down approximately 2.3% from last year. We expect to lose occupancy during 2009 due to non-renewals and current economic factors which may include increased tenant bankruptcies or government conservatorship of tenants.

Our principal sources of liquidity have been (1) undistributed cash flows generated from our investments, (2) the public and private equity and debt markets, including issuances of OP units (3) property specific debt, (4) corporate level borrowings, and (5) commitments from co-investment partners.

On February 13, 2009, we refinanced our (1) unsecured revolving credit facility, with $25.0 million outstanding as of December 31, 2008, which was scheduled to expire in June 2009, and (2) secured term loan, with $174.3 million outstanding as of December 31, 2008, which was scheduled to mature in June 2009 (but could have been extended to December 2009 at our option), with a secured credit facility consisting of a $165.0 million term loan and a $85.0 million revolving credit agreement with KeyBank National Association, which we refer to as KeyBank, as agent. The new facility bears interest at 2.85% over LIBOR and matures in February 2011, but can be extended until February 2012 at our option. The new credit facility is secured by ownership interest pledges and guarantees by certain of our subsidiaries that in the aggregate own interests in a borrowing base consisting of 72 properties. With the consent of the lenders, we can increase the size of (1) the term loan by $135.0 million and (2) the revolving loan by $115.0 million (or $250.0 million in the aggregate, for a total facility size of $500.0 million) by adding properties to the borrowing base.

We have consolidated property specific non-recourse debt with an aggregate of $60.3 million of balloon payments that mature in 2009. We also have (1) interest rate swap agreements directly and through our investment in Lex-Win Concord and (2) a direct forward equity commitment. The counterparties of these arrangements are major financial institutions; however, we are exposed to credit risk in the event of non-performance by the counterparties. In addition, we may be required to make additional prepayments pursuant to our forward equity commitment.

Objectives and Strategy

General. As part of our ongoing business efforts, we expect to continue to (1) recycle capital in compliance with regulatory and contractual requirements; (2) refinance or repurchase outstanding indebtedness when advisable; (3) effect strategic transactions and portfolio and individual property acquisitions and dispositions; (4) expand existing properties; (5) execute new leases with tenants; (6) extend lease maturities in advance of expiration; and (7) explore new business lines and operating platforms. Additionally, we may continue to enter into joint ventures and co-investment programs with third-party investors as a means of creating additional growth and expanding the revenue realized from advisory and asset management activities as situations warrant.

Strategic Restructuring Plan. In June 2007, we announced a strategic restructuring plan. The plan was intended to restructure us into a company consisting primarily of:

- a wholly-owned portfolio of core office assets;
- a wholly-owned portfolio of core warehouse/distribution assets;
- a continuing 50% interest in a co-investment program that invests in senior and subordinated debt interests secured by real estate collateral;
- an interest in a co-investment program that invests in specialty single tenant real estate assets; and
- equity securities in other net lease companies owned either individually or through an interest in one or more joint ventures or co-investment programs.

During 2007, in connection with the strategic restructuring plan, we:

- acquired all of the outstanding interests not otherwise owned by us in Triple Net Investment Company LLC, one of our former co-investment programs, which resulted in us becoming the sole owner of the co-investment program's 15 primarily single tenant net leased properties;
- acquired all of the outstanding interests not otherwise owned by us in Lexington Acquiport Company, LLC and Lexington Acquiport Company II, LLC, two of our former co-investment programs, which resulted in us becoming the sole owner of the co-investment programs' 26 primarily single tenant net leased properties;
- terminated Lexington/Lion Venture L.P., one of our former co-investment programs, and received a distribution in-kind of seven primarily single tenant net leased properties owned by the co-investment program;
- commenced a disposition program, whereby we began marketing non-core assets for sale; and
- formed a co-investment program, Net Lease Strategic Assets Fund LP, which we refer to as NLS, with a subsidiary of Inland American Real Estate Trust, Inc., which has acquired primarily 43 net leased assets plus a 40% interest in one property previously owned by us.

Capital Recycling. As part of our strategic restructuring plan, we began to dispose of non-core assets for sale. Following the completion of the strategic restructuring plan, we have continued to dispose of non-core assets and core assets, subject to regulatory and contractual requirements. During 2008, we primarily used the proceeds from such dispositions, to the extent permitted under our secured term loan agreements, to retire senior debt and preferred securities at what we believe are favorable spreads.

Acquisition Strategies. When market conditions warrant, we seek to enhance our net lease property portfolio through acquisitions of “core” assets, which we believe are general purpose, efficient, well-located assets in growing markets. Prior to effecting any acquisitions, we analyze the (1) property’s design, construction quality, efficiency, functionality and location with respect to the immediate sub-market, city and region; (2) lease integrity with respect to term, rental rate increases, corporate guarantees and property maintenance provisions; (3) present and anticipated conditions in the local real estate market; and (4) prospects for selling or re-leasing the property on favorable terms in the event of a vacancy. We also evaluate each potential tenant’s financial strength, growth prospects, competitive position within its respective industry and a property’s strategic location and function within a tenant’s operations or distribution systems. We believe that our comprehensive underwriting process is critical to the assessment of long-term profitability of any investment by us.

During 2002-2005, our acquisition volume increased significantly due primarily to the availability of low-cost long-term financing. As competition for single tenant net lease properties increased, the volume of our acquisitions decreased. This decrease became noticeable during the fourth quarter of 2006. At such time, we were preparing for the integration of the operations of Newkirk with our operations. During 2007, acquisition activity was low, except for the acquisition of 48 primarily single-tenant net lease assets from our co-investment programs. During 2008, acquisition activity continued to decrease as we focused on retiring senior debt and preferred securities at a discount. We expect acquisition activity to increase if and when general market conditions improve.

In the Newkirk Merger, we succeeded Newkirk to an agreement with a third party pursuant to which we will pay the third party for properties acquired by us and identified by the third party in an amount equal to (1) 1.5% of the gross purchase price and (2) 25% of the net proceeds and net cash flow (as defined) after we receive all of our invested capital plus a 12% internal rate of return. As of December 31, 2008, only one property, which was acquired in 2006, has been acquired subject to these terms. We have no other sourcing agreements.

Strategic Transactions with Other Real Estate Investment Companies. We seek to capitalize on the unique investment experience of our executive management team as well as its network of relationships in the industry to achieve appropriate risk-adjusted yields through strategic transactions. Accordingly, we endeavor to pursue the (1) acquisition of portfolios of assets and equity interests in companies with a significant number of single-tenant assets, including through mergers and acquisitions activity, and (2) participation in strategic partnerships, co-investment programs and joint ventures.

In 1999, we established our first co-investment program with the New York State Common Retirement Fund. Following a second co-investment program with the New York State Common Retirement Fund, we established co-investment programs with ING Clarion Lion Properties Fund, the Utah State Retirement Investment Fund and Inland American Real Estate Trust, Inc. In addition, in the Newkirk Merger, we acquired an interest in a co-investment program with Winthrop Realty Trust, which we refer to as Winthrop.

During 2007, we acquired the interests of the New York State Common Retirement Fund and the Utah State Retirement Investment Fund in certain of the co-investment programs and we distributed the properties in the co-investment program with ING Clarion Lion Properties Fund to us and ING Clarion Lion Properties Fund, and terminated all of our co-investment programs except for NLS and Lex-Win Concord, our co-investment program with Winthrop.

We believe that entering into co-investment programs and joint ventures with institutional investors and other real estate investment companies may mitigate our risk in certain assets and increase our return on equity to the extent we earn management or other fees.

Acquisitions of Portfolios and Individual Net Lease Properties. We seek to acquire portfolios and individual properties from (1) creditworthy corporations and other entities in sale/leaseback transactions for properties that are integral to the sellers'/tenants' ongoing operations; (2) developers of newly-constructed properties built to suit the needs of a corporate tenant generally after construction has been completed to avoid the risks associated with the construction phase of a project; (3) other real estate investment companies through strategic transactions; and (4) sellers of properties subject to an existing lease. We believe that our geographical diversification and acquisition experience will allow us to compete effectively for the acquisition of such net leased properties.

Debt Investments. We originate and invest in real estate loan assets either directly or indirectly through our 50% interest in Lex-Win Concord. Lex-Win Concord's primary asset is its interest in Concord Debt Holdings LLC, which we refer to as Concord. Our direct originations of loan assets primarily involve purchase money financing provided to purchasers of certain properties we have sold.

At December 31, 2008, of our approximately $4.1 billion of total assets, (1) $84.3 million consisted of directly held loan assets and (2) $114.6 million consisted of our investment in and advances to Lex-Win Concord. Lex-Win Concord is obligated to make additional capital contributions to Concord of up to $75.0 million only if such capital contributions are necessary under certain circumstances, of which our proportionate share is up to $37.5 million.

Competition

Through our predecessor entities we have been in the net lease business for over 35 years. Over this period, we have established a broad network of contacts, including major corporate tenants, developers, brokers and lenders. In addition, our management is associated with and/or participates in many industry organizations. Notwithstanding these relationships, there are numerous commercial developers, real estate companies, financial institutions and other investors with greater financial or other resources that compete with us in seeking properties for acquisition and tenants who will lease space in these properties. Our competitors include other REITs, pension funds, private companies and individuals.

Co-Investment Programs and Other Equity Method Investment Limited Partnerships

Lex-Win Concord LLC. We acquired a 50% common interest in Concord through the Newkirk Merger. Concord acquires and originates loans and debt securities secured, directly and indirectly, by real estate assets.

During 2008, we restructured our investment in Concord by contributing our common interest, together with Winthrop, the holder of the other 50% common interest in Concord, to Lex-Win Concord. Our former Executive Chairman and Director of Strategic Acquisitions is the chairman and chief executive officer of Winthrop. Following these contributions, Lex-Win Concord became the managing member of Concord and holder of all of the common equity in Concord.

In addition, a subsidiary of Inland American Real Estate Trust, Inc., which we refer to as Inland Concord, committed to contribute $100.0 million over an 18 month period in exchange for preferred equity in Concord, of which $76.0 million has been contributed as of December 31, 2008. Under the terms of the limited liability company agreement of Concord, Inland Concord's capital is to be used primarily for the origination and acquisition of additional loan assets and debt securities and, with Inland Concord's consent, to meet margin calls. Lex-Win Concord may be required to fund up to $75.0 million of additional capital in certain circumstances, including to meet margin calls; our proportionate share of which is $37.5 million.

If certain terms and conditions are met, including payment to Inland Concord of a 10% priority return, both us and Winthrop may elect to reduce our aggregate capital investment in Concord to $200.0 million (or $100.0 million each) through distributions of principal payments from the maturity of existing loan assets and debt securities in Concord's portfolio.

Net Lease Strategic Assets Fund L.P. NLS was formed in 2007 by us and a subsidiary of Inland American Real Estate Trust, Inc., which we refer to as Inland NLS. NLS's portfolio consists of 43 specialty net leased assets and a 40% interest in another property, which include data centers, light manufacturing facilities, medical office facilities, a car dealership and a golf course.

Since its formation, Inland NLS has contributed $216.0 million in cash to NLS and we have contributed 19 primarily net leased properties, having an agreed upon value of $318.1 million, and $15.0 million in cash to NLS, and we sold fee and leasehold interests in 24 primarily net leased properties and a 40% tenant-in-common interest in a property, having an agreed upon value of $425.4 million, to NLS. The properties we contributed and sold were encumbered by $339.5 million of mortgage debt with stated interest rates ranging from 5.1% to 8.5%, a weighted average interest rate of 6.1% and maturity dates ranging from 2009 to 2025. The mortgage debt was assumed by NLS.

At December 31, 2008, Inland NLS owned 85% and we owned 15% of NLS's common equity and we owned 100% of NLS's preferred equity.

Lex-Win Acquisition LLC. During 2007, Lex-Win Acquisition LLC, which we refer to as Lex-Win, an entity in which we hold a 28% ownership interest, acquired 3.9 million shares of common stock in Piedmont Office Realty Trust, Inc. (formerly known as Wells Real Estate Investment Trust, Inc., or Wells), a non-exchange traded entity, at a price per share of $9.30, in a tender offer. During 2007, we funded $12.5 million relating to this tender and received $1.9 million relating to an adjustment of the number of shares tendered. Winthrop and three other members hold the remaining interests in Lex-Win. Profits, losses and cash flows of Lex-Win are allocated in accordance with the membership interests pursuant to its limited liability agreement. During 2008, Lex-Win sold its entire interest in Wells for $8.31 per share.

Other Equity Method Investment Limited Partnerships. We are a partner in eight other partnerships with ownership percentages ranging between 26% and 40%, which own primarily net leased properties. All profits, losses and cash flows are distributed in accordance with the respective partnership agreements. As of December 31, 2008, the partnerships had $73.2 million in mortgage debt (our proportionate share was $23.5 million) with interest rates ranging from 6.7% to 15.0% with a weighted average rate of 9.9% and maturity dates ranging from 2009 to 2018.

Internal Growth and Effectively Managing Assets

Tenant Relations and Lease Compliance. We maintain close contact with our tenants in order to understand their future real estate needs. In addition to our headquarters in New York City, we have regional offices, located in properties we own, in Chicago and Dallas.

We monitor the financial, property maintenance and other lease obligations of our tenants through a variety of means, including periodic reviews of financial statements and physical inspections of the properties. We generally perform annual inspections of those properties where we have an ongoing obligation with respect to the maintenance of the property. Biannual physical inspections are generally undertaken for all other properties.

Extending Lease Maturities. We seek to extend our leases in advance of their expiration in order to maintain a balanced lease rollover schedule and high occupancy levels.

Revenue Enhancing Property Expansions. We undertake expansions of our properties based on tenant requirements or marketing opportunities. We believe that selective property expansions can provide us with attractive rates of return and actively seek such opportunities.

Property Sales. Subject to regulatory requirements, we sell properties when we believe that the return realized from selling a property will exceed the expected return from continuing to hold such property.

Conversion to Multi-Tenant. If we are unable to renew a single-tenant net lease or if we are unable to find a replacement single tenant, we either attempt to sell the property or convert the property for multi-tenant use and begin the process of leasing space. When appropriate, we seek to sell our multi-tenant properties.

Financing Strategy

General. Since becoming a public company, our principal sources of financing have been the public and private equity and debt markets, property specific debt, our credit facility and term loans, issuance of OP units and undistributed cash flows.

Mortgage Debt. Generally, we seek to finance our assets with non-recourse secured debt that has amortization, term and interest rate characteristics matched to the term and characteristics of the cash flows from the underlying investments.

Corporate Level Borrowings. We also use corporate level borrowings, such as revolving loans and term loans, as needed when other forms of financing are not available or appropriate.

Deleveraging. Our primary focus for 2008 was, and our primary focus for 2009 is, to effectively use our capital to deleverage our balance sheet by refinancing and repurchasing our indebtedness, at discounts, on what we believe are favorable terms.

Common Share Repurchases.

Our Board of Trustees has approved a share repurchase program. During 2008 and 2007, approximately 1.2 million and 9.8 million common shares/OP units, respectively, were repurchased under this program at an average cost of $14.28 and $19.83 per share/OP unit, respectively, in the open market and through private transactions with our employees and OP unitholders. During 2008, we entered into a forward equity commitment to purchase 3.5 million common shares at a price of $5.60 per share. We have prepaid $12.8 million of the $19.6 million purchase price. The contract is required to be settled no later than October 2011. As of December 31, 2008, 1.1 million common shares/OP units remained eligible for repurchase under the authorization.

Advisory Contracts

General. Members of our management have been in the business of investing in single-tenant net lease properties since 1973. This experience has enabled us to provide advisory services to various net lease investors.

Third Party Investors. In 2001, Lexington Realty Advisors Inc., a wholly-owned, taxable REIT subsidiary, which we refer to as LRA, entered into an advisory and asset management agreement to invest and manage an equity commitment of up to $50.0 million on behalf of a private third party investment fund. The investment fund could, depending on leverage utilized, acquire up to $140.0 million in single tenant, net leased office, industrial and retail properties in the United States. LRA earns acquisition fees (90 basis points of total acquisition costs), annual asset management fees (30 basis points of gross asset value) and an incentive fee of 16% of the return in excess of an internal rate of return of 10% earned by the investment fund. During 2007, the investment fund sold one of its two properties and LRA recognized an incentive fee of $1.1 million and an additional $0.4 million was held back by the investment fund pursuant to the agreement. The investment fund made no purchases in 2008 or 2007.

Affiliated Investors. We provided advisory services to our former co-investment programs. We also provide advisory services to NLS and certain equity method investment limited partnerships.

In exchange for providing advisory services to NLS, LRA receives (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.

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 generally our tenants are primarily responsible for any environmental damage and claims related to the leased premises, in the event of the bankruptcy or inability of a tenant of such premises to satisfy any obligations with respect to such environmental liability, we may be required to satisfy such obligations. In addition, as the owner of such properties, we may be held directly liable for any such damages or claims irrespective of the provisions of any lease.

From time to time, in connection with the conduct of our business and generally upon acquisition of a property, we authorize the preparation of Phase I and, when necessary, Phase II environmental reports with respect to our properties. Based upon such environmental reports and our ongoing review of our properties, as of the date of this Annual Report, we are not aware of any environmental condition with respect to any of our properties which we believe would be reasonably likely to have a material adverse effect on our financial condition and/or results of operations. There can be no assurance, however, that (1) the discovery of environmental conditions, the existence or severity of which were previously unknown; (2) changes in law; (3) the conduct of tenants; or (4) activities relating to properties in the vicinity of our properties, will not expose us to material liability in the future. Changes in laws increasing the potential liability for environmental conditions existing on properties or increasing the restrictions on discharges or other conditions may result in significant unanticipated expenditures or may otherwise adversely affect the operations of our tenants, which would adversely affect our financial condition and/or results of operations.

Recent Developments

The following summarizes our significant transactions during 2008.

Sales. We sold 40 properties to unaffiliated third parties for an aggregate gross sales price of $242.3 million.  In addition, we disposed of one property through a foreclosure with a lender and we contributed or sold 13 properties to NLS.  We also sold our entire interest in Wells for $8.31 per share.

Acquisitions.  We acquired two office properties in Kansas and Colorado for an aggregate capitalized cost of $56.1 million.

Expansions.  We funded the expansion of two properties for an aggregate capitalized costs of $9.4 million.

Leasing. We entered into 103 lease extensions and new leases encompassing an aggregate 5.1 million square feet and we received $28.7 million from two lease terminations and land valued at $16.0 million which we recorded as non-operating income.

Investments. In addition to the properties we contributed to NLS, we invested $8.3 million in cash to NLS. In addition, we restructured our investment in Concord by forming Lex-Win Concord. During 2008, Lex-Win Concord recognized $104.9 million of other-than-temporary impairments and loan loss reserves of which our share was $52.4 million before minority interest.

Financing. With respect to financing activities, we:

- repurchased, with cash and issuance of common shares, $239.0 million original principal amount of our 5.45% Exchangeable Guaranteed Notes at an average discount of 19.3%;
- retired $70.9 million face of our Trust Preferred Securities at a discount of 37.1%;
- entered into $25.0 million and $45.0 million original principal amount secured term loans with KeyBank and used the net proceeds of $68.0 million to partially repay and refinance indebtedness on three cross-collateralized mortgages;
- made balloon payments of $39.6 million on property specific, non-recourse mortgage debt;
- retired $86.5 million in property non-recourse mortgage debt due to sale of properties to unrelated third parties;
- retired $48.6 million in corporate level secured borrowings;
- obtained two non-recourse mortgages, one of which was assumed, with an aggregate principal balance of $21.2 million and a weighted average interest rate of 6.0%; and
- borrowed $25.0 million under our unsecured revolving credit facility.

Capital. With respect to capital activities, we:

- repurchased 1.2 million common shares under our share repurchase program;
- entered into a forward equity commitment to purchase 3.5 million of our common shares at a price of $5.60 per share and prepaid in cash $12.8 million of the $19.6 million purchase price;
- merged the MLP into us by acquiring the remaining limited partner interests that we did not already own;
- repurchased and retired 0.5 million of our Series C Preferred Shares by issuing 0.7 million common shares and $7.5 million in cash; and
- issued approximately 3.5 million common shares (exclusive of shares issued in connection with debt repurchases) raising net proceeds of approximately $47.2 million.

Subsequent to December 31, 2008, we:

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refinanced our (1) unsecured revolving credit facility, with $25.0 million outstanding as of December 31, 2008, which was scheduled to expire in June 2009, and (2) secured term loan, with $174.3 million outstanding as of December 31, 2008, which was scheduled to mature in June 2009 (or December 2009 at our option), with a secured credit facility consisting of a $165.0 million term loan and a $85.0 million revolving credit agreement with KeyBank, as agent;

- sold one property for an aggregate gross sale price of $11.4 million and satisfied the $5.3 million non-recourse mortgage note encumbering the property; and

- repurchased $13.0 million face of 5.45% Exchangeable Guaranteed Notes at a discount of 34.2%.

Other

Employees. As of December 31, 2008, we had 65 full-time employees.

Industry Segments. We operate in primarily one industry segment, investment in net leased real estate assets.

Web Site. Our Internet address is www.lxp.com and the investor relations section of our web site is located at http://www.snl.com/irweblinkx/corporateprofile.aspx?iid=103128. We make available, free of charge, on or through the investor relations section of our web site or by contacting our Investor Relations Department, annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as well as proxy statements, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the U.S. Securities and Exchange Commission, which we refer to as the SEC. Also posted on our web site, and available in print upon request of any shareholder to our Investor Relations Department, are our amended and restated declaration of trust and amended and restated by-laws, charters for our Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee, our Corporate Governance Guidelines, our Code of Business Conduct and Ethics governing our trustees, officers and employees, and our Complaint Procedures Regarding Accounting and Auditing Matters. Within the time period required by the SEC and the NYSE, we will post on our web site any amendment to the Code of Business Conduct and Ethics and any waiver applicable to any of our trustees or executive officers. In addition, our web site includes information concerning purchases and sales of our equity securities by our executive officers and trustees, as well as disclosure relating to certain non-GAAP financial measures (as defined in the SEC's Regulation G) that we may make public orally, telephonically, by webcast, by broadcast or by similar means from time to time. Information contained on our web site or the web site of any other person is not incorporated by reference into this Annual Report.

Our Investor Relations Department can be contacted at Lexington Realty Trust, One Penn Plaza, Suite 4015, New York, NY 10119-4015, Attn: Investor Relations, telephone: 212-692-7200, e-mail: ir@lxp.com.

Principal Executive Offices. Our principal executive offices are located at One Penn Plaza, Suite 4015, New York, NY 10119-4015; our telephone number is (212) 692-7200.

NYSE CEO Certification. Our Chief Executive Officer made an unqualified certification to the NYSE with respect to our compliance with the NYSE corporate governance listing standards in June 2008.

Item 1A. Risk Factors

Set forth below are material factors that may adversely affect our business and operations.

We are subject to risks involved in single tenant leases.

We focus our acquisition activities on real properties that are net leased to single tenants. Therefore, the financial failure of, or other default by, a single tenant under its lease is likely to cause a significant reduction in the operating cash flow generated by the property leased to that tenant and might decrease the value of that property. In addition, we will be responsible for 100% of the operating costs following a vacancy at a single tenant building.

We rely on revenues derived from major tenants.

Revenues from several of our tenants and/or their guarantors constitute a significant percentage of our base rental revenues. The default, financial distress or bankruptcy of any of the tenants and/or guarantors of these properties

could cause interruptions in the receipt of lease revenues and/or result in vacancies, which would reduce our revenues and increase operating costs until the affected property is re-let, and could decrease the ultimate sales value of that property. Upon the expiration or other termination of the leases that are currently in place with respect to these properties, we may not be able to re-lease the vacant property at a comparable lease rate, or at all, or without incurring additional expenditures in connection with the re-leasing. See Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operations – Overview – Leasing Objectives, for a discussion of our tenants currently in bankruptcy.

We face uncertainties relating to lease renewals and re-letting of space.

Upon the expiration of current leases for space located in our properties, we may not be able to re-let all or a portion of that space, or the terms of re-letting (including the cost of concessions to tenants) may be less favorable to us than current lease terms or market rates. If we are unable to re-let promptly all or a substantial portion of the space located in our properties or if the rental rates we receive upon re-letting are significantly lower than current rates, our earnings and ability to make expected distributions to our shareholders will be adversely affected due to the resulting reduction in rent receipts and increase in our property operating costs. There can be no assurance that we will be able to retain tenants in any of our properties upon the expiration of their leases.

We could become more highly leveraged, resulting in increased risk of default on our obligations and in an increase in debt service requirements which could adversely affect our financial condition and results of operations and our ability to pay distributions.

We have incurred, and may continue to incur, indebtedness in furtherance of our activities. Neither our amended and restated declaration of trust nor any policy statement formally adopted by our Board of Trustees limits either the total amount of indebtedness or the specified percentage of indebtedness that we may incur. Accordingly, we could become more highly leveraged, resulting in an increased risk of default on our obligations and in an increase in debt service requirements which could adversely affect our financial condition and results of operations and our ability to pay distributions.

Market interest rates could have an adverse effect on our borrowing costs and profitability and can adversely affect our share price.

We have exposure to market risks relating to increases in interest rates due to our variable-rate debt. An increase in interest rates may increase our costs of borrowing on existing variable-rate indebtedness, leading to a reduction in our earnings. As of December 31, 2008, we had outstanding $199.3 million in consolidated variable-rate indebtedness, not subject to an interest-rate swap agreement. The level of our variable-rate indebtedness, along with the interest rate associated with such variable-rate indebtedness, may change in the future and materially affect our interest costs and earnings. In addition, our interest costs on our fixed-rate indebtedness can increase if we are required to refinance our fixed-rate indebtedness at maturity at higher interest rates.

Furthermore, the public valuation of our common shares is related primarily to the earnings that we derive from rental income with respect to our properties and not from the underlying appraised value of the properties themselves. As a result, interest rate fluctuations and capital market conditions can affect the market value of our common shares. For instance, if interest rates rise, the market price of our common shares may decrease because potential investors seeking a higher dividend yield than they would receive from our common shares may sell our common shares in favor of higher rate interest-bearing securities.

Recent disruptions in the financial markets could affect our ability to obtain debt financing on reasonable terms and have other adverse effects on us.

The United States credit markets have experienced significant dislocations and liquidity disruptions which have caused the spreads on prospective debt financings to widen considerably. These circumstances have materially impacted liquidity in the debt markets, making financing terms for borrowers less attractive, and in certain cases have resulted in the unavailability of certain types of debt financing. Continued uncertainty in the credit markets may negatively impact our ability to access additional debt financing at reasonable terms, which may negatively affect our ability to make acquisitions. A prolonged downturn in the credit markets may cause us to seek alternative sources of potentially less attractive financing, and may require us to adjust our business plan accordingly. In addition, these

factors may make it more difficult for us to sell properties or may adversely affect the price we receive for properties that we do sell, as prospective buyers may experience increased costs of debt financing or difficulties in obtaining debt financing. These events in the credit markets have also had an adverse effect on other financial markets in the United States, which may make it more difficult or costly for us to raise capital through the issuance of our common shares or preferred shares. These disruptions in the financial markets may have other adverse effects on us or the economy generally.

We also have interest rate swap agreements directly and through our investment in Lex-Win Concord and have a direct forward equity commitment. The counterparties of these arrangements are major financial institutions; however, we are exposed to credit risk in the event of non-performance by the counterparties. In addition, we may be required to make additional prepayments pursuant to our forward equity commitment.

We face risks associated with refinancings.

A significant number of our properties, as well as corporate level borrowings, are subject to mortgage or other secured notes with balloon payments due at maturity. As of December 31, 2008, the consolidated scheduled balloon payments, including discontinued operations, for the next five calendar years, are as follows:

| Year | Balloon Payments |
|---|---|
| 2009 (1) | $ 259.6 million |
| 2010 | $ 110.6 million |
| 2011 | $ 88.8 million |
| 2012 | $ 402.0 million |
| 2013 | $ 295.7 million |

(1) Subsequent to December 31, 2008, $199.3 million of the debt has been extended to 2011.

As of December 31, 2008, the scheduled balloon payments for our non-consolidated entities for the next five calendar years are as follows:

| Year | Balloon Payments | Balloon Payments – our Proportionate Share |
|---|---|---|
| 2009 | $ 69.3 million | $ 32.2 million |
| 2010 | $ 87.6 million | $ 43.6 million |
| 2011 | $ 190.5 million | $ 94.3 million |
| 2012 | $ 81.8 million | $ 40.4 million |
| 2013 | $ 16.6 million | $ 8.0 million |

Our ability to make the scheduled balloon payments will depend upon our cash balances, the amount available under our credit facility and our ability either to refinance the related mortgage debt or to sell the related property.

Certain of our properties are cross-collateralized and certain of our indebtedness is cross-defaulted.

As of December 31, 2008, the mortgages on two sets of two properties, one set of four properties and one set of three properties are cross-collateralized. In addition, (1) our new credit facility is secured by a borrowing base of interests in 72 properties, (2) our $45.0 million original principal amount secured term loan (of which $35.7 million was outstanding at December 31, 2008) is secured by a borrowing base of interests in 35 properties, and (3) our $25.0 million secured term loan is secured by a borrowing base of interests in three properties. To the extent that any of our properties are cross-collateralized, any default by us under the mortgage note relating to one property will result in a default under the financing arrangements relating to any other property that also provides security for that mortgage note or is cross-collateralized with such mortgage note.

In addition, our credit facility, secured term loans and 5.45% Exchangeable Guaranteed Notes contain cross-default provisions which may be triggered if we default on indebtedness in excess of certain thresholds.

We face possible liability relating to environmental matters.

Under various federal, state and local environmental laws, statutes, ordinances, rules and regulations, as an owner of real property, we may be liable for the costs of removal or remediation of certain hazardous or toxic substances at, on, in or under our properties, 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.

These laws may impose liability without regard to whether we knew of, or were responsible for, the presence or disposal of those substances. This liability may be imposed on us in connection with the activities of an operator of, or tenant at, the property. The cost of any required remediation, removal, fines or personal or property damages and our liability therefore could exceed the value of the property and/or our aggregate assets. In addition, the presence of those substances, or the failure to properly dispose of or remove those substances, may adversely affect our ability to sell or rent that property or to borrow using that property as collateral, which, in turn, would reduce our revenues and ability to make distributions.

A property can also be adversely affected either through physical contamination or by virtue of an adverse effect upon value attributable to the migration of hazardous or toxic substances, or other contaminants that have or may have emanated from other properties. Although our tenants are primarily responsible for any environmental damages and claims related to the leased premises, in the event of the bankruptcy or inability of any of our tenants to satisfy any obligations with respect to the property leased to that tenant, we may be required to satisfy such obligations. In addition, we may be held directly liable for any such damages or claims irrespective of the provisions of any lease.

From time to time, in connection with the conduct of our business, we authorize the preparation of Phase I environmental reports and, when necessary, Phase II environmental reports, with respect to our properties. Based upon these environmental reports and our ongoing review of our properties, as of the date of this Annual Report, we are not aware of any environmental condition with respect to any of our properties that we believe would be reasonably likely to have a material adverse effect on us.

There can be no assurance, however, that the environmental reports will reveal all environmental conditions at our properties or that the following will not expose us to material liability in the future:

- the discovery of previously unknown environmental conditions;
- changes in law;
- activities of tenants; or
- activities relating to properties in the vicinity of our properties.

Changes in laws increasing the potential liability for environmental conditions existing on properties or increasing the restrictions on discharges or other conditions may result in significant unanticipated expenditures or may otherwise adversely affect the operations of our tenants, which could adversely affect our financial condition or results of operations.

Uninsured losses or a loss in excess of insured limits could adversely affect our financial condition.

We carry comprehensive liability, fire, extended coverage and rent loss insurance on most of our properties, with policy specifications and insured limits that we believe are customary for similar properties. However, with respect to those properties where the leases do not provide for abatement of rent under any circumstances, we generally do not maintain rent loss insurance. In addition, there are certain types of losses, such as losses resulting from wars, terrorism or certain acts of God that generally are not insured because they are either uninsurable or not economically insurable. Should an uninsured loss or a loss in excess of insured limits occur, we could lose capital invested in a property, as well as the anticipated future revenues from a property, while remaining obligated for any mortgage indebtedness or other financial obligations related to the property. Any loss of these types would adversely affect our financial condition.

Future terrorist attacks and the military conflicts could have a material adverse effect on general economic conditions, consumer confidence and market liquidity.

Among other things, it is possible that interest rates may be affected by these events. An increase in interest rates may increase our costs of borrowing, leading to a reduction in our earnings. These types of terrorist acts could also result in significant damages to, or loss of, our properties.

We and our tenants may be unable to obtain adequate insurance coverage on acceptable economic terms for losses resulting from acts of terrorism. Our lenders may require that we carry terrorism insurance even if we do not believe this insurance is necessary or cost effective. We may also be prohibited under the applicable lease from passing all or a portion of the cost of such insurance through to the tenant. Should an act of terrorism result in an uninsured loss or a

loss in excess of insured limits, we could lose capital invested in a property, as well as the anticipated future revenues from a property, while remaining obligated for any mortgage indebtedness or other financial obligations related to the property. Any loss of these types would adversely affect our financial condition.

Competition may adversely affect our ability to purchase properties.

There are numerous commercial developers, real estate companies, financial institutions and other investors with greater financial resources than we have that compete with us in seeking properties for acquisition and tenants who will lease space in our properties. Due to our focus on net lease properties located throughout the United States, and because most competitors are locally and/or regionally focused, we do not encounter the same competitors in each market. Our competitors include other real estate investment trusts, or REITs, financial institutions, insurance companies, pension funds, private companies and individuals. This competition may result in a higher cost for properties that we wish to purchase.

Our failure to maintain effective internal controls could have a material adverse effect on our business, operating results and share price.

Section 404 of the Sarbanes-Oxley Act of 2002 requires annual management assessments of the effectiveness of our internal controls over financial reporting. If we fail to maintain the adequacy of our internal controls, as such standards may be modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002. Moreover, effective internal controls, particularly those related to revenue recognition, are necessary for us to produce reliable financial reports and to maintain our qualification as a REIT and are important to helping prevent financial fraud. If we cannot provide reliable financial reports or prevent fraud, our business and operating results could be harmed, our REIT qualification could be jeopardized, investors could lose confidence in our reported financial information, and the trading price of our shares could drop significantly.

We may have limited control over our co-investment programs and joint venture investments.

Our co-investment programs and joint venture investments may involve risks not otherwise present for investments made solely by us, including the possibility that our partner might, at any time, become bankrupt, have different interests or goals than we do, or take action contrary to our instructions, requests, policies or objectives, including our policy with respect to maintaining our qualification as a REIT. Other risks of co-investment programs and joint venture investments include impasse on decisions, such as a sale, because neither we nor our partner have full control over the co-investment programs or joint venture. Also, there is no limitation under our organizational documents as to the amount of funds that may be invested in co-investment programs and joint ventures.

One of our co-investment programs, Lex-Win Concord, is owned equally by us and Winthrop. This co-investment program is managed by the members. Material actions taken by Lex-Win Concord require the consent of each of us and Winthrop. Accordingly, Lex-Win Concord may not take certain actions or invest in certain assets even if we believe it to be in its best interest. Michael L. Ashner, our former Executive Chairman and Director of Strategic Acquisitions is also the Chairman and Chief Executive Officer of each of Winthrop and WRP Sub-Management LLC, the administrative manager of Lex-Win Concord.

Another co-investment program, NLS, is managed by an Executive Committee comprised of three persons appointed by us and two persons appointed by our partner. With few exceptions, the vote of four members of the Executive Committee is required to conduct business. Accordingly, we do not control the business decisions of this co-investment.

Investments by our co-investment programs may conflict with our ability to make attractive investments.

Under the terms of the limited partnership agreement governing NLS, we are required to first offer to NLS all opportunities to acquire real estate assets which, among other criteria, are specialty in nature and net leased. Only if NLS elects not to approve the acquisition opportunity or the applicable exclusivity conditions have expired, may we pursue the opportunity directly. As a result, we may not be able to make attractive acquisitions directly and may only receive an interest in such acquisitions through our interest in NLS.

In addition, the agreements governing Lex-Win Concord and Concord may restrict our ability to make certain debt investments.

Certain of our trustees and officers may face conflicts of interest with respect to sales and refinancings.

E. Robert Roskind and Richard J. Rouse, our Chairman, and Vice Chairman and Chief Investment Officer, respectively, each own limited partner interests in certain of our operating partnerships, and as a result, may face different and more adverse tax consequences than our other shareholders will if we sell certain properties or reduce mortgage indebtedness on certain properties. Those individuals may, therefore, have different objectives than our other shareholders regarding the appropriate pricing and timing of any sale of such properties or reduction of mortgage debt.

Accordingly, there may be instances in which we may not sell a property or pay down the debt on a property even though doing so would be advantageous to our other shareholders. In the event of an appearance of a conflict of interest, the conflicted trustee or officer must recuse himself or herself from any decision making or seek a waiver of our Code of Business Conduct and Ethics.

Our ability to change our portfolio is limited because real estate investments are illiquid.

Equity investments in real estate are relatively illiquid and, therefore, our ability to change our portfolio promptly in response to changed conditions will be limited. Our Board of Trustees may establish investment criteria or limitations as it deems appropriate, but currently does not limit the number of properties in which we may seek to invest or on the concentration of investments in any one geographic region. We could change our investment, disposition and financing policies without a vote of our shareholders.

There can be no assurance that we will remain qualified as a REIT for federal income tax purposes.

We believe that we have met the requirements for qualification as a REIT for federal income tax purposes beginning with our taxable year ended December 31, 1993, and we intend to continue to meet these requirements in the future. However, qualification as a REIT involves the application of highly technical and complex provisions of the Code, for which there are only limited judicial or administrative interpretations. No assurance can be given that we have qualified or will remain qualified as a REIT. The Code provisions and income tax regulations applicable to REITs are more complex than those applicable to corporations. The determination of various factual matters and circumstances not entirely within our control may affect our ability to continue to qualify as a REIT. In addition, no assurance can be given that legislation, regulations, administrative interpretations or court decisions will not significantly change the requirements for qualification as a REIT or the federal income tax consequences of such qualification. If we do not qualify as a REIT, we would not be allowed a deduction for distributions to shareholders in computing our net taxable income. In addition, our income would be subject to tax at the regular corporate rates. We also could be disqualified from treatment as a REIT for the four taxable years following the year during which qualification was lost. Cash available for distribution to our shareholders would be significantly reduced for each year in which we do not qualify as a REIT. In that event, we would not be required to continue to make distributions. Although we currently intend to continue to qualify as a REIT, it is possible that future economic, market, legal, tax or other considerations may cause us, without the consent of the shareholders, to revoke the REIT election or to otherwise take action that would result in disqualification.

We may be subject to the REIT prohibited transactions tax, which could result in significant U.S. federal income tax liability to us.

We previously announced a restructuring of our investment strategy, focusing on core and core plus assets. A real estate investment trust will incur a 100% tax on the net income from a prohibited transaction. Generally, a prohibited transaction includes a sale or disposition of property held primarily for sale to customers in the ordinary course of a trade or business. While we believe that the dispositions of our assets pursuant to the restructuring of our investment strategy should not be treated as prohibited transactions, whether a particular sale will be treated as a prohibited transaction depends on the underlying facts and circumstances. We have not sought and do not intend to seek a ruling from the Internal Revenue Service regarding any dispositions. Accordingly, there can be no assurance that our dispositions of such assets will not be subject to the prohibited transactions tax. If all or a significant portion of those dispositions were treated as prohibited transactions, we would incur a significant U.S. federal income tax liability, which could have a material adverse effect on our results of operations.

Distribution requirements imposed by law limit our flexibility.

To maintain our status as a REIT for federal income tax purposes, we are generally required to distribute to our shareholders at least 90% of our taxable income for that calendar year. Our taxable income is determined without regard to any deduction for dividends paid and by excluding net capital gains. To the extent that we satisfy the distribution requirement, but distribute less than 100% of our taxable income, we will be subject to federal corporate income tax on our undistributed income. In addition, we will incur a 4% nondeductible excise tax on the amount, if any, by which our distributions in any year are less than the sum of (i) 85% of our ordinary income for that year, (ii) 95% of our capital gain net income for that year and (iii) 100% of our undistributed taxable income from prior years. We intend to continue to make distributions to our shareholders to comply with the distribution requirements of the Code and to reduce exposure to federal income and nondeductible excise taxes. Differences in timing between the receipt of income and the payment of expenses in determining our income and the effect of required debt amortization payments could require us to borrow funds on a short-term basis in order to meet the distribution requirements that are necessary to achieve the tax benefits associated with qualifying as a REIT.

Certain limitations limit a third party's ability to acquire us or effectuate a change in our control.

Limitations imposed to protect our REIT status. In order to protect us against the loss of our REIT status, our declaration of trust limits any shareholder from owning more than 9.8% in value of any class of our outstanding shares, subject to certain exceptions. The ownership limit may have the effect of precluding acquisition of control of us.

Severance payments under employment agreements. Substantial termination payments may be required to be paid under the provisions of employment agreements with certain of our executives upon a change of control. We have entered into employment agreements with four of our executive officers which provide that, upon the occurrence of a change in control of us (including a change in ownership of more than 50% of the total combined voting power of our outstanding securities, the sale of all or substantially all of our assets, dissolution, the acquisition, except from us, of 20% or more of our voting shares or a change in the majority of our Board of Trustees), those executive officers may be entitled to severance benefits based on their current annual base salaries, recent annual cash bonuses and the average of the value of the two most recent long-term incentive awards as defined in the employment agreements. Accordingly, these payments may discourage a third party from acquiring us.

Limitation due to our ability to issue preferred shares. Our amended and restated declaration of trust authorizes our Board of Trustees to issue preferred shares, without shareholder approval. The Board of Trustees is able to establish the preferences and rights of any preferred shares issued which could have the effect of delaying or preventing someone from taking control of us, even if a change in control were in shareholders' best interests. At December 31, 2008, we had outstanding 3,160,000 Series B Preferred Shares, that we issued in June 2003, 2,598,300 Series C Preferred Shares, that we issued in December 2004 and January 2005, and 6,200,000 Series D Preferred Shares, that we issued in February 2007. Our Series B, Series C and Series D Preferred Shares include provisions that may deter a change of control. The establishment and issuance of shares of our existing series of preferred shares or a future series of preferred shares could make a change of control of us more difficult.

Limitation imposed by the Maryland Business Combination Act. The Maryland General Corporation Law, as applicable to Maryland REITs, establishes special restrictions against "business combinations" between a Maryland REIT and "interested shareholders" or their affiliates unless an exemption is applicable. An interested shareholder includes a person who beneficially owns, and an affiliate or associate of the trust who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of our then-outstanding voting shares, but a person is not an interested shareholder if the Board of Trustees approved in advance the transaction by which he otherwise would have been an interested shareholder. Among other things, Maryland law prohibits (for a period of five years) a merger and certain other transactions between a Maryland REIT and an interested shareholder. The five-year period runs from the most recent date on which the interested shareholder became an interested shareholder. Thereafter, any such business combination must be recommended by the Board of Trustees and approved by two super-majority shareholder votes unless, among other conditions, the common shareholders receive a minimum price for their shares and the consideration is received in cash or in the same form as previously paid by the interested shareholder for its shares. The statute permits various exemptions from its provisions, including business combinations that are exempted by the Board of Trustees prior to the time that the interested shareholder becomes an interested shareholder. The business combination statute could have the effect of discouraging offers to acquire us and of increasing the difficulty of consummating any such offers, even if such acquisition would be in shareholders' best interests. In connection with our merger with Newkirk, Vornado Realty Trust, which we refer to as Vornado, was granted a limited exemption from the definition of "interested shareholder."

Maryland Control Share Acquisition Act. Maryland law provides that "control shares" of a Maryland REIT acquired in a "control share acquisition" shall have no voting rights except to the extent approved by a vote of two-thirds of the vote entitled to be cast on the matter under the Maryland Control Share Acquisition Act. Shares owned by the acquiror, by

our officers or by employees who are our trustees are excluded from shares entitled to vote on the matter. "Control Shares" means shares that, if aggregated with all other shares previously acquired by the acquiror or in respect of which the acquiror is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquiror to exercise voting power in electing trustees within one of the following ranges of voting power: one-tenth or more but less than one-third, one-third or more but less than a majority or a majority or more of all voting power. Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained shareholder approval. A "control share acquisition" means the acquisition of control shares, subject to certain exceptions. If voting rights of control shares acquired in a control share acquisition are not approved at a shareholders' meeting, then subject to certain conditions and limitations the issuer may redeem any or all of the control shares for fair value. If voting rights of such control shares are approved at a shareholders' meeting and the acquiror becomes entitled to vote a majority of the shares entitled to vote, all other shareholders may exercise appraisal rights. Any control shares acquired in a control share acquisition which are not exempt under our by-laws will be subject to the Maryland Control Share Acquisition Act. Our amended and restated by-laws contain a provision exempting from the Maryland Control Share Acquisition Act any and all acquisitions by any person of our shares. We cannot assure you that this provision will not be amended or eliminated at any time in the future.

Limits on ownership of our capital shares may have the effect of delaying, deferring or preventing someone from taking control of us.

For us to qualify as a REIT for federal income tax purposes, among other requirements, not more than 50% of the value of our outstanding capital shares may be owned, directly or indirectly, by five or fewer individuals (as defined for federal income tax purposes to include certain entities) during the last half of each taxable year, and these capital shares must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year (in each case, other than the first such year for which a REIT election is made). Our amended and restated declaration of trust includes certain restrictions regarding transfers of our capital shares and ownership limits.

Actual or constructive ownership of our capital shares in excess of the share ownership limits contained in its declaration of trust would cause the violative transfer or ownership to be void or cause the shares to be transferred to a charitable trust and then sold to a person or entity who can own the shares without violating these limits. As a result, if a violative transfer were made, the recipient of the shares would not acquire any economic or voting rights attributable to the transferred shares. Additionally, the constructive ownership rules for these limits are complex and groups of related individuals or entities may be deemed a single owner and consequently in violation of the share ownership limits.

These restrictions and limits may not be adequate in all cases, however, to prevent the transfer of our capital shares in violation of the ownership limitations. The ownership limits discussed above may have the effect of delaying, deferring or preventing someone from taking control of us, even though a change of control could involve a premium price for the common shares or otherwise be in shareholders' best interests.

Legislative or regulatory tax changes could have an adverse effect on us.

At any time, the federal income tax laws governing REITs or the administrative interpretations of those laws may be amended. Any of those new laws or interpretations may take effect retroactively and could adversely affect us or you as a shareholder. REIT dividends generally are not eligible for the reduced rates currently applicable to certain corporate dividends (unless attributable to dividends from taxable REIT subsidiaries and otherwise eligible for such rates). As a result, investment in non-REIT corporations may be relatively more attractive than investment in REITs. This could adversely affect the market price of our shares.

Our Board of Trustees may change our investment policy without shareholders' approval.

Subject to our fundamental investment policy to maintain our qualification as a REIT, our Board of Trustees will determine its investment and financing policies, growth strategy and its debt, capitalization, distribution, acquisition, disposition and operating policies.

Our Board of Trustees may revise or amend these strategies and policies at any time without a vote by shareholders. Accordingly, shareholders' control over changes in our strategies and policies is limited to the election of trustees, and changes made by our Board of Trustees may not serve the interests of shareholders and could adversely affect our financial condition or results of operations, including our ability to distribute cash to shareholders or qualify as a REIT.

Our inability to carry out our growth strategy could adversely affect our financial condition and results of operations.

Our growth strategy is based on the acquisition and development of additional properties and related assets, including acquisitions of large portfolios and real estate companies and acquisitions through co-investment programs such as

joint ventures. In the context of our business plan, “development” generally means an expansion or renovation of an existing property or the acquisition of a newly constructed property. We may provide a developer with a commitment to acquire a property upon completion of construction of a property and commencement of rent from the tenant. Our plan to grow through the acquisition and development of new properties could be adversely affected by trends in the real estate and financing businesses. The consummation of any future acquisitions will be subject to satisfactory completion of an extensive valuation analysis and due diligence review and to the negotiation of definitive documentation. Our ability to implement our strategy may be impeded because we may have difficulty finding new properties and investments at attractive prices that meet our investment criteria, negotiating with new or existing tenants or securing acceptable financing. If we are unable to carry out our strategy, our financial condition and results of operations could be adversely affected.

Acquisitions of additional properties entail the risk that investments will fail to perform in accordance with expectations, including operating and leasing expectations. Redevelopment and new project development are subject to numerous risks, including risks of construction delays, cost overruns or force majeure events that may increase project costs, new project commencement risks such as the receipt of zoning, occupancy and other required governmental approvals and permits, and the incurrence of development costs in connection with projects that are not pursued to completion.

Some of our acquisitions and developments may be financed using the proceeds of periodic equity or debt offerings, lines of credit or other forms of secured or unsecured financing that may result in a risk that permanent financing for newly acquired projects might not be available or would be available only on disadvantageous terms. If permanent debt or equity financing is not available on acceptable terms to refinance acquisitions undertaken without permanent financing, further acquisitions may be curtailed or cash available for distribution to shareholders may be adversely affected.

The concentration of ownership by certain investors may limit other shareholders from influencing significant corporate decisions.

At December 31, 2008, Vornado beneficially owned 16.1 million common shares and E. Robert Roskind, our Chairman, beneficially owned 0.9 million of our common shares and 1.5 million units of limited partner interest in our operating partnerships, which are redeemable for our common shares on a one for one basis, or with respect to a portion of the units, at our election, cash. Each of Vornado and Mr. Roskind may have substantial influence over us and on the outcome of any matters submitted to our shareholders for approval. In addition, certain decisions concerning our operations or financial structure may present conflicts of interest between each of Vornado and Mr. Roskind and our other equity or debt holders. In addition, Vornado engages in a wide variety of activities in the real estate business and may engage in activities that result in conflicts of interest with respect to matters affecting us, such as competition for properties and tenants.

Securities eligible for future sale may have adverse effects on our share price.

An aggregate of approximately 7.3 million of our common shares are issuable upon the exercise of employee share options and the exchange of units of limited partnership interests in our operating partnership subsidiaries. Depending upon the number of such securities exercised or exchanged at one time, an exercise or exchange of such securities could be dilutive to or otherwise adversely affect the interests of holders of our common shares.

We are dependent upon our key personnel.

We are dependent upon key personnel whose continued service is not guaranteed. We are dependent on our executive officers for business direction. We have entered into employment agreements with certain employees, including E. Robert Roskind, our Chairman, Richard J. Rouse, our Vice Chairman and Chief Investment Officer, T. Wilson Eglin, our Chief Executive Officer, President and Chief Operating Officer, and Patrick Carroll, our Executive Vice President, Chief Financial Officer and Treasurer.

Our inability to retain the services of any of our key personnel or our loss of any of their services could adversely impact our operations. We do not have key man life insurance coverage on our executive officers.

Risks Specific to Our Investment in Concord

In addition to the risks described above, our investment in Concord is subject to the following additional risks:

Concord engages in hedging transactions that may limit gains or result in losses.

Concord uses derivatives to hedge its liabilities and this has certain risks, including losses on a hedge position, which have in the past and may in the future reduce the return on our investment in Concord and such losses may exceed the amount invested in such instruments. In addition, counterparties to a hedging arrangement could default on their obligations. Concord may have to pay certain costs, such as transaction fees or brokerage costs related to its hedging transactions.



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The loans Concord invests in are subject to delinquency, foreclosure and loss.

Concord's commercial real estate loans and loan securities are directly and indirectly secured by income producing property. These loans are subject to risks of delinquency and foreclosure as well as risk associated with the capital markets. The ability of a borrower to repay a loan secured by an income-producing property typically is dependent primarily upon the successful operation of such property rather than upon the existence of independent income or assets of the borrower. If a borrower were to default on a loan, it is possible that Concord would not recover the full value of the loan.

The subordinate loan assets Concord invests in may be subject to risks relating to the structure and terms of the transactions, and there may not be sufficient funds or assets remaining to satisfy our subordinate notes, which may result in losses to Concord.

Concord invests in loan assets that are subordinate in payment and collateral to more senior loans. If a borrower defaults or declares bankruptcy, after the more senior obligations are satisfied, there may not be sufficient funds or assets remaining to satisfy Concord's subordinate notes. Because each transaction is privately negotiated, subordinate loan assets can vary in their structural characteristics and lender rights including Concord's rights to control the default or bankruptcy process varies from transaction to transaction. The subordinate loan assets that Concord invests in may not give Concord the right to demand foreclosure as a subordinate debtholder. Furthermore, the presence of intercreditor agreements may limit Concord's ability to amend the loan documents, assign the loans, accept prepayments, exercise remedies and control decisions made in bankruptcy proceedings relating to borrowers. Bankruptcy and borrower litigation can significantly increase the time needed for Concord to acquire possession of underlying collateral in the event of a default, during which time the collateral may decline in value. In addition, there are significant costs and delays associated with the foreclosure process.

Concord invests in subordinate mortgage-backed securities which are subject to a greater risk of loss than senior securities. Concord may hold the most junior class of mortgage-backed securities which are subject to the first risk of loss if any losses are realized on the underlying mortgage loans.

Concord invests in a variety of subordinate loan securities, and sometimes hold a "first loss" subordinate holder position. The ability of a borrower to make payments on the loan underlying these securities is dependent primarily upon the successful operation of the property rather than upon the existence of independent income or assets of the borrower since the underlying loans are generally non-recourse in nature. In the event of default and the exhaustion of any equity support, reserve funds, letters of credit and any classes of securities junior to those in which Concord invests, Concord will not be able to recover all of its investment in the securities purchased.

The widening of credit spreads has had and will continue to have a negative impact on the value of Concord's assets.

Although Concord acquired its loan assets and loan securities with the intent to hold them to maturity, the value of Concord's loan assets and loan securities is dependent upon the yield demanded on these assets by the market based on the underlying credit. A large supply of these loan securities combined with reduced demand will generally cause the market to require a higher yield on these loan securities, resulting in a higher, or "wider," spread over the benchmark rate of such loan securities. Under these conditions such as those that we are currently experiencing, the value of loan securities in Concord's portfolio has and will tend to decline. Such changes in the market value of Concord's portfolio has and will adversely affect Concord's net equity through their impact on unrealized gains or losses on available-for-sale loan securities, and therefore Concord's cash flow since Concord would be unable to realize gains through sale of such loan securities. Also, they have and could continue to adversely affect Concord's ability to borrow and access capital.

Concord prices its assets based on its assumptions about future credit spreads for financing of those assets. Concord has obtained in the past longer term financing for its assets using structured financing techniques such as collateralized debt obligations (CDOs). Such issuances entail interest rates set at a spread over a certain benchmark, such as the yield on United States Treasury obligations, swaps or LIBOR. If the spread that investors are paying on structured finance vehicles over the benchmark widens and the rates Concord charges on its securitized assets are not increased accordingly, this may reduce Concord’s income or cause losses.



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The deterioration of the credit markets has had an adverse impact on the ability of Concord's borrowers to obtain replacement financing.

The deterioration of credit markets has made it extremely difficult for borrowers to obtain mortgage financing. The inability of Concord's borrowers to obtain replacement financing has led and will likely continue to lead to more loan defaults thereby resulting in expensive and time consuming foreclosure actions and/or negotiated extensions to existing loans beyond their current expirations on terms which may not be as favorable to Concord as the existing loans.

The repurchase agreements that Concord uses to finance its investments may require it to provide additional collateral.

If the market value of the loan assets and loan securities pledged or sold by Concord to repurchase counterparties decline in value, which decline is determined, in most cases, by the repurchase counterparties, Concord may be required by the repurchase counterparties to provide additional collateral or pay down a portion of the funds advanced. Posting additional collateral to support its repurchase facilities will reduce Concord's return on assets and liquidity as well as limit its ability to leverage its assets. If Concord cannot post additional collateral, Concord will be required to satisfy the margin calls in cash. Accordingly, if Concord is required to use its cash, or if it does not have sufficient cash, to meet such requirements, it will result in a rapid deterioration of Concord's financial condition and solvency as well as the loss of assets to the repurchase counterparties, thereby adversely affecting our investment in Concord.

The credit and capital market deterioration has significantly strained Concord's liquidity.

The inability of Concord to obtain replacement financing coupled with pending maturities and margin calls on its repurchase obligations has significantly strained Concord's liquidity as cash from operations is required to be used primarily to satisfy repayments under repurchase agreements and margin calls. Until there is a recovery in the credit and capital markets and depending on the length of the extent of margin calls and loan defaults, Concord will likely have to utilize its cash flow to meet regular debt service payments as well as margin calls on its repurchase facilities and preferred distribution payments thereby reducing distributions to members. In addition, if alternative financing is not available or the level of defaults on Concord's loan assets and loan securities increases, Concord may not have sufficient liquidity to satisfy its debt obligations which may require Concord to liquidate assets at unfavorable pricing.

Credit ratings assigned to Concord's investments are subject to ongoing evaluations and we cannot be sure that the ratings currently assigned to Concord's investments will not be downgraded.

Some of Concord's investments are rated by the major rating agencies. The credit ratings on these investments are subject to ongoing evaluation by credit rating agencies. If rating agencies assign a lower rating or reduce, or indicate that they may reduce, their ratings of Concord's investments, the market value of those investments could significantly decline, which could have an adverse affect on Concord's financial condition.

The coverage tests in Concord's existing CDO may have a negative impact on Concord's operating results and cash flows.

Concord's current CDO contains coverage tests, including over-collateralization tests, which are used primarily to determine whether and to what extent principal and interest proceeds on the underlying collateral debt securities and other assets may be used to pay principal and interest on the subordinate classes of bonds in the CDO. In the event the coverage tests are not met, distributions otherwise payable to Concord may be re-directed to pay principal on the bond classes senior to Concord's. Therefore, Concord's failure to satisfy the coverage tests could adversely affect Concord's operating results and cash flows.

Certain coverage tests which may be applicable to Concord's interest in its CDOs (based on delinquency levels or other criteria) may also restrict Concord's ability to receive net income from assets pledged to secure the CDO. If Concord's assets fail to perform as anticipated, Concord's over-collateralization or other credit enhancement expense associated with its CDOs will increase.

## Item 1B. Unresolved Staff Comments

There are no unresolved written comments that were received from the SEC staff 180 days or more before the end of our fiscal year relating to our periodic or current reports under the Securities Exchange Act of 1934.



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Item 2. Properties

Real Estate Portfolio

General. As of December 31, 2008, we had ownership interests in approximately 40.2 million square feet of rentable space in approximately 225 consolidated office, industrial and retail properties. As of December 31, 2008, our properties were approximately 93.3% leased based upon net rentable square feet.

Our properties are generally subject to net leases; however, in certain leases we are responsible for roof and structural repairs. In such situations, we perform annual inspections of the properties. In addition, certain of our properties (including those held through non-consolidated entities) are subject to leases in which the landlord is responsible for a portion of the real estate taxes, utilities and general maintenance. We are responsible for all operating expenses of any vacant properties and we may be responsible for a significant amount of operating expenses of multi-tenant properties.

Ground Leases. Certain of our properties are subject to long-term ground leases where a third party owns and leases the underlying land to us. Certain of these properties are economically owned through the holding of industrial revenue bonds and as such neither ground lease payments nor bond interest payments are made or received, respectively. For certain of the properties held under a ground lease, we have a purchase option. At the end of these long-term ground leases, unless extended or the purchase option exercised, the land together with all improvements thereon reverts to the landowner. In addition, we have one property in which a portion of the land, on which a portion of the parking lot is located, is subject to a ground lease. At expiration of the ground lease, only that portion of the parking lot reverts to the landowner.

Leverage. As of December 31, 2008, we had outstanding mortgages and notes payable, including mortgages classified as discontinued operations, of $2.4 billion with a weighted average interest rate of 5.6%.

Table Regarding Real Estate Holdings

LEXINGTON CONSOLIDATED PORTFOLIO
PROPERTY CHART
OFFICE

| Property Location | City | State | Primary Tenant (Guarantor) | Net Rentable Square Feet |
|---|---|---|---|---|
| 12209 W. Markham St. | Little Rock | AR | Entergy Arkansas, Inc. | 36,31 |
| 13430 N. Black Canyon Fwy | Phoenix | AZ | Bull HN Information Systems, Inc. | 138,430 |
| 2211 S. 47th St. | Phoenix | AZ | Avnet, Inc. | 176,402 |
| 2005 E. Technology Circle | Tempe | AZ | (i) Structure, LLC (Infocrossing, Inc.) | 60,000 |
| 275 S. Valencia Ave | Brea | CA | Bank of America NT & SA | 637,503 |
| 1770 Cartwright Rd | Irvine | CA | Multi-tenanted | 149,194 |
| 26210 & 26220 Enterprise Court | Lake Forest | CA | Apria Healthcare, Inc. (Apria Healthcare Group, Inc.) | 100,012 |
| 1500 Hughes Way | Long Beach | CA | Multi-tenanted | 490,054 |
| 2706 Media Center Dr. | Los Angeles | CA | Playboy Enterprises, Inc. | 83,252 |
| 3333 Coyote Hill Road | Palo Alto | CA | Xerox Corporation | 202,000 |
| 5724 W. Las Positas Blvd. | Pleasanton | CA | NK Leasehold | 40,914 |
| 255 California St. | San Francisco | CA | Multi-tenanted | 169,927 |
| 9201 E. Dry Creek Rd | Centennial | CO | The Shaw Group, Inc. | 128,500 |
| 1110 Bayfield Dr. | Colorado Springs | CO | Honeywell International, Inc. | 166,575 |
| 5550 Tech Center Dr. | Colorado Springs | CO | Federal Express Corporation | 61,690 |
| 3940 S. Teller St. | Lakewood | CO | Travelers Express Company, Inc. | 68,163 |
| 1315 W. Century Dr. | Louisville | CO | Global Healthcare Exchange | 106,877 |
| 10 John St. | Clinton | CT | Vacant | 41,188 |
| 200 Executive Blvd. S. | Southington | CT | Hartford Fire Insurance Company | 153,364 |
| 100 Barnes Rd | Wallingford | CT | 3M Company | 44,400 |
| 5600 Broken Sound Blvd. | Boca Raton | FL | Océ Printing Systems USA, Inc. (Océ -USA Holding, Inc.) | 136,789 |
| 12600 Gateway Blvd. | Fort Meyers | FL | Gartner, Inc. | 62,400 |
| 550 Business Center Dr. | Lake Mary | FL | JPMorgan Chase Bank, NA | 125,920 |
| 600 Business Center Dr. | Lake Mary | FL | JPMorgan Chase Bank, NA | 125,155 |

LEXINGTON CONSOLIDATED PORTFOLIO
PROPERTY CHART
OFFICE

| Property Location | City | State | Primary Tenant (Guarantor) |
|---|---|---|---|
| 6277 Sea Harbor Dr. | Orlando | FL | Harcourt Brace Jovanovich, Inc. |
| 9200 S. Park Center Loop | Orlando | FL | Corinthian Colleges, Inc. |
| Sandlake Rd./Kirkman Rd | Orlando | FL | Lockheed Martin Corporation |
| 4200 RCA Blvd. | Palm Beach Gardens | FL | The Wackenhut Corporation |
| 6303 Barfield Rd | Atlanta | GA | International Business Machines Corporation (Internet Security Syst |
| 859 Mount Vernon Hwy | Atlanta | GA | International Business Machines Corporation (Internet Security Syst |
| 160 Clairemont Ave | Decatur | GA | Multi-tenanted |
| 4000 Johns Creek Pkwy | Suwanee | GA | Kraft Foods N.A., Inc. |
| King St. | Honolulu | HI | Multi-tenanted |
| 1275 N.W. 128th St. | Clive | IA | Principal Life Insurance Company |
| 101 E. Erie St. | Chicago | IL | Draftfcb, Inc. (Interpublic Group of Companies, Inc.) |
| 850 & 950 Warrenville Rd | Lisle | IL | National Louis University |
| 500 Jackson St. | Columbus | IN | Cummins, Inc. |
| 10300 Kincaid Dr. | Fishers | IN | JP Morgan Chase Bank, N.A. |
| 10475 Crosspoint Blvd. | Fishers | IN | John Wiley & Sons, Inc. |
| 5757 Decatur Blvd. | Indianapolis | IN | Allstate Insurance Company |
| 11201 Renner Blvd. | Lenexa | KS | Applebee's Services, Inc. (DineEquity, Inc.) |
| 5200 Metcalf Ave | Overland Park | KS | Swiss Re American Holding Corporation |
| 2300 Litton Lane | Hebron | KY | Zwicker & Associates, P.C. |
| 4455 American Way | Baton Rouge | LA | Bell South Mobility, Inc. |
| 147 Milk St. | Boston | MA | Harvard Vanguard Medical Association |
| 33 Commercial St. | Foxboro | MA | Invensys Systems, Inc. (Siebe, Inc.) |
| 100 Light St. | Baltimore | MD | Multi-tenanted |
| 37101 Corporate Dr. | Farmington Hills | MI | TEMIC Automotive of North America, Inc. |
| 26555 Northwestern Hwy | Southfield | MI | Federal-Mogul Corporation |
| 3165 McKelvey Rd | Bridgeton | MO | BJC Health System |
| 9201 Stateline Rd | Kansas City | MO | Swiss Re American Holding Corporation |
| 200 Lucent Lane | Cary | NC | Alcatel-Lucent USA, Inc. |
| 11707 Miracle Hills Dr. | Omaha | NE | Infocrossing, LLC (Infocrossing, Inc.) |
| 700 US Hwy. Route 202-206 | Bridgewater | NJ | Biovail Pharmaceuticals, Inc. (Biovail Corporation) |
| 389 & 399 Interpace Hwy | Parsippany | NJ | Sanofi-aventis U.S., Inc. (Aventis, Inc. & Aventis Pharma Holding C |
| 333 Mount Hope Ave | Rockaway | NJ | BASF Corporation |
| 1415 Wyckoff Rd | Wall | NJ | New Jersey Natural Gas Company |
| 29 S. Jefferson Rd | Whippany | NJ | CAE SimuFlite, Inc. |

LEXINGTON CONSOLIDATED PORTFOLIO
PROPERTY CHART
OFFICE

| Property Location | City | State | Primary Tenant (Guarantor) | Net Rentable Square Feet | Current Lease Term Expiration | Percent Leased |
|---|---|---|---|---|---|---|
| 6226 W. Sahara Ave | Las Vegas | NV | Nevada Power Company | 282,000 | 1/31/2014 | 100% |
| 180 S. Clinton St. | Rochester | NY | Frontier Corporation | 226,000 | 12/31/2014 | 100% |
| 5550 Britton Pkwy | Hilliard | OH | BMW Financial Services NA, LLC | 220,966 | 2/28/2021 | 100% |
| 2000 Eastman Dr. | Milford | OH | Siemens Product Lifestyle Management Software, Inc. | 221,215 | 4/30/2016 | 100% |
| 500 Olde Worthington Rd | Westerville | OH | InVentiv Communications, Inc. | 97,000 | 9/30/2015 | 100% |
| 4848 129th E. Ave | Tulsa | OK | Metris Direct, Inc. (Metris Companies, Inc.) | 101,100 | 1/31/2010 | 100% |
| 180 Rittenhouse Circle | Bristol | PA | Jones Management Service Company | 96,000 | 7/31/2018 | 100% |
| 275 Technology Dr. | Canonsburg | PA | ANSYS, Inc. | 107,872 | 12/31/2014 | 100% |
| 2550 Interstate Dr. | Harrisburg | PA | New Cingular Wireless PCS, LLC | 81,859 | 12/13/2013 | 100% |
| 1701 Market St. | Philadelphia | PA | Morgan, Lewis & Bockius, LLC | 307,775 | 1/31/2014 | 100% |
| 1460 Tobias Gadsen Blvd. | Charleston | SC | Hagemeyer North America, Inc. | 50,076 | 7/8/2020 | 100% |
| 2210 Enterprise Dr. | Florence | SC | JPMorgan Chase Bank, NA | 179,300 | 6/30/2013 | 100% |
| 3476 Stateview Blvd. | Fort Mill | SC | Wells Fargo Home Mortgage, Inc. | 169,083 | 1/30/2013 | 100% |
| 3480 Stateview Blvd. | Fort Mill | SC | Wells Fargo Bank, N.A. | 169,218 | 5/31/2014 | 100% |
| 15 Nijborg | 3927 DA Renswoude | The Netherlands | AS Watson (Health & Beauty Continental Europe, BV) | 17,610 | 12/20/2011 | 100% |
| 17 Nijborg | 3927 DA Renswoude | The Netherlands | AS Watson (Health & Beauty Continental Europe, BV) | 114,195 | 6/14/2018 | 100% |
| 207 Mockingbird Lane | Johnson City | TN | Sun Trust Bank | 63,800 | 11/30/2011 | 100% |
| 1409 Centerpoint Blvd. | Knoxville | TN | Alstom Power, Inc. | 84,404 | 10/31/2014 | 100% |
| 104 & 110 S. Front St. | Memphis | TN | Hnedak Bobo Group, Inc. | 37,229 | 10/31/2016 | 100% |
| 3965 Airways Blvd. | Memphis | TN | Federal Express Corporation | 521,286 | 6/19/2019 | 100% |
| 350 Pine St. | Beaumont | TX | Multi-tenanted | 425,198 | Various | 79% |
| 3535 Calder Ave | Beaumont | TX | Compass Bank | 49,639 | 12/31/2014 | 100% |
| | Carrollton | TX | | 138,443 | 7/31/2015 | 100% |

| | | | | | | |
|---|---|---|---|---|---|---|
| 4001 International Pkwy | | | Motel 6 Operating, LP (Accor S.A.) | | | |
| 4201 Marsh Lane | Carrollton | TX | Carlson Restaurants Worldwide, Inc. (Carlson Companies, Inc.) | 130,000 | 11/30/2018 | 100% |
| 555 Dividend Dr. | Coppell | TX | Brinks, Inc. | 101,844 | 4/30/2017 | 100% |
| 1600 Viceroy Dr. | Dallas | TX | TFC Services, Inc. (Freeman Decorating Company) | 212,744 | 1/31/2019 | 74% |
| 6301 Gaston Ave | Dallas | TX | Multi-tenanted | 173,855 | Various | 60% |
| 11511 Luna Rd | Farmers Branch | TX | Haggar Clothing Company (Texas Holding Clothing Corporation & Haggar Corporation) | 180,507 | 4/30/2016 | 100% |
| 10001 Richmond Ave | Houston | TX | Baker Hughes, Inc. | 554,385 | 9/27/2015 | 100% |
| 1311 Broadfield Blvd. | Houston | TX | Transocean Offshore Deepwater Drilling, Inc. (Transocean Sedco Forex, Inc.) | 155,991 | 3/31/2011 | 100% |
| 15375 Memorial Dr. | Houston | TX | BP America Production Company | 349,674 | 9/15/2009 | 100% |

LEXINGTON CONSOLIDATED PORTFOLIO
PROPERTY CHART
OFFICE

| Property Location | City | State | Primary Tenant (Guarantor) | Net Rentable Square Feet | Current Lease Term Expiration | Percent Leased |
|---|---|---|---|---|---|---|
| 16676 Northchase Dr. | Houston | TX | Anadarko Petroleum Corporation | 101,111 | 7/31/2014 | 100% |
| 810 & 820 Gears Rd | Houston | TX | IKON Office Solutions, Inc. | 157,790 | 1/31/2013 | 100% |
| 6555 Sierra Dr. | Irving | TX | TXU Energy Retail Company, LLC (Texas Competitive Electric Holdings Company, LLC) | 247,254 | 3/31/2023 | 100% |
| 8900 Freeport Pkwy | Irving | TX | Nissan Motor Acceptance Corporation (Nissan North America, Inc.) | 268,445 | 3/31/2013 | 100% |
| 6200 Northwest Pkwy | San Antonio | TX | United Healthcare Services, Inc. | 142,500 | 11/30/2010 | 100% |
| 12645 W. Airport Rd | Sugar Land | TX | Baker Hughes, Inc. | 165,836 | 9/27/2015 | 100% |
| 2050 Roanoke Rd | Westlake | TX | Daimler Chrysler Services North America, LLC | 130,290 | 12/31/2011 | 100% |
| 295 Chipeta Way | Salt Lake City | UT | Northwest Pipeline Corporation | 295,000 | 9/15/2018 | 100% |
| 100 E. Shore Dr. | Glen Allen | VA | Multi-tenanted | 67,508 | Various | 95% |
| 120 E. Shore Dr. | Glen Allen | VA | Capital One Services, Inc. | 77,045 | 3/31/2010 | 100% |
| 130 E. Shore Dr. | Glen Allen | VA | Capital One Services, Inc. | 79,675 | 2/10/2010 | 100% |
| 400 Butler Farm Rd | Hampton | VA | Nextel Communications of the Mid-Atlantic, Inc. (Nextel Finance Company) | 100,632 | 12/31/2014 | 100% |
| 421 Butler Farm Rd | Hampton | VA | Nextel Communications of the Mid-Atlantic, Inc. (Nextel Finance Company) | 56,515 | 1/14/2010 | 100% |
| 13651 McLearen Rd | Herndon | VA | US Government | 159,664 | 5/30/2018 | 100% |
| 13775 McLearen Rd | Herndon | VA | Equant, Inc. (Equant N.V.) | 125,293 | 4/30/2015 | 100% |
| 2800 Waterford Lake Dr. | Richmond | VA | Alstom Power, Inc. | 99,057 | 10/31/2014 | 100% |
| 9950 Mayland Dr. | Richmond | VA | Circuit City Stores, Inc. | 288,000 | 2/28/2010 | 100% |
| 22011 S.E. 51st St. | Issaquah | WA | OSI Systems, Inc. (Instrumentarium Corporation) | 95,600 | 12/14/2014 | 100% |
| 5150 220th Ave | Issaquah | WA | OSI Systems, Inc. (Instrumentarium Corporation) | 106,944 | 12/14/2014 | 100% |
| | | | Office Total | 17,496,829 | | |

24

LEXINGTON CONSOLIDATED PORTFOLIO
PROPERTY CHART
INDUSTRIAL

| Property Location | City | State | Primary Tenant (Guarantor) | Net Rentable Square Feet | Current Lease Term Expiration | Percent Leased |
|---|---|---|---|---|---|---|
| 2415 U.S. Hwy 78 E. | Moody | AL | CEVA Logistics U.S., Inc. (TNT Holdings B.V.) | 595,346 | 1/2/2014 | 100% |
| 1665 Hughes Way | Long Beach | CA | Vacant | 200,541 | None | 0% |
| 2455 Premier Dr. | Orlando | FL | Walgreen Company | 205,016 | 3/31/2011 | 100% |
| 3102 Queen Palm Dr. | Tampa | FL | Time Customer Service, Inc. (Time, Inc.) | 229,605 | 6/30/2020 | 100% |
| 1420 Greenwood Rd | McDonough | GA | Versacold USA, Inc. | 296,972 | 10/31/2017 | 100% |
| 7500 Chavenelle Rd | Dubuque | IA | The McGraw-Hill Companies, Inc. | 330,988 | 6/30/2017 | 100% |
| 3600 Southgate Dr. | Danville | IL | The Sygma Network, Inc. (Sysco Corporation) | 201,369 | 9/30/2023 | 100% |
| 3686 S. Central Ave | Rockford | IL | Jacobson Warehouse Company, Inc. (Jacobson Distribution Company, Inc. and Jacobson Transportation Company, Inc.) | 90,000 | 12/31/2014 | 100% |
| 749 Southrock Dr. | Rockford | IL | Jacobson Warehouse Company, Inc. (Jacobson Distribution Company, Inc. and Jacobson Transportation Company, Inc.) | 150,000 | 12/31/2015 | 100% |
| 10000 Business Blvd. | Dry Ridge | KY | Dana Light Axle Products, LLC (Dana Limited) | 336,350 | 6/30/2025 | 100% |
| 730 N. Black Branch Rd | Elizabethtown | KY | Dana Structural Products, LLC (Dana Limited) | 167,770 | 6/30/2025 | 100% |
| 750 N. Black Branch Rd | Elizabethtown | KY | Dana Structural Products, LLC (Dana Limited) | 539,592 | 6/30/2025 | 100% |
| 301 Bill Bryan Rd | Hopkinsville | KY | Dana Structural Products, LLC (Dana Limited) | 424,904 | 6/30/2025 | 100% |
| 1901 Ragu Dr. | Owensboro | KY | Unilever Supply Chain, Inc. (Unilever United States, Inc.) | 443,380 | 12/19/2020 | 100% |
| 4010 Airpark Dr. | Owensboro | KY | Dana Structural Products, LLC (Dana Limited) | 211,598 | 6/30/2025 | 100% |
| 7150 Exchequer Dr. | Baton Rouge | LA | Corporate Express Office Products, Inc. (Corporate Express US, Inc.) | 79,086 | 10/31/2013 | 100% |
| 5001 Greenwood Rd | Shreveport | LA | Libbey Glass, Inc. (Libbey, Inc.) | 646,000 | 10/31/2026 | 100% |
| 113 Wells St. | North Berwick | ME | United Technologies Corporation | 820,868 | 12/31/2010 | 100% |
| 1601 Pratt Ave | Marshall | MI | Joseph Campbell Company | 58,300 | 9/30/2011 | 100% |
| 43955 Plymouth Oaks Blvd. | Plymouth | MI | Tower Automotive Operations USA I, LLC (Tower Automotive | 290,133 | 10/31/2012 | 100% |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | Holdings I, LLC) | | | |
| 46600 Port St. | Plymouth | MI | Vacant | 134,160 | None | 0% |
| 7111 Crabb Rd | Temperance | MI | CEVA Logistics U.S., Inc. (TNT Holdings B.V.) | 744,570 | 8/4/2012 | 100% |
| 7670 Hacks Cross Rd | Olive Branch | MS | MAHLE Clevite, Inc. (MAHLE Industries, Inc,) | 268,104 | 2/28/2016 | 100% |
| 1133 Poplar Creek Rd | Henderson | NC | Corporate Express Office Products, Inc. (Corporate Express US, Inc.) | 196,946 | 1/31/2014 | 100% |
| 250 Swathmore Ave | High Point | NC | Steelcase, Inc. | 244,851 | 9/30/2017 | 100% |
| 2880 Kenny Biggs Rd | Lumberton | NC | Quickie Manufacturing Corporation | 423,280 | 11/30/2021 | 100% |
| 2203 Sherrill Dr. | Statesville | NC | LA-Z-Boy Greensboro, Inc. (LA-Z-Boy, Inc.) | 639,600 | 4/30/2010 | 100% |
| 121 Technology Dr. | Durham | NH | Heidelberg Web Systems, Inc. | 500,500 | 3/30/2021 | 100% |
| 1109 Commerce Blvd. | Swedesboro | NJ | Vacant | 262,644 | None | 0% |
| 75 N. St. | Saugerties | NY | Rotron, Inc. (EG&G) | 52,000 | 12/31/2009 | 100% |
| 10590 Hamilton Ave | Cincinnati | OH | The Hillman Group, Inc. | 247,088 | 8/31/2016 | 100% |
| 1650 - 1654 Williams Rd | Columbus | OH | ODW Logistics, Inc. | 772,450 | 6/30/2018 | 100% |
| 7005 Cochran Rd | Glenwillow | OH | Royal Appliance Manufacturing Company | 458,000 | 7/31/2025 | 100% |

LEXINGTON CONSOLIDATED PORTFOLIO
PROPERTY CHART
INDUSTRIAL

| Property Location | City | State | Primary Tenant (Guarantor) | Net Rentable Square Feet | Current Lease Term Expiration | Percent Leased |
|---|---|---|---|---|---|---|
| 191 Arrowhead Dr. | Hebron | OH | Owens Corning Insulating Systems, LLC | 250,410 | Month to Month | 41% |
| 200 Arrowhead Dr. | Hebron | OH | Owens Corning Insulating Systems, LLC | 401,260 | 5/31/2009 | 100% |
| 10345 Philipp Pkwy | Streetsboro | OH | L'Oreal USA S/D, Inc. (L'Oreal USA, Inc.) | 649,250 | 10/17/2019 | 100% |
| 250 Rittenhouse Circle | Bristol | PA | Vacant | 255,019 | None | 0% |
| 245 Salem Church Rd | Mechanicsburg | PA | Exel Logistics, Inc. (NFC plc) | 252,000 | 12/31/2012 | 100% |
| 34 E. Main St. | New Kingston | PA | Vacant | 179,200 | None | 0% |
| 6 Doughten Rd | New Kingston | PA | Vacant | 330,000 | None | 0% |
| 224 Harbor Freight Rd. | Dillon | SC | Harbor Freight Tools USA, Inc. (Central Purchasing, Inc.) | 1,010,859 | 12/31/2021 | 100% |
| 50 Tyger River Dr. | Duncan | SC | Plastic Omnium Exteriors, LLC | 221,833 | 9/30/2018 | 100% |
| 101 Michelin Dr. | Laurens | SC | CEVA Logistics U.S., Inc. (TNT Holdings B.V.) | 1,164,000 | 8/4/2012 | 100% |
| 6050 Dana Way | Antioch | TN | W.M. Wright Company | 677,400 | 3/31/2021 | 50% |
| 477 Distribution Pkwy | Collierville | TN | Federal Express Corporation | 120,000 | 5/31/2021 | 100% |
| 900 Industrial Blvd. | Crossville | TN | Dana Commercial Vehicle Products, LLC (Dana Limited) | 222,200 | 9/30/2016 | 100% |
| 3350 Miac Cove Rd | Memphis | TN | Mimeo.com, Inc. | 141,359 | 9/30/2020 | 84% |
| 3456 Meyers Ave | Memphis | TN | Sears, Roebuck & Company | 780,000 | 2/28/2017 | 100% |
| 3820 Micro Dr. | Millington | TN | Ingram Micro, LP (Ingram Micro, Inc.) | 701,819 | 9/25/2011 | 100% |
| 19500 Bulverde Rd | San Antonio | TX | Harcourt, Inc. (Harcourt General, Inc.) | 559,258 | 3/31/2016 | 100% |
| 2425 Hwy 77 N. | Waxahachie | TX | James Hardie Building Products, Inc. (James Hardie N.V.) | 335,610 | 3/31/2020 | 100% |
| 291 Park Center Dr. | Winchester | VA | Kraft Foods North America, Inc. | 344,700 | 5/31/2011 | 100% |
| | | | Industrial Total | 19,858,188 | | |

LEXINGTON CONSOLIDATED PORTFOLIO
PROPERTY CHART
RETAIL/OTHER

| Property Location | City | State | Primary Tenant (Guarantor) | Net Rentable Square Feet | Current Lease Term Expiration | Percent Leased |
|---|---|---|---|---|---|---|
| 302 Coxcreek Pkwy | Florence | AL | The Kroger Company | 42,130 | 7/1/2013 | 100% |
| 5544 Atlanta Hwy | Montgomery | AL | Vacant | 60,698 | None | 0% |
| 10415 Grande Ave | Sun City | AZ | Cafeteria Operators, LP (Furrs Restaurant Group, Inc.) | 10,000 | 4/30/2012 | 100% |
| 255 Northgate Dr. | Manteca | CA | Kmart Corporation | 107,489 | 12/31/2018 | 100% |
| 12080 Carmel Mountain Rd | San Diego | CA | Sears Holding Corporation | 107,210 | 12/31/2018 | 100% |
| 10340 U.S. 19 | Port Richey | FL | Kingswere Furniture | 53,820 | 11/30/2017 | 100% |
| 2010 Apalachee Pkwy | Tallahassee | FL | Kohl’s Department Stores, Inc. | 102,381 | 1/31/2028 | 100% |
| 2223 N. Druid Hills Rd | Atlanta | GA | Bank of America, N.A. (Bank of America Corporation) | 6,260 | 12/31/2014 | 100% |
| 956 Ponce de Leon Ave | Atlanta | GA | Bank of America, N.A. (Bank of America Corporation) | 3,900 | 12/31/2014 | 100% |
| 4545 Chamblee-Dunwoody Rd | Chamblee | GA | Bank of America, N.A. (Bank of America Corporation) | 4,565 | 12/31/2014 | 100% |
| 201 W. Main St. | Cumming | GA | Bank of America, N.A. (Bank of America Corporation) | 14,208 | 12/31/2014 | 100% |
| 3468 Georgia Hwy 120 | Duluth | GA | Bank of America, N.A. (Bank of America Corporation) | 9,300 | 12/31/2009 | 100% |
| 1066 Main St. | Forest Park | GA | Bank of America, N.A. (Bank of America Corporation) | 14,859 | 12/31/2014 | 100% |
| 825 Southway Dr. Blvd. | Jonesboro | GA | Bank of America, N.A. (Bank of America Corporation) | 4,894 | 12/31/2014 | 100% |
| 1698 Mountain Industrial | Stone Mountain | GA | Bank of America, N.A. (Bank of America Corporation) | 5,704 | 12/31/2014 | 100% |
| 1032 Fort St. Mall | Honolulu | HI | Macy’s Department Stores, Inc. | 85,610 | 9/30/2009 | 100% |
| 1150 W. Carl Sandburg Dr. | Galesburg | IL | Kmart Corporation | 94,970 | 12/31/2018 | 100% |
| 928 First Ave | Rock Falls | IL | Rock Falls Country Market, LLC (Rock Island Country Market, LLC) | 27,650 | 9/30/2011 | 100% |
| 5104 N. Franklin Rd | Lawrence | IN | Marsh Supermarkets, Inc. | 28,721 | 10/31/2013 | 100% |
| 205 Homer Rd | Minden | LA | Brookshire Grocery | 35,000 | 11/30/2012 | 100% |
| 35400 Cowan Rd | Westland | MI | Sam’s Real Estate Business Trust | 101,402 | 1/31/2009 | 100% |
| 24th St. W. & St. John’s Ave | Billings | MT | Safeway Stores, Inc. | 40,800 | 5/31/2010 | 100% |

| | | | | | | |
|---|---|---|---|---|---|---|
| 2526 Little Rock Rd | Charlotte | NC | Food Lion, Inc. | 33,640 | 10/31/2013 | 100% |
| 3501 U.S. 601 S. | Concord | NC | Food Lion, Inc. | 32,259 | 10/31/2013 | 100% |
| 104 Branchwood Shopping Center | Jacksonville | NC | Food Lion, Inc. | 23,000 | 2/28/2013 | 100% |
| US 221 & Hospital Rd | Jefferson | NC | Food Lion, Inc. | 23,000 | 2/28/2013 | 100% |
| 291 Talbert Blvd. | Lexington | NC | Food Lion, Inc. | 23,000 | 2/28/2013 | 100% |
| 835 Julian Ave | Thomasville | NC | Mighty Dollar, LLC | 23,767 | 9/30/2018 | 100% |
| 900 S. Canal St. | Carlsbad | NM | Cafeteria Operators, LP (Furrs Restaurant Group, Inc.) | 10,000 | 4/30/2012 | 100% |
| 130 Midland Ave | Port Chester | NY | Pathmark Stores, Inc. | 59,000 | 10/31/2013 | 100% |
| 21082 Pioneer Plaza Dr. | Watertown | NY | Kmart Corporation | 120,727 | 12/31/2018 | 100% |
| 4733 Hills and Dales Rd | Canton | OH | Bally's Total Fitness of the Midwest (Bally's Health & Tennis Corporation) | 37,214 | 12/31/2009 | 100% |
| 4831 Whipple Avenue N.W. | Canton | OH | Best Buy Company, Inc. | 46,350 | 2/26/2018 | 100% |

LEXINGTON CONSOLIDATED PORTFOLIO
PROPERTY CHART
RETAIL/OTHER

| Property Location | City | State | Primary Tenant (Guarantor) | Net Rentable Square Feet | Current Lease Term Expiration | Percent Leased |
|---|---|---|---|---|---|---|
| 1084 E. Second St. | Franklin | OH | Marsh Supermarkets, Inc. | 29,119 | 10/31/2013 | 100% |
| 5350 Leavitt Rd | Lorain | OH | Kmart Corporation | 193,193 | 12/31/2018 | 100% |
| N.E.C. 45th Street & Lee Blvd. | Lawton | OK | Associated Wholesale Grocers, Inc. | 30,757 | 3/31/2014 | 100% |
| 6910 S. Memorial Hwy | Tulsa | OK | Toys “R” Us, Inc. | 43,123 | 5/31/2011 | 100% |
| 12535 S.E. 82nd Ave | Clackamas | OR | Toys “R” Us, Inc. | 42,842 | 5/31/2011 | 100% |
| S. Carolina 52/52 Bypass | Moncks Corner | SC | Food Lion, Inc. | 23,000 | 2/28/2013 | 100% |
| 811 U.S. Highway 17 | North Myrtle Beach | SC | Vacant | 41,021 | None | 0% |
| 399 Peach Wood Centre Dr. | Spartanburg | SC | Best Buy Company, Inc. | 45,800 | 2/26/2018 | 100% |
| 1600 E. 23rd St. | Chattanooga | TN | BI- LO, LLC | 42,130 | 7/1/2010 | 100% |
| 1053 Mineral Springs Rd | Paris | TN | The Kroger Company | 31,170 | 7/1/2013 | 100% |
| 3040 Josey Ln. | Carrollton | TX | Ong’s Family, Inc. | 61,000 | 1/31/2021 | 100% |
| 4121 S. Port Ave | Corpus Christi | TX | Cafeteria Operators, LP (Furr’s Restaurant Group, Inc.) | 10,000 | 4/30/2012 | 100% |
| 1610 S. Westmoreland Ave | Dallas | TX | Malone’s Food Stores | 68,024 | 3/31/2017 | 100% |
| 119 N. Balboa Rd | El Paso | TX | Cafeteria Operators, LP (Furrs Restaurant Group, Inc.) | 10,000 | 4/30/2012 | 100% |
| 3451 Alta Mesa Blvd. | Fort Worth | TX | Minyard Food Stores, Inc. | 44,000 | 5/31/2012 | 100% |
| 101 W. Buckingham Rd | Garland | TX | Minyard Food Stores, Inc. | 40,000 | 11/30/2012 | 100% |
| 1415 Highway 377 E. | Granbury | TX | The Kroger Company | 65,417 | 11/30/2012 | 100% |
| 2500 E. Carrier Pkwy | Grand Prairie | TX | Grocer's Supply | 49,349 | 3/31/2009 | 100% |
| 4811 Wesley St. | Greenville | TX | Safeway Stores, Inc. | 48,492 | 5/31/2011 | 100% |
| 120 S. Waco St. | Hillsboro | TX | Brookshire Grocery | 35,000 | 11/30/2012 | 100% |
| 13133 Steubner Ave | Houston | TX | The Kroger Company | 52,200 | 12/29/2011 | 100% |

| | | | | | | |
|---|---|---|---|---|---|---|
| 5402 4th St. | Lubbock | TX | Vacant | 53,820 | None | 0% |
| 901 W. Expressway | McAllen | TX | Cafeteria Operators, LP (Furrs Restaurant Group, Inc.) | 10,000 | 4/30/2012 | 100% |
| 402 E. Crestwood Dr. | Victoria | TX | Cafeteria Operators, LP (Furrs Restaurant Group, Inc.) | 10,000 | 4/30/2012 | 100% |
| 9400 S. 755 E | Sandy | UT | Vacant | 41,612 | None | 0% |
| 3211 W. Beverly St. | Staunton | VA | Food Lion, Inc. | 23,000 | 2/28/2013 | 100% |
| 9803 Edmonds Way | Edmonds | WA | PCC Natural Markets | 34,459 | 8/31/2028 | 100% |
| 18601 Alderwood Mall Blvd. | Lynnwood | WA | Toys “R” Us, Inc. | 43,105 | 5/31/2011 | 100% |
| 1700 State Route 160 | Port Orchard | WA | Save-A-Lot, Ltd. | 27,968 | 1/31/2015 | 57% |
| 3711 Gateway Dr. | Eau Claire | WI | Kohl’s Department Stores, Inc. | 76,164 | 1/25/2015 | 100% |
| 97 Seneca Trail | Fairlea | WV | Kmart Corporation | 90,933 | 12/31/2018 | 100% |
| | | | Retail/Other Subtotal | 2,810,226 | | |
| | | | Grand Total | 40,165,243 | | |

LEXINGTON
NON-CONSOLIDATED PROPERTY
CHART

| Property Location | City | State | Primary Tenant (Guarantor) | Net Rentable Square Feet | Current Lease Term Expiration | Percent Leased |
|---|---|---|---|---|---|---|
| OFFICE | | | | | | |
| 5201 W. Barraque St. | Pine Bluff | AR | Entergy Services, Inc. | 27,189 | 10/31/2010 | 100% |
| Route 64 W. & Junction 333 | Russellville | AR | Entergy Gulf States | 191,950 | 5/9/2016 | 100% |
| 19019 N. 59th Ave | Glendale | AZ | Honeywell International, Inc. | 252,300 | 7/15/2011 | 100% |
| 8555 S. River Pkwy | Tempe | AZ | ASM Lithography, Inc. (ASM Lithography Holding NV) | 95,133 | 6/30/2013 | 100% |
| 1440 E. 15th St. | Tucson | AZ | Cox Communications, Inc. | 28,591 | 9/30/2016 | 100% |
| 10419 N. 30th St. | Tampa | FL | Time Customer Service, Inc. | 132,981 | 6/30/2020 | 100% |
| 2500 Patrick Henry Pkwy | McDonough | GA | Georgia Power Company | 111,911 | 6/30/2015 | 100% |
| 3500 N. Loop Court | McDonough | GA | Litton Loan Servicing, LP | 62,218 | 8/31/2018 | 100% |
| 3265 E. Goldstone Dr. | Meridian | ID | VoiceStream PCS Holding, LLC (T-Mobile USA, Inc.) | 77,484 | 6/28/2019 | 100% |
| 101 E. Washington Blvd. | Fort Wayne | IN | American Electric Power | 348,452 | 10/31/2016 | 100% |
| 9601 Renner Blvd | Lenexa | KS | Voicestream PCS II Corporation (T-Mobile USA, Inc.) | 77,484 | 10/31/2019 | 100% |
| 70 Mechanic St. | Foxboro | MA | Invensys Systems, Inc. (Siebe, Inc.) | 251,914 | 6/30/2014 | 100% |
| First Park Dr. | Oakland | ME | Omnipoint Holdings, Inc. (T-Mobile USA, Inc.) | 78,610 | 8/31/2020 | 100% |
| 12000 & 12025 Tech Center Dr. | Livonia | MI | Kelsey-Hayes Company (TRW Automotive, Inc.) | 180,230 | 4/30/2014 | 100% |
| 3943 Denny Ave | Pascagoula | MS | Northrop Grumman Systems Corporation | 94,841 | 10/14/2013 | 100% |
| 3201 Quail Springs Pkwy | Oklahoma City | OK | AT& T Wireless Services, Inc. | 128,500 | 11/30/2010 | 100% |
| | Redmond | OR | | 77,484 | 1/31/2019 | 100% |

| | | | | | | |
|---|---|---|---|---|---|---|
| 2999 SW 6th St. | | | VoiceStream PCS I, LLC (T-Mobile USA, Inc.) | | | |
| 265 Lehigh St. | Allentown | PA | Wachovia Bank N.A. | 71,230 | 10/31/2010 | 100% |
| 17 Technology Circle | Columbia | SC | Blue Cross Blue Shield of South Carolina, Inc. | 456,304 | 9/30/2010 | 100% |
| 420 Riverport Rd | Kingport | TN | Kingsport Power Company | 42,770 | 6/30/2013 | 100% |
| 2401 Cherahala Blvd. | Knoxville | TN | Advance PCS, Inc. | 59,748 | 5/31/2013 | 100% |
| 601 & 701 Experian Pkwy | Allen | TX | Experian Information Solutions, Inc. (Experian North America) | 292,700 | 3/14/2018 | 100% |
| 1401 & 1501 Nolan Ryan Pkwy | Arlington | TX | Siemens Dematic Postal Automation, LP | 236,547 | 1/31/2014 | 100% |
| 1200 Jupiter Rd | Garland | TX | Raytheon Company | 278,759 | 5/31/2011 | 100% |
| 2529 W. Thorne Dr. | Houston | TX | Baker Hughes, Inc. | 66,243 | 9/27/2015 | 100% |
| 26410 McDonald Rd | Houston | TX | Montgomery County Management Company, LLC | 41,000 | 10/31/2019 | 100% |
| 3711 San Gabriel | Mission | TX | VoiceStream PCS II Corporation (T-Mobile USA, Inc.) | 75,016 | 6/30/2015 | 100% |
| 11555 University Blvd. | Sugar Land | TX | KS Management Services, LLP (St. Luke's Episcopal Health System Corporation) | 72,683 | 11/30/2020 | 100% |
| 1600 Eberhardt Rd | Temple | TX | Nextel of Texas | 108,800 | 1/31/2016 | 100% |
| 6455 State Hwy 303 N.E. | Bremerton | WA | Nextel West Corporation | 60,200 | 5/14/2016 | 100% |
| | | | Office Total | 4,079,272 | | |

LEXINGTON
NON-CONSOLIDATED PROPERTY
CHART

| Property Location | City | State | Primary Tenant (Guarantor) | Net Rentable Square Feet | Current Lease Term Expiration | Percent Leased |
|---|---|---|---|---|---|---|
| INDUSTRIAL | | | | | | |
| 109 Stevens St. | Jacksonville | FL | Unisource Worldwide, Inc. | 168,800 | 9/30/2009 | 100% |
| 359 Gateway Dr. | Livonia | GA | TI Group Automotive Systems, LLC (TI Automotive Ltd.) | 133,221 | 5/31/2020 | 100% |
| 3600 Army Post Rd | Des Moines | IA | Electronic Data Systems LLC | 405,000 | 4/30/2012 | 100% |
| 2935 Van Vactor Way | Plymouth | IN | Bay Valley Foods, LLC | 300,500 | 6/30/2015 | 100% |
| 6938 Elm Valley Dr. | Kalamazoo | MI | Dana Commercial Vehicle Products, LLC (Dana Limited) | 150,945 | 10/25/2021 | 100% |
| 904 Industrial Rd | Marshall | MI | Tenneco Automotive Operating Company, Inc. (Tenneco, Inc.) | 246,508 | 8/17/2010 | 100% |
| 1901 49th Ave | Minneapolis | MN | Owens Corning Roofing and Asphalt, LLC | 18,620 | 6/30/2015 | 100% |
| 324 Industrial Park Rd | Franklin | NC | SKF USA, Inc. | 72,868 | 12/31/2014 | 100% |
| 736 Addison Rd | Erwin | NY | Corning, Inc. | 408,000 | 11/30/2016 | 100% |
| 590 Ecology Lane | Chester | SC | Owens Corning, Inc. | 420,597 | 7/14/2025 | 100% |
| 120 S.E. Pkwy Dr. | Franklin | TN | Essex Group, Inc. (United Technologies Corporation) | 289,330 | 12/31/2013 | 100% |
| 9110 Grogans Mill Rd | Houston | TX | Baker Hughes, Inc. | 275,750 | 9/27/2015 | 100% |
| 2424 Alpine Rd | Eau Claire | WI | Silver Spring Gardens, Inc. (Huntsinger Farms, Inc.) | 159,000 | 4/30/2027 | 100% |
| | | | Industrial Total | 3,049,139 | | |

LEXINGTON
NON-CONSOLIDATED PROPERTY
CHART

| Property Location | City | State | Primary Tenant (Guarantor) | Net Rentable Square Feet | Current Lease Term Expiration | Percent Leased |
|---|---|---|---|---|---|---|
| RETAIL/OTHER | | | | | | |
| 101 Creger Dr. | Ft. Collins | CO | Lithia Motors | 10,000 | 5/31/2012 | 100% |
| 11411 N. Kelly Ave | Oklahoma City | OK | American Golf Corporation | 13,924 | 12/31/2017 | 100% |
| 1321 Commerce St. | Dallas | TX | Adolphus Associates (Met Life) | 498,122 | 6/15/2009 | 100% |
| 25500 State Hwy 249 | Tomball | TX | Parkway Chevrolet, Inc. (R. Durdin, J. Durdin) | 77,076 | 8/31/2026 | 100% |
| | | | Retail/Other Total | 599,122 | | |
| | | | Grand Total | 7,727,533 | | |

Item 3. Legal Proceedings

From time to time we are involved in legal proceedings arising in the ordinary course of our business. In our management's opinion, after consultation with legal counsel, the outcome of such matters, including the matters set forth below, are not expected to have a material adverse effect on our ownership, financial condition, management or operation of our properties or business.

Lexington Streetsboro LLC v. Alfred Geis, et al.

Beginning in January 2005, on behalf of one of our co-investment programs, we received notices from the tenant in our Streetsboro, Ohio facility regarding certain alleged deficiencies in the construction of the facility as compared to the original building specifications. Upon acquisition of the facility from the developer, the then owner of the facility obtained an indemnity from the principals of the developer covering a breach of construction warranties, the construction and/or the condition of the premises. After two years of correspondence among the owner of the facility, the developer and the tenant, we (after our acquisition of the facility from our co-investment program) entered into an amendment to the lease with the tenant providing for the repair of a portion of the alleged deficiencies and commenced such repairs beginning in the summer of 2007.

Following a demand for reimbursement under the indemnity agreement, we filed suit against the developer and the principals of the developer in the Federal District Court for the Northern District of Ohio on August 10, 2007 for breach of the indemnity agreement, declaratory judgment, unjust enrichment, breach of contract and negligent design (Lexington Streestboro LLC v. Alfred Geis, et al., Case No. 5:07CV2450). On November 1, 2007, the developer filed (1) counter-claims against us for unjust enrichment regarding the repair work performed and for a declaration of its obligations under the indemnity agreement and (2) multiple cross-claims against its sub-contractors asking to be reimbursed for any deficiencies in the building specifications for which they are held liable. The developer was also permitted by the Court to file a claim against the tenant. The claim against the tenant was withdrawn after a settlement of a portion of our claim against the developer.

As of December 31, 2008, we have incurred $4.9 million of costs in connection with repair and other work at the facility.

In August and October 2008, we participated in a court ordered mediation, which did not result in a final settlement. The suit is ongoing and trial is scheduled for October 2009. We have reached a preliminary agreement to settle all claims for a $2.0 million cash payment to us. The agreement is being documented and it is expected that we will execute a settlement agreement within the next 30 days. We can give no assurance that we will receive the $2.0 million cash payment or enter into the settlement agreement.

Deutsche Bank Securities, Inc. and SPCP Group LLC v. Lexington Drake, L.P., et al.

On June 30, 2006, we, including a co-investment program as it relates to the Antioch claim, sold to Deutsche Bank Securities, Inc., which we refer to as Deutsche Bank, (1) a $7.7 million bankruptcy damage claim against Dana Corporation for $5.4 million, which we refer to as the Farmington Hills claim, and (2) a $7.7 million bankruptcy damage claim against Dana Corporation for $5.7 million, which we refer to as the Antioch claim. Under the terms of the agreements covering the sale of the claims, we are obligated to reimburse Deutsche Bank should the claim ever be disallowed, subordinated or otherwise impaired, to the extent of such disallowance, subordination or impairment, plus interest at the rate of 10% per annum from the date of payment of the purchase price by Deutsche Bank to us. On October 12, 2007, Dana Corporation filed an objection to both claims. We assisted Deutsche Bank and the then holders of the claims in the preparation and filing of a response to the objection. Despite a belief by us that the objections were without merit, the holders of the claims, without our consent, settled the allowed amount of the claims

at $6.5 million for the Farmington Hills claim and $7.2 million for the Antioch claim. Deutsche Bank made a formal demand with respect to the Farmington Hills claim in the amount of $0.8 million plus interest, but did not make a formal demand with respect to the Antioch claim. Following a rejection of the demand, Deutsche Bank and SPCP Group, LLC filed a summons and complaint with the Supreme Court of the State of New York, County of New York for the Farmington Hills and Antioch claims, and claimed damages of $1.2 million plus interest and expenses.

We answered the complaint on November 26, 2008 and served numerous discovery requests. We intend to continue to vigorously defend the claims for a variety of reasons, including that (1) the holders of the claims arbitrarily settled the claims for reasons based on factors other than the merits and (2) the holders of the claims voluntarily reduced the claims to participate in certain settlement pools.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Executive Officers of the Registrant

The following sets forth certain information relating to our executive officers:

| Name | Business Experience |
|---|---|
| E. Robert Roskind<br>Age 63 | Mr. Roskind became our Chairman again on March 21, 2008, having previously served as our Co-Vice Chairman from December 31, 2006 to March 21, 2008, our Chairman from October 1993 to December 31, 2006 and our Co-Chief Executive Officer from October 1993 to January 2003. He founded The LCP Group, L.P., a real estate advisory firm, in 1973 and has been its Chairman since 1976. Mr. Roskind also serves as Chairman of Crescent Hotels and Resorts, as a member of the Board of Directors of LCP Investment Corporation, a Japanese real estate investment trust listed on the Tokyo Stock Exchange, and as a member of the Board of Directors of LCP Reit Advisors, the external advisor to LCP Investment Corporation, each of which is an affiliate of the LCP Group L.P. Mr. Roskind spends approximately one-third of his business time on the affairs of The LCP Group L.P. and its affiliates; however, Mr. Roskind prioritizes his business time to address our needs ahead of The LCP Group L.P. |
| Richard J. Rouse<br>Age 63 | Mr. Rouse became our Vice Chairman again on March 21, 2008, having previously served as our Co-Vice Chairman from December 31, 2006 to March 21, 2008, our President from October 1993 to April 1996 and our Co-Chief Executive Officer from October 1993 to January 2003, and continues to serve as our Chief Investment Officer since January 2003 and as one of our trustees since October 1993. |
| T. Wilson Eglin<br>Age 44 | Mr. Eglin has served as our Chief Executive Officer since January 2003, our Chief Operating Officer since October 1993, our President since April 1996 and as a trustee since May 1994. He served as one of our Executive Vice Presidents from October 1993 to April 1996. Mr. Eglin is a member of the Investment Committee of Concord appointed by us. |
| Patrick Carroll<br>Age 45 | Mr. Carroll has served as our Chief Financial Officer since May 1998, our Treasurer since January 1999 and one of our Executive Vice Presidents since January 2003. Prior to joining us, Mr. Carroll was, from 1986 to 1998, in the real estate practice of Coopers & Lybrand L.L.P., a public accounting firm that was one of the predecessors of Pricewaterhouse Coopers LLP. |
| Paul R. Wood<br>Age 48 | Mr. Wood has served as one of our Vice Presidents, and our Chief Accounting Officer and Secretary since October 1993. |

PART II.

Item 5. Market For The Registrant's Common Equity, Related Shareholder Matters And Issuer Purchases of Equity Securities

Market Information. Our common shares are listed for trading on the NYSE under the symbol "LXP". The following table sets forth the high and low sales prices as reported by the NYSE for our common shares for each of the periods indicated below:

| For the Quarters Ended: | High | Low |
|---|---|---|
| December 31, 2008 | $ 16.85 | $ 2.99 |
| September 30, 2008 | 17.24 | 11.82 |
| June 30, 2008 | 15.77 | 13.55 |
| March 31, 2008 | 16.11 | 12.40 |
| December 31, 2007 | 20.90 | 14.52 |
| September 30, 2007 | 21.54 | 18.78 |
| June 30, 2007 | 21.65 | 20.38 |
| March 31, 2007 | 22.42 | 20.02 |

The per share closing price of our common shares was $3.17 on February 23, 2009.

Holders. As of February 23, 2009, we had approximately 3,621 common shareholders of record.

Dividends. We have made quarterly distributions since October 1986 without interruption.

The common share dividends paid in each quarter for the last five years are as follows:

| Quarters Ended | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| March 31, | $ 2.475 | $ 0.5975 | $ 0.365 | $ 0.360 | $ 0.350 |
| June 30, | $ 0.33 | $ 0.375 | $ 0.365 | $ 0.360 | $ 0.350 |
| September 30, | $ 0.33 | $ 0.375 | $ 0.365 | $ 0.360 | $ 0.350 |
| December 31, | $ 0.33 | $ 0.375 | $ 0.365 | $ 0.360 | $ 0.350 |

During the fourth quarter of 2007, we declared a special dividend of $2.10 per common share which was paid in January 2008. During the fourth quarter 2006, we declared a special dividend of $0.2325 per common share which was paid in January 2007.

Due to the sale of properties during 2007 and the distribution of such proceeds via the special dividend, the recurring quarterly common share dividend paid in 2008 had been reduced from $0.375 per share to $0.33 per share. Due to the continued sale of properties, a reduction in estimated taxable income and to retain capital and strengthen our balance sheet, the dividend per share has been further reduced to $0.18 per quarter for 2009.

While we intend to continue paying regular quarterly dividends to holders of our common shares, future dividend declarations will be at the discretion of our Board of Trustees and will depend on our actual cash flow, our financial condition, capital requirements, the annual distribution requirements under the REIT provisions of the Code and such other factors as our Board of Trustees deems relevant. The actual cash flow available to pay dividends will be affected by a number of factors, including, among others, the risks discussed under "Risk Factors" in Part I, Item 1A and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of this Annual Report.

We do not believe that the financial covenants contained in our loan agreements will have any adverse impact on our ability to pay dividends in the normal course of business to our common and preferred shareholders or to distribute amounts necessary to maintain our qualification as a REIT.

We maintain a dividend reinvestment program pursuant to which our common shareholders and holders of OP units may elect to automatically reinvest their dividends and distributions to purchase our common shares free of commissions and other charges. We currently offer a 2.5% discount on the common shares purchased under the plan. We may, from time to time, either repurchase common shares in the open market, or issue new common shares, for the purpose of fulfilling our obligations under the dividend reinvestment program. Currently all of the common shares issued under this program are new common shares issued by us.

Equity Compensation Plan Information. The following table sets forth certain information, as of December 31, 2008, with respect to the compensation plan under which our equity securities are authorized for issuance.

| Plan Category | Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a) | Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b) | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c) |
|---|---|---|---|
| Equity compensation plans approved by security holders | 2,000,000 | $ 5.60 | 2,756,099 |
| Equity compensation plans not approved by security holders | 0 | 0 | — |
| Total | 2,000,000 | $ 5.60 | 2,756,099 |

Comparison of Cumulative Five Year Total Return

| Company / Index | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|
| Lexington Realty Trust | 100 | 119.76 | 120.38 | 139.28 | 111.57 | 42.44 |
| S&P 500 Index | 100 | 110.88 | 116.33 | 134.70 | 142.10 | 89.53 |
| Russell 2000 Index | 100 | 118.33 | 123.72 | 146.44 | 144.15 | 95.44 |
| NAREIT Equity REIT Index | 100 | 131.58 | 147.58 | 199.32 | 168.05 | 104.65 |

Recent Sales of Unregistered Securities.

During the year ended December 31, 2008, in connection with repurchases of an aggregate of $32.5 million original principal amount of the 5.45% Exchangeable Guaranteed Notes issued by the MLP, we issued an aggregate of 1.6 million common shares (at an average price of approximately $14.50 per share) and $5.4 million in cash representing a total value of approximately $28.9 million.

Share Repurchase Program.

The following table summarizes repurchases of our common shares/units during the fourth quarter of 2008 pursuant to publicly announced repurchase plans:

| Period | Total Number of Shares/Units Purchased | Average Price Paid per Share/Unit ($) | Total Number of Shares/Units Purchased as Part of Publicly Announced Plans or Programs (1) | Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| October 1 — 31, 2008 | 58,900 | 9.89 | 58,900 | 4,556,731 |
| November 1 — 30, 2008 | 3,500,000(2) | 5.60 | 3,500,000 | 1,056,731 |
| December 1 — 31, 2008 | — | — | — | 1,056,731 |
| Fourth Quarter 2008 | 3,558,900 | 5.67 | 3,558,900 | 1,056,731 |

(1) Share repurchase plan most recently announced on December 17, 2007.
(2) Represents common shares subject to a forward equity commitment, with a purchase price of $5.60 per share (or $19.6 million in the aggregate). We paid $12.8 million during 2008 and must settle the forward commitment by October 2011.

During the fourth quarter of 2008, we repurchased $88.5 million original principal amount of our 5.45% Exchangeable Guaranteed Notes for $60.5 million, consisting of $51.7 million in cash and 597,826 common shares at $14.72 per share.

Item 6. Selected Financial Data

The following sets forth our selected consolidated financial data as of and for each of the years in the five-year period ended December 31, 2008. The selected consolidated financial data should be read in conjunction with the Consolidated Financial Statements and the related notes appearing elsewhere in this Annual Report on Form 10-K. ($000's, except per share data)

| | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| Total gross revenues | $ 441,231 | $ 419,658 | $ 185,963 | $ 157,941 | $ 107,144 |
| Expenses applicable to revenues | (322,086) | (286,814) | (104,548) | (80,290) | (36,870) |
| Interest and amortization expense | (156,063) | (162,028) | (63,282) | (54,464) | (35,495) |
| Income (loss) from continuing operations | 9,124 | 3,874 | (9,785) | 16,369 | 26,035 |
| Total discontinued operations | (659) | 72,977 | 17,538 | 16,326 | 18,772 |
| Net income (loss) | 8,465 | 76,851 | 7,753 | 32,695 | 44,807 |
| Net income (loss) allocable to common shareholders | (12,772) | 50,118 | (8,682) | 16,260 | 37,862 |
| Income (loss) from continuing operations per common share — basic | (0.18) | (0.35) | (0.50) | — | 0.41 |
| Income (loss) from continuing operations per common share — diluted | (0.18) | (0.35) | (0.50) | — | 0.39 |
| Income (loss) from discontinued operations — basic | (0.01) | 1.12 | 0.33 | 0.33 | 0.40 |
| Income from (loss) discontinued operations — diluted | (0.01) | 1.12 | 0.33 | 0.33 | 0.41 |
| Net income (loss) per common share — basic | (0.19) | 0.77 | (0.17) | 0.33 | 0.81 |
| Net income (loss) per common share — diluted | (0.19) | 0.77 | (0.17) | 0.33 | 0.80 |
| Cash dividends declared per common share | 1.17 | 3.60 | 2.0575 | 1.445 | 1.410 |
| Net cash provided by operating activities | 230,201 | 287,651 | 108,020 | 105,457 | 90,736 |
| Net cash provided by (used in) investing activities | 230,128 | (31,490) | (154,080) | (643,777) | (202,425) |
| Net cash provided by (used in) financing activities | (804,637) | 38,973 | 483 | 444,878 | 242,723 |
| Ratio of earnings to combined fixed charges and preferred dividends | 1.18 | N/A | N/A | 1.13 | 1.45 |
| Real estate assets, net | 3,294,527 | 3,729,266 | 3,475,073 | 1,651,200 | 1,240,479 |
| Investments in non-consolidated entities | 179,133 | 226,476 | 247,045 | 191,146 | 132,738 |
| Total assets | 4,105,888 | 5,265,163 | 4,624,857 | 2,160,232 | 1,697,086 |
| Mortgages, notes payable and credit facility, including discontinued operations | 2,379,249 | 3,047,550 | 2,132,661 | 1,170,560 | 765,909 |
| Shareholders' equity | 1,399,312 | 939,071 | 1,122,444 | 891,310 | 847,290 |
| Preferred share liquidation preference | 363,915 | 389,000 | 234,000 | 234,000 | 214,000 |

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N/A — Ratio is below 1.0, deficit of $67,901 and $8,621 exists at December 31, 2007 and 2006, respectively.

All years have been adjusted to reflect the impact of operating properties sold during the years ended December 31,2008, 2007, 2006, 2005 and 2004 and properties classified as held for sale as of December 31, 2008, which are

reflected in discontinued operations in the Consolidated Statements of Operations.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

In this discussion, we have included statements that may constitute "forward-looking statements" within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are not historical facts but instead represent only our beliefs regarding future events, many of which, by their nature, are inherently uncertain and outside our control. These statements may relate to our future plans and objectives, among other things. By identifying these statements for you in this manner, we are alerting you to the possibility that our actual results may differ, possibly materially, from the anticipated results indicated in these forward-looking statements. Important factors that could cause our results to differ, possibly materially, from those indicated in the forward-looking statements include, among others, those discussed below under "Risk Factors" in Part I, Item 1A of this Annual Report and "Cautionary Statements Concerning Forward Looking Statements" in Part I, of this Annual Report.


| Table of Contents | Page |
|---|---|
| Overview | 38 |
| Liquidity | 45 |
| Capital Resources | 48 |
| Results of Operations | 49 |
| Off-Balance Sheet Arrangements | 51 |
| Contractual Obligations | 58 |

Overview

General. We are a self-managed and self-administered real estate investment trust formed under the laws of the State of Maryland. We operate primarily in one segment and our primary business is the investment in and the acquisition, ownership and management of a geographically diverse portfolio of net leased office, industrial and retail properties. Substantially all of our properties are subject to triple net leases, which are generally characterized as leases in which the tenant bears all or substantially all of the costs and/or cost increases for real estate taxes, utilities, insurance and ordinary repairs.

As of December 31, 2008, we had ownership interests in approximately 225 consolidated real estate assets, located in 41 states and the Netherlands and encompassing approximately 40.2 million square feet. We lease our properties to tenants in various industries, including finance/insurance, automotive, aerospace/defense, energy and technology.

Our revenues and cash flows are generated predominantly from property rent receipts. As a result, growth in revenues and cash flows is directly correlated to our ability to (1) acquire income producing real estate assets, (2) to re-lease properties that are vacant, or may become vacant at favorable rental rates and (3) earn fee income.

Global Credit and Financial Crisis. The current global credit and financial crisis intensified near the end of the quarter ended September 30, 2008 and continues with such intensity today. The crisis has impacted our business in a number of ways, including (1) a significant decrease in property acquisitions, (2) tenant defaults and bankruptcies, and (3) difficulty obtaining financing. The specific impacts and expected impacts of the crisis are discussed in detail below.

Acquisition Objectives. Acquiring income producing real estate assets is one of our primary focuses. The challenge we face is finding investments that will provide an attractive return without compromising our real estate underwriting criteria. While we believe we have access to acquisition opportunities due to our relationship with developers, brokers, corporate users and sellers, our acquisition activity decreased during the last few years as a result of market conditions.

As capitalization rates on investment opportunities began to compress at the end of 2006, we began to decrease our acquisition activity. Following the Newkirk Merger, our real estate acquisition activity consisted primarily of acquiring the interests that we did not already own in certain of our co-investment programs.

In response to the compression in capitalization rates, we refocused our efforts into (1) repurchasing our senior debt at what we believe are attractive and secure yields to maturity and (2) disposing of real estate assets in compliance with regulatory and contractual requirements. We believe we have benefited from this refocusing during the global credit and financial crisis.

Despite the global credit and financial crisis, we continue to review single acquisitions and strategic transactions including forming new co-investment programs and joint ventures. Capitalization rates have begun to decompress; however, the difficulty has been obtaining attractive financing during the crisis. We believe we are prepared to take advantage of opportunities when the financing markets rebound.

When we do acquire real estate assets, we look for general purpose office and industrial real estate assets subject to a long-term net lease which have one or more of the following characteristics (1) a credit-worthy tenant; (2) adaptability to a variety of users, including multi-tenant use; and (3) an attractive geographic location.

During 2008, we purchased two properties from unrelated parties, for an aggregate capitalized cost of $56.1 million.

Capital Recycling. During 2008, we continued to dispose of non-core and core assets, subject to regulatory and contractual requirements, in order to increase liquidity. We were, and believe we still are, able to dispose of these assets at prices that allow us to realize an attractive internal rate of return.

During 2008, we (1) sold 40 properties to unrelated third parties for an aggregate sales price of $242.3 million; disposed of one property through foreclosure, (2) contributed/sold 13 properties to NLS with an agreed upon value of $335.0 million and (3) sold our interest in Wells for $8.31 per share.

We primarily used the proceeds to repurchase senior debt and preferred securities at what we believe are favorable spreads. We believe this capital recycling provides us with enhanced return rates while allowing us to deleverage.

During 2008, we retired a total of $309.9 million of 5.45% Exchangeable Guaranteed Notes and Trust Preferred Securities at a discounted cost to us of approximately $237.5 million, which we funded with $214.0 million in cash and through the issuance of 1.6 million common shares, at an average price of approximately $14.50 per share and an aggregate value at issuance of $23.5 million.

Leasing Objectives. Re-leasing properties as leases expire and properties currently vacant at favorable effective rates is one of our primary focuses. The primary risks associated with re-tenanting properties are (1) the period of time required to find a new tenant, (2) whether rental rates will be lower than previously received, (3) the significant leasing costs such as commissions and tenant improvement allowances and (4) the payment of operating costs such as real estate taxes and insurance while there is no offsetting revenue.

We try to mitigate these risks by contacting tenants well in advance of lease maturity to get an understanding of their occupancy needs, contacting local brokers to determine the depth of the rental market and retaining local expertise to assist in the re-tenanting of a property. However, no assurance can be given that once a property becomes vacant it will subsequently be re-let.

We continue to monitor the credit of our tenants and are particularly focused on our tenants in the financial, retail and automotive industries. During the year ended December 31, 2008, certain of our tenants filed for bankruptcy, including Linens'n Things, Inc., which we refer to as Linens, Circuit City Stores, Inc., which we refer to as Circuit City, and Bally's Total Fitness of the Midwest, which we refer to as Bally's. Under current bankruptcy law, a tenant can generally assume or reject a lease within a certain number of days of filing its bankruptcy petition. If a tenant rejects the lease, our damages are generally limited to the greater of (1) one year's rent and (2) the rent for 15%, not to exceed three years, of the remaining term of the lease.

Linens was the tenant at our 262,644 square foot distribution/warehouse facility located in Swedesboro, New Jersey. Linens rejected its lease for our facility and vacated the facility on December 31, 2008. The lease provided for annual rental revenue of $1.3 million and was scheduled to expire on December 31, 2010. The facility is subject to non-recourse first mortgage financing with a principal amount of $7.5 million as of December 31, 2008 and a fixed interest rate of 4.76%. We are seeking recovery of our damages; however, we do not anticipate recovering the entire amount.

Circuit City is currently the tenant in our 288,000 square foot office building located in Richmond, Virginia, which is part of its headquarter campus. On January 16, 2009, Circuit City announced that it has begun the process to liquidate its assets. Circuit City rejected its lease for our facility. We expect Circuit City to vacate the premises by the end of the first quarter of 2009. The lease provides for annual rental revenue of $2.9 million and expires on February 28, 2010. We are seeking recovery of our damages; however, we do not anticipate recovering the entire amount.

Bally's is currently the tenant in our 37,214 square foot health club facility located in Canton, Ohio. As of the date of this Annual Report, Bally's has yet to assume or reject the lease. The lease provides for annual rental revenue of $0.4 million and expires on December 31, 2009. In addition, we hold a mortgage note of approximately $3.2 million at December 31, 2008, which is secured by a facility leased to Bally's in Vorhees, New Jersey. The borrower is current in its obligations under the mortgage note.

We own 16 consolidated properties totaling approximately 4.0 million square feet with aggregate rental revenues of approximately $31.6 million that are leased to tenants in the automotive industry. The primary business of these tenants is supply, manufacturing and installation. We are closely monitoring the automotive industry in general and our tenants within that industry.

If a property cannot be re-let to a single user and the property can be adapted to multi-tenant use, we determine whether the costs of adapting the property to multi-tenant use outweigh the benefit of funding operating costs while searching for a single-tenant. During 2008, two properties were converted to multi-tenant use following expiration of a lease with a single-tenant user.

Certain of the long-term leases on our properties contain provisions that may mitigate the adverse impact of inflation on our operating results. Such provisions include clauses entitling us to receive (1) scheduled fixed base rent increases and (2) base rent increases based upon the consumer price index. In addition, a majority of the leases on our properties require tenants to pay operating expenses, including maintenance, real estate taxes, insurance and utilities, thereby reducing our exposure to increases in costs and operating expenses. In addition, the leases on our properties are generally structured in a way that minimizes our responsibility for capital improvements.

Critical Accounting Policies and Recently Issued Accounting Standards. Our accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States, which require our management to make estimates that affect the amounts of revenues, expenses, assets and liabilities reported. A summary of our significant accounting policies and recently issued accounting standards which are important to the portrayal of our financial condition and results of operations is set forth in note 2 to the Consolidated Financial Statements beginning on page 68 of this Annual Report and incorporated herein.

The following is a summary of our critical accounting policies, which require some of management's most difficult, subjective and complex judgments.

Basis of Presentation and Consolidation. Our consolidated financial statements are prepared on the accrual basis of accounting. The financial statements reflect our accounts and the accounts of our consolidated subsidiaries. We determine whether an entity for which we hold an interest should be consolidated pursuant to Financial Accounting Standards Board, which we refer to as FASB, Interpretation No. 46 (Revised), Consolidation of Variable Interest Entities, which we refer to as FIN 46R, and/or Emerging Issues Task Force, which we refer to as EITF, 04-05, Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights, which we refer to as EITF 04-05. FIN 46R requires us to evaluate whether we have a controlling financial interest in an entity through means other than voting rights. If the entity is not a variable interest entity we apply the guidance in EITF 04-05, and if we control the entity's voting shares or similar rights as determined in EITF 04-05, the entity is consolidated.

Use of Estimates. Our 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 consolidated financial statements in conformity with U.S. generally accepted accounting principles. These estimates and assumptions are based on our management's best estimates and judgment. Our 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. Our 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 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 materially from those estimates.

Business Combinations. We follow the provisions of Statement of Financial Accounting Standards, which we refer to as SFAS, No. 141, Business Combinations, which we refer to as SFAS 141, and record all assets acquired and liabilities assumed at fair value. On December 31, 2006, we acquired Newkirk, which was a variable interest entity (VIE). We follow the provisions of FIN 46R, and as a result have recorded the minority interest in Newkirk at estimated fair value on the date of acquisition. The value of the consideration issued in common shares is based upon a reasonable period before and after the date that the terms of the Newkirk Merger were agreed to and announced.

In December 2007, the FASB issued SFAS No. 141R, Business Combinations, which we refer to as 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" and acquisition related costs will generally be expensed rather than included as part of the basis of the acquisition. SFAS 141R expands required disclosures to improve the ability to evaluate the nature and financial effects of business combinations. SFAS 141R is effective for acquisitions in periods beginning on or after December 15, 2008. The adoption of this standard could materially impact our future financial results to the extent that we acquire significant amounts of real estate, as related acquisition costs will be expensed as incurred compared to current practice of capitalizing such costs and amortizing them over the estimated useful life of the assets acquired.

Purchase Accounting for Acquisition of Real Estate. The fair value of the real estate acquired, which includes the impact of fair value adjustments for assumed mortgage debt related to property acquisitions, is allocated to the acquired tangible assets, consisting of land, building and improvements, and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases, other value of in-place leases and value of tenant relationships, based in each case on their fair values.

The fair value of the tangible assets of an acquired property (which includes land, building and improvements and fixtures and equipment) is determined by valuing the property as if it were vacant, and the “as-if-vacant” value is then allocated to land, building and improvements based on our management’s determination of relative fair values of these assets. Factors considered by our management in performing these analyses include an estimate of carrying costs during the expected lease-up periods considering current market conditions and costs to execute similar leases. In estimating carrying costs, our management includes real estate taxes, insurance and other operating expenses and estimates of lost rental revenue during the expected lease-up periods based on current market demand. Our management also estimates costs to execute similar leases including leasing commissions.

In allocating the fair value of the identified intangible assets and liabilities of an acquired property, above-market and below-market lease values are recorded based on the difference between the current in-place lease rent and management's estimate of current market rents. Below-market lease intangibles are recorded as part of deferred revenue and amortized into rental revenue over the non-cancelable periods and bargain renewal periods of the respective leases. Above-market leases are recorded as part of intangible assets and amortized as a direct charge against rental revenue over the non-cancelable portion of the respective leases.

The aggregate value of other acquired intangible assets, consisting of in-place leases and customer relationships, is measured by the excess of (1) the purchase price paid for a property over (2) the estimated fair value of the property as if vacant, determined as set forth above. This aggregate value is allocated between in-place lease values and customer relationships based on management's evaluation of the specific characteristics of each tenant's lease. The value of in-place leases are amortized to expense over the remaining non-cancelable periods and any bargain renewal periods of the respective leases. Customer relationships are amortized to expense over the applicable lease term plus expected renewal periods.

Revenue Recognition. We recognize revenue in accordance with SFAS No. 13 Accounting for Leases, as amended, which we refer to as 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 we fund tenant improvements and the improvements are deemed to be owned by us, revenue recognition will commence when the improvements are substantially completed and possession or control of the space is turned over to the tenant. When we determine that the tenant allowances are lease incentives, we commence 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. We recognize 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.

Gains on sales of real estate are recognized pursuant to the provisions of SFAS No. 66 Accounting for Sales of Real Estate, as amended, which we refer to as SFAS 66. The specific timing of the sale is measured against various criteria in SFAS 66 related to the terms of the transactions and any continuing involvement in the form of management or financial assistance associated with the properties. If the sales criteria are not met, the gain is deferred and the finance, installment or cost recovery method, as appropriate, is applied until the sales criteria are met. To the extent we sell a property and retain a partial ownership interest in the property, we recognize gain to the extent of the third party ownership interest in accordance with SFAS 66.

Accounts Receivable. We continuously monitor collections from our tenants and would make a provision for estimated losses based upon historical experience and any specific tenant collection issues that we have identified. As of December 31, 2008 and 2007, our allowance for doubtful accounts was not significant.

Impairment of Real Estate. We evaluate the carrying value of all tangible and intangible assets held when a triggering event under SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, as amended, which we refer to as 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

Depreciation is determined by the straight-line method over the remaining estimated economic useful lives of the properties. We generally depreciate buildings and building improvements over periods ranging from 8 to 40 years, land improvements from 15 to 20 years, and fixtures and equipment from 2 to 16 years.

Only costs incurred to third parties in acquiring properties are capitalized. No internal costs (rents, salaries, overhead) are capitalized. Expenditures for maintenance and repairs are charged to operations as incurred. Significant renovations which extend the useful life of the properties are capitalized.

Impairment of Equity Method Investments. We assess whether there are indicators that the value of our equity method investments may be impaired. An investment's value is impaired if we determine that a decline in the value of the investment below its carrying value is other than temporary. To the extent impairment has occurred, the loss shall be measured as the excess of the carrying amount of the investment over the estimated value of the investment.

Properties Held For Sale. We account for properties held for sale in accordance with SFAS 144. SFAS 144 requires that the assets and liabilities of properties that meet various criteria in SFAS 144 be presented separately in the Consolidated Balance Sheets, with assets and liabilities being separately stated. The operating results of these properties are reflected as discontinued operations in our Consolidated Statements of Operations. Properties that do not meet the held for sale criteria of SFAS 144 are accounted for as operating properties.

Investments in Non-consolidated Entities. We account for our investments in 50% or less owned entities under the equity method, unless pursuant to FIN 46R consolidation is required or if our investment in the entity is less than 3% and we have no influence over the control of the entity then the entity is accounted for under the cost method.

Marketable Equity Securities. We classify our existing marketable equity securities as available-for-sale in accordance with the provisions of SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. These securities are carried at fair market value, with unrealized gains and losses, including our proportionate share of the unrealized gains or losses from non-consolidated entities, reported in shareholders' equity as a component of accumulated other comprehensive income. Gains or losses on securities sold and other than temporary impairments are included in our Consolidated Statement of Operations. Sales of securities are recorded on the trade date and gains and losses are generally determined by the specific identification method.

Investments in Debt Securities. Investments in debt securities are classified as held-to-maturity, reported at amortized cost and are included with other assets in our Consolidated Balance Sheets. A decline in the market value of any held-to-maturity security below cost that is deemed to be other-than-temporary results in an impairment and would reduce the carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. To determine whether an impairment is other-than-temporary, we consider whether it has the ability and intent to hold the investment until a market price recovery and considers whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year-end, forecasted performance of the investee, and the general market condition in the geographic area or industry the investee operates in.

Notes Receivable. We evaluate the collectability of both interest and principal of each of our notes, if circumstances warrant, to determine whether it is impaired. A note is considered to be impaired, when based on current information and events, it is probable that we will be unable to collect all amounts due according to the existing contractual terms. When a note is considered to be impaired, the amount of the loss accrual is calculated by comparing the recorded investment to the value determined by discounting the expected future cash flows at the note's effective interest rate. Interest on impaired notes is recognized on a cash basis.

Deferred Expenses. Deferred expenses consist primarily of debt and leasing costs. Debt costs are amortized using the straight-line method, which approximates the interest method, over the terms of the debt instruments and leasing costs

are amortized over the term of the related lease.

Derivative Financial Instruments. We account for our interest rate swap agreements in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended and interpreted, which we refer to as SFAS 133. In accordance with SFAS 133, these agreements are carried on the balance sheet at their fair value, as an asset, if their fair value is positive, or as a liability, if their fair value is negative. If the interest rate swap is designated as a cash flow hedge, the effective portion of the swap's change in fair value is reported as a component of other comprehensive income (loss) and the ineffective portion, if any, is recognized in earnings as an increase or decrease to interest expense.

Upon entering into hedging transactions, we document the relationship between the interest rate swap agreements and the hedged liability. We also document our risk-management policies, including objectives and strategies, as they relate to our hedging activities. We assess, both at inception of a hedge and on an on-going basis, whether or not the hedge is highly effective, as defined by SFAS 133. We will discontinue hedge accounting on a prospective basis with changes in the estimated fair value reflected in earnings when: (1) it is determined that the derivative is no longer effective in offsetting cash flows of a hedge item (including forecasted transactions); (2) it is no longer probable that the forecasted transaction will occur; or (3) it is determined that designating the derivative as an interest rate swap is no longer appropriate. We may utilize interest rate swap and cap agreements to manage interest rate risk and do not anticipate entering into derivative transactions for speculative trading purposes.

Stock Compensation. We maintain an equity participation plan. Options granted under the plan in 2008 vest upon attainment of certain market performance measures and expire ten years from the date of grant. Non-vest share grants generally vest either based upon (i) time (ii) performance and/or (iii) market conditions.

Prior to January 1, 2003, we accounted for the plan under the intrinsic value-based method of accounting prescribed by Accounting Principles Board, which we refer to as APB, Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations including FASB Interpretation No. 44, Accounting for Certain Transactions involving Stock Compensation (an interpretation of APB Opinion No. 25). Effective January 1, 2003, we adopted the prospective method provisions of SFAS No. 148, Accounting for Stock-Based Compensation – Transition and Disclosure an Amendment of FASB Statement No. 123, which we refer to as SFAS No. 148, which applies the recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, which we refer to as SFAS No. 123, to all employee awards granted, modified or settled after January 1, 2003.

During December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment, which we refer to as SFAS No. 123(R), and which is a revision of Statement 123. SFAS No. 123(R) supersedes APB Opinion 25. Generally, the approach in SFAS No. 123(R) is similar to the approach described in Statement 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the statement of operations based on their fair values. Pro-forma disclosure is no longer an alternative under SFAS No. 123(R). SFAS No. 123(R) was effective for fiscal years beginning after December 31, 2005. We began expensing stock based employee compensation with our adoption of the prospective method provisions of SFAS No. 148, effective January 1, 2003, as a result, the adoption of SFAS No. 123(R) did not have a material impact on our financial position or results of operations.

Tax Matters. We have made an election to qualify, and believes we are operating so as to qualify, as a REIT for federal income tax purposes. Accordingly, we generally will not be subject to federal income tax, provided that distributions to our shareholders equal at least the amount of our REIT taxable income as defined under Sections 856 through 860 of the Code.

We are permitted to participate in certain activities from which we were previously precluded in order to maintain our qualification as a REIT, so long as these activities are conducted in entities which elect to be treated as taxable REIT subsidiaries under the Code.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled.

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, which we refer to as FIN 48. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in accordance with SFAS No. 109, Accounting for Income Taxes, which we refer to as SFAS 109. FIN 48 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 was effective for fiscal years beginning after December 15, 2006. The adoption of FIN 48 did not have an impact on our consolidated financial position or results of operations.

Fair Value Measurements. In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, as amended, which we refer to as 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 were deferred for one additional year, and a scope exception for purposes of fair value measurements affecting lease classification or measurement under SFAS No. 13 and related standards. SFAS 157 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 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, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as consider counterparty credit risk in our assessment of fair value. The adoption of the effective portions of this statement did not have a material impact on our financial position, results of operations or cash flows. The implementation of this statement as it relates to non-financial assets and liabilities is not expected to have a material impact on our financial position, results of operations or cash flows.

In October 2008, the FASB issued FASB Staff Position FAS 157-3, which we refer to as FSP FAS 157-3, Determining the Fair Value of a Financial Asset When the Market For That Asset is Not Active, which clarifies the application of FASB 157, Fair Value Measurements, in a market that is not active. Among other things, FSP FAS 157-3 clarifies that determination of fair value in a dislocated market depends on facts and circumstances and may require the use of significant judgment about whether individual transactions are forced liquidations or distressed sales. In cases where the volume and level of trading activity for an asset have declined significantly, the available prices vary significantly over time or among market participants, or the prices are not current, observable inputs might not be relevant and could require significant adjustment. In addition, FSP FAS 157-3 also clarifies that broker or pricing service quotes may be appropriate inputs when measuring fair value, but are not necessarily determinative if an active market does not exist for the financial asset. Regardless of the valuation techniques used, FSP FAS 157-3 requires that an entity include appropriate risk adjustments that market participants would make for nonperformance and liquidity risks. FSP FAS 157-3 was effective upon issuance and includes prior periods for which financial statements have not been issued. We have adopted FSP FAS 157-3, which did not have a material impact on our financial position, results of operations or cash flows.

Derivative Instruments and Hedging Activities. In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities- an amendment of SFAS No.133,which we refer to as 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 our financial position, results of operations or cash flows.

The following recently issued accounting standard is effective for fiscal years after December 31, 2008 and requires retroactive application.



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In May 2008, the FASB issued FASB Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement), which we refer to as FSP 14-1. FSP 14-1 is applicable to issuers of convertible debt that may be settled wholly or partly in cash. The adoption of FSP 14-1 will affect the accounting for our 5.45% Exchangeable Guaranteed Notes issued in 2007. FSP 14-1 requires the initial proceeds from the sale of the 5.45% Exchangeable Guaranteed Notes to be allocated between a liability component representing debt and an equity component representing the conversion feature. The resulting discount will be amortized using the effective interest method over the period the debt is expected to remain outstanding as additional interest expense. FSP 14-1 is effective for fiscal years beginning after December 31, 2008, and requires retroactive application. The adoption of FSP 14-1 will result in recognition of an aggregate unamortized debt discount of approximately $6.9 million and approximately $19.5 million as of December 31, 2008 and 2007, respectively, in our Consolidated Balance Sheets and additional interest expense in our Consolidated Statements of Operations for the years then ended. The current estimate of the incremental interest expense and debt satisfaction gain reduction, net of minority interest, for each reporting period is as follows ($000s):

| For the year ended December 31 | Interest expense | Debt satisfaction gain reduction |
|---|---|---|
| 2006 | $ — | $ — |
| 2007 | $ 1,602 | $ — |
| 2008 | $ 1,997 | $ (3,714) |

The accounting for these critical accounting policies and recently issued accounting standards involves the making of estimates based on current facts, circumstances and assumptions which could change in a manner that would materially affect management’s future estimates with respect to such matters. Accordingly, future reported financial conditions and results could differ materially from financial conditions and results reported based on management’s current estimates.

Liquidity

General. Since becoming a public company, our principal sources of liquidity have been (1) undistributed cash flows generated from our investments, (2) the public and private equity and debt markets, including issuances of OP units (3) property specific debt, (4) corporate level borrowings, and (5) commitments from co-investment partners.

Our ability to incur additional debt to fund acquisitions is dependent upon our existing leverage, the value of the assets we are attempting to leverage and general economic and credit market conditions, which may be outside of management’s control or influence.

Cash Flows. We believe that cash flows from operations will continue to provide adequate capital to fund our operating and administrative expenses, regular debt service obligations and all dividend payments in accordance with REIT requirements in both the short-term and long-term. In addition, we anticipate that cash on hand, borrowings under our credit facility, issuance of equity and debt and co-investment programs as well as other alternatives, will provide the necessary capital required by us.

Cash flows from operations as reported in the Consolidated Statements of Cash Flows totaled $230.2 million for 2008, $287.7 million for 2007 and $108.0 million for 2006. The underlying drivers that impact working capital and therefore cash flows from operations are the timing of collection of rents, including reimbursements from tenants, the collection of advisory fees, payment of interest on mortgage debt and payment of operating and general and administrative costs. We believe the net lease structure of the majority of our tenants’ leases enhances cash flows from operations since the payment and timing of operating costs related to the properties are generally borne directly by the tenant. Collection and timing of tenant rents is closely monitored by management as part of our cash management program.

Net cash provided by (used in) investing activities totaled $230.1 million in 2008, ($31.5) million in 2007 and ($154.1) million in 2006. Cash provided by investing activities related primarily to collection of notes receivable, distributions from non-consolidated entities in excess of accumulated earnings, proceeds from the sale of marketable equity securities and proceeds from the sale of properties. Cash used in investing activities related primarily to investments in real estate properties, co-investment programs, notes receivable, an increase in deferred leasing costs and the purchase of minority interests. Therefore, the fluctuation in investing activities relates primarily to the timing of investments and dispositions.

Net cash (used in) provided by financing activities totaled ($804.6) million in 2008, $39.0 million in 2007 and $0.5 million in 2006. Cash provided by financing activities during each year was primarily attributable to proceeds from equity offerings, non-recourse mortgages and borrowings under our credit facility offset by dividend and distribution payments and debt payments and repurchases.

Public and Private Equity and Debt Markets. We access the public and private equity and debt markets when we believe conditions are favorable and we have a compelling use of proceeds. During 2008, we issued approximately 3.5 million common shares raising net proceeds of approximately $47.2 million. We primarily used these proceeds to retire indebtedness.

In February 2007, we completed an offering of 6.2 million Series D Preferred Shares, having a liquidation amount of $25 per share and an annual dividend rate of 7.55%, raising net proceeds of $149.8 million.

During 2007, we issued, through a wholly-owned subsidiary, $200.0 million in Trust Preferred Securities, which bear interest at a fixed rate of 6.804% through April 2017 and thereafter at a variable rate of three month LIBOR plus 170 basis points through maturity. These securities are (1) classified as debt; (2) due in 2037; and (3) redeemable by us commencing April 2012. During 2008, we repurchased, through unsolicited offers, $70.9 million of these securities for $44.6 million in cash, which resulted in a gain on debt extinguishment of $24.7 million including a write off of $1.6 million in deferred financing costs.

During 2007, we issued an aggregate $450.0 million of 5.45% Exchangeable Guaranteed Notes due in 2027. These notes can be put to us 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 $21.99 per share, subject to adjustment upon certain events, including increases in our dividend rate above a certain threshold. 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 exchange value exceeds the principal amount of the note, either cash or common shares at our option. During 2008, we repurchased $239.0 million original principal amount of the notes for $169.5 million in cash and 1.6 million common shares having a value at issuance of $23.5 million (or $14.50 per share), which resulted in gains on debt extinguishment of $42.0 million, including write-offs of $4.0 million in deferred financing costs.

During 2008, we (1) repurchased 1.2 million common shares at an average price of $14.28 per share and (2) repurchased and retired 501,700 of our Series C Preferred Shares by issuing 0.7 million common shares and paying $7.5 million in cash. The difference between the cost to retire these Series C Preferred Shares and their historical cost was $5.7 million and is treated as an increase to shareholders equity and as a reduction in preferred dividends paid for calculating earnings per share. We also entered into a forward equity commitment to purchase 3.5 million of our common shares at a price of $5.60 per share, we have prepaid in cash $12.8 million of the $19.6 million purchase price as of December 31, 2008, agreed to make floating payments during the term of the forward purchase at LIBOR plus 250 basis points per annum and we retain the dividends paid on the 3.5 million common shares.

Current market conditions are not favorable for accessing the public and private equity and debt markets. Once market conditions improve, we intend to access the public and private equity markets to further our deleveraging efforts.

UPREIT Structure. Our UPREIT structure permits us to effect acquisitions by issuing to a property owner, as a form of consideration in exchange for the property, OP units in our operating partnerships. Substantially all outstanding OP units are redeemable by the holder at certain times for common shares on a one-for-one basis or, at our election, with respect to certain OP units, cash. Substantially all outstanding OP units require us to pay quarterly distributions to the holders of such OP units equal to the dividends paid to our common shareholders and the remaining OP units have stated distributions in accordance with their respective partnership agreement. To the extent that our dividend per

share is less than a stated distribution per unit per the applicable partnership agreement, the stated distributions per unit are reduced by the percentage reduction in our dividend. No OP units have a liquidation preference. We account for outstanding OP units in a manner similar to a minority interest holder. The number of common shares that will be outstanding in the future should be expected to increase, and minority interest expense should be expected to decrease, as such OP units are redeemed for our common shares.

On December 31, 2008, the MLP merged with and into us and 6.4 million OP units were exchanged into an equal number of common shares. As of December 31, 2008, there were 5.3 million OP units outstanding. Of the total OP units outstanding, approximately 1.6 million are held by related parties.



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Property Specific Debt. We expect to continue to use property specific, non-recourse mortgages as we believe that by properly matching a debt obligation, including the balloon maturity risk, with a lease expiration, our cash-on-cash returns increase and the exposure to residual valuation risk is reduced. However, the global credit and financial crisis has impacted our ability to obtain property specific debt on favorable terms.

During 2008, we obtained or assumed $21.2 million in property specific non-recourse mortgage financings on two properties, which have a fixed weighted-average interest rate of 6.0%. The proceeds of the financing not assumed were used to retire existing indebtedness.

During 2008, we informed the lender for the mortgage secured by our property in Auburn Hills, Michigan that we would no longer make debt service payments and our intention to convey the property to the lender. Following discussion with the lender, the lender foreclosed on this property on December 23, 2008, and on December 31, 2008, we entered into a settlement agreement with the lender and we were released from obligations under the mortgage.

Corporate Borrowings. We use corporate level borrowings, such as our unsecured revolving credit facility and secured term loans, to finance our investments and operations.

Our $200.0 million unsecured revolving credit facility with Wachovia Bank N.A. and a consortium of other banks, (1) was scheduled to expire June 2009 and (2) bore interest at 120-170 basis points over LIBOR depending on our leverage (as defined) in the credit facility. The credit facility contained financial covenants including restrictions on the level of indebtedness, amount of variable debt to be borrowed and net worth maintenance provisions. As of December 31, 2008, we were in compliance with all covenants, $25.0 million of borrowings were outstanding, $173.3 million was available to be borrowed, and $1.7 million letters of credit were outstanding under the credit facility. Upon entering into the new secured credit facility consisting of a term loan and revolving credit facility on February 13, 2009, the $25.0 million outstanding was satisfied and the credit agreement with Wachovia Bank N.A. was terminated.

We have three term loans with Key Bank, as of December 31,2008, which are secured by pledges of equity interests in subsidiaries that directly own property and guarantees from other subsidiaries. In June 2007, we obtained a $225.0 million original principal amount secured term loan from Key Bank, which bore interest at LIBOR plus 60 basis points. As of December 31, 2008, $174.3 million was outstanding under the secured loan. The secured loan was scheduled to mature in June 2009, with our option to extend to December 2009. The secured loan required monthly payments of interest only. We were also required to make principal payments from the proceeds of certain property sales and certain refinancings if proceeds were not reinvested into net leased properties. The required principal payments were based on a minimum release price set forth in the secured loan agreement. We were in compliance with the secured term loan covenants at December 31, 2008 and 2007. Upon entering into the new secured credit facility on February 13, 2009, this loan was satisfied in full and the term loan was terminated.

In March 2008, we obtained $25.0 million and $45.0 million secured term loans from KeyBank. The loans are interest only at LIBOR plus 60 basis points, however we entered into an interest rate swap agreement which fixed the interest rate at 5.52%, and mature in 2013. The net proceeds of the loans of $68.0 million were used to partially repay indebtedness on three cross-collateralized mortgages. After such repayment, the amount owed on the three mortgages was $103.5 million, the three loans were combined into one loan, which is interest only instead of having a portion as self-amortizing and matures in September 2014. As of December 31, 2008, $25.0 million and $35.7 million was outstanding on each secured term loan and we were in compliance with the covenants contained in each loan.

As of December 31, 2008, the borrowing base for the $45.0 million and the $225.0 million original principal amount secured term loans was comprised of 35 properties. As of December 31, 2008, the borrowing base for the $25.0 million original principal amount secured term loan was comprised of the three properties secured by the mortgages

repaid at origination.

On February 13, 2009, we refinanced our (1) unsecured revolving credit facility, with $25.0 million outstanding as of December 31, 2008, which was scheduled to expire in June 2009, and (2) secured term loan, with $174.3 million outstanding as of December 31, 2008, which was scheduled to mature in 2009, with a secured credit facility consisting of a $165.0 million term loan and a $85.0 million revolving credit agreement with KeyBank, as agent. The new facility bears interest at 2.85% over LIBOR and matures in February 2011, but can be extended until February 2012 at our option. The new credit facility is secured by ownership interest pledges and guarantees by certain of our subsidiaries that in the aggregate own interests in a borrowing base consisting of 72 properties. With the consent of the lenders, we can increase the size of (1) the term loan by $135.0 million and (2) the revolving loan by $115.0 million (or $250.0 million in the aggregate, for a total facility size of $500.0 million) by adding properties to the borrowing base.

Liquidity Needs. Our principal liquidity needs are the contractual obligations set forth under the heading “Contractual Obligations,” below, and the payment of dividends to our shareholders and distributions to the holders of OP units.

As of December 31, 2008, there were $2.4 billion of mortgages and notes payable outstanding, 5.45% Exchangeable Guaranteed Notes and Trust Preferred Securities, including discontinued operations, with a weighted average interest rate of approximately 5.6%. Our ability to make debt service payments depends upon our rental revenues and our ability to refinance the mortgage related thereto, sell the related property, have available amounts under our credit facility or access other capital. Our ability to accomplish such goals will be affected by numerous economic factors affecting the real estate industry, including the availability and cost of mortgage debt at the time, our equity in the mortgaged properties, the financial condition and the operating history of the mortgaged properties, the then current tax laws and the general national, regional and local economic conditions.

If we are unable to satisfy our contractual obligations with our cash flow from operations, we intend to use borrowings under our secured credit facility and proceeds from issuances of equity or debt securities.

We elected to be taxed as a REIT under Sections 856 through 860 of the Code, commencing with our taxable year ended December 31, 1993. If we qualify for taxation as a REIT, we generally will not be subject to federal corporate income taxes on our net taxable income that is currently distributed to shareholders.

In connection with our intention to continue to qualify as a REIT for federal income tax purposes, we expect to continue paying regular dividends to our shareholders. These dividends are expected to be paid from operating cash flows and/or from other sources. Since cash used to pay dividends reduces amounts available for capital investments, we generally intend to maintain a conservative dividend payout ratio or we may issue common shares in lieu of cash dividends as currently permitted under the Code, reserving such amounts as we consider necessary for the maintenance or expansion of properties in our portfolio, debt reduction, the acquisition of interests in new properties as suitable opportunities arise, and such other factors as our Board of Trustees considers appropriate.

We paid approximately $241.3 million in dividends to our common and preferred shareholders in 2008. Although we receive the majority of our base rental payments on a monthly basis, we intend to continue paying dividends quarterly. Amounts accumulated in advance of each quarterly distribution are invested by us in short-term money market or other suitable instruments.

Capital Resources

General. Due to the net lease structure, we historically have not incurred significant expenditures in the ordinary course of business to maintain our properties. However, as leases expire, we incur costs in extending the existing tenant leases, re-tenanting the properties with a single-tenant, or converting the property to multi-tenant. The amounts of these expenditures can vary significantly depending on tenant negotiations, market conditions and rental rates.

Single-Tenant Properties. We do not anticipate significant capital expenditures at our properties that are subject to net leases since our tenants at these properties generally bear all or substantially all of the cost of property operations, maintenance and repairs. At certain single-tenant properties that are not subject to a net lease, we have a level of property operating expense responsibility.

Multi-Tenant Properties. Primarily as a result of non-renewals at single-tenant net lease properties, we have multi-tenant properties in our consolidated portfolio. While tenants are generally responsible for increases over base year expenses, we are responsible for the base expenses and capital expenditures at the properties.

Our property in Baltimore, Maryland was previously net-leased to St. Paul Fire and Marine Insurance Company. In April 2008, we entered into a lease termination with St. Paul Fire and Marine Insurance Company, and we assumed the direct subleases for the property. On September 30, 2009, the lease with the largest subtenant, Legg Mason, expires and we expect the building to be approximately 25% leased.

We will need to redevelop the property to assist with our leasing effort. We expect to upgrade the exterior façade of the building and redesign the lobby and outside plaza. We estimate these improvements will cost approximately $22.0 million and will be completed over the next several years. We also own an adjacent parcel and are constructing a parking garage to increase the parking ratio at the property.

Vacant Properties. To the extent there is a vacancy in a property, we would be obligated for all operating expenses, including real estate taxes and insurance.

Property Expansions. Under certain leases, our tenants have the right to expand the facility located on our property. In the past we have generally funded, and in the future we intend to generally fund, these property expansions with additional secured borrowings, the repayment of which was funded out of rental increases under the leases covering the expanded properties.

Ground Leases. Our tenants generally pay the rental obligations on ground leases either directly to the fee holder or to us as increased rent. However, we are responsible for these payments under certain leases and at vacant properties.

Environmental Matters. Based upon management's ongoing review of our properties, management is not aware of any environmental condition with respect to any of our properties, which would be reasonably likely to have a material adverse effect on us. There can be no assurance, however, that (1) the discovery of environmental conditions, which were previously unknown; (2) changes in law; (3) the conduct of tenants; or (4) activities relating to properties in the vicinity of our properties, will not expose us to material liability in the future. Changes in laws increasing the potential liability for environmental conditions existing on properties or increasing the restrictions on discharges or other conditions may result in significant unanticipated expenditures or may otherwise adversely affect the operations of our tenants, which would adversely affect our financial condition and results of operations.

Results of Operations

Year ended December 31, 2008 compared with December 31, 2007. Changes in our results of operations between these periods are primarily due to a decrease in earnings from non-consolidated entities and a decrease in gains on sales of properties, offset by an increase in debt satisfaction gains due to the repurchases of our 5.45% Exchangeable Guaranteed Notes and Trust Preferred Securities at favorable rates. Of the increase in total gross revenues in 2008 of $21.6 million, $22.7 million is attributable to an increase in rental revenue, primarily due to $28.7 million recognized in connection with two lease terminations, and an $11.0 million increase in tenant reimbursements. These increases were offset by a decrease of $12.1 million in advisory and incentive fees. The primary decrease in advisory and incentive fees relates to promoted interests ($11.7 million) earned in 2007 with respect to two former co-investment programs and one advisory agreement.

The decrease in interest and amortization expense of $6.0 million is due primarily to a decrease in long term debt.

The increase in property operating expense of $23.4 million is primarily due to an increase in properties for which we have operating expense responsibility, including vacancies and properties with tenant leases subject to expense stops and base year clauses.

The increase in depreciation and amortization of $11.8 million is due primarily to the growth in real estate and intangibles in 2007 through the acquisition of properties from our co-investment programs and the acceleration of amortization of certain intangible assets relating to lease terminations in 2008. Intangible assets are amortized over a shorter period of time (generally the lease term) than real estate assets.

The decrease in general and administrative expenses of $8.8 million is due primarily to a reduction in (1) costs of severance agreements with former officers and (2) merger costs incurred in 2007.

Non-operating income increased $13.0 million due primarily to land received in connection with a lease termination.

Debt satisfaction gains (charges), net changed $66.9 million primarily due to gains recognized on the retirement of our 5.45% Exchangeable Guaranteed Notes and Trust Preferred Securities at a discount in 2008.

The change in value of forward equity commitment represents the change in value of the prepaid portion of our forward purchase equity contract entered into in 2008.

The increase in gains on sale of properties— affiliates relates to the sale of properties to NLS.

Minority interests' share of (income) loss changed $2.0 million due primarily to the merger of the MLP with and into us and the exchange of OP units held by limited partners in the MLP for common shares.

The equity in earnings (losses) of non-consolidated entities changed $89.8 million and is primarily due to a decrease in earnings in our investment in Lex-Win Concord of $35.3 million due to impairment charges and loan loss reserves of $104.9 million recognized by Lex-Win Concord, our share of which was $52.4 million; losses of $16.9 million recognized on our investment in NLS in 2008; and gains on sale realized of $34.2 million in 2007 relating to the dissolution of one of our former co-investment programs.

Net income decreased by $68.4 million primarily due to the net impact of items discussed above offset by a decrease of $73.6 million in income from discontinued operations.

In 2008, 42 properties were sold and/or foreclosed and classified as held for sale, compared to 56 properties sold and classified as held for sale in 2007. The total discontinued operations, which represents properties sold or held for sale, decreased $73.6 million due to a decrease in income from discontinued operations of $28.2 million and a decrease in gains on sales of properties of $79.7 million, offset by a decrease in impairment charges of $0.7 million, a decrease in the provision for income taxes of $2.9 million, a change in debt satisfaction gains (charges), net of $11.0 million and a change in minority interests' share of income of $19.7 million.

Net loss applicable to common shareholders in 2008 was $12.8 million compared to net income applicable to common shareholders in 2007 of $50.1 million. The decrease is due to the items discussed above plus a reduction in Series C Preferred Share dividends of $1.2 million and a redemption discount of $5.7 million due to the repurchase of Series C Preferred Shares offset by an increase of $1.4 million in Series D Preferred Share dividends. The increase in net income in future periods will be closely tied to the level of acquisitions made by us. Without acquisitions, the sources of growth in net income are limited to index adjusted rents (such as the consumer price index), percentage rents, reduced interest expense on amortizing mortgages and variable rate indebtedness and by controlling other variable overhead costs. However, there are many factors beyond management's control that could offset these items including, without limitation, increased interest rates and tenant monetary defaults and the other risks described in this Annual Report.

Year ended December 31, 2007 compared with December 31, 2006. Changes in our results of operations between these periods are primarily due to the Newkirk Merger, which was effective December 31, 2006, and the acquisition of the outstanding interests in our co-investment programs during the second quarter of 2007. Of the increase in total gross revenues in 2007 of $233.7 million, $209.3 million is attributable to rental revenue. The remaining $24.4 million increase was primarily attributable to an increase in tenant reimbursements of $15.4 million and an increase in advisory and incentive fees of $9.0 million. The primary increase in advisory and incentive fees relates to promoted interests ($11.7 million) earned with respect to two co-investment programs and one advisory agreement offset by reduced advisory fees due to the acquisition of the co-investment programs in 2007.

The increase in interest and amortization expense of $98.7 million is due to the increase in long-term debt due to the growth of our portfolio resulting from the Newkirk Merger and the acquisition of the outstanding interests in our co-investment programs.

The increase in property operating expense of $28.5 million is primarily due to an increase in properties for which we have operating expense responsibility, including an increase in vacancies.

The increase in depreciation and amortization of $153.8 million is due primarily to the growth in real estate and intangibles through the acquisition of properties in the Newkirk Merger and the acquisition of the outstanding interests in our co-investment programs. Intangible assets are amortized over a shorter period of time (generally the lease term) than real estate assets.

The increase in general and administrative expenses of $3.8 million is due primarily to (1) costs associated with the Newkirk Merger ($3.2 million); (2) the costs associated with the formation and dissolution of Lexington Strategic Assets Corp., which we refer to as LSAC, ($0.9 million); (3) costs incurred in the formation of NLS ($2.3 million); and (4) professional fees ($1.2 million) all of which is offset by a reduction in other costs including personnel costs ($5.1 million), which relates primarily to the accelerated amortization of non-vested common shares in 2006 of $10.8 million and an increase in severance costs in 2007 of $4.5 million.

Non-operating income increased $7.8 million due primarily to increased interest and dividends from investments.

Debt satisfaction gains (charges), net increased $1.0 million due to mortgages being satisfied at a loss in 2007 due to sales of properties to affiliates.

The increase in gains on sale of properties—affiliates relates to the sale of properties to NLS.

Benefit (provision) for income taxes increased $3.5 million due to the write-off deferred tax assets of LSAC, the gain realized due to the sale of properties to NLS and earnings of the taxable REIT subsidiaries.

Minority interests' share of (income) loss changed $1.5 million due to an increase in minority interest in connection with the Newkirk Merger.



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The equity in earnings (losses) of non-consolidated entities increase of $42.2 million is primarily due to the gains on sale realized relating to the dissolution of one co-investment program ($34.2 million) and gain recognized relating to the sale of an investment to NLS ($1.6 million).

Net income increased by $69.1 million primarily due to the net impact of items discussed above coupled with an increase of $55.4 million in income from discontinued operations.

In 2007, 56 properties were sold and classified as held for sale. In 2006, 17 properties were sold and classified as held for sale. Discontinued operations represents properties sold or held for sale. The total discontinued operations increased $55.4 million due to an increase in income from discontinued operations of $12.6 million coupled with a reduction in impairment charges of $18.3 million and an increase in gains on sales of properties of $70.0 million offset by an increase in provision for income taxes of $3.4 million, change in debt satisfaction gains (charges), net of $19.9 million and a change in minority interests' share of income of $22.2 million.

Net income applicable to common shareholders in 2007 increased to $50.1 million compared to a net loss applicable to common shareholders in 2006 of $8.7 million. The increase is due to the items discussed above offset by an increase in preferred dividends of $10.3 million resulting from the issuance of Series D Preferred Shares.

Off-Balance Sheet Arrangements

General. As of December 31, 2008, we had investments in various real estate entities with varying structures. The real estate investments owned by the entities are financed with non-recourse debt. Non-recourse debt is generally defined as debt whereby the lenders' sole recourse with respect to borrower defaults is limited to the value of the property collateralized by the mortgage. The lender generally does not have recourse against any other assets owned by the borrower or any of the members of the borrower, except for certain specified exceptions listed in the particular loan documents. These exceptions generally relate to limited circumstances including breaches of material representations.

Net Lease Strategic Assets Fund L.P. NLS is a co-investment program with Inland NLS. NLS was established to acquire single-tenant net lease specialty real estate in the United States. Other than the acquisition of 43 properties and a 40% interest in a property from us, NLS has not acquired any additional properties.

Inland NLS and we are currently entitled to a return on/of each of our respective investments as follows: (1) Inland NLS, 9% on its common equity, (2) us, 6.5% on our preferred equity, (3) us, 9% on our common equity, (4) return of our preferred equity, (5) return of Inland NLS common equity (6) return of our common equity and (7) any remaining cash flow is allocated 65% to Inland NLS and 35% to us as long as we are the general partner, if not, allocations are 85% to Inland NLS and 15% to us.

In addition to the initial capital contributions, we and Inland NLS committed to invest up to an additional $22.5 million and $127.5 million, 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.

Lex-Win Concord LLC. We and Winthrop, have a co-investment program, Lex-Win Concord, to acquire and originate loans secured, directly and indirectly, by real estate assets through Concord.

General

Following the restructuring of our investment in Concord during the third quarter of 2008 and provided that certain terms and conditions are satisfied, including payment to Inland Concord of a 10% priority return, both us and Winthrop may elect to reduce our aggregate capital investment in Concord to $200.0 million through distributions of principal payments from the retirement of existing loans and bonds in Concord's current portfolio. In addition, Lex-Win Concord is obligated to make additional capital contributions to Concord of up to $75.0 million, of which our proportionate share is $37.5 million, only if such capital contributions are necessary under certain circumstances. We expect to only make further capital contributions in Lex-Win Concord, if a capital contribution is required under the limited liability company agreement or we believe it is appropriate to our overall investment strategy.

Concord's business has been to acquire and originate loan assets and loan securities collateralized by real estate assets including mortgage loans, subordinate interests in whole loans, mezzanine loans, preferred equity and commercial real estate securities including CMBS and CDOs. Concord sought to finances its loan assets and loan securities through various structures including repurchase facilities, credit lines, term loans and securitizations and, in this regard, Concord formed Concord Real Estate CDO 2006-1, Ltd., which we refer to as CDO-1, pursuant to which it has financed approximately $464.7 million of its loan assets and loan securities. Concord has also sought additional capital through sales of preferred equity in Concord.

Concord's loan assets are intended to be held to maturity and are carried at cost, net of unamortized loan origination costs and fees, repayments and unfunded commitments unless such loan is deemed to be impaired. Concord's loan securities are treated as available for sale securities and are marked-to-market on a quarterly basis based on management's assessment.

Concord initially sought to produce a stable income stream from its investments in loan assets and loan securities by managing credit risk and interest rate risk. However, the disruption in the capital and credit markets increased margin calls on Concord's repurchase agreements. Furthermore, the ability to issue CDOs and the availability of new financing has effectively been eliminated, making the execution of Concord's strategy unfeasible at this time. Consequently, Concord will focus on the recovery of its equity investments by maximizing the value of its existing assets and toward that end, has worked to increase its liquidity and reduce exposure to maturing debt.

Concord began experiencing declines in the fair value of its loan securities in the fourth quarter of 2007 consistent with liquidity concerns impacting the commercial bond and real estate markets and the overall economy. As a result Concord recorded other-than-temporary impairment charges of approximately $11.0 million during the fourth quarter of 2007. With growing uncertainty in the commercial bond and real estate markets and the credit crunch impacting the overall financial markets during 2008, Concord assessed all its loan assets and loan securities and in 2008 recorded additional impairment charges and loan loss reserves of approximately $104.9 million.

CDO-1

On December 21, 2006, Concord formed CDO-1, pursuant to which it financed its loan assets by issuing an aggregate of approximately $376.7 million of investment grade debt. Concord retained an equity and junior debt interest in the portfolio with a notional amount of $88.4 million, which it increased to $117.5 million when it repurchased $29.1 million in additional junior debt interest for $13.1 million. As a result, if CDO-1 does not ultimately have sufficient funds to satisfy all of its obligations to its noteholders, Concord will bear the first $117.5 million in loss, our proportionate share of which would be $58.7 million.

The financing through CDO-1 was intended to enhance Concord's return on the loan assets and loan securities held in CDO-1 as the weighted average interest rate on the loan assets and loan securities held in CDO-1 at December 31, 2008 was 3.96% and the weighted average interest rate on the amount payable by Concord on its notes at December 31, 2008 was 0.95%. Accordingly, assuming the loan assets and loan securities are paid in accordance with their terms, Concord retains an average spread of the difference between the interest received on the loan assets and loan securities and the interest paid on the loan assets and loan securities.

The following tables provide detail on CDO-1 as of December 31, 2008:

CDO-1 loan assets, loan securities and note obligations at December 31, 2008 are summarized below (in thousands):

| CDO Loan Assets and Loan Securities December 31, 2008 | | | | CDO Notes December 31, 2008 | | | |
|---|---|---|---|---|---|---|---|
| Date | Par Value of | Weighted | Weighted | Outstanding | Weighted | Stated | Retained |

| Closed | CDO Collateral (2) | Average Interest Rate | Average Life (years) | CDO Notes (1) | Average Interest Rate | Maturity | Interests |
|---|---|---|---|---|---|---|---|
| 12/21/06 | $ 464,744 | 3.96% | 2.81 | $ 347,525 | 0.95% | 12/2016 | $ 117,475 |

(1) Includes only notes held by third parties.
(2) Consists of loan assets with a par value of $336,000 and loan securities with a par value of $128,744.

The following table sets forth the aggregate carrying values, allocation by loan type and weighted average coupons of the loan assets and loan securities held in CDO-1 as of December 31, 2008 (in thousands):

| | Par Value | Carrying Value (1) | Allocation by Investment Type | Fixed Rate: Average Yield | Floating Rate: Average Spread over LIBOR |
|---|---|---|---|---|---|
| Whole loans, floating rate | $ 20,000 | $ 20,000 | 4.31% | - | 195 bps |
| Whole loans, fixed rate | 30,267 | 30,140 | 6.51% | 6.36% | - |
| Subordinate interests in whole loans, floating rate | 108,864 | 108,847 | 23.42% | - | 292 bps |
| Subordinate interests in whole loans, fixed rate | 27,451 | 25,082 | 5.91% | 7.45% | - |
| Mezzanine loans, floating rate | 81,410 | 81,410 | 17.52% | - | 218bps |
| Mezzanine loans, fixed rate | 68,008 | 65,938 | 14.63% | 6.99% | - |
| Loan securities, floating rate | 106,368 | 75,240 | 22.89% | - | 195 bps |
| Loan securities, fixed rate | 22,376 | 12,713 | 4.81% | 5.87% | - |
| | | | | | |
| Total/Average | $ 464,744 | $ 419,370 | 100.00% | 6.78% | 227 bps |

(1) Net of unamortized fees, discounts, and unfunded commitments.

CDO-1 loan assets were diversified by industry as follows at December 31, 2008:

| Industry | % of Par Value |
|---|---|
| Hospitality | 30.78% |
| Office | 45.52% |
| Mixed Use | 5.14% |
| Retail | 4.46% |
| Industrial | 7.13% |
| Multi-family | 6.97% |
| | 100.00% |

The following table sets forth the maturity dates for the loan assets held in CDO-1 at December 31, 2008 (in thousands):

| Year of Maturity (1) | Number of Loan Assets Maturity | Carrying Value | % of Total |
|---|---|---|---|
| 2009 | 9 | $ 174,840 | 52.76% |
| 2010 | 4 | 46,890 | 14.15% |
| 2011 | 1 | 6,300 | 1.90% |
| 2012 | 1 | 5,045 | 1.52% |
| 2013 and thereafter | 8 | 98,342 | 29.67% |
| | | | |
| Total | 23 | $ 331,417 | 100.00% |

(1) Weighted average maturity is 3.08 years. The calculation of weighted average maturity is based upon the remaining initial term and does not take into account any maturity extension periods or the ability to prepay the

investment after a negotiated lock-out period, which may be available to the borrower.



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The following table sets forth the maturity dates, assuming remaining extensions are exercised by the applicable borrower, for the loan assets held in CDO-1 at December 31, 2008 (in thousands):

| Year of Maturity (1) | Number of Loan Assets Maturing | Carrying Value | % of Total |
|---|---|---|---|
| 2009 | - | $ - | - |
| 2010 | 3 | 26,472 | 7.99% |
| 2011 | 9 | 177,963 | 53.70% |
| 2012 | 3 | 28,640 | 8.64% |
| 2013 and thereafter | 8 | 98,342 | 29.67% |
| Total | 23 | $ 331,417 | 100.00% |

(1) Weighted average maturity is 3.94 years. The calculation of weighted average maturity is based upon the remaining initial term and the exercise of any extension options available to the borrower.

The following table sets forth a summary of the loan securities held in CDO-1 at December 31, 2008:

| Description | Par Value | Amortized Cost | Gross Unrealized Loss | Impairment Loss | Carrying Value |
|---|---|---|---|---|---|
| Fixed rate | $ 22,376 | $ 20,481 | $ - | $ (7,768) | $ 12,713 |
| Floating rate | 106,368 | 106,325 | (30) | (31,055) | 75,240 |
| Total | $ 128,744 | $ 126,806 | $ (30) | $ (38,823) | $ 87,953 |

The following table sets forth a summary of the underlying Standard & Poor's credit rating of the loan securities held in CDO-1 at December 31, 2008:

| Rating | Par Value (In thousands) | Percentage |
|---|---|---|
| A- | $ 1,211 | 0.94% |
| BBB+ | 9,000 | 6.99% |
| BBB | 13,376 | 10.39% |
| BBB- | 36,004 | 27.97% |
| BB+ | 12,797 | 9.94% |
| BB | 9,000 | 6.99% |
| B+ | 20,000 | 15.53% |
| B- | 9,393 | 7.30% |
| CCC- | 11,000 | 8.54% |
| Not rated | 6,963 | 5.41% |
| Total | $ 128,744 | 100.00% |

Concord's Other Loan Assets and Loan Securities

Concord acquired other loan assets and loan securities outside of CDO-1, which it originally intended to contribute to a second CDO. As the market for bonds collateralized by debt obligations has declined, Concord has been unable to launch a second CDO platform.

The following tables set forth the aggregate carrying values, allocation by investment type and weighted average yields of loan assets and loan securities held by Concord outside of CDO-1 as of December 31, 2008 (in thousands):

| | Par Value | Carrying Value (1) | Allocation by Investment Type | Fixed Rate: Average Yield | Floating Rate: Average Spread over LIBOR |
|---|---|---|---|---|---|
| Whole loans, floating rate | $ 109,172 | $ 105,172 | 16.93% | - | 182 bps |
| Whole loans, fixed rate | 39,900 | 30,000 | 6.19% | 9.15% | - |
| Subordinate interests in whole loans, floating rate | 148,645 | 144,577 | 23.05% | - | 216 bps |
| Subordinate interests in whole loans, fixed rate | 15,750 | 14,291 | 2.44% | 8.63% | - |
| Mezzanine loans, floating rate | 190,334 | 188,621 | 29.52% | - | 215 bps |
| Mezzanine loans, fixed rate | 65,702 | 54,098 | 10.19% | 8.35% | - |
| Loan securities, floating rate | 75,364 | 30,538 | 11.68% | - | 141 bps |
| Loan loss reserve | - | (5,032) | - | - | - |
| | | | | | |
| Total/Average | $ 644,867 | $ 562,265 | 100.00% | 8.65% | 198 bps |

(1) Net of unamortized fees and discounts, loan loss reserves, impairment charges and mark to market adjustments.

The following table sets forth the maturity dates, assuming no remaining extensions are exercised by the applicable borrower, for Concord's other loan assets:

| Year of Maturity (1) | Number of Loan Assets Maturing | Carrying Value (in thousands) | % of Total |
|---|---|---|---|
| 2009 | 18 | $ 254,355 | 47.84% |
| 2010 | 5 | 154,164 | 28.98% |
| 2011 | 1 | 16,000 | 3.01% |
| 2012 | 3 | 70,576 | 13.27% |
| 2013 and thereafter | 8 | 41,664 | 7.84% |
| Loan loss reserve | | (5,032) | (0.94)% |
| Total | 35 | $ 531,727 | 100.00% |

(1) The calculation of weighted average maturity of 1.76 years is based upon the remaining initial term and does not take into account any maturity extension periods or the ability to prepay the investment after a negotiated lock-out period, which in either case may be available to the borrower.

The following table sets forth the maturity dates, assuming all remaining extensions are exercised, for Concord's other loan assets:

| Year of Maturity (1) | Number of Loan Assets Maturing | Carrying Value (in thousands) | % of Total |
|---|---|---|---|
| 2009 | 1 | $ 1,438 | 0.27% |
| 2010 | 3 | 48,711 | 9.16% |
| 2011 | 10 | 147,388 | 27.72% |

| | | | | |
|---|---|---|---|---|
| 2012 | 13 | | 297,558 | 55.95% |
| 2013 and thereafter | 8 | | 41,664 | 7.84% |
| Loan loss reserve | | | (5,032) | (0.94)% |
| Total | 35 | $ | 531,727 | 100.00% |

(1) The calculation of weighted average maturity of 3.24 years is based upon the remaining term, assuming the exercise of all extension options available to the borrower.

Concord's non CDO-1 loan assets were diversified by industry as follows at December 31, 2008:

| Industry | % of Par Value |
|---|---|
| Hospitality | 41.65% |
| Office | 43.88% |
| Mixed Use | 5.88% |
| Industrial | 0.26% |
| Multi-family | 8.33% |
| | 100.00% |

The following tables summarize Concord's other loan securities at December 31, 2008 (in thousands):

| Description | Par Value | Amortized Cost | Gross Unrealized Gain | Impairment Loss | Carrying Value |
|---|---|---|---|---|---|
| Floating rate | $ 75,364 | $ 75,088 | $ 120 | $ (44,670) | $ 30,538 |

The following table sets forth a summary of the underlying Standard & Poor's credit rating of Concord's other loan securities at December 31, 2008:

| Rating | Par Value | Percentage |
|---|---|---|
| BBB+ | $ 1,094 | 1.45% |
| BBB | 6,260 | 8.31% |
| BBB- | 22,280 | 29.56% |
| BB | 4,700 | 6.24% |
| B | 1,133 | 1.50% |
| B- | 1,474 | 1.96% |
| D | 14,246 | 18.90% |
| Not rated | 24,177 | 32.08% |
| Total | $ 75,364 | 100.00% |

Credit Facilities

On March 7, 2008, Concord entered into a $100.0 million secured revolving credit facility with KeyBank. The credit facility enables Concord to finance existing unlevered assets as well as new assets acquired by Concord. The initial maximum borrowings under the loan are $100.0 million, expandable to $350.0 million upon compliance with certain conditions. Borrowings under the facility bear interest at spreads over LIBOR ranging from 1.75% to 2.25%, depending on the underlying loan asset or debt security for which such borrowing is made. At December 31, 2008, $80.0 million was outstanding on the credit facility, the weighted average interest rate on amounts outstanding during the year was 2.71%, and the carrying value of loan assets securing the facility was approximately $136.0 million. The facility matures March 2010 and may be extended to March 2011. The credit facility is subject to financial covenants and other covenants on an ongoing basis.

Under the terms of the facility, Concord is required to maintain minimum liquidity, comprised of cash and cash equivalents, of at least $10.0 million at all times. At certain times during the year ended December 31, 2008 and at certain times subsequent to the year ended December 31, 2008, Concord's cash balances declined to an amount below the $10.0 million liquidity requirements. On February 24, 2009, Concord received a waiver of the retrospective

covenant violation from KeyBank. In addition, the covenant will be waived through June 30, 2009. In connection with the waiver, Concord agreed that all regular cash flow of Concord from interest payments on the KeyBank collateral shall be applied in the following manner:

a) first, to payments due to KeyBank;
b) second, together with other available cash flow of Concord, for distribution by Concord for payment of the preferred distribution to holders of preferred membership interests;
c) third, together with other available cash flow of Concord, up to $6.0 million annually for distribution by Concord for payment of common distribution to Lex-Win Concord;
d) fourth, available cash flow in an amount such that not less than $10.0 million shall have been deposited and maintained in account at KeyBank as a cash reserve; and
e) any remaining cash flow shall be paid to KeyBank to reduce the outstanding loan balance.



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Repurchase Facilities

Concord has financed certain of its loan assets and loan securities through credit facilities in the form of repurchase agreements. In the repurchase agreements entered into by Concord to date, the lender, referred to as the repurchase counterparty, purchases the loan asset or loan security from or on behalf of Concord. Concord then repurchases the loan asset or loan security in cash on a specific repurchase date or, at the election of Concord, an earlier date. While the loan asset is held by the repurchase counterparty, the repurchase counterparty retains a portion of each interest payment made on such loan asset or loan security equal to the "price differential" which is effectively the interest rate on the purchase price paid the repurchase counterparty to Concord for the loan asset or loan security, with the balance of such payments being paid to Concord. Pursuant to the terms of the repurchase agreements, if the market value of the loan assets or loan securities pledged or sold by Concord decline, which decline is determined, in most cases, by the repurchase counterparty, Concord may be required to provide additional collateral or pay down a portion of the funds advanced. During 2008, Concord was required to pay down an aggregate of $107.3 million against $412.7 million of outstanding repurchase obligations. Concord satisfied these amounts with cash flow, borrowings under its KeyBank credit facility and capital contributions from Inland Concord.

All of Concord's repurchase facilities are recourse to Concord and require Concord to maintain certain loan to asset value ratios, a minimum net worth and minimum liquidity. In addition, all of the repurchase facilities require that Concord pay down borrowings under these facilities as principal payments on the loan assets and loan securities pledged to these facilities are received.

Under the terms of three repurchase facilities, Concord is required to maintain minimum liquidity, comprised of cash and cash equivalents, of at least $10.0 million at all times. At certain times during the year ended December 31, 2008 and at certain times subsequent to the year ended December 31, 2008, Concord's cash balance declined to an amount below the $10.0 million minimum liquidity requirements. On February 22, 2009, Concord modified its repurchase facilities with Column Financial Inc. to eliminate the liquidity covenant and on February 24, 2009, Concord received a waiver of the retrospective covenant as well as a waiver of the liquidity requirement through June 30, 2009 from Greenwich Capital Financial Products, Inc.

The following table summarizes Concord's repurchase facilities at December 31, 2008 (in thousands):

| Counterparty | Maximum Outstanding Balance | Outstanding Balance | Interest Rate – LIBOR Plus | Maturity Date | Carrying Value of Loan Assets Securing Facility |
|---|---|---|---|---|---|
| Greenwich (1) | $ 21,516 | $ 21,516 | 100 bps | 12/09 | $ 36,452 |
| Greenwich (1) | 59,613 | 59,613 | 100 bps | 2/12 | 71,417 |
| Column (1) | 15,000 | 15,000 | 100 bps | 3/09(4) | 25,880 |
| Column (2) | 150,000(4) | 144,475 | 85-135 bps (3) | 3/11 | 261,981 |

(1) Repurchase facilities cover specific loan assets and may not be used for any other loan assets.
(2) Repurchase facility may be used for multiple loan assets and loan securities subject to the repurchase counterparty's consent. Repurchase counterparties have advised that no additional advance will be made except, if at all, in connection with loans assets or debt securities acquired for the repurchase counterparty.
(3) Interest rate is based on type of loan asset or loan security for which financing is provided. Weighted average interest rate on the Column repurchase facility at December 31, 2008 was 1.49%.
(4) In February 2009, the $15,000 asset-specific repurchase agreement was terminated and the asset which was subject to this repurchase agreement was added to the multiple loan asset repurchase agreement and the maximum

outstanding balance was increased to $165,000. The multiple loan asset repurchase agreement was modified to provide that the interest rate, maturity date and advance rate, with respect to the asset added to the multiple loan asset repurchase facility, would remain as it was under the specific repurchase agreement.

Concord utilizes interest rate swaps to manage interest rate risk. At December 31, 2008, Concord had $203.3 million of notional amounts of hedges. The three counterparties of these arrangements are major financial institutions. Concord is exposed to credit risk in the event of non-performance by these counterparties.

Contractual Obligations

The following summarizes the Company's principal contractual obligations as of December 31, 2008 ($000's):

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 and Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Notes payable(2)(3)(5)(6) | $ 305,464 | $ 145,151 | $ 119,901 | $ 433,159 | $ 318,587 | $ 1,056,987 | $ 2,379,249 |
| Contract rights payable | 229 | 491 | 540 | 593 | 652 | 12,271 | 14,776 |
| Purchase obligations (4) | — | — | 6,802 | — | — | — | 6,802 |
| Operating lease obligations(1) | 3,111 | 2,867 | 2,479 | 604 | 451 | 3,214 | 12,726 |
| | $ 308,804 | $ 148,509 | $ 129,722 | $ 434,356 | $ 319,690 | $ 1,072,472 | $ 2,413,553 |

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(1) Includes ground lease payments and office rent. Amounts disclosed do not include rents that adjust to fair market value. In addition certain ground lease payments due under bond leases allow for a right of offset between the lease obligation and the debt service and accordingly are not included.

(2) We have $1.7 million in outstanding letters of credit.

(3) Includes balloon payments.

(4) Represents the December 31, 2008 fair value of the remaining forward purchase equity commitment which must be settled by October 2011.

(5) Subsequent to December 31, 2008, $199,280 of 2009 maturities have been extended to 2011.

(6) 2013 amounts are shown net of $4,158 discount.

We may be required to fund up to $37.5 million of additional capital to Lex-Win Concord as required by its limited liability company agreement. We may be required to fund up to $22.5 million of additional capital to NLS as required by its limited partnership agreement.

Item 7A. Quantitative and Qualitative Disclosure about Market Risk

Our exposure to market risk relates primarily to our variable rate and fixed rate debt. As of December 31, 2008 and 2007, our consolidated variable rate indebtedness was approximately $199.3 million and $213.6 million, respectively, which represented 8.4% and 7.0% of total long-term indebtedness, respectively. During 2008 and 2007, our variable rate indebtedness had a weighted average interest rate of 3.7% and 7.0%, respectively. Had the weighted average interest rate been 100 basis points higher, our interest expense for 2008 and 2007 would have been increased by approximately $2.0 million and $1.5 million, respectively. As of December 31, 2008 and 2007, our consolidated fixed rate debt, including discontinued operations, was approximately $2.2 billion and $2.8 billion respectively, which represented 91.6% and 93.0%, respectively, of total long-term indebtedness.

For certain of our financial instruments, fair values are not readily available since there are no active trading markets as characterized by current exchanges between willing parties. Accordingly, we derive or estimate fair values using various valuation techniques, such as computing the present value of estimated future cash flows using discount rates commensurate with the risks involved. However, the determination of estimated cash flows may be subjective

and imprecise. Changes in assumptions or estimation methodologies can have a material effect on these estimated fair values. The following fair values were determined using the interest rates that we believe our outstanding fixed rate debt would warrant as of December 31, 2008 and are indicative of the interest rate environment as of December 31, 2008, and do not take into consideration the effects of subsequent interest rate fluctuations. Accordingly, we estimate that the fair value of our fixed rate debt is $1.9 billion as of December 31, 2008.

Our interest rate risk objectives are to limit the impact of interest rate fluctuations on earnings and cash flows and to lower our overall borrowing costs. To achieve these objectives, we manage our exposure to fluctuations in market interest rates through the use of fixed rate debt instruments to the extent that reasonably favorable rates are obtainable with such arrangements. We may enter into derivative financial instruments such as interest rate swaps or caps to mitigate our interest rate risk on a related financial instrument or to effectively lock the interest rate on a portion of our variable rate debt. Currently, we have one interest rate swap agreement.

## MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal controls over financial reporting. Our internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of published financial statements in accordance with U.S. generally accepted accounting principles.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

In assessing the effectiveness of our internal controls over financial reporting, management used as guidance the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon the assessment performed, management believes that our internal controls over financial reporting are effective as of December 31, 2008.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of our management and the members of our Board of Trustees; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Our independent registered public accounting firm, KPMG LLP, independently assessed the effectiveness of our internal controls over financial reporting. KPMG LLP has issued a report which is included on page 62 of this Annual Report.

Item 8. Financial Statements and Supplementary Data

LEXINGTON REALTY TRUST
AND CONSOLIDATED SUBSIDIARIES
INDEX


| | Page |
|---|---|
| Reports of Independent Registered Public Accounting Firm | 61-62 |
| Consolidated Balance Sheets as of December 31, 2008 and 2007 | 63 |
| Consolidated Statements of Operations for the years ended December 31, 2008, 2007 and 2006 | 64 |
| Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2008, 2007 and 2006 | 65 |
| Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2008, 2007 and 2006 | 66 |
| Consolidated Statements of Cash Flows for the years ended December 31, 2008, 2007 and 2006 | 67 |
| Notes to Consolidated Financial Statements | 68-96 |
| Financial Statement Schedule | |
| Schedule III — Real Estate and Accumulated Depreciation | 97-100 |

Report of Independent Registered Public Accounting Firm

The Trustees and Shareholders
Lexington Realty Trust:

We have audited the accompanying consolidated financial statements of Lexington Realty Trust and subsidiaries (the "Company"), as listed in the accompanying index. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule as listed in the accompanying index. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits. We did not audit the financial statements of Lex-Win Concord LLC ("Concord"), a 50 percent-owned investee company. The Company's investment in Concord at December 31, 2008 was $109.6 million, and its equity in losses of Concord and other comprehensive loss attributable to Concord was $30.2 million and $6.1 million, respectively, for the year then ended. The financial statements of Concord were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Concord, is based solely on the report of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lexington Realty Trust and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 1, 2009 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

(signed) KPMG LLP

New York, New York
March 1, 2009

Report of Independent Registered Public Accounting Firm

The Trustees and Shareholders
Lexington Realty Trust:

We have audited Lexington Realty Trust's (the "Company") internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying management's annual report on internal controls over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and trustees of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as listed in the accompanying index, and our report dated March 1, 2009 expressed an unqualified opinion on those consolidated financial statements.

(signed) KPMG LLP

New York, New York
March 1, 2009

LEXINGTON REALTY TRUST
AND CONSOLIDATED SUBSIDIARIES

Consolidated Balance Sheets
($000 except per share amounts)
As of December 31,

| | 2008 | 2007 |
|---|---|---|
| ASSETS | | |
| Real estate, at cost: | | |
| Buildings and building improvements | $ 3,106,784 | $ 3,388,421 |
| Land and land estates | 617,762 | 694,020 |
| Land improvements | 797 | 893 |
| Fixtures and equipment | 8,089 | 11,944 |
| Construction in progress | 22,756 | 13,819 |
| | 3,756,188 | 4,109,097 |
| Less: accumulated depreciation and amortization | 461,661 | 379,831 |
| | 3,294,527 | 3,729,266 |
| Properties held for sale — discontinued operations | 8,150 | 150,907 |
| Intangible assets (net of accumulated amortization of $283,926 in 2008 and $181,190 in 2007) | 343,192 | 516,698 |
| Cash and cash equivalents | 67,798 | 412,106 |
| Restricted cash | 31,369 | 41,026 |
| Investment in and advances to non-consolidated entities | 179,133 | 226,476 |
| Deferred expenses (net of accumulated amortization of $13,994 in 2008 and $12,154 in 2007) | 35,904 | 42,040 |
| Notes receivable | 68,812 | 69,775 |
| Rent receivable — current | 19,829 | 25,289 |
| Rent receivable — deferred | 19,255 | 15,303 |
| Other assets, net | 37,919 | 36,277 |
| | $ 4,105,888 | $ 5,265,163 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Liabilities: | | |
| Mortgages and notes payable | $ 2,033,854 | $ 2,312,422 |
| Exchangeable notes payable | 211,000 | 450,000 |
| Trust preferred securities | 129,120 | 200,000 |
| Contract rights payable | 14,776 | 13,444 |
| Dividends payable | 24,681 | 158,168 |
| Liabilities — discontinued operations | 6,142 | 119,093 |
| Accounts payable and other liabilities | 33,814 | 49,442 |
| Accrued interest payable | 16,345 | 23,507 |
| Deferred revenue – below market leases (net of accretion of $36,474 in 2008 and $14,076 in 2007) | 121,722 | 217,389 |
| Prepaid rent | 20,126 | 16,764 |
| | 2,611,580 | 3,560,229 |
| Minority interests | 94,996 | 765,863 |
| | 2,706,576 | 4,326,092 |
| Commitments and contingencies (Notes 8, 9, 11, 12, 14, & 16) | | |

| | | |
|---|---|---|
| Shareholders' 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 $129,915 and $155,000; 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 in 2007 | — | — |
| Common shares, par value $0.0001 per share, authorized 400,000,000 shares, 100,300,238 and 61,064,334 shares issued and outstanding in 2008 and 2007, respectively | 10 | 6 |
| Additional paid-in-capital | 1,624,463 | 1,033,332 |
| Accumulated distributions in excess of net income | (561,817) | (468,167) |
| Accumulated other comprehensive income (loss) | (15,650) | (2,778) |
| Total shareholders' equity | 1,399,312 | 939,071 |
| | $ 4,105,888 | $ 5,265,163 |

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

LEXINGTON REALTY TRUST
AND CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Operations
($000 except per share amounts)
Years ended December 31,

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Gross revenues: | | | |
| Rental | $ 396,546 | $ 373,877 | $ 164,557 |
| Advisory and incentive fees | 1,432 | 13,567 | 4,555 |
| Tenant reimbursements | 43,253 | 32,214 | 16,851 |
| Total gross revenues | 441,231 | 419,658 | 185,963 |
| Expense applicable to revenues: | | | |
| Depreciation and amortization | (239,899) | (228,050) | (74,280) |
| Property operating | (82,187) | (58,764) | (30,268) |
| General and administrative | (30,515) | (39,334) | (35,500) |
| Non-operating income | 24,410 | 11,448 | 3,671 |
| Interest and amortization expense | (156,063) | (162,028) | (63,282) |
| Debt satisfaction gains (charges), net | 65,651 | (1,209) | (216) |
| Change in value of forward equity commitment | (2,128) | — | — |
| Gains on sales of properties - affiliates | 31,806 | 17,864 | — |
| Income (loss) before benefit (provision) for income taxes, minority interests, equity in earnings (losses) of non-consolidated entities and discontinued operations | 52,306 | (40,415) | (13,912) |
| Benefit (provision) for income taxes | (3,008) | (3,288) | 237 |
| Minority interests’ share of (income) loss | 3,131 | 1,110 | (358) |
| Equity in earnings (losses) of non-consolidated entities | (43,305) | 46,467 | 4,248 |
| Income (loss) from continuing operations | 9,124 | 3,874 | (9,785) |
| Discontinued operations | | | |
| Income from discontinued operations | 753 | 28,948 | 16,356 |
| Provision for income taxes | (506) | (3,413) | (73) |
| Debt satisfaction gains (charges), net | 3,062 | (7,950) | 11,935 |
| Gains on sales of properties | 13,151 | 92,878 | 22,866 |
| Impairment charges | (16,519) | (17,170) | (35,430) |
| Minority interests’ share of (income) loss | (600) | (20,316) | 1,884 |
| Total discontinued operations | (659) | 72,977 | 17,538 |
| Net income | 8,465 | 76,851 | 7,753 |
| Dividends attributable to preferred shares — Series B | (6,360) | (6,360) | (6,360) |
| Dividends attributable to preferred shares — Series C | (8,852) | (10,075) | (10,075) |
| Dividends attributable to preferred shares — Series D | (11,703) | (10,298) | — |
| Redemption discount – Series C | 5,678 | — | — |
| Net income (loss) allocable to common shareholders | $ (12,772) | $ 50,118 | $ (8,682) |
| Income (loss) per common share — basic: | | | |
| Income (loss) from continuing operations, after preferred dividends | $ (0.18) | $ (0.35) | $ (0.50) |
| Income (loss) from discontinued operations | (0.01) | 1.12 | 0.33 |
| Net income (loss) allocable to common shareholders | $ (0.19) | $ 0.77 | $ (0.17) |
| Weighted average common shares outstanding — basic | 67,872,590 | 64,910,123 | 52,163,569 |
| Income (loss) per common share — diluted: | | | |

| | | | |
|---|---|---|---|
| Income (loss) from continuing operations, after preferred dividends | $ (0.18) | $ (0.35) | $ (0.50) |
| Income (loss) from discontinued operations | (0.01) | 1.12 | 0.33 |
| Net income (loss) allocable to common shareholders | $ (0.19) | $ 0.77 | $ (0.17) |
| Weighted average common shares outstanding — diluted | 67,872,590 | 64,910,123 | 52,163,569 |

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

LEXINGTON REALTY TRUST
AND CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss)
($000)
Years ended December 31,

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Net income | $ 8,465 | $ 76,851 | $ 7,753 |
| Other comprehensive income (loss): | | | |
| Change in unrealized gain (loss) in marketable equity securities, net | 107 | (896) | 789 |
| Change in unrealized gain (loss) in foreign currency translation | (96) | 371 | 484 |
| Change in share of unrealized loss on investments in non-consolidated entities, net of minority interest share, net | (5,800) | (3,526) | — |
| Change in unrealized loss on interest rate swap, net of minority interest share, net | (2,064) | — | — |
| Less reclassification of minority interest accumulated other comprehensive loss | (5,019) | — | — |
| Other comprehensive income (loss) | (12,872) | (4,051) | 1,273 |
| Comprehensive income (loss) | $ (4,407) | $ 72,800 | $ 9,026 |

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

LEXINGTON REALTY TRUST
AND CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Changes in Shareholders' Equity
($000 except per share amounts)
Years ended December 31,

| | Number of Preferred Shares | Amount | Number of Common Shares | Amount | Additional Paid-in Capital | Deferred Compensation, Net | Accumulated Distributions In Excess of Net Income | Accumulated Other Comprehensive Income (Loss) | Total Shareholders' Equity |
|---|---|---|---|---|---|---|---|---|---|
| Balance at December 31, 2005 | 6,260,000 | $ 226,904 | 52,155,855 | $ 5 | $ 848,564 | $ (11,401) | $ (172,762) | $ — | $ 891,310 |
| Net income | — | — | — | — | — | — | 7,753 | — | 7,753 |
| Adoption of new accounting principle (Note 2) | — | — | — | — | (11,401) | 11,401 | — | — | — |
| Dividends — common shareholders | — | — | — | — | — | — | (109,088) | — | (109,088) |
| Dividends — preferred shareholders | — | — | — | — | — | — | (20,543) | — | (20,543) |
| Issuance of common shares, net | — | — | 16,895,926 | 2 | 351,737 | — | — | — | 351,739 |
| Issuance of special voting preferred | 1 | — | — | — | — | — | — | — | — |
| Other comprehensive income | — | — | — | — | — | — | — | 1,273 | 1,273 |
| Balance at December 31, 2006 | 6,260,001 | 226,904 | 69,051,781 | 7 | 1,188,900 | — | (294,640) | 1,273 | 1,122,444 |
| Net income | — | — | — | — | — | — | 76,851 | — | 76,851 |
| Dividends — common shareholders | — | — | — | — | — | — | (223,746) | — | (223,746) |
| Dividends — preferred shareholders | — | — | — | — | — | — | (26,733) | — | (26,733) |
| Issuance of common shares, net | — | — | 1,608,369 | — | 34,554 | — | 101 | — | 34,655 |
| Repurchase of common shares | — | — | (9,595,816) | (1) | (190,122) | — | — | — | (190,123) |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Issuance of preferred shares, net | 6,200,000 | 149,774 | — | — | — | — | — | — | 149,774 |
| Other comprehensive income (loss) | — | — | — | — | — | — | — | (4,051) | (4,051) |
| Balance at December 31, 2007 | 12,460,001 | 376,678 | 61,064,334 | 6 | 1,033,332 | — | (468,167) | (2,778) | 939,071 |
| Net income | — | — | — | — | — | — | 8,465 | — | 8,465 |
| Dividends — common shareholders | — | — | — | — | — | — | (80,904) | — | (80,904) |
| Dividends — preferred shareholders | — | — | — | — | — | — | (26,915) | — | (26,915) |
| Redemption discount – Series C | — | — | — | — | — | — | 5,678 | — | 5,678 |
| Retirement of special voting preferred | (1) | — | — | — | — | — | — | — | — |
| Issuance of common shares, net | — | — | 40,415,704 | 4 | 607,984 | — | 26 | — | 608,014 |
| Repurchase of common shares | — | — | (1,179,800) | — | (16,853) | — | — | — | (16,853) |
| Repurchase of preferred shares | (501,700) | (24,372) | — | — | — | — | — | — | (24,372) |
| Other comprehensive income (loss) | — | — | — | — | — | — | — | (12,872) | (12,872) |
| Balance at December 31, 2008 | 11,958,300 | $ 352,306 | 100,300,238 | $ 10 | $ 1,624,463 | $ — | $ (561,817) | $ (15,650) | $ 1.399,312 |

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

LEXINGTON REALTY TRUST
AND CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Cash Flows
($000 except per share amounts)
Years ended December 31,

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net income | $ 8,465 | $ 76,851 | $ 7,753 |
| Adjustments to reconcile net income to net cash provided by operating activities, net of effects from acquisitions: | | | |
| Depreciation and amortization | 248,928 | 253,535 | 84,734 |
| Minority interests | (2,531) | 19,206 | (1,525) |
| Gains on sales of properties | (44,957) | (110,742) | (22,866) |
| Debt satisfaction charges (gains), net | (68,830) | 2,250 | (14,761) |
| Impairment charges | 16,519 | 17,170 | 35,430 |
| Straight-line rents | 2,114 | 16,151 | (4,923) |
| Other non-cash charges | 5,093 | 16,774 | 17,233 |
| Equity in (earnings) losses of non-consolidated entities | 43,305 | (46,474) | (4,186) |
| Distributions of accumulated earnings from non-consolidated entities | 1,697 | 7,930 | 8,058 |
| Deferred tax assets, net | 1,313 | 2,358 | (738) |
| (Decrease) increase in accounts payable and other liabilities | (9,129) | 4,999 | 1,999 |
| Change in rent receivable and prepaid rent, net | 22,829 | 12,378 | (3,521) |
| (Decrease) increase in accrued interest payable | (6,026) | 15,193 | 1,383 |
| Other adjustments, net | 11,411 | 72 | 3,950 |
| Net cash provided by operating activities | 230,201 | 287,651 | 108,020 |
| Cash flows from investing activities: | | | |
| Net proceeds from sales/transfers of properties | 238,600 | 423,634 | 76,627 |
| Net proceeds from sales of properties-affiliates | 95,576 | 126,628 | — |
| Purchase of minority interests | (5,311) | — | — |
| Cash paid relating to Merger | — | — | (12,395) |
| Investments in real estate including intangible assets | (94,610) | (163,746) | (173,661) |
| Investments in and advances to non-consolidated entities | (18,388) | (97,942) | (9,865) |
| Acquisition of interest in certain non-consolidated entities | — | (366,614) | — |
| Acquisition of additional interest in LSAC | — | (24,199) | (42,619) |
| Collection of notes from affiliate | — | — | 8,300 |
| Issuance of notes receivable to affiliate | — | — | (8,300) |
| Principal payments received on loans receivable | 1,468 | 8,499 | — |
| Real estate deposits | 223 | 1,756 | 359 |
| Investment in notes receivable | (1,000) | — | (11,144) |
| Proceeds from the sale of marketable equity securities | 2,506 | 29,462 | — |
| Investment in marketable equity securities | — | (723) | (5,019) |
| Distribution from non-consolidated entities in excess of accumulated earnings | 26,355 | 9,457 | 19,640 |
| Increase in deferred leasing costs | (11,988) | (5,713) | (1,737) |
| Change in escrow deposits and restricted cash | (3,303) | 28,011 | 5,734 |
| Net cash provided by (used in) investing activities | 230,128 | (31,490) | (154,080) |
| Cash flows from financing activities: | | | |

| | | | |
|---|---|---|---|
| Proceeds of mortgages and notes payable | 13,700 | 246,965 | 147,045 |
| Change in credit facility borrowing, net | 25,000 | (65,194) | 65,194 |
| Dividends to common and preferred shareholders | (241,306) | (137,259) | (93,681) |
| Dividend reinvestment plan proceeds | — | 5,652 | 12,525 |
| Repurchase of exchangeable notes | (169,479) | — | — |
| Repurchase of trust preferred securities | (44,561) | — | — |
| Principal payments on debt, excluding normal amortization | (242,679) | (665,124) | (82,010) |
| Principal amortization payments | (64,552) | (73,351) | (28,966) |
| Debt deposits | — | — | 291 |
| Proceeds from term loan | 70,000 | 225,000 | — |
| Proceeds from trust preferred securities | — | 200,000 | — |
| Proceeds from exchangeable notes | — | 450,000 | — |
| Issuance of common/preferred shares | 47,014 | 149,898 | 272 |
| Repurchase of common and preferred shares | (24,374) | (190,123) | (11,159) |
| Contributions from minority partners | 1,957 | — | 810 |
| Cash distributions to minority partners | (158,930) | (84,858) | (8,554) |
| Increase in deferred financing costs | (2,712) | (18,707) | (1,169) |
| Swap termination costs | (415) | — | — |
| Payments on forward purchase of common shares | (12,825) | — | — |
| Purchases of partnership units | (475) | (3,926) | (115) |
| Net cash (used in) provided by financing activities | (804,637) | 38,973 | 483 |
| Cash acquired in co-investment program acquisition | — | 20,867 | — |
| Cash associated with sale of interest in entity | — | (1,442) | — |
| Cash attributable to newly consolidated entity | — | — | 31,985 |
| Cash attributable to Merger | — | — | 57,624 |
| Change in cash and cash equivalents | (344,308) | 314,559 | 44,032 |
| Cash and cash equivalents, beginning of year | 412,106 | 97,547 | 53,515 |
| Cash and cash equivalents, end of year | $ 67,798 | $ 412,106 | $ 97,547 |

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

LEXINGTON REALTY TRUST
AND CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Financial Statements
($000 except per share/unit amounts)
December 31, 2008 and 2007

(1) The Company

Lexington Realty Trust, formerly Lexington Corporate Properties 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 net leased office, industrial and retail properties and provides investment advisory and asset management services to investors in the net lease area. As of December 31, 2008, the Company had ownership interests in approximately 225 consolidated properties located in 41 states and the Netherlands. The real properties owned by the Company are generally subject to triple net leases to tenants, which are generally characterized as leases in which 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. As of December 31, 2007, the Company had ownership interests in approximately 280 consolidated properties in 42 states and the Netherlands.

On December 31, 2006, the Company completed its merger (the “Merger”) with Newkirk Realty Trust, Inc., (“Newkirk”). Newkirk’s primary business was similar to the primary business of the Company. All of Newkirk’s operations were conducted and all of its assets were held through its master limited partnership, The Newkirk Master Limited Partnership (“MLP”). Newkirk was the general partner and owned 31.0% of the units of limited partner interest in the MLP (the “MLP units”). In connection with the Merger, the Company changed its name to Lexington Realty Trust, the MLP was renamed The Lexington Master Limited Partnership and an affiliate of the Company became the general partner of the MLP and another affiliate of the Company became the holder of a 31.0% ownership interest in the MLP.

In the Merger, Newkirk merged with and into the Company, with the Company as the surviving entity. Each share of Newkirk’s common stock was exchanged for 0.80 common shares of the Company, and the MLP effected a 1.0 for 0.80 reverse unit-split, resulting in 35.5 million MLP units applicable to the minority interest being outstanding after the Merger. Each MLP unit was redeemable at the option of the holder for cash based on the value of a common share of the Company or, at the Company’s election, on a one-for-one basis into Lexington common shares. On December 31, 2008, the remaining 6.4 million MLP units were redeemed for Lexington common shares, the Company became the sole owner of the MLP and the MLP was merged into the Company and ceased to exist. The acquisition of the remaining MLP units was recorded at the minority interests’ carrying value.

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 are subject to federal income taxes on the income from these activities.

The Company conducts its operations either directly or through 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”) or through Lexington Realty Advisors, Inc. (“LRA”), a wholly-owned TRS. As of December 31, 2008, there were three operating partnerships: (1) Lepercq Corporate Income Fund L.P. (“LCIF”), (2)

Lepercq Corporate Income Fund II L.P. (“LCIF II”), and Net 3 Acquisition L.P. (“Net 3”).

(2) Summary of Significant Accounting Policies

Basis of Presentation and Consolidation. The Company’s 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 MLP, formerly an operating partnership subsidiary, was merged with and into the Company as of December 31, 2008. 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. The Company determines whether an entity for which it holds an interest should be consolidated pursuant to Financial Accounting Standards Board (“FASB”) Interpretation No. 46 (Revised), Consolidation of Variable Interest Entities (“FIN 46R”) and/or Emerging Issues Task Force (“EITF”) 04-05, Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights (“EITF 04-05”). FIN 46R requires the Company to evaluate whether it has a controlling financial interest in an entity through means other than voting rights. If the entity is not a variable interest entity the Company applies the guidance in EITF 04-05, and if the Company controls the entity’s voting shares or similar rights as determined in EITF 04-05, the entity is consolidated.



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LEXINGTON REALTY TRUST
AND CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Financial Statements – (Continued)
($000 except per share/unit amounts)

Earnings Per Share. Basic net income (loss) per share is computed by dividing net income reduced by preferred dividends, if applicable, by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share amounts are similarly computed but include the effect, when dilutive, of in-the-money common share options, OP units, put options of certain partners' interests in non-consolidated entities and convertible preferred shares.

Recently Issued Accounting Standards. In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109 Accounting for Income Taxes ("SFAS 109"). FIN 48 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 was effective for fiscal years beginning after December 15, 2006. The adoption of FIN 48 did not have an impact on the Company's consolidated financial position or results of operations.

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 were deferred for one additional year, and a scope exception for purposes of fair value measurements affecting lease classification or measurement under SFAS No. 13 Accounting for Leases, as Amended ("SFAS 13") and related standards. SFAS 157 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 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 consider counterparty credit risk in the Company's assessment of fair value. 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 implementation of this statement as it relates to non-financial assets and liabilities is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

The following table presents the Company's financial assets and liabilities measured at fair value as of December 31, 2008, aggregated by the level within the SFAS 157 fair value hierarchy within which those measurements fall:

| | Fair Value Measurements using | | | |
|---|---|---|---|---|
| | Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Balance December 31, 2008 |

| | | | | |
|---|---|---|---|---|
| Forward purchase equity asset | $ — | $ 10,698 | $ — | $ 10,698 |
| Interest rate swap liability | $ — | $ 7,055 | $ — | $ 7,055 |

Although the Company has determined that the majority of the inputs used to value its swap obligation fall within Level 2 of the fair value hierarchy, the credit valuation associated with the swap obligation 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 December 31, 2008, the Company has determined that the credit valuation adjustment relative to the overall swap obligation is not significant. As a result, the entire swap obligation has been classified in Level 2 of the fair value hierarchy.

LEXINGTON REALTY TRUST
AND CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Financial Statements – (Continued)
($000 except per share/unit amounts)

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 other observable inputs.

In September 2006, the Securities and Exchange Commission (the "SEC") released Staff Accounting Bulletin No. 108 ("SAB 108"). SAB 108 provides guidance on how the effects of the carryover or reversal of prior year financial statements misstatements should be considered in quantifying a current period misstatement. In addition, upon adoption, SAB 108 permits the Company to adjust the cumulative effect of immaterial errors relating to prior years in the carrying amount of assets and liabilities as of the beginning of the current fiscal year, with an offsetting adjustment to the opening balance of retained earnings. SAB 108 also requires the adjustment of any prior quarterly financial statement within the fiscal year of adoption for the effects of such errors on the quarters when the information is next presented. The Company adopted SAB 108 for the year ended December 31, 2006, and its adoption had no impact on the Company's financial position, results of operations or cash flows.

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 is 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 financial position, results of operations or cash flows.

In June 2007, the SEC announced revisions to EITF Topic D-98 related to the release of SFAS 159, pursuant to which the SEC will no longer accept liability classification 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 result, 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 positions.

In December 2007, the FASB issued SFAS No. 141R, 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" and acquisition related costs will generally be expensed rather than included as part of the basis of the acquisition. SFAS 141R expands required disclosures to improve the ability to evaluate the nature and financial effects of business combinations. SFAS 141R is effective for acquisitions in periods beginning on or after December 15, 2008. The adoption of this standard could materially impact the Company's future financial results to the extent that the Company acquires significant amounts of real estate, as related acquisition costs will be expensed as incurred compared to current practice of capitalizing such costs and amortizing them over the estimated useful life of the assets acquired.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interest in Consolidated Financial Statements – an amendment of ARB 51 ("SFAS No. 160"). SFAS No. 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 No. 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 interest's 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 is 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.

LEXINGTON REALTY TRUST
AND CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Financial Statements – (Continued)
($000 except per share/unit amounts)

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 FASB Staff Position (“FSP”) No. 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 is applicable to issuers of convertible debt that may be settled wholly or partly in cash. The adoption of FSP 14-1 will affect the accounting for the Company’s 5.45% Exchangeable Guaranteed Notes issued in 2007. FSP 14-1 requires the initial proceeds from the sale of the 5.45% Exchangeable Guaranteed Notes to be allocated between a liability component representing debt and an equity component representing the conversion feature. The resulting discount will be amortized using the effective interest method over the period the debt is expected to remain outstanding as additional interest expense. FSP 14-1 is effective for fiscal years beginning after December 31, 2008, and requires retroactive application. The adoption of FSP 14-1 will result in recognition of an aggregate unamortized debt discount of $6,926 and $19,462 as of December 31, 2008 and 2007, respectively, in the Company’s Consolidated Balance Sheets and additional interest expense in the Company’s Consolidated Statements of Operations for the years then ended. The current estimate of the incremental interest expense and debt satisfaction gain reduction, net of minority interest, for each reporting period is as follows:

| For the year ended December 31 | Interest expense | Debt satisfaction gain reduction |
|---|---|---|
| 2006 | $ — | $ — |
| 2007 | $ 1,602 | $ — |
| 2008 | $ 1,997 | $ ( 3,714) |

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 share under the two-class method described in FASB Statement No. 128, Earnings per Share. FSP 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. Management does not believe that the adoption of FSP 03-6-1 will have an impact on the Company’s financial statements as the number of unvested shares is not material.

In October 2008, the FASB issued FASB Staff Position FAS 157-3 ("FSP FAS 157-3"), Determining the Fair Value of a Financial Asset When the Market For That Asset is Not Active, which clarifies the application of FASB 157, Fair Value Measurements, in a market that is not active. Among other things, FSP FAS 157-3 clarifies that determination of fair value in a dislocated market depends on facts and circumstances and may require the use of significant judgment about whether individual transactions are forced liquidations or distressed sales. In cases where the volume and level of trading activity for an asset have declined significantly, the available prices vary significantly over time or among market participants, or the prices are not current, observable inputs might not be relevant and could require significant adjustment. In addition, FSP FAS 157-3 also clarifies that broker or pricing service quotes may be appropriate inputs when measuring fair value, but are not necessarily determinative if an active market does not exist for the financial asset. Regardless of the valuation techniques used, FSP FAS 157-3 requires that an entity include appropriate risk adjustments that market participants would make for nonperformance and liquidity risks. FSP FAS 157-3 was effective upon issuance and includes prior periods for which financial statements have not been issued. The Company has adopted FSP FAS 157-3, which did not have a material impact on the Company's financial position, results of operations or cash flows.

LEXINGTON REALTY TRUST
AND CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Financial Statements – (Continued)
($000 except per share/unit amounts)

On November 13, 2008, the FASB ratified EITF consensus on EITF Issue No. 08-6, "Equity Method Investment Accounting Considerations" ("EITF 08-6"). EITF 08-6 addresses questions about the potential effect of FASB Statement No. 141R, Business Combinations, and FASB Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51, on equity-method accounting under Accounting Principles Board ("APB") Opinion 18, The Equity Method of Accounting for Investments in Common Stock ("APB 18"). EITF 08-6 generally continues existing practices under APB 18 including the use of a cost-accumulation approach to initial measurement of the investment. EITF 08-6 does not require the investor to perform a separate impairment test on the underlying assets of an equity method investment. However, an equity-method investor is required to recognize its proportionate share of impairment charges recognized by the investee, adjusted for basis differences, if any, between the investee's carrying amount for the impaired assets and the cost allocated to such assets by the investor. The investor is also required to perform an overall other-than-temporary impairment test of its investment in accordance with APB 18. EITF 08-6 is effective for fiscal years beginning on or after December 15, 2008 and interim periods within those fiscal years and shall be applied prospectively. The adoption of this pronouncement is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

On December 11, 2008, the FASB issued FSP FAS 140-4 and FIN 46(R)-8, Disclosures about Transfers of Financial Assets and Interests in Variable Interest Entities ("FSP FAS 140-4 and FIN 46R-8"). This FSP includes disclosure objectives and requires public entities to provide additional year-end and interim disclosures about transfers of financial assets and involvement with variable interest entities. The requirements apply to transferors, sponsors, servicers, primary beneficiaries, and holders of significant variable interests in a variable-interest entity or qualifying special purpose entity. FSP FAS 140-4 and FIN 46R-8 is effective for the first interim period or fiscal year ending after December 15, 2008. The Company does not believe that the adoption of FSP FAS 140-4 and FIN 46R-8 will have an impact on the Company's financial statements as the Company does not have significant variable interests.

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 consolidated financial statements in conformity with U.S. generally accepted accounting principles. 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 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 materially from those estimates.

Business Combinations. The Company follows the provisions of SFAS No. 141, Business Combinations ("SFAS 141") and records all assets acquired and liabilities assumed at fair value. On December 31, 2006, the Company acquired Newkirk which was a variable interest entity (VIE). The Company follows the provisions of FASB Interpretation No. 46 (Revised), Consolidation of Variable Interest Entities ("FIN 46R"), and as a result has recorded the minority interest in Newkirk at estimated fair value on the date of acquisition. The value of the consideration issued in common shares is based upon a reasonable period before and after the date that the terms of the Merger were agreed to and

announced.

Purchase Accounting for Acquisition of Real Estate. The fair value of the real estate acquired, which includes the impact of fair value adjustments for assumed mortgage debt related to property acquisitions, is allocated to the acquired tangible assets, consisting of land, building and improvements, and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases, other value of in-place leases and value of tenant relationships, based in each case on their fair values.

The fair value of the tangible assets of an acquired property (which includes land, building and improvements and fixtures and equipment) is determined by valuing the property as if it were vacant, and the “as-if-vacant” value is then allocated to land, building and improvements based on management’s determination of relative fair values of these assets. Factors considered by management in performing these analyses include an estimate of carrying costs during the expected lease-up periods considering current market conditions and costs to execute similar leases. In estimating carrying costs, management includes real estate taxes, insurance and other operating expenses and estimates of lost rental revenue during the expected lease-up periods based on current market demand. Management also estimates costs to execute similar leases including leasing commissions.



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LEXINGTON REALTY TRUST
AND CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Financial Statements – (Continued)
($000 except per share/unit amounts)

In allocating the fair value of the identified intangible assets and liabilities of an acquired property, above-market and below-market lease values are recorded based on the difference between the current in-place lease rent and management's estimate of current market rents. Below-market lease intangibles are recorded as part of deferred revenue and amortized into rental revenue over the non-cancelable periods and bargain renewal periods of the respective leases. Above-market leases are recorded as part of intangible assets and amortized as a direct charge against rental revenue over the non-cancelable portion of the respective leases.

The aggregate value of other acquired intangible assets, consisting of in-place leases and customer relationships, is measured by the excess of (1) the purchase price paid for a property over (2) the estimated fair value of the property as if vacant, determined as set forth above. This aggregate value is allocated between in-place lease values and customer relationships based on management's evaluation of the specific characteristics of each tenant's lease. The value of in-place leases are amortized to expense over the remaining non-cancelable periods and any bargain renewal periods of the respective leases. Customer relationships are amortized to expense over the applicable lease term plus expected renewal periods.

Revenue Recognition. The Company recognizes revenue in accordance with 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.

Gains on sales of real estate are recognized pursuant to the provisions of SFAS No. 66 Accounting for Sales of Real Estate, as amended ("SFAS 66"). The specific timing of the sale is measured against various criteria in SFAS 66 related to the terms of the transactions and any continuing involvement in the form of management or financial assistance associated with the properties. If the sales criteria are not met, the gain is deferred and the finance, installment or cost recovery method, as appropriate, is applied until the sales criteria are met. To the extent the Company sells a property and retains a partial ownership interest in the property, the Company recognizes gain to the extent of the third party ownership interest in accordance with SFAS 66.

Accounts Receivable. The Company continuously monitors collections from its tenants and would make a provision for estimated losses based upon historical experience and any specific tenant collection issues that the Company has identified. As of December 31, 2008 and 2007, the Company's allowance for doubtful accounts was not significant.

Impairment of Real Estate. The Company evaluates the carrying value of all tangible and intangible assets held when a triggering event under SFAS 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.

Depreciation is determined by the straight-line method over the remaining estimated economic useful lives of the properties. The Company generally depreciates buildings and building improvements over periods ranging from 8 to 40 years, land improvements from 15 to 20 years, and fixtures and equipment from 2 to 16 years.

Only costs incurred to third parties in acquiring properties are capitalized. No internal costs (rents, salaries, overhead) are capitalized. Expenditures for maintenance and repairs are charged to operations as incurred. Significant renovations which extend the useful life of the properties are capitalized.

Impairment of Equity Method Investments. The Company assesses whether there are indicators that the value of its equity method investments may be impaired. An investment's value is impaired if the Company determines that a decline in the value of the investment below its carrying value is other than temporary. To the extent impairment has occurred, the loss shall be measured as the excess of the carrying amount of the investment over the estimated value of the investment.

LEXINGTON REALTY TRUST
AND CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Financial Statements – (Continued)
($000 except per share/unit amounts)

Properties Held For Sale. The Company accounts for properties held for sale in accordance with SFAS 144. SFAS 144 requires that the assets and liabilities of properties that meet various criteria in SFAS 144 be presented separately in the Consolidated Balance Sheets, with assets and liabilities being separately stated. The operating results of these properties are reflected as discontinued operations in the Consolidated Statements of Operations. Properties that do not meet the held for sale criteria of SFAS 144 are accounted for as operating properties.

Investments in Non-consolidated Entities. The Company accounts for its investments in 50% or less owned entities under the equity method, unless pursuant to FIN 46R consolidation is required or if its investment in the entity is less than 3% and it has no influence over the control of the entity then the entity is accounted for under the cost method.

Marketable Equity Securities. The Company classifies its existing marketable equity securities as available-for-sale in accordance with the provisions of SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. These securities are carried at fair market value, with unrealized gains and losses, including the Company's proportionate share of the unrealized gains or losses from non-consolidated entities, reported in shareholders' equity as a component of accumulated other comprehensive income. Gains or losses on securities sold and other than temporary impairments are included in the Consolidated Statement of Operations. Sales of securities are recorded on the trade date and gains and losses are generally determined by the specific identification method.

Investments in Debt Securities. Investments in debt securities are classified as held-to-maturity, reported at amortized cost and are included with other assets in the accompanying Consolidated Balance Sheets and amounted to $15,447 and $15,926 at December 31, 2008 and 2007, respectively. A decline in the market value of any held-to-maturity security below cost that is deemed to be other-than-temporary results in an impairment and would reduce the carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. To determine whether an impairment is other-than-temporary, the Company considers whether it has the ability and intent to hold the investment until a market price recovery and considers whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year-end, forecasted performance of the investee, and the general market condition in the geographic area or industry the investee operates in.

Notes Receivable. The Company evaluates the collectability of both interest and principal of each of its notes, if circumstances warrant, to determine whether it is impaired. A note is considered to be impaired, when based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the existing contractual terms. When a note is considered to be impaired, the amount of the loss accrual is calculated by comparing the recorded investment to the value determined by discounting the expected future cash flows at the note's effective interest rate. Interest on impaired notes is recognized on a cash basis.

Deferred Expenses. Deferred expenses consist primarily of debt and leasing costs. Debt costs are amortized using the straight-line method, which approximates the interest method, over the terms of the debt instruments and leasing costs are amortized over the term of the related lease.

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 and interpreted

(“SFAS 133”). In accordance with SFAS 133, these agreements are carried on the balance sheet at their fair value, as an asset, if their fair value is positive, or as a liability, if their fair value is negative. If the interest rate swap is designated as a cash flow hedge, the effective portion of the swap’s change in fair value is reported as a component of other comprehensive income (loss) and the ineffective portion, if any, is recognized in earnings as an increase or decrease to interest expense.



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LEXINGTON REALTY TRUST
AND CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Financial Statements – (Continued)
($000 except per share/unit amounts)

Upon entering into hedging transactions, the Company documents the relationship between the interest rate swap agreements and the hedged liability. The Company also documents its risk-management policies, including objectives and strategies, as they relate to its hedging activities. The Company assesses, both at inception of a hedge and on an on-going basis, whether or not the hedge is highly effective, as defined by SFAS 133. The Company will discontinue hedge accounting on a prospective basis with changes in the estimated fair value reflected in earnings when: (1) it is determined that the derivative is no longer effective in offsetting cash flows of a hedge item (including forecasted transactions); (2) it is no longer probable that the forecasted transaction will occur; or (3) it is determined that designating the derivative as an interest rate swap is no longer appropriate. The Company may utilize interest rate swap and cap agreements to manage interest rate risk and does not anticipate entering into derivative transactions for speculative trading purposes.

Stock Compensation. The Company maintains an equity participation plan. Options granted under the plan in 2008 vest upon attainment of certain market performance measures and expire ten years from the date of grant. Non-vest share grants generally vest either based upon (i) time (ii) performance and/or (iii) market conditions.

Prior to January 1, 2003, the Company accounted for the plan under the intrinsic value-based method of accounting prescribed by APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations including FASB Interpretation No. 44, Accounting for Certain Transactions involving Stock Compensation (an interpretation of APB Opinion No. 25). Effective January 1, 2003, the Company adopted the prospective method provisions of SFAS No. 148, Accounting for Stock-Based Compensation – Transition and Disclosure an Amendment of FASB Statement No. 123 ("SFAS No. 148"), which applies the recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation ("SFAS No. 123") to all employee awards granted, modified or settled after January 1, 2003.

During December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123(R)"), which is a revision of Statement 123. SFAS No. 123(R) supersedes APB Opinion 25. Generally, the approach in SFAS No. 123(R) is similar to the approach described in Statement 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the statement of operations based on their fair values. Pro-forma disclosure is no longer an alternative under SFAS No. 123(R). SFAS No. 123(R) was effective for fiscal years beginning after December 31, 2005. The Company began expensing stock based employee compensation with its adoption of the prospective method provisions of SFAS No. 148, effective January 1, 2003, as a result, the adoption of SFAS No. 123(R) did not have a material impact on the Company's financial position or results of operations.

Tax Status. The Company has made an election to qualify, and believes it is operating so as to qualify, as a REIT for federal income tax purposes. Accordingly, the Company generally 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 Sections 856 through 860 of 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 under the Code. LRA is, and LCI and LSAC were, taxable REIT subsidiaries. As such, the Company is subject to federal and state income taxes on the income from these activities.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled.

During the fourth quarter of 2007, the Board of Trustees declared a special common share dividend of $2.10 per common share, which was paid in January 2008. During the fourth quarter of 2006, the Board of Trustees declared a special common share dividend of $0.2325 per common share, which was paid in January 2007.

LEXINGTON REALTY TRUST
AND CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Financial Statements – (Continued)
($000 except per share/unit amounts)

A summary of the average taxable nature of the Company’s common dividends for each of the years in the three year period ended December 31, 2008, is as follows:

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Total dividends per share | $ 2.25408(ii) | $ 2.93342(i)(ii) | $ 1.46 |
| Ordinary income | 62.24% | 42.36% | 68.89% |
| 15% rate — qualifying dividend | 0.66% | 2.50 | 0.77 |
| 15% rate gain | 14.12% | 35.62 | 7.97 |
| 25% rate gain | 9.56% | 19.52 | 5.13 |
| Return of capital | 13.42% | — | 17.24 |
| | 100.00% | 100.00% | 100.00% |

(i) Includes the special dividend of $0.2325 paid in January 2007 and a portion of the special dividend of $2.10 paid in January 2008.

(ii) Of the total dividend paid in January 2008, $1.21092 is allocated to 2007 and $1.26408 is allocated to 2008.

A summary of the average taxable nature of the Company’s dividend on Series B Cumulative Redeemable Preferred Shares for each of the years in the three year period ended December 31, 2008, is as follows:

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Total dividends per share | $ 2.0125 | $ 2.0125 | $ 2.0125 |
| Ordinary income | 71.90% | 42.36% | 83.24% |
| 15% rate — qualifying dividend | 0.76% | 2.50 | 0.93 |
| 15% rate gain | 16.30% | 35.62 | 9.63 |
| 25% rate gain | 11.04% | 19.52 | 6.20 |
| | 100.00% | 100.00% | 100.00% |

A summary of the average taxable nature of the Company’s dividend on Series C Cumulative Convertible Preferred Shares for each of the years in the three year period ended December 31, 2008, is as follows:

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Total dividends per share | $ 7.63976(i) | $ 3.25 | $ 3.25 |
| Ordinary income | 66.35% | 42.36% | 83.24% |
| 15% rate — qualifying dividend | 0.70% | 2.50 | 0.93 |
| 15% rate gain | 15.05% | 35.62 | 9.63 |
| 25% rate gain | 10.19% | 19.52 | 6.20 |
| Return of capital | 7.71% | — | — |
| | 100.00% | 100.00% | 100.00% |

(i) Includes deemed distribution of $4.38976 due to an adjustment to the conversion rate.

A summary of the average taxable nature of the Company’s dividend on Series D Cumulative Redeemable Preferred shares for the years in the two-year period ended December 31, 2008, is as follows:

| | 2008 | 2007 |
|---|---|---|
| Total dividends per share | $ 1.415625(i) | $ 1.662049 |
| Ordinary income | 71.90% | 42.36% |
| 15% rate — qualifying dividend | 0.76% | 2.50 |
| 15% rate gain | 16.30% | 35.62 |
| 25% rate gain | 11.04% | 19.52 |
| | 100.00% | 100.00% |

(i) Dividend paid in January 2008 is allocated to 2007.

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 by lenders and amounts deposited to complete tax-free exchanges.

76

LEXINGTON REALTY TRUST
AND CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Financial Statements – (Continued)
($000 except per share/unit amounts)

Foreign Currency. The Company has determined that the functional currency of its foreign operations is the respective local currency. As such, assets and liabilities of the Company's foreign operations are translated using period-end exchange rates, and revenues and expenses are translated using exchange rates as determined throughout the period. Unrealized gains or losses resulting from translation are included in accumulated other comprehensive income (loss) and as a separate component of the Company's shareholders' equity.

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 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 December 31, 2008 and 2007, the Company was not aware of any environmental matter that could have a material impact on the Company's financial position, results of operations or cash flows.

Segment Reporting. The Company operates generally in one industry segment, investment in net-leased real properties.

Reclassifications. Certain amounts included in prior years' financial statements have been reclassified to conform with the current year presentation, including reclassifying certain income statement captions for properties held for sale as of December 31, 2008 and properties sold during 2008, which are presented as discontinued operations.

(3) Earnings Per Share

The following is a reconciliation of numerators and denominators of the basic and diluted earnings per share computations for each of the years in the three year period ended December 31, 2008:

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| BASIC | | | |
| Income (loss) from continuing operations | $ 9,124 | $ 3,874 | $ (9,785) |
| Less preferred dividends | (21,237) | (26,733) | (16,435) |
| Income (loss) attributable to common shareholders from continuing operations | (12,113) | (22,859) | (26,220) |
| Total income (loss) from discontinued operations | (659) | 72,977 | 17,538 |
| Net income (loss) attributable to common shareholders | $ (12,772) | $ 50,118 | $ (8,682) |
| Weighted average number of common shares outstanding - basic | 67,872,590 | 64,910,123 | 52,163,569 |
| Income (loss) per common share — basic: | | | |
| Income (loss) from continuing operations | $ (0.18) | $ (0.35) | $ (0.50) |
| Income (loss) from discontinued operations | (0.01) | 1.12 | 0.33 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Net income (loss) | $ | (0.19) | $ | 0.77 | $ | (0.17) |
| DILUTED | | | | | | |
| Income (loss) attributable to common shareholders from continuing operations — basic | $ | (12,113) | $ | (22,859) | $ | (26,220) |
| Add — incremental loss attributable to assumed conversion of dilutive securities | | — | | — | | — |
| Income (loss) attributable to common shareholders from continuing operations | | (12,113) | | (22,859) | | (26,220) |
| Income (loss) from discontinued operations | | (659) | | 72,977 | | 17,538 |
| Net income (loss) attributable to common shareholders | $ | (12,772) | $ | 50,118 | $ | (8,682) |
| Weighted average number of shares used in calculation of basic earnings per share | | 67,872,590 | | 64,910,123 | | 52,163,569 |
| Add — incremental shares representing: | | | | | | |
| Shares issuable upon exercise of employee share options/non-vested shares | | — | | — | | — |
| Shares issuable upon conversion of dilutive securities | | — | | — | | — |
| Weighted average number of common shares – diluted | | 67,872,590 | | 64,910,123 | | 52,163,569 |
| Income (loss) per common | | | | | | |