LEXINGTON REALTY TRUST
Form 10-Q
May 09, 2014

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

FORM 10-Q

(Mark One)
x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2014.
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	13-3717318
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Penn Plaza – Suite 4015 New York, NY	10119
(Address of principal executive offices)	(Zip Code)
(212) 692-7200	
(Registrant's telephone number, including area code)	

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

Large accelerated filer x Accelerated filer o Non-accelerated filer (Do not check if a smaller reporting company) o Smaller reporting company o

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 230,331,406 common shares of beneficial interest, par value $0.0001 per share, as of May 6, 2014.

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WHERE YOU CAN FIND MORE INFORMATION:

We file and furnish annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission, which we refer to as the SEC. You may read and copy any materials that we file or furnish with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. We file and furnish information electronically with the SEC. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file or furnish electronically with the SEC. The address of the SEC's Internet site is http://www.sec.gov. We also maintain a web site at http://www.lxp.com through which you can obtain copies of documents that we file or furnish with the SEC. The contents of that web site are not incorporated by reference in or otherwise a part of this Quarterly Report on Form 10-Q or any other document that we file or furnish with the SEC.

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PART I. - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
LEXINGTON REALTY TRUST AND CONSOLIDATED SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	March 31, 2014 (unaudited)	December 31, 2013
Assets:		
Real estate, at cost	$3,805,066	$3,812,294
Real estate - intangible assets	760,590	762,157
Investments in real estate under construction	79,940	74,350
	4,645,596	4,648,801
Less: accumulated depreciation and amortization	1,229,777	1,223,381
Real estate, net	3,415,819	3,425,420
Assets held for sale	36,878	—
Cash and cash equivalents	46,050	77,261
Restricted cash	20,754	19,953
Investment in and advances to non-consolidated entities	17,896	18,442
Deferred expenses, net	67,515	66,827
Loans receivable, net	120,798	99,443
Rent receivable – current	9,169	10,087
Rent receivable – deferred	28,578	19,473
Other assets	37,718	35,375
Total assets	$3,801,175	$3,772,281
Liabilities and Equity:		
Liabilities:		
Mortgages and notes payable	$1,145,212	$1,197,489
Credit facility borrowings	42,000	48,000
Term loans payable	505,000	406,000
Senior notes payable	247,768	247,707
Convertible notes payable	24,942	27,491
Trust preferred securities	129,120	129,120
Dividends payable	40,397	40,018
Liabilities held for sale	19,204	—
Accounts payable and other liabilities	33,423	39,642
Accrued interest payable	10,747	9,627
Deferred revenue - including below market leases, net	67,899	69,667
Prepaid rent	27,212	18,037
Total liabilities	2,292,924	2,232,798
Commitments and contingencies		
Equity:		
Preferred shares, par value $0.0001 per share; authorized 100,000,000 shares:		
Series C Cumulative Convertible Preferred, liquidation preference $96,770; 1,935,400 shares issued and outstanding	94,016	94,016
	23	23

Common shares, par value $0.0001 per share; authorized 400,000,000 shares, 229,727,737 and 228,663,022 shares issued and outstanding in 2014 and 2013, respectively		
Additional paid-in-capital	2,726,637	2,717,787
Accumulated distributions in excess of net income	(1,339,118)	(1,300,527)
Accumulated other comprehensive income	3,927	4,439
Total shareholders’ equity	1,485,485	1,515,738
Noncontrolling interests	22,766	23,745
Total equity	1,508,251	1,539,483
Total liabilities and equity	$3,801,175	$3,772,281

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

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LEXINGTON REALTY TRUST AND CONSOLIDATED SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited and in thousands, except share and per share data)

	Three months ended March 31,	
	2014	2013
Gross revenues:		
Rental	$103,390	$85,022
Advisory and incentive fees	122	174
Tenant reimbursements	8,687	7,483
Total gross revenues	112,199	92,679
Expense applicable to revenues:		
Depreciation and amortization	(41,330)	(42,337)
Property operating	(17,147)	(14,608)
General and administrative	(8,041)	(7,151)
Non-operating income	2,951	1,860
Interest and amortization expense	(24,722)	(23,223)
Debt satisfaction charges, net	(3,304)	(10,703)
Impairment charges	(16,400)	(2,413)
Income (loss) before provision for income taxes, equity in earnings of non-consolidated entities and discontinued operations	4,206	(5,896)
Provision for income taxes	(608)	(397)
Equity in earnings of non-consolidated entities	281	135
Income (loss) from continuing operations	3,879	(6,158)
Discontinued operations:		
Income from discontinued operations	244	1,133
Provision for income taxes	—	(10)
Debt satisfaction gains, net	—	10,256
Impairment charges	(2,309)	(7,344)
Total discontinued operations	(2,065)	4,035
Net income (loss)	1,814	(2,123)
Less net income attributable to noncontrolling interests	(928)	(497)
Net income (loss) attributable to Lexington Realty Trust shareholders	886	(2,620)
Dividends attributable to preferred shares – Series C	(1,572)	(1,572)
Dividends attributable to preferred shares – Series D	—	(2,926)
Allocation to participating securities	(153)	(177)
Net loss attributable to common shareholders	$(839)	$(7,295)
Income (loss) per common share – basic:		
Income (loss) from continuing operations	$0.01	$(0.06)
Income (loss) from discontinued operations	(0.01)	0.02
Net loss attributable to common shareholders	$—	$(0.04)
Weighted-average common shares outstanding – basic	227,156,690	189,232,274
Income (loss) per common share – diluted:		
Income (loss) from continuing operations	$0.01	$(0.06)
Income (loss) from discontinued operations	(0.01)	0.02
Net loss attributable to common shareholders	$—	$(0.04)
Weighted-average common shares outstanding – diluted	227,691,281	189,232,274
Amounts attributable to common shareholders:		
Income (loss) from continuing operations	$1,226	$(11,340)

Income (loss) from discontinued operations	(2,065)	4,045
Net loss attributable to common shareholders	$(839)	$(7,295)

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

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LEXINGTON REALTY TRUST AND CONSOLIDATED SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited and in thousands)

	Three months ended March 31,	
	2014	2013
Net income (loss)	$1,814	$(2,123)
Other comprehensive income (loss):		
Change in unrealized gain (loss) on interest rate swaps, net	(512)	702
Other comprehensive income (loss)	(512)	702
Comprehensive income (loss)	1,302	(1,421)
Comprehensive income attributable to noncontrolling interests	(928)	(497)
Comprehensive income (loss) attributable to Lexington Realty Trust shareholders	$374	$(1,918)

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

LEXINGTON REALTY TRUST AND CONSOLIDATED SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited and in thousands)

Three Months ended March 31, 2014		Lexington Realty Trust Shareholders					
	Total	Preferred Shares	Common Shares	Additional Paid-in-Capital	Accumulated Distributions in Excess of Net Income	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests
Balance December 31, 2013	$1,539,483	$94,016	$23	$ 2,717,787	$(1,300,527)	$ 4,439	$ 23,745
Redemption of noncontrolling OP units	(1,962)	—	—	(993)	—	—	(969)
Issuance of common shares upon conversion of convertible notes	3,149	—	—	3,149	—	—	—
Issuance of common shares and deferred compensation amortization, net	6,694	—	—	6,694	—	—	—
Dividends/distributions	(40,415)	—	—	—	(39,477)	—	(938)
Net income	1,814	—	—	—	886	—	928
Other comprehensive loss	(512)	—	—	—	—	(512)	—
Balance March 31, 2014	$1,508,251	$94,016	$23	$ 2,726,637	$(1,339,118)	$ 3,927	$ 22,766

Three Months ended March 31, 2013		Lexington Realty Trust Shareholders					
	Total	Preferred Shares	Common Shares	Additional Paid-in-Capital	Accumulated Distributions in Excess of Net Income	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests
Balance December 31, 2012	$1,333,165	$243,790	$18	$ 2,212,949	$(1,143,803)	$ (6,224)	$ 26,435
Redemption of noncontrolling OP units for common shares	—	—	—	458	—	—	(458)
Issuance of common shares upon conversion of convertible notes	47,128	—	—	47,128	—	—	—
Issuance of common shares and deferred compensation amortization, net	300,130	—	3	300,127	—	—	—
Dividends/distributions	(37,448)	—	—	—	(36,546)	—	(902)
Net income (loss)	(2,123)	—	—	—	(2,620)	—	497
	702	—	—	—	—	702	—

Other comprehensive income							
Balance March 31, 2013	$1,641,554	$243,790	$21	$ 2,560,662	$(1,182,969)	$ (5,522)	$ 25,572

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

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LEXINGTON REALTY TRUST AND CONSOLIDATED SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited and in thousands)

	Three months ended March 31, 2014	2013
Net cash provided by operating activities:	$59,942	$57,132
Cash flows from investing activities:		
Acquisition of real estate, including intangible assets	(38,643)	(81,535)
Investment in real estate under construction	(46,376)	(18,047)
Capital expenditures	(3,051)	(17,372)
Net proceeds from sale of properties	325	1,861
Principal payments received on loans receivable	401	716
Investment in loans receivable	(20,267)	(10,596)
Distributions from non-consolidated entities in excess of accumulated earnings	315	14,975
Increase in deferred leasing costs	(3,985)	(2,794)
Change in escrow deposits and restricted cash	(801)	308
Real estate deposits	(308)	(192)
Net cash used in investing activities	(112,390)	(112,676)
Cash flows from financing activities:		
Dividends to common and preferred shareholders	(39,098)	(31,285)
Conversion of convertible notes	(62)	(2,663)
Principal amortization payments	(14,139)	(18,733)
Principal payments on debt, excluding normal amortization	(19,515)	(147,291)
Change in credit facility borrowings, net	(6,000)	—
Proceeds from term loans	99,000	—
Increase in deferred financing costs	(482)	(4,025)
Proceeds of mortgages and notes payable	—	40,000
Cash distributions to noncontrolling interests	(938)	(902)
Purchase of noncontrolling interests	(1,962)	—
Issuance of common shares, net	4,433	297,823
Net cash provided by financing activities	21,237	132,924
Change in cash and cash equivalents	(31,211)	77,380
Cash and cash equivalents, at beginning of period	77,261	34,024
Cash and cash equivalents, at end of period	$46,050	$111,404

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

LEXINGTON REALTY TRUST AND CONSOLIDATED SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2014 and 2013
(Unaudited and dollars in thousands, except share/unit and per share/unit data)

(1) The Company and Financial Statement Presentation

Lexington Realty Trust (the "Company") is a Maryland real estate investment trust ("REIT") that owns a diversified portfolio of equity and debt investments in single-tenant commercial properties and land. A majority of these properties and all land interests are subject to net or similar leases, where the tenant bears all or substantially all of the costs, including cost increases, for real estate taxes, utilities, insurance and ordinary repairs. The Company also provides investment advisory and asset management services to investors in the single-tenant area.

As of March 31, 2014, the Company had ownership interests in approximately 220 consolidated real estate properties, located in 41 states. The properties in which the Company has an interest are leased to tenants in various industries, including service, finance/insurance, technology, transportation/logistics and automotive.

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

The Company conducts its operations either directly or indirectly through (1) property owner subsidiaries and lender subsidiaries, which are single purpose entities, (2) an operating partnership, Lepercq Corporate Income Fund L.P. ("LCIF"), in which the Company is the sole unit holder of the general partner and the sole unit holder of the limited partner that holds a majority of the limited partner interests, (3) a wholly-owned TRS, and (4) investments in joint ventures. On December 30, 2013, another operating partnership, Lepercq Corporate Income Fund II L.P. ("LCIF II"), was merged with and into LCIF with LCIF as the surviving entity. References to "OP Units" refer to units of limited partner interests in LCIF and LCIF II, as applicable. Property owner subsidiaries are landlords under leases for properties in which the Company has an interest and/or borrowers under loan agreements secured by properties in which the Company has an investment and lender subsidiaries are lenders under loan agreements where the Company made an investment in a loan asset, but in all cases are separate and distinct legal entities.

Basis of Presentation and Consolidation. The Company's unaudited condensed consolidated financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles ("GAAP"). The financial statements reflect the accounts of the Company and its consolidated subsidiaries. The Company consolidates its wholly-owned subsidiaries and its partnerships and joint ventures which it controls (1) through voting rights or similar rights or (2) by means other than voting rights if the Company is the primary beneficiary of a variable interest entity ("VIE"). Entities which the Company does not control and entities which are VIEs in which the Company is not the primary beneficiary are accounted for under appropriate GAAP.

The financial statements contained in this Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 (this "Quarterly Report") have been prepared by the Company in accordance with GAAP for interim financial information and the applicable rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all information and footnotes required by GAAP for complete financial statements. However, in the opinion of management, the interim financial statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of the results of the periods presented. The results of operations for the three months ended March 31, 2014 and 2013, are not necessarily indicative of the results that may be expected for the full year. These unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto included in the Company's Form 10-K for the year ended December 31, 2013 filed with the SEC on February 26, 2014 (“Annual Report”).

Use of Estimates. Management has made a number of significant estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses to prepare these unaudited condensed consolidated financial statements in conformity with GAAP. These estimates and assumptions are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic

environment. The current economic environment has increased the degree of uncertainty inherent in these estimates and assumptions. Management adjusts such estimates when facts and circumstances dictate. The most significant estimates made include the recoverability of accounts receivable, the allocation of property purchase price to tangible and intangible assets acquired and liabilities assumed, the determination of VIEs and which entities should be consolidated, the determination of impairment of long-lived assets, loans receivable and equity method investments, the valuation of derivative financial instruments and the useful lives of long-lived assets. Actual results could differ materially from those estimates.
Fair Value Measurements. The Company follows the guidance in the Financial Accounting Standards Board Accounting Standards Codification Topic 820, Fair Value Measurements and Disclosures, as amended ("Topic 820"), to determine the fair value of financial and non-financial instruments. Topic 820 defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. Topic 820 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three levels: Level 1 - quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities; Level 2 - observable prices that are based on inputs not quoted in active markets, but corroborated by market data; and Level 3 - unobservable inputs, which are used when little or no market data is available. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, as well as considering counterparty credit risk. The Company has formally elected to apply the portfolio exception within Topic 820 with respect to measuring counterparty risk for all of its derivative transactions subject to master netting arrangements.

Acquisition, Development and Construction Arrangements. The Company evaluates loans receivable where the Company participates in residual profits through loan provisions or other contracts to ascertain whether the Company has the same risks and rewards as an owner or a joint venture partner. Where the Company concludes that such arrangements are more appropriately treated as an investment in real estate, the Company reflects such loan receivable as an equity investment in real estate under construction in the unaudited condensed consolidated balance sheets. In these cases, no interest income is recorded on the loan receivable and the Company capitalizes interest during the construction period. In arrangements where the Company engages a developer to construct a property or provides funds to a tenant to develop a property, the Company will capitalize the funds provided to the developer/tenant and internal costs of interest and real estate taxes, if applicable, during the construction period.

Properties Held For Sale. Assets and liabilities of properties that meet various held for sale criteria, including whether it is probable that a sale will occur within 12 months, are presented separately in the condensed consolidated balance sheets, with assets and liabilities being separately stated. The operating results of these properties are reflected as discontinued operations in the condensed consolidated statements of operations. Properties classified as held for sale are carried at the lower of net carrying value or estimated fair value less costs to sell and depreciation and amortization are no longer recognized. Properties that do not meet the held for sale criteria are accounted for as operating properties.

Reclassifications. Certain amounts included in the 2013 unaudited condensed consolidated financial statements have been reclassified, primarily relating to discontinued operations, to conform to the 2014 presentation.

Recently Issued Accounting Guidance. In April 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment

(Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, which changes the criteria for reporting discontinued operations and improves financial statement disclosures. Under this guidance, only disposals representing a strategic shift in operations that have a major effect on an organization's operations and financial results should be presented as discontinued operations. The new guidance is effective in the first quarter of 2015. It is anticipated that the implementation of this guidance will reduce the number of future property dispositions we make, if any, to be classified as discontinued operations in the Company's condensed consolidated financial statements.

LEXINGTON REALTY TRUST AND CONSOLIDATED SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2014 and 2013
(Unaudited and dollars in thousands, except share/unit and per share/unit data)

(2) Earnings Per Share

A significant portion of the Company's non-vested share-based payment awards are considered participating securities and as such, the Company is required to use the two-class method for the computation of basic and diluted earnings per share. Under the two-class computation method, net losses are not allocated to participating securities unless the holder of the security has a contractual obligation to share in the losses. The non-vested share-based payment awards are not allocated losses as the awards do not have a contractual obligation to share in losses of the Company.
The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for the three months ended March 31, 2014 and 2013:

	Three months ended March 31,	
	2014	2013
BASIC		
Income (loss) from continuing operations attributable to common shareholders	$ 1,226	$ (11,340)
Income (loss) from discontinued operations attributable to common shareholders	(2,065)	4,045
Net loss attributable to common shareholders	$ (839)	$ (7,295)
Weighted-average number of common shares outstanding	227,156,690	189,232,274
Income (loss) per common share:		
Income (loss) from continuing operations	$ 0.01	$ (0.06)
Income (loss) from discontinued operations	(0.01)	0.02
Net loss attributable to common shareholders	$ —	$ (0.04)
DILUTED		
Income (loss) from continuing operations attributable to common shareholders - basic	$ 1,226	$ (11,340)
Impact of assumed conversions:		
Share options	—	—
Income (loss) from continuing operations attributable to common shareholders	1,226	(11,340)
Income (loss) from discontinued operations attributable to common shareholders - basic	(2,065)	4,045
Impact of assumed conversions:		
Share options	—	—
Income (loss) from discontinued operations attributable to common shareholders	(2,065)	4,045
Net loss attributable to common shareholders	$ (839)	$ (7,295)
Weighted-average common shares outstanding - basic	227,156,690	189,232,274
Effect of dilutive securities:		
Share options	534,591	—
Weighted-average common shares outstanding	227,691,281	189,232,274
Income (loss) per common share:		
Income (loss) from continuing operations	$ 0.01	$ (0.06)

Income (loss) from discontinued operations	(0.01)	0.02
Net loss attributable to common shareholders	$—	$(0.04)

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

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LEXINGTON REALTY TRUST AND CONSOLIDATED SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2014 and 2013
(Unaudited and dollars in thousands, except share/unit and per share/unit data)

(3) Investments in Real Estate and Real Estate Under Construction

The Company, through property owner subsidiaries, completed the following acquisition and build-to-suit transactions during the three months ended March 31, 2014:

Property Type	Location	Acquisition/Completion Date	Initial Cost Basis	Lease Expiration	Land and Land Estate	Building and Improvements	Lease in-place Value Intangible
Industrial	Rantoul, IL	January 2014	$41,277	10/2033	$1,304	$32,562	$7,411
Office	Parachute, CO	January 2014	$13,928	10/2032	$1,400	$10,751	$1,777
Office	Rock Hill, SC	March 2014	$24,350	03/2034	$1,601	$18,989	$3,760
			$79,555		$4,305	$62,302	$12,948

The Company recognized aggregate acquisition expenses of $308 and $193 for the three months ended March 31, 2014 and 2013, respectively, which are included as operating expenses within the Company's unaudited condensed consolidated statements of operations.
The Company is engaged in various forms of build-to-suit development activities. The Company, through lender subsidiaries and property owner subsidiaries, may enter into the following acquisition, development and construction arrangements: (1) lend funds to construct build-to-suit projects subject to a single-tenant lease and agree to purchase the properties upon completion of construction and commencement of a single-tenant lease, (2) hire developers to construct built-to-suit projects on owned properties leased to single tenants, (3) fund the construction of build-to-suit projects on owned properties pursuant to the terms in single-tenant lease agreements or (4) enter into purchase and sale agreements with developers to acquire single-tenant build-to-suit properties upon completion.

As of March 31, 2014, the Company had the following development arrangements outstanding:

Location	Property Type	Square Feet	Expected Maximum Commitment/Contribution ($ millions)	Lease Term (Years)	Estimated Completion Date
Bingen, WA	Industrial	124,000	$18.9	12	2Q 14
Las Vegas, NV	Industrial	180,000	$29.6	20	3Q 14
Richmond, VA	Office	279,000	$98.6	15	3Q 15
Lake Jackson, TX	Office/R&D	664,000	$166.2	20	4Q 16
		1,247,000	$313.3		

The Company has variable interests in certain developer entities constructing the facilities but is not the primary beneficiary of the entities as the Company does not have a controlling financial interest. As of March 31, 2014 and December 31, 2013, the Company's aggregate investment in development arrangements was $79,940 and $74,350, respectively, and is presented as investments in real estate under construction in the accompanying unaudited condensed consolidated balance sheets. The Company capitalized interest of $530 and $833 during the three months ended March 31, 2014 and 2013, respectively, relating to build-to-suit activities.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2014 and 2013
(Unaudited and dollars in thousands, except share/unit and per share/unit data)

In addition, the Company has commitments to acquire the following properties:

Location	Property Type	Estimated Acquisition Cost ($000)	Estimated Acquisition Date	Lease Term (Years)
Lewisburg, TN	Industrial	$13,320	2Q 14	12
Auburn Hills, MI	Office	40,025	1Q 15	14
		$53,345		

The Company can give no assurances that any of these acquisitions under contract or build-to-suit transactions will be consummated.

(4) Discontinued Operations and Real Estate Impairment

During the three months ended March 31, 2014, the Company disposed of its interest in one vacant property to an unrelated third party for a gross disposition price of $350. During the three months ended March 31, 2013, the Company disposed of its interest in one property to an unrelated third party for a gross disposition price of $1,900 and conveyed two properties in satisfaction of the $23,281 aggregate non-recourse secured mortgage loans. The Company recognized an aggregate net gain on debt satisfaction of $10,256 relating to discontinued operations during the three months ended March 31, 2013. As of March 31, 2014, the Company had four properties classified as held for sale. Held for sale properties had aggregate assets, primarily real estate, of $36,878 and aggregate liabilities of $19,204, including a non-recourse mortgage loan for $18,623, which was satisfied subsequent to March 31, 2014 (see note 15).
The following presents the operating results for the properties sold for the applicable periods:

	Three months ended March 31, 2014	2013
Total gross revenues	$1,214	$4,382
Pre-tax income (loss)	$(2,065)	$4,045

The Company assesses on a regular basis whether there are any indicators that the carrying value of its real estate assets may be impaired. Potential indicators may include an increase in vacancy at a property, tenant reduction in utilization of a property, tenant financial instability and the potential sale of the property in the near future. An asset is determined to be impaired if the asset's carrying value is in excess of its estimated fair value. During the three months ended March 31, 2014 and 2013, the Company recognized $2,309 and $7,344, respectively, of impairment charges in discontinued operations, relating to real estate assets that were disposed of below their carrying value or classified as held for sale.

In addition, the Company recognized impairment charges of $16,400 and $2,413 in continuing operations during the three months ended March 31, 2014 and 2013, respectively. The Company explored the possible disposition of non-core properties, including retail, underperforming and multi-tenant properties and determined that the expected undiscounted cash flows based upon a revised estimated holding period of the properties were below the current carrying values. Accordingly, the Company reduced the carrying values of these properties to their estimated fair values of $5,574 and $4,277, respectively. The property impaired during the three months ended March 31, 2014, is encumbered by a $17,470 non-recourse secured mortgage loan.

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LEXINGTON REALTY TRUST AND CONSOLIDATED SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2014 and 2013
(Unaudited and dollars in thousands, except share/unit and per share/unit data)

(5) Loans Receivable

As of March 31, 2014 and December 31, 2013, the Company's loans receivable, including accrued interest and net of origination fees and loan loss reserves, were comprised primarily of first and second mortgage loans and mezzanine loans on real estate.
The following is a summary of our loans receivable as of March 31, 2014 and December 31, 2013:

	Loan carrying-value[1]				
Loan	3/31/2014	12/31/2013	Interest Rate		Maturity Date
Norwalk, CT[2]	$31,332	$28,186	7.50	%	11/2014
Homestead, FL[3]	10,325	10,239	7.50	%	08/2014
Westmont, IL[4]	12,512	12,610	6.45	%	10/2015
Southfield, MI	6,412	6,610	4.55	%	02/2015
Austin, TX	2,486	2,389	16.00	%	10/2018
Kennewick, WA[5]	55,412	37,030	9.00	%	05/2022
Other	2,319	2,379	8.00	%	2021-2022
	$120,798	$99,443			

(1) Loan carrying value includes accrued interest and is net of origination costs and loan losses, if any.
(2) The Company is committed to lend up to $32,600.
(3) The Company is committed to lend up to $10,660.
(4) Borrower is delinquent on debt service payments. Tenant at office property collateral terminated its lease. The Company recognized an impairment of $13,939 during the fourth quarter of 2013. During the three months ended March 31, 2014, the Company recognized $425 of interest income relating to the impaired loan and the loan had an average recorded investment value of $12,561. At March 31, 2014, the impaired loan receivable had a contractual unpaid balance of $26,451.
(5) The Company is committed to lend up to $85,000. During construction advances accrue interest at 6.5% per annum. Estimated construction completion is 2Q 2014.

The Company has two types of financing receivables: loans receivable and a capitalized financing lease. The Company determined that its financing receivables operate within one portfolio segment as they are within the same industry and use the same impairment methodology. The Company's loans receivable are secured by commercial real estate assets and the capitalized financing lease is for a commercial office property located in Greenville, South Carolina. In addition, the Company assesses all financing receivables for impairment, when warranted, based on an individual analysis of each receivable.

The Company's financing receivables operate within one class of financing receivables as these assets are collateralized by commercial real estate and similar metrics are used to monitor the risk and performance of these assets. The Company's management uses credit quality indicators to monitor financing receivables such as quality of collateral, the underlying tenant's credit rating and collection experience. As of March 31, 2014, the financing receivables were performing as anticipated and there were no significant delinquent amounts outstanding, other than the Westmont, Illinois loan as disclosed above.

(6) Fair Value Measurements
The following tables present the Company's assets and liabilities from continuing operations measured at fair value on a recurring and non-recurring basis as of March 31, 2014 and December 31, 2013, aggregated by the level in the fair

value hierarchy within which those measurements fall:

Description	Balance March 31, 2014	Fair Value Measurements Using (Level 1)	(Level 2)	(Level 3)
Interest rate swap assets	$3,927	$—	$3,927	$—
Impaired real estate assets*	$5,574	$—	$—	$5,574

Description	Balance December 31, 2013	Fair Value Measurements Using (Level 1)	(Level 2)	(Level 3)
Interest rate swap assets	$4,439	$—	$4,439	$—
Impaired real estate assets*	$12,549	$—	$—	$12,549
Investment in and advances to non-consolidated entities*	$683	$—	$—	$683