

LEXINGTON REALTY TRUST
Form 10-Q
August 09, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2016.

or
 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)
33-04215 (Lepercq Corporate Income Fund L.P.)
LEXINGTON REALTY TRUST
LEPERCQ CORPORATE INCOME FUND L.P.
(Exact name of registrant as specified in its charter)
Maryland (Lexington Realty Trust) 13-3717318 (Lexington Realty Trust)
Delaware (Lepercq Corporate Income Fund L.P.) 13-3779859 (Lepercq Corporate Income Fund L.P.)
(State or other jurisdiction of (I.R.S. Employer
incorporation of organization) Identification No.)
One Penn Plaza, Suite 4015, New York, NY 10119-4015
(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.

Lexington Realty Trust Yes No
Lepercq Corporate Income Fund L.P. Yes No

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).

Lexington Realty Trust Yes No
Lepercq Corporate Income Fund L.P. Yes No

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

Lexington Realty Trust:
Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Lepercq Corporate Income Fund
L.P.:

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

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

Lexington Realty Trust Yes No

Lepercq Corporate Income Fund L.P. Yes No

Indicate the number of shares outstanding of each of Lexington Realty Trust's classes of common stock, as of the latest practicable date: 236,976,820 common shares of beneficial interest, par value \$0.0001 per share, as of August 5, 2016.

EXPLANATORY NOTE

This report combines the Quarterly Reports on Form 10-Q for the period ended June 30, 2016, which we refer to as this Quarterly Report, of (1) Lexington Realty Trust, which we refer to as the Company or the Trust, and subsidiaries and (2) Lepercq Corporate Income Fund L.P., which we refer to as the Partnership or LCIF, and subsidiaries. Unless stated otherwise or the context otherwise requires, (1) “we,” “our,” and “us” refer collectively to the Company and its consolidated subsidiaries, including LCIF and its consolidated subsidiaries, and (2) LCIF or the Partnership refers to LCIF and its consolidated subsidiaries. All of the Company's and LCIF's interests in properties are held, and all property operating activities are conducted, through special purpose entities, which we refer to as property owner subsidiaries or lender subsidiaries, which are separate and distinct legal entities, but in some instances are consolidated for financial statement purposes and/or disregarded for income tax purposes.

The Company is the sole equity owner of (1) Lex GP Trust, or Lex GP, a Delaware statutory trust, and (2) Lex LP-1 Trust, or Lex LP, a Delaware statutory trust. The Company, through Lex GP and Lex LP, holds, as of June 30, 2016, approximately 96.0% of LCIF's outstanding units of limited partner interest, which we refer to as OP units. The remaining OP units are beneficially owned by E. Robert Roskind, Chairman of the Trust, and certain non-affiliated investors. As the sole equity owner of LCIF's general partner, the Company has the ability to control all of LCIF's day-to-day operations subject to the terms of LCIF's partnership agreement.

OP units not owned by LXP are accounted for as partners' capital in LCIF's consolidated financial statements and as noncontrolling interests in the Trust's consolidated financial statements.

We believe it is important to understand the differences between the Trust and LCIF in the context of how the Trust and LCIF operate as an interrelated, consolidated company. The Trust's and LCIF's businesses are substantially the same; except that LCIF is dependent on the Trust for management of LCIF's operations and future investments as LCIF does not have any employees, executive officers or a board of directors.

The Trust also invests in assets and conducts business directly and through other subsidiaries. The Trust allocates investments to itself and its other subsidiaries or LCIF as it deems appropriate and in accordance with certain obligations under LCIF's partnership agreement with respect to allocations of non-recourse liabilities. The Trust and LCIF are co-borrowers under the Trust's unsecured revolving credit facility and unsecured term loans. LCIF is a guarantor of the Trust's publicly-traded debt securities.

We believe combining the quarterly reports on Form 10-Q of the Trust and LCIF into this single report results in the following benefits:

- combined reports better reflect how management and the analyst community view the business as a single operating unit;
- combined reports enhance investors' understanding of the Trust and LCIF by enabling them to view the business as a whole and in the same manner as management;
- combined reports are more efficient for the Trust and LCIF and result in savings in time, effort and expense; and
- combined reports are more efficient for investors by reducing duplicative disclosure and providing a single document for their review.

To help investors understand the significant differences between the Trust and LCIF, this Quarterly Report separately presents the following for each of the Trust and LCIF: (1) the consolidated financial statements and the notes thereto, (2) Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, (3) Part I, Item 4. Controls and Procedures, and (4) Exhibit 31 and Exhibit 32 certifications.

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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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ITEM 1. FINANCIAL STATEMENTSLEXINGTON REALTY TRUST AND CONSOLIDATED SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited and in thousands, except share and per share data)

	June 30, 2016	December 31, 2015
Assets:		
Real estate, at cost	\$3,721,461	\$ 3,789,711
Real estate - intangible assets	688,749	692,778
Investments in real estate under construction	108,763	95,402
	4,518,973	4,577,891
Less: accumulated depreciation and amortization	1,207,434	1,179,969
Real estate, net	3,311,539	3,397,922
Assets held for sale	21,045	24,425
Cash and cash equivalents	59,776	93,249
Restricted cash	12,767	10,637
Investment in and advances to non-consolidated entities	55,245	31,054
Deferred expenses, net	39,656	42,000
Loans receivable, net	95,829	95,871
Rent receivable – current	9,146	7,193
Rent receivable – deferred	102,195	87,547
Other assets	17,535	18,505
Total assets	\$3,724,733	\$ 3,808,403
Liabilities and Equity:		
Liabilities:		
Mortgages and notes payable, net	\$838,385	\$ 872,643
Revolving credit facility borrowings	123,000	177,000
Term loans payable, net	500,584	500,076
Senior notes payable, net	493,944	493,526
Convertible guaranteed notes payable, net	11,763	12,126
Trust preferred securities, net	127,046	126,996
Dividends payable	46,052	45,440
Liabilities held for sale	515	8,405
Accounts payable and other liabilities	43,054	41,479
Accrued interest payable	9,857	8,851
Deferred revenue - including below market leases, net	43,021	42,524
Prepaid rent	16,395	16,806
Total liabilities	2,253,616	2,345,872
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
	24	23

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Common shares, par value \$0.0001 per share; authorized 400,000,000 shares, 235,075,048 and 234,575,225 shares issued and outstanding in 2016 and 2015, respectively

Additional paid-in-capital	2,775,468	2,776,837
Accumulated distributions in excess of net income	(1,413,504)	(1,428,908)
Accumulated other comprehensive loss	(7,520)	(1,939)
Total shareholders' equity	1,448,484	1,440,029
Noncontrolling interests	22,633	22,502
Total equity	1,471,117	1,462,531
Total liabilities and equity	\$3,724,733	\$ 3,808,403

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

LEXINGTON REALTY TRUST AND CONSOLIDATED SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Three months ended		Six months ended June	
	June 30,		30,	
	2016	2015	2016	2015
Gross revenues:				
Rental	\$ 101,647	\$ 102,440	\$ 205,206	\$ 202,456
Tenant reimbursements	7,930	7,893	15,987	16,319
Total gross revenues	109,577	110,333	221,193	218,775
Expense applicable to revenues:				
Depreciation and amortization	(41,272)	(41,808)	(84,399)	(82,083)
Property operating	(11,293)	(15,534)	(23,371)	(32,116)
General and administrative	(7,747)	(7,971)	(15,522)	(15,792)
Non-operating income	3,553	3,084	6,420	5,698
Interest and amortization expense	(22,679)	(23,339)	(45,572)	(46,342)
Debt satisfaction gains (charges), net	(3,194)	3,776	(3,356)	14,151
Impairment charges	(3,014)	(113)	(3,014)	(1,252)
Gains on sales of properties	25,326	21,426	42,341	21,574
Income before benefit (provision) for income taxes, equity in earnings of non-consolidated entities and discontinued operations	49,257	49,854	94,720	82,613
Benefit (provision) for income taxes	(224)	52	(637)	(389)
Equity in earnings of non-consolidated entities	312	306	6,054	672
Income from continuing operations	49,345	50,212	100,137	82,896
Discontinued operations:				
Income (loss) from discontinued operations	—	(1)	—	109
Provision for income taxes	—	(4)	—	(4)
Gain on sale of property	—	—	—	1,577
Total discontinued operations	—	(5)	—	1,682
Net income	49,345	50,207	100,137	84,578
Less net income attributable to noncontrolling interests	(869)	(875)	(1,892)	(1,741)
Net income attributable to Lexington Realty Trust shareholders	48,476	49,332	98,245	82,837
Dividends attributable to preferred shares – Series C	(1,573)	(1,573)	(3,145)	(3,145)
Allocation to participating securities	(73)	(105)	(163)	(192)
Net income attributable to common shareholders	\$ 46,830	\$ 47,654	\$ 94,937	\$ 79,500
Income per common share – basic:				
Income from continuing operations	\$ 0.20	\$ 0.20	\$ 0.41	\$ 0.33
Income (loss) from discontinued operations	—	—	—	0.01
Net income attributable to common shareholders	\$ 0.20	\$ 0.20	\$ 0.41	\$ 0.34
Weighted-average common shares outstanding – basic	232,592,992	233,812,062	232,617,902	233,172,422
Income per common share – diluted:				
Income from continuing operations	\$ 0.20	\$ 0.20	\$ 0.41	\$ 0.33
Income (loss) from discontinued operations	—	—	—	0.01
Net income attributable to common shareholders	\$ 0.20	\$ 0.20	\$ 0.41	\$ 0.34
Weighted-average common shares outstanding – diluted	239,046,002	239,903,370	238,970,752	239,559,842
Amounts attributable to common shareholders:				
Income from continuing operations	\$ 46,830	\$ 47,659	\$ 94,937	\$ 77,818
Income (loss) from discontinued operations	—	(5)	—	1,682
Net income attributable to common shareholders	\$ 46,830	\$ 47,654	\$ 94,937	\$ 79,500

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 June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Net income	\$49,345	\$50,207	\$100,137	\$84,578
Other comprehensive income (loss):				
Change in unrealized gain (loss) on interest rate swaps, net	(956)	1,466	(5,581)	(2,630)
Other comprehensive income (loss)	(956)	1,466	(5,581)	(2,630)
Comprehensive income	48,389	51,673	94,556	81,948
Comprehensive income attributable to noncontrolling interests	(869)	(875)	(1,892)	(1,741)
Comprehensive income attributable to Lexington Realty Trust shareholders	\$47,520	\$50,798	\$92,664	\$80,207

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

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

Six Months ended June 30, 2016	Lexington Realty Trust Shareholders						
	Total	Preferred Shares	Common Shares	Additional Paid-in-Capital	Accumulated Distributions in Excess of Net Income	Accumulated Other Comprehensive Income	Noncontrolling Interests
Balance December 31, 2015	\$1,462,531	\$94,016	\$ 23	\$ 2,776,837	\$(1,428,908)	\$ (1,939)	\$ 22,502
Repurchase of common shares	(8,973)	—	—	(8,973)	—	—	—
Redemption of noncontrolling OP units for common shares	—	—	—	22	—	—	(22)
Issuance of common shares and deferred compensation amortization, net	7,583	—	1	7,582	—	—	—
Dividends/distributions	(84,580)	—	—	—	(82,841)	—	(1,739)
Net income	100,137	—	—	—	98,245	—	1,892
Other comprehensive loss	(5,581)	—	—	—	—	(5,581)	—
Balance June 30, 2016	\$1,471,117	\$94,016	\$ 24	\$ 2,775,468	\$(1,413,504)	\$ (7,520)	\$ 22,633

Six Months ended June 30, 2015	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, 2014	\$1,508,920	\$94,016	\$ 23	\$ 2,763,374	\$(1,372,051)	\$ 404	\$ 23,154
Issuance of common shares upon conversion of convertible notes	3,733	—	—	3,733	—	—	—
Issuance of common shares and deferred compensation amortization, net	17,317	—	1	17,316	—	—	—
Dividends/distributions	(84,827)	—	—	—	(82,956)	—	(1,871)
Net income	84,578	—	—	—	82,837	—	1,741
Other comprehensive loss	(2,630)	—	—	—	—	(2,630)	—
Balance June 30, 2015	\$1,527,091	\$94,016	\$ 24	\$ 2,784,423	\$(1,372,170)	\$ (2,226)	\$ 23,024

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)

	Six Months ended	
	June 30,	
	2016	2015
Net cash provided by operating activities:	\$ 116,920	\$ 112,509
Cash flows from investing activities:		
Acquisition of real estate, including intangible assets	(27,197)	(197,926)
Investment in real estate under construction	(65,102)	(62,290)
Capital expenditures	(1,256)	(5,343)
Net proceeds from sale of properties	131,985	78,857
Principal payments received on loans receivable	141	1,130
Investment in loans receivable	—	(9,857)
Investments in non-consolidated entities	(25,005)	(10,005)
Distributions from non-consolidated entities in excess of accumulated earnings		