Extra Space Storage Inc.
Form 10-Q
May 11, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2009

Or

o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to .

Commission File Number: 001-32269

EXTRA SPACE STORAGE INC.

(Exact name of registrant as specified in its charter)

Maryland	**20-1076777**

(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2795 East Cottonwood Parkway, Suite 400

Salt Lake City, Utah 84121

(Address of principal executive offices)

Registrant s telephone number, including area code: **(801) 562-5556**

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

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

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

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

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

The number of shares outstanding of the registrant s common stock, par value $0.01 per share, as of April 30, 2009 was 86,382,948.

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STATEMENT ON FORWARD-LOOKING INFORMATION

Certain information set forth in this report contains forward-looking statements within the meaning of the federal securities laws. Forward-looking statements include statements concerning our plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions and other information that is not historical information. In some cases, forward-looking statements can be identified by terminology such as believes, expects, estimates, may, will, should, anticipates, or the negative of such terms or other comparable terminology, or by discussions of strategy. We may also make additional forward-looking statements from time to time. All such subsequent forward-looking statements, whether written or oral, by us or on our behalf, are also expressly qualified by these cautionary statements.

All forward-looking statements, including without limitation, management s examination of historical operating trends and estimate of future earnings, are based upon our current expectations and various assumptions. Our expectations, beliefs and projections are expressed in good faith and we believe there is a reasonable basis for them, but there can be no assurance that management s expectations, beliefs and projections will result or be achieved. All forward-looking statements apply only as of the date made. We undertake no obligation to publicly update or revise forward-looking statements which may be made to reflect events or circumstances after the date made or to reflect the occurrence of unanticipated events.

There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in or contemplated by this report. Any forward-looking statements should be considered in light of the risks referenced in Part II. Item 1A. Risk Factors below and in Part I. Item 1A. Risk Factors included in our most recent Annual Report on Form 10-K. Such factors include, but are not limited to:

- changes in general economic conditions and in the markets in which we operate;
- the effect of competition from new self-storage facilities or other storage alternatives, which could cause rents and occupancy rates to decline;
- potential liability for uninsured losses and environmental contamination;
- difficulties in our ability to evaluate, finance and integrate acquired and developed properties into our existing operations and to lease up those properties, which could adversely affect our profitability;
- the impact of the regulatory environment as well as national, state, and local laws and regulations including, without limitation, those governing real estate investment trusts, or REITs, which could increase our expenses and reduce our cash available for distribution;
- recent disruptions in credit and financial markets and resulting difficulties in raising capital at reasonable rates, which could impede our ability to grow;
- delays in the development and construction process, which could adversely affect our profitability;
- economic uncertainty due to the impact of war or terrorism, which could adversely affect our business plan;
- the successful realignment of our executive management team; and
- our ability to attract and retain qualified personnel and management members.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Extra Space Storage Inc.

Condensed Consolidated Balance Sheets

(in thousands, except share data)

(unaudited)

	March 31, 2009	December 31, 2008 (As revised - see Note 2)
Assets:		
Real estate assets:		
Net operating real estate assets	$ 1,955,543	$ 1,938,922
Real estate under development	77,022	58,734
Net real estate assets	2,032,565	1,997,656
Investments in real estate ventures	135,785	136,791
Cash and cash equivalents	54,478	63,972
Restricted cash	34,877	38,678
Receivables from related parties and affiliated real estate joint ventures	5,035	11,335
Other assets, net	40,996	42,576
Total assets	$ 2,303,736	$ 2,291,008
Liabilities, Noncontrolling Interests and Equity:		
Notes payable	$ 945,288	$ 943,598
Notes payable to trusts	119,590	119,590
Exchangeable senior notes	138,163	209,663
Discount on exchangeable senior notes	(7,982)	(13,031)
Line of credit	100,000	27,000
Accounts payable and accrued expenses	33,343	35,128
Other liabilities	22,297	22,267
Total liabilities	1,350,699	1,344,215
Commitments and contingencies		
Equity:		
Extra Space Storage Inc. stockholders equity:		
Preferred stock, $0.01 par value, 50,000,000 shares authorized, no shares issued or outstanding		
Common stock, $0.01 par value, 300,000,000 shares authorized, 86,104,311 and 85,790,331 shares issued and outstanding at March 31, 2009 and December 31, 2008, respectively	861	858
Paid-in capital	1,131,150	1,130,964
Accumulated other comprehensive deficit	(1,045)	

Accumulated deficit		(238,880)		(246,328)
Total Extra Space Storage Inc. stockholders equity		892,086		885,494
Noncontrolling interest represented by Preferred Operating Partnership units, net of $100,000 note receivable		28,382		28,529
Noncontrolling interest in Operating Partnership		30,580		31,212
Other noncontrolling interests		1,989		1,558
Total equity		953,037		946,793
Total liabilities, noncontrolling interests and equity	$	2,303,736	$	2,291,008

See accompanying notes to unaudited condensed consolidated financial statements.

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Extra Space Storage Inc.

Condensed Consolidated Statements of Operations

(in thousands, except share data)

(unaudited)

	Three months ended March 31, 2009	Three months ended March 31, 2008 (As revised - see Note 2)
Revenues:		
Property rental	$ 59,409	$ 57,024
Management and franchise fees	5,219	5,077
Tenant reinsurance	4,619	3,478
Other income	7	128
Total revenues	69,254	65,707
Expenses:		
Property operations	22,867	20,641
Tenant reinsurance	1,261	1,162
Unrecovered development and acquisition costs	82	164
General and administrative	11,246	10,179
Depreciation and amortization	12,523	11,581
Total expenses	47,979	43,727
Income before interest, equity in earnings of real estate ventures, gain on repurchase of exchangeable senior notes and loss on sale of investments available for sale	21,275	21,980
Interest expense	(15,795)	(16,354)
Non-cash interest expense related to amortization of discount on exchangeable senior notes	(841)	(1,029)
Interest income	532	425
Interest income on note receivable from Preferred Operating Partnership unit holder	1,213	1,213
Equity in earnings of real estate ventures	1,895	1,222
Gain on repurchase of exchangeable senior notes	22,483	
Loss on sale of investments available for sale		(1,415)
Net income	30,762	6,042
Net income allocated to Preferred Operating Partnership	(1,551)	(1,256)
Net (income) loss allocated to Operating Partnership and other noncontrolling interests	(237)	885
Net income attributable to common stockholders	$ 28,974	$ 5,671
Net income per common share		
Basic	$ 0.34	$ 0.09
Diluted	$ 0.34	$ 0.09
Weighted average number of shares		
Basic	85,940,389	66,165,159
Diluted	91,222,295	71,699,461

Cash dividends paid per common share	$	0.25	$	0.25

See accompanying notes to unaudited condensed consolidated financial statements.

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Extra Space Storage Inc.

Condensed Consolidated Statement of Equity

(in thousands, except share data)

(unaudited)

	Noncontrolling Interests			Extra Space Storage Inc. Stockholders Equity					
	Preferred OP	OP	Other	Shares	Par Value	Paid-in Capital	Accumulated Other Comprehensive Deficit	Accumulated Deficit	Total Equity
Balances at December 31, 2008 (As previously reported)	$	$	$	85,790,331	$ 858	$ 1,109,185	$	$ (237,580)	$ 872,463
Adjustments (See Note 2)	28,529	31,212	1,558			21,779		(8,748)	74,330
Balances at December 31, 2008 (As revised)	28,529	31,212	1,558	85,790,331	858	1,130,964		(246,328)	946,793
Restricted stock grants issued				315,037	3				3
Restricted stock grants cancelled				(1,057)					
Compensation expense related to stock-based awards						899			899
Noncontrolling interest consolidated as business acquisition			680						680
Repurchase of equity portion of exchangeable senior notes						(713)			(713)
Comprehensive income:									
Net income (loss)	1,551	486	(249)					28,974	30,762
Change in fair value of interest rate swap	(12)	(52)					(1,045)		(1,109)
Total comprehensive income									29,653
Distributions to Operating Partnership units held by noncontrolling interests	(1,686)	(1,066)							(2,752)
Dividends paid on common stock at $0.25 per share								(21,526)	(21,526)
Balances at March 31, 2009	$ 28,382	$ 30,580	$ 1,989	86,104,311	$ 861	$ 1,131,150	$ (1,045)	$ (238,880)	$ 953,037

See accompanying notes to unaudited condensed consolidated financial statements.

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Extra Space Storage Inc.
Condensed Consolidated Statements of Cash Flows

(in thousands)
(unaudited)

	Three months ended March 31, 2009	2008 (As revised - see Note 2)
Cash flows from operating activities:		
Net income	$ 30,762	$ 6,042
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,523	11,581
Amortization of deferred financing costs	883	861
Non-cash interest expense related to amortization of discount on exchangeable senior notes	841	1,029
Compensation expense related to stock-based awards	899	800
Gain on repurchase of exchangeable senior notes	(22,483)	
Loss on investments available for sale		1,415
Distributions from real estate ventures in excess of earnings	1,540	1,224
Changes in operating assets and liabilities:		
Receivables from related parties	(3,675)	(2,143)
Other assets	317	(947)
Accounts payable and accrued expenses	(1,481)	3,441
Other liabilities	(1,508)	896
Net cash provided by operating activities	18,618	24,199
Cash flows from investing activities:		
Acquisition of real estate assets	(19,612)	(8,327)
Development and construction of real estate assets	(17,521)	(14,588)
Investments in real estate ventures	(114)	(766)
Net proceeds from sale of investments available for sale		21,812
Change in restricted cash	3,811	236
Purchase of equipment and fixtures	(207)	(347)
Net cash used in investing activities	(33,643)	(1,980)
Cash flows from financing activities:		
Repurchase of exchangeable senior notes	(44,513)	
Proceeds from notes payable and line of credit	150,586	1,182
Principal payments on notes payable and line of credit	(75,131)	(1,082)
Deferred financing costs	(1,133)	(13)
Net proceeds from exercise of stock options		634
Dividends paid on common stock	(21,526)	(16,604)
Distributions to noncontrolling interests in Operating Partnership	(2,752)	(2,703)
Net cash provided by (used in) financing activities	5,531	(18,586)
Net increase (decrease) in cash and cash equivalents	(9,494)	3,633
Cash and cash equivalents, beginning of the period	63,972	17,377
Cash and cash equivalents, end of the period	$ 54,478	$ 21,010
Supplemental schedule of cash flow information		
Interest paid, net of amounts capitalized	$ 15,085	$ 13,017

See accompanying notes to unaudited condensed consolidated financial statements.

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Extra Space Storage Inc.
Notes to Condensed Consolidated Financial Statements (unaudited)
Amounts in thousands, except property and share data

1. ORGANIZATION

Extra Space Storage Inc. (the Company) is a self-administered and self-managed real estate investment trust (REIT), formed as a Maryland corporation on April 30, 2004 to own, operate, manage, acquire, develop and redevelop professionally managed self-storage facilities located throughout the United States. The Company continues the business of Extra Space Storage LLC and its subsidiaries, which had engaged in the self-storage business since 1977. The Company s interest in its properties is held through its operating partnership, Extra Space Storage LP (the Operating Partnership), which was formed on May 5, 2004. The Company s primary assets are general partner and limited partner interests in the Operating Partnership. This structure is commonly referred to as an umbrella partnership REIT, or UPREIT. The Company has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the Internal Revenue Code). To the extent the Company continues to qualify as a REIT, it will not be subject to tax, with certain limited exceptions, on the taxable income that is distributed to its stockholders.

The Company invests in self-storage facilities by acquiring or developing wholly-owned facilities or by acquiring an equity interest in real estate entities. At March 31, 2009, the Company had direct and indirect equity interests in 628 operating storage facilities located in 33 states and Washington, D.C. In addition, the Company managed 70 properties for franchisees and third parties, bringing the total number of operating properties which it owns and/or manages to 698.

The Company operates in two distinct segments: (1) property management, acquisition and development; and (2) rental operations. The Company s property management, acquisition and development activities include managing, acquiring, developing and selling self-storage facilities. The rental operations activities include rental operations of self-storage facilities. No single tenant accounts for more than 5% of rental income.

2. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of the Company are presented on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they may not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (including normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2009 are not necessarily indicative of results that may be expected for the year ended December 31, 2009. The Condensed Consolidated Balance Sheet as of December 31, 2008 has been derived from the Company s audited financial statements as of that date, but does not include all of the information and footnotes required by GAAP for complete financial statements. For further information refer to the consolidated financial statements and footnotes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008 as filed with the Securities and Exchange Commission (SEC).

Reclassifications

Certain amounts in the 2008 financial statements and supporting note disclosures have been reclassified to conform to the current year presentation. Such reclassification did not impact previously reported net income or accumulated deficit.

Revisions to Prior Period Numbers

Effective January 1, 2009, the Company adopted certain recently issued accounting standards that required the Company to retroactively adopt the presentation and disclosure requirements and to restate prior period financial statements as noted in Recently Issued Accounting Standards, below.

Recently Issued Accounting Standards

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurement. FAS 157 applies under other accounting pronouncements that require or permit fair value measurements, and does not require any new fair value measurements. FAS 157 was effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. In February 2008, the FASB issued FASB Statement of Position

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No. 157-2, *Effective Date of FASB Statement No. 157* (the FSP). The FSP amends FAS 157 to delay the effective date for FAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Company adopted FAS 157 effective January 1, 2008, except as it related to nonfinancial assets and liabilities. The Company adopted FAS 157 for nonfinancial assets and liabilities effective January 1, 2009.

In December 2007, the FASB issued revised Statement No. 141, *Business Combinations* (FAS 141(R)). FAS 141(R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the assets acquired and liabilities assumed. Generally, assets acquired and liabilities assumed in a transaction are recorded at the acquisition-date fair value with limited exceptions. FAS 141(R) also changed the accounting treatment and disclosure for certain specific items in a business combination. FAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first fiscal year beginning on or after December 15, 2008. The Company adopted FAS 141(R) for all acquisitions subsequent to January 1, 2009.

In December 2007, the FASB issued Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements An Amendment of ARB No. 51* (FAS 160). FAS 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. FAS 160 requires a company to clearly identify and present ownership interests in subsidiaries held by parties other than the company in the consolidated financial statements within the equity section but separate from the company s equity. FAS 160 also requires the amount of consolidated net income attributable to the parent and to the noncontrolling interest to be clearly identified and presented on the face of the consolidated statement of operations and requires changes in ownership interest to be accounted for similarly as equity transactions. As a result of the issuance of FAS 160, the guidance in EITF Topic D-98, *Classification and Measurement of Redeemable Securities* was amended to include redeemable noncontrolling interests within its scope. If noncontrolling interests are determined to be redeemable, they are to be carried at the higher of a) their carrying value or b) their redemption value as of the balance sheet date and reported as temporary equity. FAS 160 requires retroactive adoption of the presentation and disclosure requirements for existing noncontrolling interests, with all other requirements applied prospectively. The Company adopted FAS 160 and related guidance effective January 1, 2009.

In March 2008, the FASB issued Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities,* an amendment of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* (FAS 161). FAS 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures stating how and why an entity uses derivative instruments; how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations; and how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. FAS 161 requires that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation. FAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. FAS 161 also encourages but does not require comparative disclosures for earlier periods at initial adoption. The Company adopted FAS 161 effective January 1, 2009. Since FAS 161 only requires additional disclosures concerning derivatives and hedging activities, the adoption of FAS 161 did not have any impact on the Company s net income, cash flows, or financial position.

In May 2008, the FASB issued FASB Statement of Position No. APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* (FSP APB 14-1). Under FSP APB 14-1, entities with convertible debt instruments that may be settled entirely or partially in cash upon conversion should separately account for the liability and equity components of the instrument in a manner that reflects the issuer s economic interest cost. The effect of the adoption FSP APB 14-1 on the Company s exchangeable senior notes is that the equity component is included in the paid-in-capital section of stockholders equity on the consolidated balance sheet and the value of the equity component is treated as original issue discount for purposes of accounting for the debt component. The original issue discount is amortized over the period of the debt as additional interest expense. FSP APB 14-1 is effective for fiscal years beginning after December 15, 2008, and for interim periods within those fiscal years, with retrospective application required. The Company adopted FSP APB 14-1 effective January 1, 2009.

In April 2008, the FASB issued FASB Staff Position No. 142-3, *Determination of the Useful Life of Intangible Assets* (FSP FAS 142-3). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used in determining the useful life of a recognized intangible asset under Statement of Financial Accounting Standard No. 142, *Goodwill and Other Intangible Assets.* This new guidance applies prospectively to intangible assets that are acquired individually or with a group of other assets in business combinations and asset acquisitions. FSP FAS 142-3 is effective for fiscal years beginning after December 31, 2008. The Company adopted FSP FAS 142-3 for all acquisitions subsequent to January 1, 2009.

In June 2008, the FASB issued FASB Staff Position EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities,* (FSP EITF 03-6-1). FSP EITF 03-6-1 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method as described in FASB

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Statement of Financial Accounting Standards No. 128, *Earnings per Share*. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning on or after December 15, 2008. The Company adopted FSP EITF 03-6-1 effective January 1, 2009 and has applied this guidance to all periods presented.

In April 2009, the FASB issued FASB Staff Position No. FAS 107-1 and APB 28-1, *Interim Disclosures About Fair Value of Financial Instruments* (FSP 107-1), which amends FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair-value of financial instruments for interim reporting periods of publicly-traded companies as well as in annual financial statements. In addition, FSP 107-1 amends APB Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods. Companies will also be required to disclose the method and significant assumptions used to estimate the fair-value of financial instruments and describe any changes in the methods or methodology occurring during the period. FSP 107-1 is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted, but does not require disclosures for earlier periods presented for comparative purposes at adoption. The Company believes that the adoption of FSP 107-1 will not have a material impact on its consolidated financial statements.

In April 2009, the FASB issued FASB Staff Position No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP 157-4), which provides guidance for estimating fair value in accordance with FAS 157 when the volume and level of activity for the asset or liability have significantly decreased and identifying circumstances that may indicate that a transaction is not orderly. FSP 157-4 is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption for periods ending after March 15, 2009 permitted. FSP 115-2 does not require disclosures for earlier periods presented for comparative purposes at adoption. The Company believes that the adoption of FSP 157-4 will not have a material impact on its consolidated financial statements.

Fair Value Disclosures

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table provides information for each major category of assets and liabilities that are measured at fair value on a recurring basis:

		Fair Value Measurements at Reporting Date Using		
Description	**March 31, 2009**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Notes payable associated with Swap Agreement	$ 63,740	$	$ 63,740	$
Other assets (liabilities) - Swap Agreement	(1,109)		(1,109)	
Notes payable associated with Reverse Swap Agreement	61,770		61,770	
Other assets (liabilities) - Reverse Swap Agreement	285		285	

Total	$	124,686	$		$	124,686	$

Following is a reconciliation of the beginning and ending balances for the Company s investments available for sale, which were the Company s only material assets or liabilities that were remeasured on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31, 2008:

Balance as of December 31, 2007	$	21,812
Total gains or losses (realized/unrealized)		
Included in earnings		(1,415)
Included in other comprehensive income		1,415
Settlements received in cash		(21,812)
Balance as of March 31, 2008	$	

The Company did not have any significant assets or liabilities that are remeasured on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31, 2009.

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Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Long-lived assets held for use are evaluated for impairment when events or circumstances indicate there may be impairment. When such an event occurs, the Company compares the carrying value of these long-lived assets to the undiscounted future net operating cash flows attributable to the assets using significant unobservable inputs. An impairment loss is recorded if the net carrying value of the assets exceeds the undiscounted future net operating cash flows attributable to the asset. The impairment loss recognized equals the excess of net carrying value over the related fair value of the asset. The Company has determined that no property was impaired and therefore no impairment charges were recorded during the three months ended March 31, 2009 or 2008.

When real estate assets are identified as held for sale, the Company discontinues depreciating the assets and estimates the fair value of the assets, net of selling costs, using significant unobservable inputs. If the estimated fair value, net of selling costs, of the assets that have been identified as held for sale is less than the net carrying value of the assets, then a valuation allowance is established. The operations of assets held for sale or sold during the period are presented as discontinued operations for all periods presented. The Company did not have any properties classified as held for sale at March 31, 2009 or December 31, 2008.

The Company assesses whether there are any indicators that the value of its investments in unconsolidated real estate ventures may be impaired when events or circumstances indicate there may be an impairment. An investment is impaired if the Company s estimate of the fair value of the investment is less than its carrying value using significant unobservable inputs. To the extent impairment has occurred, and is considered to be other-than-temporary, the loss is measured as the excess of the carrying amount over the fair value of the investment. No impairment charges were recognized for the three months ended March 31, 2009 or 2008.

There were no impaired properties or investments in unconsolidated real estate ventures or any real estate assets identified as held for sale during the three months ended March 31, 2009. Therefore, the Company did not make any nonrecurring fair value measurements during the period.

In connection with the Company s acquisition of properties, the assets are valued as tangible and intangible assets and liabilities acquired based on their fair values using significant unobservable inputs. The value of the tangible assets, consisting of land and buildings, are determined as if vacant, that is, at replacement cost. Intangible assets, which represent the value of existing tenant relationships, are recorded at their fair values based on the avoided cost to replace the current leases. The Company measures the value of tenant relationships based on the Company s historical experience with turnover in its facilities. Debt assumed as part of an acquisition is recorded at fair value based on current interest rates compared to contractual rates.

3. NET INCOME PER SHARE

Basic earnings per common share is computed by dividing net income attributable to common stockholders by the weighted average number of common shares outstanding. Diluted earnings per common share measures the performance of the Company over the reporting period while giving effect to all potential common shares that were dilutive and outstanding during the period. The denominator includes the number of additional common shares that would have been outstanding if the potential common shares that were dilutive had been issued and is calculated using either the treasury stock or if-converted method. Potential common shares are securities (such as options, warrants, convertible debt, Contingent Conversion Shares (CCSs), Contingent Conversion Units (CCUs), exchangeable Series A Participating Redeemable Preferred

Operating Partnership units (Preferred OP units) and exchangeable Operating Partnership units (OP units)) that do not have a current right to participate in earnings but could do so in the future by virtue of their option or conversion right. In computing the dilutive effect of convertible securities, net income is adjusted to add back any changes in earnings in the period associated with the convertible security. The numerator also is adjusted for the effects of any other non-discretionary changes in income or loss that would result from the assumed conversion of those potential common shares. In computing diluted earnings per share, only potential common shares that are dilutive, or reduce earnings per share, are included.

The Company s Operating Partnership has $138,163 of exchangeable senior notes issued and outstanding as of March 31, 2009 that also can potentially have a dilutive effect on its earnings per share calculations. The exchangeable senior notes are exchangeable by holders into shares of the Company s common stock under certain circumstances per the terms of the indenture governing the exchangeable senior notes. The exchangeable senior notes are not exchangeable unless the price of the Company s common stock is greater than or equal to 130% of the applicable exchange price for a specified period during a quarter, or unless certain other events occur. The exchange price was $23.48 per share at March 31, 2009, and could change over time as described in the indenture. The price of the Company s common stock did not exceed 130% of the exchange price for the specified period of time during the first quarter of 2009; therefore holders of the exchangeable senior notes may not elect to convert them during the second quarter of 2009.

The Company has irrevocably agreed to pay only cash for the accreted principal amount of the exchangeable senior notes relative to its exchange obligations, but has retained the right to satisfy the exchange obligations in excess of the accreted principal amount in cash and/or common stock. Though the Company has retained that right, FASB Statement No. 128 *Earnings per Share*,

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(FAS 128) requires an assumption that shares will be used to pay the exchange obligations in excess of the accreted principal amount, and requires that those shares be included in the Company s calculation of weighted average common shares outstanding for the diluted earnings per share computation. No shares were included in the computation at March 31, 2009 or 2008 because there was no excess over the accreted principal for the period.

For the purposes of computing the diluted impact on earnings per share of the potential conversion of Preferred OP units into common shares, where the Company has the option to redeem in cash or shares as discussed in Note 16 and where the Company has stated the positive intent and ability to settle at least $115,000 of the instrument in cash (or net settle a portion of the Preferred OP units against the related outstanding note receivable), only the amount of the instrument in excess of $115,000 is considered in the calculation of shares contingently issuable for the purposes of computing diluted earnings per share as allowed by paragraph 29 of FAS 128.

For the three months ended March 31, 2009 and 2008, options to purchase 2,832,891 and 1,297,851 shares of common stock, respectively, were excluded from the computation of earnings per share as their effect would have been anti-dilutive. All restricted stock grants have been included in basic and diluted shares outstanding as required by EITF 03-6-1 because such shares earn a non-refundable dividend and carry voting rights.

The computation of net income per common share is as follows:

	For the Three Months Ended March 31,			
	2009		2008	
Net income attributable to common stockholders	$	28,974	$	5,671
Add:				
Income allocated to noncontrolling interest - Preferred Operating Partnership and Operating Partnership		2,037		510
Net income for diluted computations	$	31,011	$	6,181
Weighted average common shares outstanding:				
Average number of common shares outstanding - basic		85,940,389		66,165,159
Operating Partnership units		4,264,968		4,072,857
Preferred Operating Partnership units		989,980		989,980
Dilutive stock options, restricted stock and CCS/CCU conversions		26,958		471,465
Average number of common shares outstanding - diluted		91,222,295		71,699,461
Net income per common share				
Basic	$	0.34	$	0.09
Diluted	$	0.34	$	0.09

4. REAL ESTATE ASSETS

The components of real estate assets are summarized as follows:

	March 31, 2009	December 31, 2008
Land - operating	$ 466,369	$ 461,883
Land - development	71,193	64,392
Buildings and improvements	1,573,306	1,555,598
Intangible assets - tenant relationships	33,355	33,234
Intangible lease rights	6,150	6,150
	2,150,373	2,121,257
Less: accumulated depreciation and amortization	(194,830)	(182,335)
Net operating real estate assets	1,955,543	1,938,922
Real estate under development	77,022	58,734
Net real estate assets	$ 2,032,565	$ 1,997,656

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5. PROPERTY ACQUISITIONS

The following table shows the Company s acquisitions of operating properties for the three months ended March 31, 2009, and does not include purchases of raw land or improvements made to existing assets:

			Consideration Paid			Acquisition Date Fair Value				
Property Location	Number of Properties	Date of Acquisition	Total Paid	Cash Paid	Net Liabilities/ (Assets) Assumed	Land	Building	Intangible	Closing costs - expensed	Source of Acquisition
Virginia	1	1/23/2009	$ 7,425	$ 7,438	$ (13)	2,076				