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**LEXINGTON REALTY TRUST
AND CONSOLIDATED SUBSIDIARIES**

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

(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 institutional investors in the net lease area. As of December 31, 2006, the Company owned or had interests in approximately 365 properties in 44 states and the Netherlands. The real properties owned by the Company are generally subject to net leases to corporate tenants, however certain leases provide for the Company to be responsible for certain operating expenses. As of December 31, 2005, the Company owned or had interests in 189 properties in 39 states.

On December 31, 2006, the Company completed its merger with Newkirk Realty Trust, Inc., or Newkirk (the Merger). 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 which we refer to as the MLP. Newkirk was the general partner and owned 31.0% of the units of limited partnership 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 holder of Newkirk s common stock received 0.80 common shares of the Company in exchange for each share of Newkirk s common stock, and the MLP effected a reverse unit-split pursuant to which each outstanding MLP unit was converted into 0.80 units, resulting in 35.5 million MLP units applicable to the minority interest being outstanding after the Merger. Each MLP unit is currently redeemable at the option of the holder for cash based on the value of a common share of the Company or, if the Company elects, on a one-for-one basis for Lexington common shares.

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

The Company s Board of Trustees authorized the Company to repurchase, from time to time, up to 2.0 million common shares and/or operating partnership units in the Company s operating partnership subsidiaries (OP Units) depending on market conditions and other factors. As of December 31, 2006, the Company repurchased approximately 0.5 million common shares/OP Units at an average price of approximately $21.15 per common share/OP Unit, in the open market and through private transactions with employees.

(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 controlled subsidiaries, including Lepercq Corporate Income Fund L.P. (LCIF), Lepercq Corporate Income Fund II L.P. (LCIF II), Net 3 Acquisition L.P. (Net 3), the MLP, Lexington Realty Advisors, Inc. (LRA), Lexington Strategic Asset Corp. (LSAC), Lexington Contributions, Inc. (LCI) and Six Penn Center L.P. LRA and LCI are wholly owned taxable REIT subsidiaries, LSAC is a majority owned taxable REIT subsidiary and the Company is the sole unitholder of the general partner and a limited partner of each of LCIF, LCIF II, Net 3, the MLP and Six Penn Center L.P. 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, Consolidation of Variable Interest Entities (FIN 46R). 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 and the Company controls the entity s voting shares or similar rights, the entity is consolidated.

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.

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Recently Issued Accounting Standards. FASB Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity, as amended, (SFAS 150), was issued in May 2003. SFAS 150 establishes standards for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. SFAS 150 also includes required disclosures for financial instruments within its scope. For the Company, SFAS 150 was effective for instruments entered into or modified after May 31, 2003 and otherwise was effective as of January 1, 2004, except for mandatorily redeemable financial instruments. SFAS 150 has been deferred indefinitely for certain types of mandatorily redeemable financial instruments. The adoption of the required portions of SFAS 150 had no impact on the Company.

In February 2007, the FASB issued FASB Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 (SFAS 159). This standard 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. Management is currently evaluating the effects of adopting SFAS 159 on the Company s financial statements.

In December 2004, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 123, (revised 2004) Share-Based Payment (SFAS 123R), which supersedes Accounting Principals Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance. SFAS 123R establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity s equity instruments or that may be settled by the issuance of those equity instruments. SFAS 123R focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS 123R requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. The cost will be recognized over the period in which an employee is required to provide services in exchange for the award. SFAS 123R was effective for the fiscal year beginning on January 1, 2006. The impact of adopting this statement resulted in the elimination of $11,401 of deferred compensation and additional paid-in-capital from the Consolidated Statements of Changes in Shareholders Equity and the adoption did not have a material impact on the Company s results of operations or cash flow.

In December 2004, the FASB issued Statement No. 153, Exchange of Non-monetary Assets an amendment of APB Opinion No. 29 (SFAS 153). The guidance in APB Opinion No. 29, Accounting for Non-monetary Transactions, is based on the principle that exchanges of non-monetary assets should be measured based on the fair value of the assets exchanged. The guidance in that opinion, however, included certain exceptions to that principle. SFAS 153 amends APB Opinion No. 29 to eliminate the exception for non-monetary assets that do not have commercial substance. A non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for non-monetary asset exchanges, occurring in fiscal periods beginning after June 15, 2005. The impact of adopting this statement did not have a material impact on the Company s financial position or results of operations.

In March 2005, the FASB issued Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations an Interpretation of SFAS Statement No. 143 (FIN 47). FIN 47 clarifies the timing of liability recognition for legal obligations associated with the retirement of a tangible long-lived asset when the timing and/or method of settlement are conditional on a future event. FIN 47 is effective for fiscal years ending after December 15, 2005. The application of FIN 47 did not have a material impact on the Company s consolidated financial position or results of operations.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections (SFAS 154) which replaces APB Opinions No. 20 Accounting Changes and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements An Amendment of APB Opinion No. 28. SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application as the required method for reporting a change in accounting principle and the reporting of a correction of an error. SFAS 154 was effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The impact of adopting this statement did not have a material impact on the Company s financial position or results of operations.

In June 2005, the FASB ratified the Emerging Issues Task Force s (EITF) consensus on 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). EITF 04-05 provides a framework for determining whether a general partner controls, and should consolidate, a limited partnership or a similar entity. It was effective after June 29, 2005, for all newly formed limited partnerships and for any pre-existing limited partnerships that modify their partnership agreements after that date. General partners of all other limited partnerships were required to apply the consensus no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005. The impact of the adoption of EITF 04-05 did not have a material impact on the Company s financial position or results of operations.

In 2005, the EITF released Issue No. 05-06, Determining the Amortization Period for Leasehold Improvements (EITF 05-06), which clarifies the period over which leasehold improvements should be amortized. EITF 05-06 requires all leasehold improvements to

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be amortized over the shorter of the useful life of the assets, or the applicable lease term, as defined. The applicable lease term is determined on the date the leasehold improvements are acquired and includes renewal periods for which exercise is reasonably assured. EITF 05-06 was effective for leasehold improvements acquired in reporting periods beginning after June 29, 2005. The impact of the adoption of EITF 05-06 did not have a material impact on the Company s financial position or results of operations.

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 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 is effective for fiscal years beginning after December 15, 2006. The Company does not expect that the adoption of FIN 48 will have material impact on the Company s consolidated financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (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. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The adoption of this statement is not expected to have a material impact on the Company s consolidated financial position or results of operations.

In September 2006, the Securities and Exchange Commission 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 will adopt SAB 108 in the first quarter of 2007, and does not anticipate that it will have a material impact on its consolidated financial position or results of operations.

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 generally accepted accounting principles. The most significant estimates made include the recoverability of accounts receivable (primarily related to straight-line rents), allocation of property purchase price to tangible and intangible assets, the determination of impairment of long-lived assets and the useful lives of long-lived assets. Actual results could differ from those estimates.

Business Combinations. The Company follows the provisions of Statement of Financial Accounting Standards 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 Financial Accounting Standards Board Interpretation No. 46, 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 mark-to-market 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.

In allocating the fair value of the identified intangible assets and liabilities of an acquired property, above-market and below-market in-place lease values are recorded based on the difference between the current in-place lease rent and a management 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 tenant relationships, is measured by the excess of (i) the purchase price paid for a property over (ii) 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 tenant 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 Statement of Financial Accounting Standards No. 13 Accounting for Leases, as amended (SFAS 13). SFAS 13 requires that revenue be recognized on a straight-line basis over the term of the lease unless another systematic and rational basis is more representative of the time pattern in which the use benefit is derived from the leased property. Renewal options in leases with rental terms that are lower than those in the primary term are excluded from the calculation of straight line rent if they do not meet the criteria of a bargain renewal option. 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.

Gains on sales of real estate are recognized pursuant to the provisions of Statement of Financial Accounting Standards 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.

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, 2006 and 2005, the Company did not record an allowance for doubtful accounts. However, in 2004, the Company wrote-off $2,884 in receivables from a tenant who declared bankruptcy.

Impairment of Real Estate. The Company evaluates the carrying value of all real estate and intangible assets held when a triggering event under Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, as amended (SFAS 144) has occurred to determine if an impairment has occurred which would require the recognition of a loss. The evaluation includes reviewing anticipated cash flows of the property, based on current leases in place, coupled with an estimate of proceeds to be realized upon sale. However, estimating future sale proceeds 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 5 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.

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 and 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 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 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 Sheet and amounted to $16,372 at December 31, 2006. 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 collectibility 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.

Deferred Compensation. Deferred compensation consists of the value of non-vested common shares issued by the Company to employees. The deferred compensation is amortized ratably over the vesting period which generally is five years. Certain common shares vest only when certain performance based measures are met.

Derivative Financial Instruments. The Company accounts for its interest rate swap agreement and interest rate cap agreement in accordance with FAS No.133, Accounting for Derivative Instruments and Hedging Activities, as amended and interpreted (SFAS 133). In accordance with SFAS 133, interest rate swaps and cap 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. The interest rate swap is designated as a cash flow hedge and the interest rate cap agreement is not designated as a hedge instrument and is measured at fair value with the resulting gain or loss recognized in interest expense in the period of change. Any ineffective amount of the interest rate swap is to be recognized in earnings each quarter. The fair value of these derivatives is included in other assets in the Consolidated Balance Sheet.

Upon entering into hedging transactions, the Company documents the relationship between the interest rate swap and cap 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: (i) it is determined that the derivative is no longer effective in offsetting cash flows of a hedge item (including forecasted transactions); (ii) it is no longer probable that the forecasted transaction will occur; or (iii) it is determined that designating the derivative as an interest rate swap is no longer appropriate. To date, the Company has not discontinued hedge accounting for its interest rate swap agreement. The Company utilizes interest rate swap and cap agreements to manage interest rate risk and does not anticipate entering into derivative transactions for speculative trading purposes.

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 now 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, LSAC and LCI are 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.

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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, 2006, is as follows:

	2006	2005	2004
Total dividends per share	$ 1.46	$ 1.44	$ 1.40
Ordinary income	68.89%	87.29%	84.09%
15% rate qualifying dividend	0.77	1.04	6.82
15% rate gain	7.97	8.72	0.34
25% rate gain	5.13	2.95	2.28
Return of capital	17.24		6.47
	100.00%	100.00%	100.00%

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, 2006, is as follows:

	2006	2005	2004
Total dividends per share	$ 2.0125	$ 2.0125	$ 2.0125
Ordinary income	83.24%	87.29%	89.91%
15% rate qualifying dividend	0.93	1.04	7.29
15% rate gain	9.63	8.72	0.37
25% rate gain	6.20	2.95	2.43
	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 the years ended December 31, 2006 and 2005, is as follows:

	2006	2005
Total dividends per share	$ 3.25	$ 2.6239
Ordinary income	83.24%	87.29%
15% rate qualifying dividend	0.93	1.04
15% rate gain	9.63	8.72
25% rate gain	6.20	2.95
	100.00%	100.00%

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.

Foreign Currency. 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 other comprehensive income and as a separate component of the Company s shareholders equity.

Common Share Options. All common share options outstanding were fully vested as of December 31, 2005. Common share options granted generally vest ratably over a four-year term and expire five years from the date of grant. The following table illustrates the effect on net income and net income per share if the fair value based method had been applied historically to all outstanding share option awards in each period:

	2005	2004
Net income allocable to common shareholders, as reported basic	$ 16,260	$ 37,862
Add: Stock based employee compensation expense included in reported net income		
Deduct: Total stock based employee compensation expense determined under fair value based method for all awards	6	255

Pro forma net income basic	$ 16,254	$ 37,607
Net income per share basic		
Basic as reported	$ 0.33	$ 0.81
Basic pro forma	$ 0.33	$ 0.81
Net income allocable to common shareholders, as reported diluted	$ 16,260	$ 41,615
Add: Stock based employee compensation expense included in reported net income		
Deduct: Total stock based employee compensation expense determined under fair value based method for all awards	6	255
Pro forma net income diluted	$ 16,254	$ 41,360
Net income per share diluted		
Diluted as reported	$ 0.33	$ 0.80
Diluted pro forma	$ 0.33	$ 0.79

There were no common share options issued in 2006, 2005 and 2004.

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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, 2006, the Company is not aware of any environmental matter that could have a material impact on the financial statements.

Segment Reporting. The Company operates 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, 2006 and properties sold during 2006, 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, 2006:

	2006	2005	2004
BASIC			
Income (loss) from continuing operations	$ (663)	$ 24,938	$ 34,576
Less dividends attributable to preferred shares	(16,435)	(16,435)	(6,945)
Income (loss) attributable to common shareholders from continuing operations	(17,098)	8,503	27,631
Total discontinued operations	8,416	7,757	10,231
Net income (loss) attributable to common shareholders	$ (8,682)	$ 16,260	$ 37,862
Weighted average number of common shares outstanding	52,163,569	49,835,773	46,551,328
Income (loss) per common share basic:			
Income (loss) from continuing operations	$ (0.33)	$ 0.17	$ 0.59
Income from discontinued operations	0.16	0.16	0.22
Net income (loss)	$ (0.17)	$ 0.33	$ 0.81
DILUTED			
Income (loss) attributable to common shareholders from continuing operations basic	$ (17,098)	$ 8,503	$ 27,631
Add incremental income attributable to assumed conversion of dilutive interests			2,465
Income (loss) attributable to common shareholders from continuing operations	(17,098)	8,503	30,096
Income from discontinued operations	8,416	7,757	11,519
Net income (loss) attributable to common shareholders	$ (8,682)	$ 16,260	$ 41,615
Weighted average number of shares used in calculation of basic earnings per share	52,163,569	49,835,773	46,551,328
Add incremental shares representing:			
Shares issuable upon exercise of employee share options		66,876	131,415
Shares issuable upon conversion of dilutive interests			5,366,166

Weighted average number of shares used in calculation of diluted earnings per common share	52,163,569	49,902,649	52,048,909
Income (loss) per common share diluted:			
Income (loss) from continuing operations	$ (0.33)	$ 0.17	$ 0.58
Income from discontinued operations	0.16	0.16	0.22
Net income (loss)	$ (0.17)	$ 0.33	$ 0.80

(4) Investments in Real Estate and Intangible Assets

During 2006 and 2005, the Company made acquisitions, excluding properties acquired in the Merger and acquisitions made directly by non-consolidated entities (including LSAC), totaling $124,910 and $733,830, respectively. The 2005 amount includes properties purchased by the Company that were subsequently transferred to non-consolidated entities.

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In 2005, the Company contributed seven properties, including intangible assets, to various non-consolidated entities for $124,706, which approximated cost, and the non-consolidated entities assumed $36,041 in non-recourse mortgages. The Company received a cash payment of $55,534 relating to these contributions. In 2004, the Company contributed eight properties, including intangible assets, to various non-consolidated entities for $196,982 which approximated cost, and the non-consolidated entities assumed $97,641 in non-recourse debt. The Company received a cash payment of $68,203 related to these contributions.

The Company sold to unrelated parties, seven properties in 2006, seven properties in 2005 and, eight properties in 2004, for aggregate net proceeds of $76,627, $41,151 and $36,651, respectively, which resulted in gains in 2006, 2005 and 2004 of $21,549, $11,578 and $5,475 respectively, which are included in discontinued operations.

During the second quarter of 2006, the Company recorded an impairment charge of $1,121 and accelerated amortization of an above market lease of $2,349 relating to the write-off of lease intangibles and the above market lease for the disaffirmed lease of a property whose lease was rejected by the previous tenant in bankruptcy. The Company sold to an unrelated third party its bankruptcy claim to the disaffirmed lease for $5,376, which resulted in a gain of $5,242, which is included in non-operating income. In the fourth quarter of 2006, the Company recorded an additional impairment charge of $6,100 relating to this property.

For properties acquired during 2006, excluding the Merger, the components of intangible assets and their respective weighted average lives are as follows:

	Costs	Weighted Average Life (yrs)
Lease origination costs	$ 19,335	13.3
Customer relationships	3,983	12.1
Above market leases	7,540	12.3
	$ 30,858	

As of December 31, 2006 and 2005, the components of intangible assets, excluding those acquired in the Merger, are as follows:

	2006	2005
Lease origination costs	$ 125,791	$ 98,502
Customer relationships	35,780	30,603
Above-market leases	21,685	14,851
	$ 183,256	$ 143,956

The estimated amortization of the above intangibles for the next five years is $18,740 in 2007, $18,255 in 2008, $16,651 in 2009, $15,153 in 2010 and $13,544 in 2011.

Below market leases, net of amortization, which are included in deferred revenue, excluding those acquired in the Merger, are $3,439 and $3,899, respectively for 2006 and 2005. The estimated amortization for the next five years is $483 in 2007, $483 in 2008, $476 in 2009, $476 in 2010 and $476 in 2011.

(5) Newkirk Merger

On December 31, 2006 Newkirk merged with and into the Company pursuant to an Agreement and Plan of Merger dated as of July 23, 2006. The Company believes this strategic combination of two real estate companies achieved key elements of its strategic business plan. The Company believes that the Merger enhanced its property portfolio in key markets, reduced its exposure to any one property or tenant credit, enabled the Company to gain immediate access to a debt platform and will allow it to build on its existing customer relationships. At the time of the Merger, Newkirk owned or held an ownership interest in approximately 170 industrial, office and retail properties.

Under the terms of the Merger Agreement, Newkirk stockholders received common shares of the Company for their Newkirk stock. The Merger Agreement provided that each Newkirk stockholder received 0.8 of a common share of the Company, for each share of Newkirk common stock that the stockholder owned. Fractional shares, which were not material, were paid in cash. In connection with the Merger, the Company issued approximately 16.0 million common shares of the Company to former Newkirk stockholders.

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The calculation of the purchase price was as follows:

Fair value of common shares issued	$ 332,050
Merger costs	13,537
Purchase price, net of assumed liabilities and minority interests	345,587
Fair value of liabilities assumed, including debt and minority interest	2,049,801
Purchase price	$ 2,395,388

The allocation of the purchase price is based upon estimates and assumptions. The Company engaged a third party valuation expert to assist with the fair value assessment of the real estate. The current allocations are substantially complete; however, there may be certain items that the Company will finalize once it receives additional information. Accordingly, these allocations are subject to revision when final information is available, although the Company does not expect future revisions to have a significant impact on its financial position or results of operations.

The assets acquired and liabilities assumed were recorded at their estimated fair value at the date of acquisition, as summarized below.

Allocation of purchase price:

Total real estate assets, including intangibles	$ 2,081,704
Investment in and advances to non-consolidated entities	99,396
Cash and cash equivalents	57,624
Accounts receivable	46,905
Restricted cash	39,640
Marketable equity securities	25,760
Other assets	44,359
Total assets acquired	2,395,388
Less:	
Debt assumed	838,735
Minority interest	833,608
Below market leases	356,788
Accounts payable, accrued expenses and other liabilities assumed	20,670
Purchase price, net of assumed liabilities and minority interest	$ 345,587

In connection with the Merger, the Company allocated the purchase price to the following intangibles, included in total real estate assets above:

	Cost	Weighted average useful life (yrs)
Lease origination costs	$ 175,658	13.1
Customer relationships	57,543	7.2
Above-market leases	85,511	3.2
	$ 318,712	

The estimated amortization of the above intangibles for the next five years is $100,879 in 2007, $69,128 in 2008, $32,508 in 2009, $13,998 in 2010 and $12,476 in 2011.

Below market leases assumed in the Merger were $356,788. The estimated amortization for the next five years is $17,273 in 2007, $15,880 in 2008, $15,772 in 2009, $15,112 in 2011 and $14,872 in 2012. The weighted average useful life is 27.3 years.

The following unaudited pro forma financial information for the years ended December 31, 2006 and 2005, gives effect to the Merger as if it had occurred on January 1, 2005. The pro forma results are based on historical data and are not intended to be indicative of the results of future operations.

	Year Ended December 31,	
	2006	2005
Total gross revenues	$ 376,659	$ 346,080
Income (loss) from continuing operations	586	(3,163)
Net income	34,967	15,338
Net income (loss) per common share basic	0.27	(0.02)
Net income (loss) per common share diluted	0.27	(0.02)

Certain non-recurring charges recognized historically by Newkirk have been eliminated for purposes of the unaudited pro forma consolidated information. However, the pro forma loss from continuing operations in 2005 includes a $25,306 loss on early extinguishment of debt.

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(6) Discontinued Operations and Assets Held For Sale

At December 31, 2006, the Company had nine properties held for sale with aggregate assets of $69,612 and liabilities, principally mortgage notes payable, aggregating $6,064. As of December 31, 2005, the Company had three properties held for sale, with aggregate assets of $49,397 and liabilities of $32,145. In 2006, 2005 and 2004, the Company recorded impairment charges, net of minority interests, of $21,612, $11,302 and $5,447, respectively, related to discontinued operations.

The following presents the operating results for the properties sold and held for sale during the years ended December 31, 2006, 2005 and 2004:

	Year Ended December 31,		
	2006	2005	2004
Total gross revenues	$ 11,902	$ 20,983	$ 25,055
Pre-tax income, including gains on sales	$ 8,491	$ 7,757	$ 10,231

During 2006, the Company conveyed a property to a lender for full satisfaction of a loan and satisfied the related mortgages on properties sold, which resulted in a net debt satisfaction gain of $3,626. In addition, the Company sold one property for a sale price of $6,400 and provided $3,200 in interest only secured financing to the buyer at a rate of 6.0%, which matures in 2017.

During the 2006, the tenant in a property in Warren, Ohio exercised its option to purchase the property at fair market value, as defined in the lease. Based on the appraisals received and the procedure set forth in the lease, the Company estimated that the fair market value, as defined in the lease, will not exceed approximately $15,800. Accordingly, the Company recorded an impairment charge of $28,209 in the third quarter of 2006.

During 2005, the Company sold one property for an aggregate sales price of $14,500 and provided $11,050 in secured financing to the buyer at a rate of 5.46% which matures on August 1, 2015. The note is interest only through August 2007 and requires annual debt service payments of $750 thereafter and a balloon payment of $9,688 at maturity. In addition, annual real estate tax and insurance escrows are required.

(7) **Notes Receivable**

The Company s notes receivable, including accrued interest, are comprised of five first mortgage loans on real estate aggregating $33,400, bearing interest at rates ranging from 5.5% to 8.5% and maturing at various dates between 2010 and 2017. In addition, the Company has second mortgages on real estate aggregating $17,134, with an imputed rate of 8.0% and maturing at various dates through 2022.

(8) **Investment in Non-Consolidated Entities**

The Company has investments in various real estate joint ventures.

Lexington Acquiport Company, LLC (The Company has 33 1/3% interest.)

Lexington Acquiport Company, LLC (LAC) is a joint venture with the Comptroller of the State of New York as Trustee for the Common Retirement Fund (CRF). The Company and CRF originally committed to contribute up to $50,000 and $100,000, respectively, to invest in high quality office and industrial net leased real estate. The partners agreed that they would close the funding obligations to LAC. LRA earns annual management fees of 2% of rent collected and acquisition fees equaling 75 basis points of the purchase price of each property investment. All allocations of profit, loss and cash flows from LAC are made one-third to the Company and two-thirds to CRF.

During 2005, LAC sold a property for net proceeds of $23,496 which resulted in a gain of $5,219.

Lexington Acquiport Company II, LLC (The Company has 25% interest.)

Lexington Acquiport Company II, LLC (LAC II) is another joint venture with CRF. The Company and CRF have committed $50,000 and $150,000, respectively. In addition to the fees LRA earns on acquisitions and asset management in LAC, LRA also earns 50 basis points on all mortgage debt directly placed in LAC II. All allocations of profit, loss and cash flows from LAC II will be allocated 25% to the Company and 75% to CRF. As of December 31, 2006 and 2005, $135,088 had been funded by the members.

During 2006, LAC II did not purchase any properties.

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During 2005, LAC II purchased four properties for a capitalized cost of $181,867, two of which were transferred from the Company for $52,125. LAC II partially funded these acquisitions by the use of $124,155 in non-recourse mortgages, which bear interest at fixed rates ranging from 5.2% to 5.9% and mature at various dates ranging from 2013 to 2020.

CRF can presently elect to put its equity position in LAC and LAC II to the Company. The Company has the option of issuing common shares for the fair market value of CRF s equity position (as defined) or cash for 110% of the fair market value of CRF s equity position. The per common share value of shares issued for CRF s equity position will be the greater of (i) the price of the Company s common shares on the closing date (ii) the Company s funds from operations per share (as defined) multiplied by 8.5 or (iii) $13.40 for LAC properties and (iv) $15.20 for LAC II properties. The Company has the right not to accept any property (thereby reducing the fair market value of CRF s equity position) that does not meet certain underwriting criteria (e.g. lease term and tenant credit). If CRF exercised this put, it is the Company s current intention to settle this amount in cash. In addition, the operating agreement contains a mutual buy-sell provision in which either partner can force the sale of any property.

Lexington Columbia LLC (The Company has a 40% interest.)

Lexington Columbia LLC (Columbia) is a joint venture established December 30, 1999 with a private investor. Its sole purpose is to own a property in Columbia, South Carolina net leased to Blue Cross Blue Shield of South Carolina, Inc. through September 2009. The purchase price of the property was approximately $42,500. In accordance with the operating agreement, net cash flows, as defined, are allocated 40% to the Company and 60% to the other member until both parties have received a 12.5% return on capital. Thereafter cash flows will be distributed 60% to the Company and 40% to the other member.

During 2001, Columbia expanded the property by 107,894 square feet bringing the total square feet of the property to 456,304. The $10,900 expansion was funded 40% by the Company and 60% by the other member. The tenant has leased the expansion through September 2009 for an average annual rent of $2,000. Cash flows from the expansion are distributed 40% to the Company and 60% to the other member.

LRA earns annual asset management fees of 2% of rents collected.

Lexington/Lion Venture L.P. (The Company has a 30% interest.)

Lexington/Lion Venture L.P. (LION) was formed on October 1, 2003 by the Company and Clarion Lion Properties Fund (Clarion) to invest in high quality single tenant net leased retail, office and industrial real estate. The limited partnership agreement provides for a ten-year term unless terminated sooner pursuant to the terms of the partnership agreement. The limited partnership agreement provided for the Company and Clarion to invest up to $30,000 and $70,000, respectively, and to leverage these investments up to a maximum of 60%. During 2005, the Company and Clarion increased their equity commitment by $25,714 and $60,000, respectively. All funding requirements have been met and the partners may agree to continue to purchase additional properties, but have no additional funding obligations. LRA earns acquisition and asset management fees as defined in the operating agreement. All allocation of profit, loss and cash flows are made 30% to the Company and 70% to Clarion until each partner receives a 12% internal rate of return. The Company is eligible to receive a promoted interest of 15% of the internal rate of return in excess of 12%. No promoted interest was earned in 2006 or 2005 by the Company.

Clarion can elect to put its equity position in LION to the Company. The Company has the option of issuing common shares for the fair market value of Clarion s equity position (as defined) or cash for 100% of the fair market value of Clarion s equity position. The per common share value of shares issued for Clarion s equity position will be the greater of (i) the price of the Company s common shares on the closing date (ii) the Company s funds from operations per share (as defined) multiplied by 9.5 or (iii) $19.98. The Company has the right not to accept any property (thereby reducing the fair market value of Clarion s equity position) that does not meet certain underwriting criteria (e.g. lease term and tenant credit). If Clarion exercises this put, it is the Company s current intention to settle this amount in cash. In addition, the operating agreement contains a mutual buy-sell provision in which either partner can force the sale of any property.

During 2006, LION purchased one property for a capitalized cost of $28,418 . This acquisition was partially funded by $18,363 in a non-recourse mortgage, which bears interest at 6.10% and matures in 2016.

During 2005, LION purchased three properties for a capitalized cost of $92,400. These acquisitions were partially funded by $54,780 in non-recourse mortgages, which bear interest at fixed rates ranging from 5.0% to 5.6% and mature at various dates ranging from 2012 to 2019.

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Triple Net Investment Company LLC (The Company has a 30% interest.)

In June 2004, the Company entered into a joint venture agreement with the State of Utah Retirement Systems (Utah). The joint venture entity, Triple Net Investment Company, LLC (TNI), was created to acquire high quality office and industrial properties net leased to investment and non-investment grade single tenant users; however, TNI has also acquired retail properties. The operating agreement provides for a ten-year term unless terminated sooner pursuant to the terms of the operating agreement. The Company and Utah initially committed to make equity contributions to TNI of $15,000 and $35,000, respectively. In December 2005, the Company and Utah increased their contribution by $21,429 and $50,000, respectively. As of December 31, 2006 and 2005, $86,914 and $83,015, respectively, had been funded. In addition, TNI finances a portion of acquisition costs through the use of non-recourse mortgages.

During 2006, TNI made one property acquisition for a capitalized cost of $13,456. The acquisition was partially funded by $9,500 in a non-recourse mortgage, which bears interest at 5.91% and matures 2018.

During 2005, TNI made three acquisitions aggregating $126,781. The acquisitions were partially funded through the use of $83,327 in non-recourse mortgages, which bear interest at fixed rates ranging from 5.1% to 5.2% and mature at various dates ranging in 2012 and 2013.

In addition, TNI recorded an impairment charge of $1,838 and accelerated amortization of an above market lease of $4,704 relating to the write-off of lease intangible and the above market lease for a disaffirmed lease of a property whose lease was rejected by the previous tenant in bankruptcy. TNI sold to an unrelated third party its bankruptcy claim to the disaffirmed lease for $5,680, which resulted in a gain of $5,567.

Utah can elect to put its equity position in TNI to the Company. The Company has the option of issuing common shares for the fair market value of Utah s equity position (as defined) or cash for 100% of the fair market value of Utah s equity position. The per common share value of shares issued for Utah s equity position will be the greater of (i) the price of the Company s common shares on the closing date (ii) the Company s funds from operations per share (as defined) multiplied by 12.0 or (iii) $21.87. The Company has the right not to accept any property (thereby reducing the fair market value of Utah s equity position) that does not meet certain underwriting criteria (e.g. lease term and tenant credit). If Utah exercises this put, it is the Company s current intention to settle this obligation in cash. In addition, the operating agreement contains a mutual buy-sell provision in which either partner can force the sale of any property.

Oklahoma City (The Company owns a 40% tenancy in common interest in a real property.)

Oklahoma City (TIC) is a tenancy in common established in 2005. The Company sold, at cost, a 60% tenancy in common interest in one of the properties it acquired during 2005 for $3,961 in cash and the assumption of $8,849 in mortgage debt.

Lexington Strategic Asset Corp. (The Company had a 32.3% interest at December 31, 2005.)

Lexington Strategic Asset Corp. (LSAC) was established in 2005. During 2005, the Company contributed four properties at a carrying value of $50,821 (three of which were subject to non-recourse mortgages of $21,293) plus financing deposits to LSAC in exchange for 3,319,600 common shares of LSAC at a value of $10.00 per share. The mortgages bore interest at rates ranging from 5.1% to 5.3% and mature in 2015. In addition, LSAC sold 6,738,000 common shares to third parties, at $10.00 per common share, generating net proceeds of $61,595, after deducting offering costs and expenses. LRA is the advisor of LSAC. LRA earns a base advisory fee of (i) 1.75% of LSAC s shareholders equity, as defined, up to $500,000 and 1.50% of LSAC s shareholders equity in excess of $500,000 and (ii) incentive advisory fees (promoted interest) based upon LSAC s performance. The Company granted certain officers the right to 40% of the promoted interest earned by LRA. Also, certain officers purchased 220,000 common shares of LSAC at its formation for $110, a portion of which is subject to a claw back provision and an additional 100,000 common shares in the offering for $1,000. As of December 31, 2006, the Company indirectly holds approximately 76% of the Class A voting limited partnership interests in LSAC OP (Class A Units), and 60% of the Class B limited partnership interests in LSAC OP (Class B Units) and executive officers of the Company hold the remaining 40% of the Class B Units. The Class A Units are entitled to a proportionate share of the capital, profits and losses of LSAC OP, including distributions that will be equivalent to the dividends on the LSAC s common stock. The Class B Units have no voting rights. The Class B Units are entitled to quarterly distributions based on financial performance. During 2006, the Company purchased directly from shareholders 4.6 million common shares of LSAC for $42,619, increasing its ownership to approximately 76% of the total common shares outstanding. Due to this increased ownership percentage, LSAC became a consolidated entity as of November 1, 2006. During 2006, LSAC acquired eight properties for an aggregate capitalized cost of $82,511 and obtained $61,951 in non-recourse mortgages, which have a weighted average interest rate of 6.06% and mature between 2016 and 2021. During 2005, LSAC acquired two properties for an aggregate capitalized cost of $25,036 and obtained a $10,100 non-recourse mortgage note, secured by one property, which bears interest at 5.46% and matures in 2020.

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Concord Debt Holdings LLC (The MLP has a 50.0% interest)

The MLP and WRT Realty L.P. (Winthrop) have a joint venture to acquire and originate loans secured, directly and indirectly, by real estate assets through Concord Debt Holdings, LLC, formerly 111 Debt Holdings Corp. (Concord). The Company s Executive Chairman is also the Chief Executive Officer of the parent of Winthrop. The joint venture is equally owned and controlled by the MLP and Winthrop. The MLP and Winthrop have committed to invest up to $100,000 each in Concord. As of December 31, 2006, $91,342 has been invested by the MLP. All profits, losses and cash flows are distributed in accordance with the respective membership interests.

The joint venture is governed by an investment committee which consists of two members appointed by each of Winthrop and the MLP with one additional member being appointed by an affiliate of Winthrop. All decisions requiring the consent of the investment committee require the affirmative vote by three of the four members appointed by Winthrop and the MLP. Pursuant to the terms of the joint venture agreement of Concord, all material actions to be taken by Concord, including investments in excess of $20,000, require the consent of the investment committee; provided, however, the consent of both Winthrop and the MLP is required for the merger or consolidation of Concord, the admission of additional members, the taking of any action that, if taken directly by Winthrop or the MLP would require consent of Winthrop s Conflicts Committee or the Company s independent trustees.

Concord entered into a $300,000 repurchase agreement with Column Financial Inc. and a $200,000 repurchase agreement with Bear Stearns International Limited. As of December 31, 2006, these facilities have an aggregate of $43,893 outstanding. In 2006, Concord completed its first collateralized debt obligation offering by issuing $376,650 of debt and retaining a notional equity investment of $88,351.

Other Equity Method Investment Limited Partnerships

The MLP is a partner in three partnerships with ownership percentages ranging between 24.0% and 30.5% and these partnerships own net leased properties. All profits, losses and cash flows are distributed in accordance with the respective partners interests.

Summarized Financial Data

Summarized combined balance sheets as of December 31, 2006 and 2005 and income statements for the years ending December 31, 2006, 2005, and 2004 for all non-consolidated entities (excluding LSAC for 2006) are as follows:

	2006	2005
Real estate, net	$ 1,395,422	$ 1,384,361
Other assets	799,329	267,310
	$ 2,194,751	$ 1,651,671
Mortgages and notes payable	$ 1,470,951	$ 993,454
Other liabilities	29,001	26,767
The Company s capital	246,477	192,466
Other partners/members capital	448,322	438,984
	$ 2,194,751	$ 1,651,671

	2006	2005	2004
Revenues	$ 166,368	$ 145,830	$ 83,387
Expenses	(162,883)	(132,878)	(62,764)
Debt satisfaction charge		(1,952)	
Impairment charge	(1,838)		
Gain on sale of bankruptcy claim	5,567		
Gain on sale of property		5,219	
Net income	$ 7,214	$ 16,219	$ 20,623

The Company, through LRA, earns advisory fees from certain of these non-consolidated entities for services related to acquisitions, asset management and debt placement. Advisory fees earned from these investments were $3,815, $4,742, and $4,572 in

2006, 2005 and 2004, respectively.

(9) Mortgages and Notes Payable and Contract Rights Payable

The Company had outstanding mortgages and notes payable of $2,123,174 and $1,139,971 as of December 31, 2006 and 2005, respectively, excluding discontinued operations. Interest rates, including imputed rates on mortgages and notes payable, ranged from 3.89% to 10.50% at December 31, 2006 and the mortgages and notes payable mature between 2008 and 2025. Interest rates, including imputed rates, ranged from 4.42% to 10.50% at December 31, 2005. The weighted average interest rate at December 31, 2006 and 2005 was approximately 6.1% and 6.0%, respectively.

During 2006 and 2005, the Company obtained $187,447 and $471,907 in non-recourse mortgages that bore interest at a weighted average fixed rate of 6.0% and 5.2% respectively.

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The MLP has a secured loan, which bears interest, at the election of the MLP, at a rate equal to either (i) LIBOR plus 175 basis points or (ii) the prime rate. As of December 31, 2006, $547,199 was outstanding (see Note 21). The secured loan is scheduled to mature in August 2008, subject to two one year extensions. The secured loan requires monthly payments of interest and quarterly principal payments of $1,875 during the term of the secured loan, increasing to $2,500 per quarter during the extension periods. The MLP is also required to make principal payments from the proceeds of property sales, refinancing and other asset sales if proceeds are not reinvested into net leased properties. The required principal payments are based on a minimum release price set forth in the secured loan agreement for property sales and 100% of proceeds from refinancing, economic discontinuance, insurance settlements and condemnations. The loan has customary covenants which the MLP was in compliance with at December 31, 2006 and 2005.

The MLP entered into the following agreements in order to limit the exposure to interest rate volatility: (i) a five year interest rate swap agreement with KeyBank National Association effectively setting the LIBOR rate at 4.642% for $250,000 of the loan balance through August 2010; and (ii) a LIBOR rate cap agreement at 6% with SMBC Derivative Products Limited until August 2008 for a notional amount of $290,000.

The Company has a $200,000 revolving credit facility, which expires June 2008, bears interest at 120-170 basis points over LIBOR, depending on the amount of the Company s leverage level and has an interest rate period of one, three or six months, at the option of the Company. The credit facility contains various leverage, debt service coverage, net worth maintenance and other customary covenants, which the Company was in compliance as of December 31, 2006 and 2005. As of December 31, 2006, there was $65,194 outstanding under the credit facility, approximately $132,994 was available to be borrowed and the Company has outstanding letters of credit aggregating $1,812 (see Note 21). The Company pays an unused facility fee equal to 25 basis points if 50% or less of the credit facility is utilized and 15 basis points greater than 50% of the credit facility it utilized.

Included in the Consolidated Statements of Operations, the Company recognized debt satisfaction gains (losses), excluding discontinued operations, of $7,228, $4,409 and $(56) for the years ended December 31, 2006, 2005 and 2004, respectively.

Contract rights payable is a promissory note with a fixed interest rate of 9.68%, which provides for the following amortization payments:

2007	$ 0
2008	0
2009	229
2010	491
2011	540
Thereafter	10,971
	$ 12,231

Mortgages payable and the secured loan are generally collateralized by real estate and the related leases. Certain mortgages payable have yield maintenance or defeasance requirements relating to any repayments. In addition, certain mortgages are cross-collaterialized and cross-defaulted.

Scheduled principal payments for mortgages and notes payable, including $5,851 in mortgages payable relating to discontinued operations, for the next five years and thereafter are as follows:

Years ending December 31,	**Total**
2007	$ 73,075
2008	699,526
2009	104,378
2010	90,363
2011	142,793
Thereafter	1,018,890
	$ 2,129,025

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(10) Leases

Lessor:

Minimum future rental receipts under the non-cancellable portion of tenant leases, excluding leases on properties held for sale, assuming no new or re-negotiated leases, for the next five years and thereafter are as follows:

Year ending December 31,	
2007	$ 411,757
2008	369,441
2009	283,815
2010	234,230
2011	215,265
Thereafter	1,014,072
	$ 2,528,580

The above minimum lease payments do not include reimbursements to be received from tenants for certain operating expenses and real estate taxes and do not include early termination payments provided for in certain leases.

Certain leases allow for the tenant to terminate the lease if the property is deemed obsolete, as defined, but must make a termination payment to the Company, as stipulated in the lease. In addition, certain leases provide the tenant with the right to purchase the leased property at fair market value or a stipulated price.

Lessee:

The Company holds leasehold interests in various properties. Generally, the ground rents on these properties are either paid directly by the tenants to the fee holder or reimbursed to the Company as additional rent. Certain properties are economically owned through the holding of industrial revenue bonds and as such neither ground lease payments nor bond debt service payments are made or received, respectively. For certain of the properties, the Company has an option to purchase the land.

Minimum future rental payments under non-cancellable leasehold interests, excluding leases held through industrial revenue bonds and lease payments in the future that are based upon fair market value for the next five years and thereafter are as follows:

Year ending December 31,	
2007	$ 3,998
2008	3,464
2009	3,067
2010	2,568
2011	2,167
Thereafter	14,975
	$ 30,239

Rent expense for the leasehold interests was $604, $528 and $288 in 2006, 2005 and 2004, respectively.

The Company leases its corporate headquarters. The lease expires December 2015, with rent fixed at $599 per annum through December 2008 and will be adjusted to fair market value, as defined, thereafter. The Company is also responsible for its proportionate share of operating expenses and real estate taxes. As an incentive to enter the lease the Company received a payment of $845 which it is amortizing as a reduction of rent expense. The Company also leases a regional office until July 2010 from LION. The minimum lease payments for these offices are $637 for 2007, $639 for 2008, $41 for 2009 and $21 for 2010. Rent expense for these offices for 2006, 2005 and 2004 was $877, $861 and $618, respectively, and is included in general and administrative expenses.

(11) Minority Interests

In conjunction with several of the Company s acquisitions, property owners were issued OP Units as a form of consideration in exchange for the property. In connection with the Merger, the MLP effected a reverse unit-split pursuant to which each outstanding MLP unit was converted into 0.80 MLP units totaling 35,538,803, excluding MLP units held directly or indirectly by the Company. Holders of certain MLP units have voting rights equivalent to common shareholders of the Company through the Special Voting Preferred Share. Pursuant to a voting trustee agreement, NKT Advisors, LLC, an affiliate of Michael L. Ashner, the Company s Executive Chairman, holds the one share of the Company s special voting preferred stock and is required to cast the votes attached to the special voting preferred stock in proportion to the votes it receives from holders of voting MLP units, other than the general partner of the MLP or any other Lexington affiliate, provided that Vornado Realty Trust (Vornado) will not have the right to vote for board members of the Company at any time when an affiliate of Vornado is serving or standing for election as a board member of the Company. NKT Advisors, LLC will be entitled to vote Vornado s voting MLP units in its sole discretion to the extent the voting rights of Vornado s affiliates are so limited. All of OP Units, other than the OP Units held directly or indirectly by the Company, are redeemable at certain times, only at the option of the holders, for cash or common shares, at the Company s option, on a one-for-one basis at various dates and are not otherwise mandatorily redeemable by the Company. During 2006, one of the Company s operating partnerships issued 33,954 units ($750) in connection with an acquisition. During 2005, one of the Company s operating partnerships issued 352,244 OP Units for $7,714 in cash. As of December 31, 2006, there were 41,191,115 OP Units outstanding. Of the total OP Units outstanding, 29,351,098 are held by related parties. Generally, holders of OP Units are entitled to receive distributions equal to the dividends paid to our common shareholders, except that certain OP Units have stated distributions in accordance with their respective partnership agreement. To the extent that the Company s dividend per share is less than the stated distribution per unit per the applicable partnership agreement, the stated distributions per unit are reduced by the percentage reduction in the Company s dividend. No OP Units have a liquidation preference. As of December 31, 2005, there were 5,720,071 OP Units outstanding.

(12) Preferred and Common Shares

During 2006, the Company issued 15,994,702 common shares relating to the Merger. During 2005, the Company issued 2,500,000 common shares in public offerings raising $60,722 in proceeds, which was used to retire mortgage debt and fund acquisitions.

Pursuant to a voting trustee agreement, NKT Advisors, LLC, an affiliate of Michael L. Ashner, the Company s Executive Chairman, holds the one share of the Company s special voting preferred stock and is required to cast the votes attached to the special voting preferred stock in proportion to the votes it receives from holders of voting MLP units, other than the general partner of the MLP or any other Lexington affiliate, provided that Vornado will not have the right to vote for board members of the Company at any time when an affiliate of Vornado is serving or standing for election as a board member of the Company. NKT Advisors, LLC will be entitled to vote Vornado s voting MLP units in its sole discretion to the extent the voting rights of Vornado s affiliates are so limited.

During 2005 and 2004, the Company issued 400,000 shares (which were issued pursuant to an underwriters over allotment option) and 2,700,000 shares of Series C Cumulative Convertible Preferred Stock, raising net proceeds of $19,463 and $131,126, respectively. The shares have a dividend of $3.25 per share per annum, have a liquidation preference of $20,000 and $135,000, respectively, and the Company commencing November 2009, if certain common share prices are achieved, can force conversion into common shares. In addition, each share is currently convertible into 1.8643 common shares. This conversion ratio may increase over time if the Company s common share dividend exceeds certain quarterly thresholds.

If certain fundamental changes occur, holders may require the Company, in certain circumstances, to repurchase all or part of their Series C Cumulative Convertible Preferred Stock. In addition, upon the occurrence of certain fundamental changes, the Company will under certain circumstances increase the conversion rate by a number of additional common shares or, in lieu thereof, may in certain circumstances elect to adjust the conversion rate upon the Series C Cumulative Convertible Preferred Stock becoming convertible into shares of the public acquiring or surviving company.

On or after November 16, 2009, the Company may, at the Company s option, cause the Series C Cumulative Convertible Preferred Stock to be automatically converted into that number of common shares that are issuable at the then prevailing conversion rate. The Company may exercise its conversion right only if, at certain times, the closing price of the Company s common shares equals or exceeds 125% of the then prevailing conversion price of the Series C Cumulative Convertible Preferred Stock.

Investors in the Series C Cumulative Convertible Preferred Stock generally have no voting rights, but will have limited voting rights if the Company fails to pay dividends for six or more quarters and under certain other circumstances. Upon conversion the Company may choose to deliver the conversion value to investors in cash, common shares, or a combination of cash and common shares.

During 2006 and 2005, holders of an aggregate of 96,205 and 37,200 OP Units redeemed such OP Units for common shares of the Company. These redemptions resulted in an increase in shareholders equity and corresponding decrease in minority interest of $1,099 and $441, respectively.

During 2006 and 2005, the Company issued 639,353 and 276,608 common shares, respectively, to certain employees. These common shares generally vest ratably, primarily over a 5 year period, however in certain situations the vesting is cliff based after 5 years and in other cases vesting only occurs if certain performance criteria are met (see Note 13).

During 2006 and 2005, the Company issued 627,497 and 658,122 common shares, respectively, under its dividend reinvestment plan which allows shareholders to reinvest dividends to purchase common shares at a 5% discount to its market value, as defined.

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(13) Benefit Plans

The Company maintains a common share option plan pursuant to which qualified and non-qualified options may be issued. Options granted under the plan generally vest over a period of one to four years and expire five years from date of grant. No compensation cost is reflected in net income as all options granted under the plan had an exercise price equal to the market value of the underlying common shares on the date of grant.

Share option activity during the years indicated is as follows:

	Number of Shares	Weighted-Average Exercise Price Per Share
Balance at December 31, 2003	521,530	$ 13.94
Granted		
Exercised	(345,200)	13.48
Forfeited		
Expired		
Balance at December 31, 2004	176,330	$ 14.70
Granted		
Exercised	(133,830)	14.71
Forfeited	(2,000)	13.66
Expired		
Balance at December 31, 2005	40,500	14.71
Granted		
Exercised	(20,500)	14.15
Forfeited	(2,000)	15.50
Expired	(1,500)	11.82
Balance at December 31, 2006	16,500	$ 15.56

The following is additional disclosures for common share options outstanding at December 31, 2006:

	Options Outstanding			Exercisable Options	
Range of Exercise Prices	Number	Weighted Average Exercise Price	Remaining Life (Months)	Number	Weighted Average Exercise Price
$15.50-$15.90	16,500	$ 15.56	2	16,500	$ 15.56

The Company has a 401(k) retirement savings plan covering all eligible employees. The Company will match 25% of the first 4% of employee contributions. In addition, based on its profitability, the Company may make a discretionary contribution at each fiscal year end to all eligible employees. The matching and discretionary contributions are subject to vesting under a schedule providing for 25% annual vesting starting with the first year of employment and 100% vesting after four years of employment. Approximately $229, $179 and $171 of contributions are applicable to 2006, 2005 and 2004, respectively.

Non-vested share activity for the year ended December 31,2006, is as follows:

	Number of Shares	Weighted-Average Value Per Share
Balance at December 31, 2005	708,628	$ 20.38
Granted	639,353	22.15
Forfeited	(469)	21.30
Vested	(692,751)	20.93
Balance at December 31, 2006	654,761	$ 21.52

As of December 31, 2006, of the remaining 654,761 non-vested shares, 353,048 are subject to time vesting and 301,713 are subject to performance vesting. There are 592,802 awards available for grant at December 31, 2006. In addition, the Company has $9,383 in unrecognized compensation costs that will be charged to compensation expense over an average of approximately 4.6 years.

In 2006, the Board of Trustees approved the accelerated vesting of certain time based non-vested shares, which resulted in a charge to earnings of $10,758, which is included in general and administrative expenses.

During 2006, 2005 and 2004, the Company recognized $16,950 (including the $10,758 in accelerated amortization of non-vested shares), $3,595 and $2,523, respectively, in compensation relating to share grants to trustees and employees.

The Company has established a trust for certain officers in which non-vested common shares, which generally vest ratably over five years, granted for the benefit of the officers are deposited. The officers exert no control over the common shares in the trust and the common shares are available to the general creditors of the Company. As of December 31, 2006 and 2005, there were 427,531 common shares in the trust.

(14) Income Taxes

The (benefit) provision for income taxes relates primarily to the taxable income of the Company s taxable REIT subsidiaries. The earnings, other than in taxable REIT subsidiaries, of the Company are not generally subject to Federal income taxes at the Company level due to the REIT election made by the Company.

Income taxes have been provided for on the asset and liability method as required by Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes. Under the asset and liability method, deferred income taxes are recognized for the temporary differences between the financial reporting basis and the tax basis of assets and liabilities.

The Company s (benefit) provision for income taxes for the years ended December 31, 2006, 2005 and 2004 is summarized as follows:

	2006	2005	2004
Current:			
Federal	$ 139	$ 222	$ 2,249
State and local	331	93	958
Deferred:			
Federal	(561)	(358)	(1,722)
State and local	(147)	(107)	(304)
	$ (238)	$ (150)	$ 1,181

Deferred tax assets of $3,230 and $2,492, respectively are included in other assets on the accompanying Consolidated Balance Sheets at December 31, 2006 and 2005, respectively. These deferred tax assets relate primarily to differences in the timing of the recognition of income/(loss) between GAAP and tax, basis of real estate investments and net operating loss carry forwards.

The income tax (benefit) provision differs from the amount computed by applying the statutory federal income tax rate to pre-tax operating income as follows:

	2006	2005	2004
Federal (benefit) provision at statutory tax rate (34%)	$ (548)	$ (96)	$ 1,106
State and local taxes, net of Federal benefit	(86)	(24)	195
Other	396	(30)	(120)
	$ (238)	$ (150)	$ 1,181

As of December 31, 2006, the Company has estimated net operating loss carry forwards for federal income tax reporting purposes of $11,781, which would begin to expire in tax year 2025. No valuation allowances have been recorded against deferred tax assets as the Company believes they are fully realizable, based upon projected future taxable income.

(15) Commitments and Contingencies

The Company is involved in various legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company s consolidated financial position, results of operations or liquidity.

Certain employees have employment contracts and are entitled to severance benefits in the case of a change of control, as defined in the employment contract.

The Company, including its non-consolidated entities, are obligated under certain tenant leases to fund the expansion of the underlying leased properties.

(16) Related Party Transactions

Certain officers of the Company own OP Units or other interests in entities consolidated or accounted for under the equity method.

All related party acquisitions, sales and loans were approved by the independent members of the Board of Trustees or the Audit Committee.

As of December 31, 2006 the Company, through the MLP, has an ownership interest in a securitized pool of first mortgages which includes two mortgage loans encumbering MLP properties. As of December 31, 2006, the value of the ownership interests is $16,371.

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An affiliate of our Executive Chairman provides certain asset management, investor and administrative services to certain partnerships in which the Company owns an equity interest.

In addition, an affiliate of the Executive Chairman, will provide management services on any of the Company s properties that require such management services in the future, excluding properties that are currently managed by third parties.

In addition, the Company earns fees from certain of its non-consolidated investments (See note 8).

(17) Fair Market Value of Financial Instruments

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

Notes Receivable. The Company has determined that the fair value of these instruments approximates carrying costs as their interest rates approximate market.

Mortgages, Notes Payable and Contract Rights Payable. The Company determines the fair value of these instruments based on a discounted cash flow analysis using a discount rate that approximates the current borrowing rates for instruments of similar maturities. Based on this, the Company has determined that the fair value of these instruments approximates the carrying value as of December 31, 2006 and exceeded carrying value by $24,440 as of December 31, 2005.

(18) Concentration of Risk

The Company seeks to reduce its operating and leasing risks through diversification achieved by the geographic distribution of its properties, avoiding dependency on a single property and the creditworthiness of its tenants.

For the years ended December 31, 2006, 2005 and 2004, no tenant represented 10% or more of gross revenues.

In March 2006, Dana Corporation (Dana), a tenant in 11 properties, including non-consolidated entities, filed for Chapter 11 bankruptcy. Dana succeeded on motions to reject leases on 2 properties owned by the Company and a non-consolidated entity and has affirmed the other 9 leases. During the second quarter of 2006, the Company recorded an impairment charge of $1,121 and accelerated amortization of an above-market lease of $2,349, relating to the write off of lease intangibles and the above-market lease for the disaffirmed lease of a consolidated property. During the fourth quarter of 2006, the Company recorded an additional impairment charge of $6,100 relating to this property. In addition, the Company s proportionate share from a non-consolidated entity of the impairment charge and accelerated amortization of an above-market lease for a disaffirmed lease was $551 and $1,412, respectively. In addition, the Company, including its interest through a non-consolidated entity, sold its bankruptcy claims related to the 2 disaffirmed leases for approximately $7,100 which resulted in a gain of approximately $6,900.

(19) Supplemental Disclosure of Statement of Cash Flow Information

During 2006, 2005 and 2004, the Company paid $ 70,256, $65,635 and $41,179, respectively, for interest and $273, $1,703 and $4,024, respectively, for income taxes.

During 2006, the Company had an unrealized gain on marketable equity securities and an unrealized gain in foreign currency translation of $789 and $484, respectively.

During 2006, 2005 and 2004, the Company recognized $16,950 (including the $10,758 in accelerated amortization of non-vested shares), $3,595 and $2,523, respectively, in compensation relating to share grants to trustees and employees.

During 2006, the Company sold a property in which the purchaser assumed a mortgage note encumbering the property in the amount of $14,170. In addition, the Company provided a $3,200, 6.00% interest only mortgage due in 2017 relating to the sale of another property.

During 2005, the Company provided $11,050 in secured financing related to the sale of a property.

During 2005, in connection with certain mortgage financings the lender withheld $5,600 in proceeds which was disbursed upon expansion of the mortgaged properties in 2006.

During 2006 and 2005, the Company recorded a derivative asset of $2,745 and a derivative liability of $512, respectively.

During 2004, the Company sold a property for $4,324 and received as a part of the consideration a note receivable of $3,488. The note was repaid in 2005.

During 2006, 2005 and 2004, holders of an aggregate of 96,205, 37,200 and 114,159 OP Units, respectively, redeemed such units for common shares of the Company. These redemptions resulted in increases in shareholders equity and corresponding decreases in minority interests of $1,099, $441 and $1,487, respectively.

During 2006, the Company issued 33,954 OP Units valued at $750 to acquire a single net leased property.

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During 2004, the Company assumed $273,260 in liabilities relating to the acquisition of real estate, including the acquisition of the remaining 77.3% partnership interest it did not already own in Florence. The other assets acquired and liabilities assumed with the Florence acquisition were not material.

During 2004, the Company issued 97,828 of Units valued at $1,801 to acquire 100% of the partnership interest in a partnership it did not already own. Of there units, 27,212 were issued to two executive officers.

Effective November 1, 2006, LSAC became a consolidated subsidiary of the Company. The assets and liabilities of LSAC are treated as non-cash activities for the Statement of Cash Flows, were as follows:

Real estate	$ 106,112
Cash	$ 31,985
Other assets	$ 23,476
Mortgage payable	$ 72,057
Other liabilities	$ 1,341

In 2005 and 2004, the Company contributed properties (along with non-recourse mortgage notes of $36,041 and $97,641, respectively) to joint venture entities for capital contributions of $32,170 and $13,718, respectively. In addition, during 2004 the Company issued mortgage notes receivable of $45,800 relating to these contributions, which were repaid in 2005.

See footnote 5 for discussion of the Merger.

(20) Unaudited Quarterly Financial Data

	2006			
	3/31/06	6/30/06	9/30/06	12/31/06
Total gross revenues(1)	$ 51,621	$ 49,258	$ 51,271	$ 55,241
Net income (loss)	$ 6,078	$ 25,520	$ (17,596)	$ (6,249)
Net income (loss) allocable to common shareholders basic	$ 1,969	$ 21,411	$ (21,705)	$ (10,357)
Net income (loss) allocable to common shareholders per share:				
Basic	$ 0.04	$ 0.41	$ (0.42)	$ (0.20)
Diluted	$ 0.04	$ 0.41	$ (0.42)	$ (0.20)

	2005			
	3/31/05	6/30/05	9/30/05	12/31/05
Total gross revenues(1)	$ 33,983	$ 46,575	$ 52,239	$ 50,661
Net income (loss)	$ 9,526	$ 15,949	$ 8,970	$ (1,750)
Net income (loss) allocable to common shareholders basic	$ 5,417	$ 11,841	$ 4,861	$ (5,859)
Net income (loss) allocable to common shareholders per share:				
Basic	$ 0.11	$ 0.24	$ 0.10	$ (0.11)
Diluted	$ 0.11	$ 0.22	$ 0.08	$ (0.11)

(1) All periods have been adjusted to reflect the impact of properties sold during the years ended December 31, 2006 and 2005, and properties classified as held for sale, which are reflected in discontinued operations in the Consolidated Statements of Income.

The sum of the quarterly income (loss) per common share amounts may not equal the full year amounts primarily because the computations of the weighted average number of common shares outstanding for each quarter and the full year are made independently.

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(21) Subsequent Events

Subsequent to December 31, 2006, the Company:

purchased one property for $14,250 and financed the purchase price with a non-recourse mortgage loan of $9,975, which bears interest at 5.72% and matures in 2017;

obtained a $7,350 non-recourse mortgage loan at an interest rate of 5.85% which matures in 2021;

issued 6.2 million shares of Series D Cumulative Redeemable Preferred Stock ($155,000) at a dividend rate of 7.55%, raising net proceeds of approximately $150,000;

issued, through the MLP, $300,000 in 5.45% Guaranteed Exchangeable Notes due in 2027. These notes can be put to the Company commencing 2012 and every five years thereafter through maturity. The notes are convertible by the holders into common shares at a price of $25.25 per share; however, the principal balance must be satisfied in cash;

received notification from a tenant that the tenant was exercising its early termination option. In addition, the Company entered into a sale agreement with a third party for the property subject to purchaser due diligence. If the sale is consummated by June 2007, the tenant will pay the Company $2,800 and be relieved of its lease obligation. If the sale is not consummated, then the tenant owes $1,900 by May 2007 and the lease will terminate June in 2008.

obtained a $23,000 non-recourse mortgage loan at an interest rate of 6.11%, which matures in 2017.

repaid all outstanding borrowings on the Company s line of credit;

repaid $349,255 of the outstanding borrowings on the MLP s secured loan; and

received notification that a tenant exercised an early termination option for a lease scheduled to expire in 2013, resulting in a termination effective in 2008 and the tenant must make a termination payment of $1,392.