

CapLease, Inc.
Form 10-Q
May 09, 2008

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2008

OR

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

For the transition period from _____ to _____

Commission file number 001-32039

CapLease, Inc.

(Exact name of registrant as specified in its charter)

Maryland

**(State or Other Jurisdiction of
Incorporation or Organization)**

52-2414533

(I.R.S. Employer Identification No.)

1065 Avenue of the Americas, New York, NY
(Address of Principal Executive Offices)

10018
(ZIP Code)

Registrant's Telephone Number, Including Area Code: (212) 217-6300

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 No

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

Edgar Filing: CapLease, Inc. - Form 10-Q

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

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

As of May 9, 2008, there were 44,744,280 shares of common stock of CapLease, Inc., \$0.01 par value per share, outstanding ("Common Stock").

CapLease, Inc.**Index to Form 10-Q**

	Page
PART I. FINANCIAL INFORMATION	2
Item 1.	2
Financial Statements	
Consolidated Balance Sheets as of March 31, 2008 (unaudited) and December 31, 2007	2
Consolidated Statements of Operations (unaudited) for the Three Months Ended March 31, 2008 and 2007	3
Consolidated Statement of Changes in Stockholders' Equity (unaudited) for the Three Months Ended March 31, 2008	4
Consolidated Statements of Cash Flows (unaudited) for the Three Months Ended March 31, 2008 and 2007	5
Item 2.	32
Management's Discussion and Analysis of Financial Condition and Results of Operations	
Item 3.	39
Quantitative and Qualitative Disclosures About Market Risk	
Item 4.	42
Controls and Procedures	
PART II. OTHER INFORMATION	42
Item 1.	42
Legal Proceedings	
Item 1A.	43
Risk Factors	
Item 2.	43
Unregistered Sales of Equity Securities and Use of Proceeds	
Item 3.	43
Defaults Upon Senior Securities	
Item 4.	43
Submission of Matters to a Vote of Security Holders	
Item 5.	43
Other Information	
Item 6.	43
Exhibits	
SIGNATURES	45

PART I. FINANCIAL INFORMATION**Item 1. Financial Statements**

CapLease, Inc. and Subsidiaries
Consolidated Balance Sheets
As of March 31, 2008 (unaudited) and December 31, 2007

(Amounts in thousands, except share and per share amounts)	As Of March 31, 2008	As Of December 31, 2007
Assets		
Real estate investments, net	\$ 1,549,335	\$ 1,563,570
Loans held for investment	292,251	269,293
Commercial mortgage-backed securities	168,409	198,187
Cash and cash equivalents	58,075	34,047
Asset held for sale	5,413	5,413
Structuring fees receivable	2,403	2,576
Other assets	75,280	85,183
Total Assets	\$ 2,151,166	\$ 2,158,269
Liabilities and Stockholders' Equity		
Mortgages on real estate investments	\$ 981,104	\$ 983,770
Collateralized debt obligations	268,236	268,227
Repurchase agreement obligations	231,111	232,869
Secured term loan	128,050	129,521
Convertible senior notes	75,000	75,000
Other long-term debt	30,930	30,930
Intangible liabilities on real estate investments	51,177	51,811
Accounts payable, accrued expenses and other liabilities	41,661	24,232
Dividends and distributions payable	9,712	9,634
Total Liabilities	1,816,981	1,805,994
Minority interest	2,550	2,616
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value, 100,000,000 shares authorized, Series A cumulative redeemable preferred, liquidation preference \$25.00 per share, 1,400,000 shares issued and outstanding	33,657	33,657
Common stock, \$0.01 par value, 500,000,000 shares authorized, 44,744,280 and 44,350,330 shares issued and outstanding, respectively	447	444
Additional paid in capital	330,778	341,578
Accumulated other comprehensive (loss)	(33,247)	(26,020)
Total Stockholders' Equity	331,635	349,659
Total Liabilities and Stockholders' Equity	\$ 2,151,166	\$ 2,158,269

See notes to consolidated financial statements.

CapLease, Inc. and Subsidiaries
Consolidated Statements of Operations
(Unaudited)

(Amounts in thousands, except per share amounts)	For the Three Months Ended March 31	
	2008	2007
Revenues:		
Rental revenue	\$ 34,362	\$ 24,122
Interest income from loans and securities	9,165	8,401
Property expense recoveries	2,760	2,492
Other revenue	189	149
Total revenues	46,476	35,164
Expenses:		
Interest expense	24,483	19,051
Property expenses	4,710	4,320
Loss on derivatives	2,060	11
General and administrative expenses	2,997	2,610
General and administrative expenses-stock based compensation	434	323
Depreciation and amortization expense on real property	13,427	8,203
Loan processing expenses	57	73
Total expenses	48,168	34,591
Income (loss) before minority interest and taxes	(1,692)	573
Minority interest in consolidated entities	14	1
Income (loss) from continuing operations	(1,678)	574
Income from discontinued operations	107	44
Net income (loss)	(1,571)	618
Dividends allocable to preferred shares	(711)	(711)
Net (loss) allocable to common stockholders	\$ (2,282)	\$ (93)
Earnings per share:		
Net (loss) per common share, basic and diluted	\$ (0.05)	\$ (0.00)
Weighted average number of common shares outstanding, basic and diluted	44,381	34,122
Dividends declared per common share	\$ 0.20	\$ 0.20
Dividends declared per preferred share	\$ 0.51	\$ 0.51

See notes to consolidated financial statements.

CapLease, Inc. and Subsidiaries
Consolidated Statement of Changes in Stockholders' Equity
(Unaudited)
(in thousands)

	Preferred Stock	Common Stock at Par	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance at December 31, 2007	\$ 33,657	\$ 444	\$ 341,578	\$ (26,020)	-\$	349,659
Incentive stock plan compensation expense	-	-	434	-	-	434
Incentive stock plan grants issued	-	3	(3)	-	-	-
Net loss	-	-	(1,571)	-	-	(1,571)
Dividends declared-preferred	-	-	(711)	-	-	(711)
Dividends declared-common	-	-	(8,949)	-	-	(8,949)
Amortization of unrealized loss on securities previously classified as available for sale	-	-	-	141	-	141
Increase (decrease) in fair value of securities available for sale	-	-	-	(4,036)	-	(4,036)
Increase (decrease) in fair value of derivatives	-	-	-	(5,249)	-	(5,249)
Reclassification of derivative items into earnings	-	-	-	2,216	-	2,216
Realized loss on derivatives	-	-	-	(299)	-	(299)
Balance at March 31, 2008	\$ 33,657	\$ 447	\$ 330,778	\$ (33,247)	-\$	331,635

See notes to consolidated financial statements.

CapLease, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited)
(in thousands)

	For the Three Months Ended March 31,	
	2008	2007
Operating activities		
Net income (loss)	\$ (1,571)	\$ 618
Adjustments to reconcile net income (loss) to cash provided by operating activities:		
Depreciation and amortization	13,509	8,334
Stock based compensation	434	323
Amortization of above and below market leases	355	(220)
Minority interest in consolidated entities	(14)	(1)
Loss on sale of real estate properties	-	55
Loss on derivatives	2,060	11
Straight-lining of rents	15,278	(2,059)
Amortization of discounts/premiums, and origination fees/costs, net	(78)	(109)
Amortization of debt issuance costs and fair market value of debt assumed	201	378
Changes in operating assets and liabilities:		
Structuring fees receivable	173	160
Other assets	6,527	(3,094)
Accounts payable, accrued expenses and other liabilities	(435)	377
Deposits and escrows	(330)	(70)
Amounts due to servicer	(1)	(172)
Net cash provided by operating activities	36,108	4,531
Investing activities		
Additions to loans held for investment	-	(164)
Principal received from borrowers	1,488	4,076
Principal amortization on commercial mortgage-backed securities	1,516	572
Proceeds from sale of real estate investments	-	2,887
Purchases of real estate investments	-	(58,308)
Real estate improvements, additions and construction in progress	(180)	(169)
Deposits on potential equity investments	-	(5,500)
Return of deposits on potential equity investments	-	1,500
Purchases of furniture, fixtures, equipment and leasehold improvements	(10)	(32)
Net cash provided by (used in) investing activities	2,814	(55,138)
Financing activities		
Borrowings under repurchase agreement obligations	-	30,420
Repayments of repurchase agreement obligations	(1,757)	(1,478)
Borrowings from mortgages on real estate investments	339	35,952
Repayments of mortgages on real estate investments	(2,672)	(1,059)
Repayments on secured term loan	(1,471)	-
Debt issuance costs	-	(228)
Escrows held with mortgage lender	600	-
Funds provided by hedging and risk management activities	(299)	196
Common stock issued, net of offering costs	-	5

Edgar Filing: CapLease, Inc. - Form 10-Q

Cash distributions to minority limited partners	(53)	(53)
Dividends paid on common and preferred stock	(9,581)	(7,529)
Net cash (used in) provided by financing activities	(14,894)	56,226
Net increase in cash and cash equivalents	24,028	5,619
Cash and cash equivalents at beginning of period	34,047	4,425
Cash and cash equivalents at end of period	\$ 58,075	\$ 10,044

See notes to consolidated financial statements.

CapLease, Inc. and Subsidiaries
 Consolidated Statements of Cash Flows - continued
 (Unaudited)
 (in thousands)

	For the Three Months Ended March 31,	
	2008	2007
Supplemental disclosure of cash flow information		
Cash paid for interest expense (excluding capitalized interest)	\$ 22,634	\$ 18,080
Distributions declared but not paid	53	53
Dividends declared but not paid	9,660	7,594
Supplemental disclosure of noncash operating, investing and financing information		
Value of in-place leases and above-market leases acquired	–	4,840
Value of below-market leases acquired	–	434
Securities transferred to loans held for investment	24,583	–

See notes to consolidated financial statements.

CapLease, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Dollar amounts in thousands, except per share amounts)

March 31, 2008 (unaudited)

1. Organization

CapLease, Inc. (“CapLease” and collectively with its majority-owned subsidiaries, the “Company”) is a diversified real estate investment trust, or REIT, that invests primarily in single tenant commercial real estate assets subject to long-term leases to high credit quality tenants. The Company focuses on properties that are subject to a net lease, or a lease that requires the tenant to pay all or substantially all expenses normally associated with the ownership of the property (such as utilities, taxes, insurance and routine maintenance) during the lease term. The Company also has made and expects to continue to make investments in single tenant properties where the owner has exposure to property expenses when it determines it can sufficiently underwrite that exposure and isolate a predictable cash flow.

The Company invests at all levels of the capital structure of net lease and other single tenant properties, including equity investments in real estate (owned real properties), debt investments (mortgage loans and net lease mortgage backed securities) and mezzanine investments secured by net leased or other single tenant real estate collateral.

CapLease is organized and conducts its operations to qualify as a REIT for federal income tax purposes. As such, it generally will not be subject to federal income tax on that portion of its income that is distributed to stockholders if it distributes at least 90% of its REIT taxable income to its stockholders by prescribed dates and complies with various other requirements.

CapLease conducts its business through a variety of subsidiaries, including its predecessor and operating partnership, Caplease, LP (the “Operating Partnership”). CapLease is the indirect sole general partner of, and owns approximately 98.5% of the common equity of, the Operating Partnership.

The accompanying consolidated financial statements and related notes of the Company have been prepared in accordance with accounting principles generally accepted in the United States for interim financial reporting and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in the financial statements prepared under accounting principles generally accepted in the United States have been condensed or omitted. In the opinion of management, all adjustments considered necessary for a fair presentation of the Company’s financial position, results of operations and cash flows have been included and are of a normal and recurring nature. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. These financial statements should be read in conjunction with the Company’s consolidated financial statements for the fiscal year ended December 31, 2007 and notes thereto, included in the Company’s Form 10-K filed with the SEC on March 4, 2008.

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States and include the assets, liabilities, and results of operations of the Company. Results of operations of properties acquired are included in the Consolidated Statements of Operations from the date of acquisition. The Company assesses whether consolidation of any entity in which it has an equity interest is necessary based on applicable accounting guidance. Any entities that do not meet the criteria for consolidation where the

Company does not exercise significant influence are accounted for using the cost method. All significant intercompany transactions, balances and accounts have been eliminated in consolidation.

Loan Investments

The Company classifies its loans as long-term investments, as its strategy is to hold the loans for the foreseeable future or until maturity. Loan investments are carried on the Company's Consolidated Balance Sheet at amortized cost (unpaid principal balance adjusted for unearned discount or premium and loan origination fees). Unearned discounts or premiums and loan origination fees are amortized as a component of interest income using the effective interest method over the life of the loan.

CapLease, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Dollar amounts in thousands, except per share amounts)

March 31, 2008 (unaudited)

The Company periodically evaluates each of its loans held for investment for possible impairment. Impairment is indicated when it is deemed probable that the Company will be unable to collect all amounts due according to the contractual terms of the asset. Upon determination of impairment, the Company must establish a specific valuation allowance with a corresponding charge to earnings. Significant judgment is required both in determining impairment and in estimating the resulting loss allowance. In determining impairment and any loan loss allowance, the Company evaluates factors such as the status of the loans (i.e., current or expected payment or other defaults), the credit quality of the underlying tenants, the present value of expected future cash flows on the loans, the fair market value of any collateral, and the amount and status of any senior debt. As of March 31, 2008, the Company had no loss allowances on any of the loans in its portfolio.

Purchase Accounting for Acquisition of Real Estate

The Company's purchase price of rental real estate acquired is allocated to the following based on fair values:

- acquired tangible assets, consisting of land, building and improvements; and
- identified intangible assets and liabilities, consisting of above-market and below-market leases, in-place leases and tenant relationships.

In estimating the fair value of the tangible and intangible assets acquired, the Company considers information obtained about each property as a result of its due diligence activities and other market data, and utilizes various valuation methods, such as estimated cash flow projections utilizing appropriate discount and capitalization rates, estimates of replacement costs, and available market information. The fair value of the tangible assets of an acquired property considers the value of the property as if it were vacant (the "dark value").

Above-market and below-market lease values for acquired properties are recorded based on the present value of the differences between (i) the contractual amounts to be paid pursuant to each in-place lease and (ii) management's estimate of fair market lease rates for each corresponding in-place lease. Fair market lease rates are measured over a period equal to the remaining term of the lease for above-market leases and the initial term plus the term of any below-market rate renewal options for below-market leases. In computing present value, the Company considers the costs which would need to be invested to achieve the fair market lease rates. The Company uses a discount rate which reflects the risks associated with the leases acquired. The capitalized above-market lease values are amortized as a reduction of base rental revenue over the remaining term of the respective leases, and the capitalized below-market lease values are amortized as an increase to base rental revenue over the remaining initial terms plus the terms of any below-market renewal options of the respective leases.

Other intangible assets acquired include amounts for in-place lease values and tenant relationship values which are based on management's evaluation of the specific characteristics of each tenant's lease and the Company's overall relationship with the respective tenant. Factors considered by management in its analysis of in-place lease values include estimates of the dark value of the property, carrying costs during the hypothetical expected time it would take management to find a tenant to lease the space for the existing lease term (a "lease-up period") considering current market conditions, and costs to execute similar leases. Management estimates carrying costs, including such factors as real estate taxes, insurance and other operating expenses during the expected lease-up period, considering current market conditions and costs to execute similar leases. In estimating costs to execute similar leases, management

considers leasing commissions and other related expenses. Characteristics considered by management in valuing tenant relationships include the nature and extent of the Company's existing business relationships with the tenant, growth prospects for developing new business with the tenant, the tenant's credit quality and expectations of lease renewals. The value of in-place leases is amortized to expense over the remaining initial terms of the respective leases. The value of tenant relationship intangibles is amortized to expense over the anticipated life of the relationships. Through March 31, 2008, the Company has assigned no value to tenant relationships on any of its acquisitions.

For property acquisitions where the Company assumes existing mortgage debt, the debt is recorded at its fair value, based on management's estimate of current market yields available for comparable financing. The Company amortizes any discount or premium as part of interest expense on the related debt using the effective interest method.

CapLease, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Dollar amounts in thousands, except per share amounts)

March 31, 2008 (unaudited)

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 not exceeding 40 years. Direct costs incurred in acquiring properties 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.

Commercial Mortgage-Backed Securities

The Company designates its commercial mortgage-backed securities and other real estate securities ("CMBS") investments pursuant to SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. SFAS 115 creates two classifications that are relevant with respect to the Company's securities investments:

- "Held to maturity" are those securities that the Company has the positive intent and ability to hold until maturity. Under SFAS 115, securities classified as held to maturity are presented at cost plus the amortization of any premiums or discounts. For a security transferred into the held to maturity category, the security is recorded at fair value on the date of transfer, with any unrealized gain or loss amortized against the related fair value adjustment recorded as a component of Other Comprehensive Income (Loss) within Stockholders' Equity over the expected term of the security using the effective interest method.
- "Available for sale" are those securities that the Company does not hold for the purpose of selling in the near-term, but may dispose of prior to maturity. They are presented on the Consolidated Balance Sheet at fair value with the net unrealized gains or losses included in Accumulated Other Comprehensive Income (Loss), a component of Stockholders' Equity on the Company's Consolidated Balance Sheet.

Any premiums or discounts on securities are amortized into current income or loss using the effective interest method.

Since the Company's initial public offering in March 2004, it has classified all of its securities investments as "available for sale," as it concluded at that time that securities may be disposed of prior to maturity as part of the Company's gain on sale activities. In January 2008, the Company reclassified a total of 11 securities that are financed in its March 2005 collateralized debt obligation or in the December 2007 secured term loan transaction discussed at Note 12, from "available for sale" to "held to maturity," as the Company has the positive intent and ability to hold all of those securities until maturity and the terms of the financings significantly restrict or prohibit a sale. As of the date of transfer, the securities reclassified had a fair value of \$137,193 and the related unrealized loss included in Other Comprehensive Income (Loss) was \$(9,722).

The Company estimates fair value on all securities investments quarterly, and unrealized losses that in the judgment of management are "other-than-temporary" are charged against earnings as a loss on the Consolidated Statement of Operations. In estimating other-than-temporary impairment losses, management considers (1) the financial condition and near-term prospects of the underlying credit, (2) the intent and ability of the Company to retain its investment in the underlying credit for a period of time sufficient to allow for anticipated recovery in fair value and (3) the length of time and the extent to which the fair value has been below cost. The Company had no losses on securities charged to the Statement of Operations during the quarters ended March 31, 2008 and March 31, 2007.

Deferred Origination Fees and Costs

In accordance with SFAS No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*, the Company defers the recognition of fees and expenses associated with the origination of its loans held for investment. These items include lender fee income, rate lock income, direct loan origination costs, certain legal fees, insurance costs, rating agency fees and certain other expenses. Deferred fees and costs are recognized as an adjustment to the effective yield over the life of the related asset.

CapLease, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Dollar amounts in thousands, except per share amounts)

March 31, 2008 (unaudited)

Cash and Cash Equivalents

The Company defines cash equivalents as highly liquid investments purchased with maturities of three months or less at date of purchase. From time to time, the Company's account balance held at financial institutions exceeds Federal Depository Insurance Corporation ("FDIC") insurance coverage and, as a result, there is a concentration of credit risk related to the balance on deposit in excess of FDIC insurance coverage. The Company believes that the risk of loss is not significant.

Revenue Recognition

Rental revenue on real estate is recognized in accordance with SFAS No. 13, *Accounting for Leases*. Rental revenue is recognized on a straight-line basis over the non-cancelable 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. This includes the effects of rent steps and rent abatements under the leases.

Interest income from loans, securities, and structuring fees receivable, is recognized on the accrual basis of accounting. Interest income from securities (including interest-only strips) is recognized over the life of the investment using the effective interest method. The cost basis of interest-only strips is adjusted to reflect any prepayments from underlying assets, using the initial yield-to-maturity at the purchase date.

Impairment of Long-Lived Assets

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the Company reviews its investment in long-lived assets (owned real properties) for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company began acquiring owned real properties in the third quarter of 2004. The Company recognized no impairment losses on long-lived assets during the three months ended March 31, 2008 and March 31, 2007.

Income Taxes

CapLease is subject to federal income taxation at corporate rates on its "REIT taxable income." However, CapLease is allowed a deduction for the amount of dividends paid to its stockholders, thereby subjecting the distributed net income of CapLease to taxation at the stockholder level only. CapLease intends to continue to operate in a manner consistent with and it has elected to be treated as a REIT for tax purposes. From time to time, the Company may conduct a portion of its business through a taxable REIT subsidiary ("TRS"), and the income from the activities of the TRS is subject to federal and state taxation at the applicable corporate rates.

Earnings per Share

In accordance with SFAS No. 128, *Earnings per Share*, the Company presents both basic and diluted earnings per share ("EPS"). Basic EPS excludes dilution and is computed by dividing net income allocable to common stockholders by the weighted average number of shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock, where such exercise or conversion would result in a lower EPS amount. For the 2008 period, the

Company's computation of diluted earnings per share does not include 6,627,780 weighted average common shares that may be issued in the future upon conversion of the convertible senior notes issued in October 2007, as the impact would not be dilutive.

The following summarizes the Company's EPS computations for the three months ended March 31, 2008 and March 31, 2007 (in thousands, except per share amounts):

10

CapLease, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Dollar amounts in thousands, except per share amounts)

March 31, 2008 (unaudited)

	For the three months ended March 31,	
	2008	2007
Net income (loss) allocable to common stockholders	\$ (2,282)	\$ (93)
Weighted average number of common shares outstanding, basic and diluted	44,381	34,122
Earnings (loss) per share, basic and diluted	\$ (0.05)	\$ (0.00)
Non-vested shares included in weighted average number of shares outstanding above	935	700

Recently Issued Accounting Pronouncements

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* (“SFAS No. 157”). SFAS No. 157 provides guidance for using fair value to measure assets and liabilities. This statement clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing the asset or liability. SFAS No. 157 establishes a fair value hierarchy, giving the highest priority to quoted prices in active markets and the lowest priority to unobservable data. SFAS No. 157 applies whenever other standards require assets or liabilities to be measured at fair value. This statement is effective in fiscal years beginning after November 15, 2007 and, therefore, the effective date for the Company is January 1, 2008. The Company’s adoption of SFAS No. 157 on January 1, 2008 did not have a material effect on its consolidated financial statements, although it has resulted in new disclosures (see Note 7).

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (“SFAS No. 159”). SFAS No. 159 expands opportunities to use fair value measurement in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. This statement is effective for fiscal years beginning after November 15, 2007 and, therefore, the effective date for the Company is January 1, 2008. The Company’s adoption of SFAS No. 159 on January 1, 2008 did not have a material effect on its consolidated financial statements, as it has not elected the fair value option for any of its existing financial instruments on the effective date. The Company may elect the fair value option for eligible financial instruments it acquires in the future.

In December 2007, the FASB issued Statement No. 141R, *Business Combinations* (“SFAS No. 141R”). SFAS No. 141R broadens the guidance of SFAS No. 141, extending its applicability to all transactions and other events in which one entity obtains control over one or more other businesses. It broadens the fair value measurement and recognition of

assets acquired, liabilities assumed, and interests transferred as a result of business combinations; and stipulates that acquisition related costs be expensed rather than included as part of the basis of the acquisition. SFAS No. 141R expands required disclosures to improve the ability to evaluate the nature and financial effects of business combinations. SFAS No. 141R is effective for all transactions entered into on or after January 1, 2009. The Company is currently evaluating the impact SFAS No. 141R will have on its consolidated financial statements.

In December 2007, the FASB issued FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements - An Amendment of ARB No. 51* ("SFAS No. 160"). SFAS No. 160 requires a noncontrolling interest in a subsidiary to be reported as equity and the amount of consolidated net income specifically attributable to the noncontrolling interest to be identified in the consolidated financial statements. SFAS No. 160 also calls for consistency in the manner of reporting changes in the parent's ownership interest and requires fair value measurement of any noncontrolling equity investment retained in a deconsolidation. SFAS No. 160 is effective on January 1, 2009. The Company is currently evaluating the impact SFAS No. 160 will have on its consolidated financial statements.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current presentation. There was no effect on net income or equity related to these reclassifications.

CapLease, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Dollar amounts in thousands, except per share amounts)

March 31, 2008 (unaudited)

3. Loans Held for Investment

Loans held for investment at March 31, 2008 and December 31, 2007, are summarized in the following table. These investments consist predominantly of mortgage loans on properties subject to leases to high credit quality tenants. As of March 31, 2008, the weighted average credit rating of the underlying tenants was BBB+ from Standard & Poor's. As of March 31, 2008, none of the Company's loans held for investment were on non-accrual status or past due 90 days or more.

	Mar 31, 2008 Unaudited	Dec 31, 2007
Principal	\$ 289,786	\$ 268,417
Premium	3,299	1,726
Carrying amount of loans	293,085	270,143
Deferred origination fees, net	(834)	(850)
Total	\$ 292,251	\$ 269,293

The Company reclassified a \$24,583 (amortized cost basis on the date of transfer) certificated mortgage loan investment previously classified as "Securities available for sale" into "Loans held for investment" during the quarter ended March 31, 2008, in connection with the dissolution of the trust holding the loan collateral.

From time to time, the Company makes mezzanine loan and other investments. These investments are typically shorter-term in nature and are often subordinate to other financing. As of March 31, 2008, these investments aggregated \$7,802, and are included in the table above.

At each of March 31, 2008 and December 31, 2007, the Company's loan investments carried interest rates ranging from 5.28% to 10.00%. At March 31, 2008 and December 31, 2007, the weighted average effective interest rate on the Company's loan investments, as measured against its cost basis, was 6.81% and 6.79%, respectively.

4. Real Estate Investments

Real estate held for investment and related intangible liabilities on real estate investments consisted of the following at March 31, 2008 and December 31, 2007:

	Mar 31, 2008 Unaudited	Dec 31, 2007
Real estate investments, at cost:		
Land	\$ 190,771	\$ 190,771
Building and improvements	1,275,561	1,275,381
	185,457	185,457

Intangible assets under SFAS 141			
Less: Accumulated depreciation and amortization	(102,454)		(88,039)
Real estate investments, net	\$ 1,549,335	\$	1,563,570
Intangible liabilities on real estate investments:			
Intangible liabilities under SFAS 141	\$ 55,999	\$	55,999
Less: Accumulated amortization	(4,822)		(4,188)
Intangible liabilities on real estate investments, net	\$ 51,177	\$	51,811

Acquisition costs capitalized as part of buildings and improvements were \$0 for the three months ended March 31, 2008, and \$95 for the three months ended March 31, 2007.

CapLease, Inc. and Subsidiaries
 Notes to Consolidated Financial Statements
 (Dollar amounts in thousands, except per share amounts)

March 31, 2008 (unaudited)

The impact on rental revenue of the straight-line rent adjustment under SFAS No. 13 is recorded on the Company's Consolidated Balance Sheet through accrued rental income and deferred rental income. Amounts for accrued rental income and deferred rental income as of March 31, 2008 and December 31, 2007, were as follows:

	Mar 31, 2008 Unaudited	Dec 31, 2007
Accrued Rental Income	\$ 26,485	\$ 28,782
Deferred Rental Income	13,098	116

Accrued rental income is included in "Other assets" on the Company's Consolidated Balance Sheet. Deferred rental income is included in "Accounts payable, accrued expenses and other liabilities" on the Company's Consolidated Balance Sheet.

Depreciation expense and amortization of intangible assets and liabilities on real estate investments for the three months ended March 31, 2008 and March 31, 2007, were as follows:

	For the three months ended March 31,	
	2008	2007
Depreciation on real estate (included in depreciation and amortization expense)	\$ 8,315	\$ 5,627
Amortization of in-place leases (included in depreciation and amortization expense)	5,112	2,576
Amortization of above-market leases (included as a reduction of rental revenue)	988	140
Amortization of below-market leases (included as a	634	360

component of rental
revenue)

As of March 31, 2008, the Company's weighted average amortization period on intangible assets was 8.8 years, and the weighted average amortization period on intangible liabilities was 26.7 years.

Scheduled amortization on existing intangible assets and liabilities on real estate investments as of March 31, 2008 was as follows:

	Intangible Assets	Intangible Liabilities
9 Months Ending December 31, 2008	\$ 18,302	\$ 1,901
2009	22,583	2,535
2010	20,036	2,535
2011	19,324	2,535
2012	14,907	2,535
Thereafter	52,041	39,136
	\$ 147,193	\$ 51,177

Substantially all of the Company's owned properties are pledged as collateral to the Company's lender that has provided financing on the property. The Company strategy is to own and finance on a long-term basis each property through a separate and distinct single purpose entity, or SPE, with each property and the related lease or leases on the property generally representing the sole assets of the SPE and the sole collateral available to the Company's lender in the event the Company defaults on the debt that finances the property. Also see Note 12.

CapLease, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Dollar amounts in thousands, except per share amounts)

March 31, 2008 (unaudited)

During the three months ended March 31, 2008, the Company did not complete any new real estate acquisitions.

5. Asset Held for Sale

During the fourth quarter of 2005, the Company acquired a portfolio of three office properties from Allstate Insurance Company in a sale/leaseback transaction. The smallest of the three buildings is an approximately 19,500 square foot office building located in Pittsburgh, Pennsylvania. Because of the small size of this property, management concluded, prior to completing the acquisition, to resell the property promptly following its acquisition. The Company sold the property in March 2007, at a loss of approximately \$55. This loss is included on the Company's Statement of Operations for the three months ended March 31, 2007 as a component of "Income from discontinued operations."

In accordance with SFAS No. 144, the Company reported the revenues from the Allstate Pittsburgh property as income from discontinued operations on the Consolidated Statement of Operations for the three months ended March 31, 2007. Revenue and net income for the Allstate Pittsburgh property were \$38 and \$38, respectively, for the three months ended March 31, 2007.

In accordance with SFAS No. 144, the Company reported the carrying value of the Cott Corporation property it acquired in July 2006 as asset held for sale on the March 31, 2008 and December 31, 2007 Consolidated Balance Sheets, and the revenues from the property as income from discontinued operations on the Consolidated Statements of Operations for each of the three months ended March 31, 2008 and March 31, 2007. Cott has ceased operations at this property and has requested a termination of its lease which has a remaining lease term of about 9 years (until June 2017). The Company is continuing to work with Cott on a number of opportunities that contemplate the sale of the property and a release of Cott from the lease in exchange for a lease termination payment. The Company expects to sell this property within the next twelve months and any gain or loss on the sale to be de minimis. Revenue and net income for the Cott Corporation property were \$107 and \$107, respectively, for the three months ended March 31, 2008, and \$104 and \$61, respectively, for the three months ended March 31, 2007.

6. Commercial Mortgage-Backed Securities and Structuring Fees Receivable

The following is a summary of the Company's securities investments at March 31, 2008:

Description	Number of Securities	Face Value	Carry Value	Amortized Cost	Fair Value	Gross Unrecognized Gain	Gross Unrecognized Loss
Held to Maturity	11	\$ 151,217	\$ 136,176	\$ 145,757	\$ 124,158	\$ 340	\$ (21,939)
Available For Sale	9	52,050	32,233	40,267	32,233	95	(8,129)
Total	20	\$ 203,267	\$ 168,409	\$ 186,024	\$ 156,391	\$ 435	\$ (30,068)

CapLease, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Dollar amounts in thousands, except per share amounts)

March 31, 2008 (unaudited)

A detailed schedule of the Company's securities investments at March 31, 2008 follows:

	Mar 31, 2008 Unaudited
BSCMS 1999 CLF1, Class E (rated CCC) Face Amount	Available For Sale \$ 3,326
BSCMS 1999 CLF1, Class F (not rated) Face Amount	Available For Sale 251
CMLBC 2001-CMLB-1, Class H (rated B-) Face Amount	Available For Sale 11,907
CMLBC 2001-CMLB-1, Class J (rated D) Face Amount	Available For Sale 6,383
NLFC 1999-LTL-1, Class X (IO) (rated AAA) Carry Value	Available For Sale 6,076
WBCMT 2004-C15 180E (rated B) Face Amount	Available For Sale 8,000
BACMS 2002-2, Class V-1 (7-Eleven, Inc.) (rated A) Face Amount	Available For Sale 476
BACMS 2002-2, Class V-2 (Sterling Jewelers) (not rated) Face Amount	Available For Sale 728
Yahoo, Inc. (rated BBB-) Face Amount	Available For Sale 14,903
BACM 2006-4, Class H (rated BBB+) Face Amount	Held To Maturity 8,000
CALFS 1997-CTL1, Class D (rated BBB-) Face Amount	Held To Maturity 6,000
CMLBC 2001-CMLB-1, Class E (rated BBB+) Face Amount	Held To Maturity 9,526
CMLBC 2001-CMLB-1, Class G (rated BB-) Face Amount	Held To Maturity 9,526
NLFC 1999-LTL-1, Class E (rated BB) Face Amount	Held To Maturity 11,081
WBCMT 2004-C15 180D (rated B+) Face Amount	Held To Maturity 15,000
WBCMT 2006-C27, Class C (rated AA-) Face Amount	Held To Maturity 11,000
CVS Corporation (rated BBB+) Face Amount	Held To Maturity 18,992
Koninklijke Ahold, N.V. 7.82% Jan 2020 (rated BBB-) Face Amount	Held To Maturity 8,586
Lucent 6.70% due 9/1/2020 (rated BB-) Face Amount	Held To Maturity 36,616
Yahoo, Inc. (rated BBB-) Face Amount	Held To Maturity 16,890
Unearned Discount	(17,243)
Cost Basis	186,024
Net unrealized gain (loss) on securities	(17,615)

Total \$ 168,409

All credit ratings in the above table are as of March 31, 2008.

As discussed further in Note 3, one security was reclassified to “Loans held for investment” during the quarter ended March 31, 2008.

As discussed further in Note 2, the Company reclassified a total of 11 securities investments from “available for sale” to “held to maturity” during January 2008.

Unrealized gains and losses on securities at March 31, 2008 and December 31, 2007, included as a component of Other Comprehensive Income (Loss) on the Company’s Consolidated Balance Sheet, consisted of the following:

	Mar 31, 2008	Dec 31, 2007
	Unaudited	
Unrealized losses on securities previously available for sale	\$ (9,581)	\$ —
Unrealized gains on securities available for sale	95	1,785
Unrealized losses on securities available for sale	(8,129)	(15,505)

CapLease, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Dollar amounts in thousands, except per share amounts)

March 31, 2008 (unaudited)

The following table summarizes the Company's securities in an unrealized loss position as of March 31, 2008.

	Aggregate Fair Value	Aggregate Unrealized Loss	Number of Securities
In unrealized loss position less than 12 months	\$ 113,047	\$ 28,929	13
In unrealized loss position 12 or more months	19,409	1,139	2

At March 31, 2008, a total of two securities were in a continuous unrealized loss position for more than 12 months. One security has a rating of BBB+, an unrealized loss of 1.8% of amortized cost and is classified as held to maturity. The other security has a rating of CCC, an unrealized loss of 50.9% of amortized cost and is classified as available for sale. The Company believes that none of the unrealized losses on investment securities are other than temporary because substantially all of the unrealized losses relate to market interest rate changes, and the Company has both the intent and the ability to hold these securities for a period of time sufficient to allow for a full recovery in fair value. In addition, management considers the underlying credits to be financially sound and believes the Company will receive all contractual principal and interest related to these investments.

At March 31, 2008 and December 31, 2007, the weighted average effective interest rate (yield to maturity on adjusted cost basis) on securities was approximately 7.5% and 7.4%, respectively.

Structuring fees receivable of \$2,403 and \$2,576 at March 31, 2008 and December 31, 2007, respectively, represented fees earned by the Company in conjunction with the structuring and subsequent sale of certain net lease loans. Such fees are payable to the Company monthly without interest through March 2020 and, accordingly, have been discounted based on imputed interest rates estimated by management to approximate market. Structuring fees receivable are shown at their amortized cost.

7. Fair Value

The Company adopted SFAS No. 157 on January 1, 2008. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 does not impose any new requirements around which assets and liabilities are to be measured at fair value, and instead applies to asset and liability balances required or permitted to be measured at fair value under existing accounting pronouncements. Under existing accounting pronouncements, the Company measures its securities available for sale and its derivative assets and liabilities at fair value.

SFAS No. 157 establishes a valuation hierarchy based on the transparency of inputs used in the valuation of an asset or liability. Classification is based on the lowest level of inputs that is significant to the fair value measurement. The valuation hierarchy contains three levels:

- Level 1 – Valuation inputs are unadjusted quoted market prices in active markets for identical assets or liabilities.

· Level 2 – Valuation inputs are quoted prices for identical assets or liabilities that are not active, quoted market prices for similar assets and liabilities in active markets and other observable inputs directly or indirectly related to the asset or liability being measured.

· Level 3 – Valuation inputs are unobservable and significant to the fair value measurement.

Securities Available for Sale

The Company has determined that the valuations of its securities available for sale are classified in Level 2 of the fair value hierarchy. The Company estimates the fair value of securities available for sale by obtaining broker quotations, where available, based upon reasonable market order indications or a good faith estimate thereof. For securities where market quotes are not readily obtainable, management may also estimate values, and considers factors including the credit characteristics and term of the underlying security, market yields on securities with similar credit ratings, and sales of similar securities, where available.

CapLease, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Dollar amounts in thousands, except per share amounts)

March 31, 2008 (unaudited)

Derivative Assets and Liabilities

Currently, the Company uses forward starting interest rate swaps to manage its interest rate risk. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves.

To comply with the provisions of SFAS No. 157, the Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds and guarantees.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of March 31, 2008, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

The table below presents the Company's assets and liabilities measured at fair value as of March 31, 2008, aggregated by the level in the fair value hierarchy within which those measurements fall.

	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at March 31, 2008
Assets				
Securities available for sale	\$	-\$	32,233	\$ 32,233
Liabilities				
Derivative liabilities	\$	-\$	9,624	\$ 9,624

The Company does not have any fair value measurements using significant unobservable inputs (Level 3) as of March 31, 2008.

CapLease, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Dollar amounts in thousands, except per share amounts)

March 31, 2008 (unaudited)

8. Other Assets

Other assets as of March 31, 2008 and December 31, 2007, consisted of the following:

	Mar 31, 2008 Unaudited	Dec 31, 2007
Receivables and accrued interest	\$ 8,738	\$ 9,524
Prepaid expenses and deposits	1,837	1,712
Reserve accounts	11,323	14,348
Escrow held with mortgage lender	212	812
Funds with CDO trustee pending distribution or reinvestment	9,975	11,910
Restricted cash	347	15
Amounts held by servicer	1,811	3,048
Accrued rental income	26,485	28,782
Debt issuance costs, net	10,947	11,316
Investment in partially-owned entities	1,139	1,139
Investment in statutory trust	930	930
Other	1,536	1,647
Total	\$ 75,280	\$ 85,183

9. Joint Venture Investments

In April 2007, the Company invested in Matapeake Partners LLC (“Matapeake”), a newly formed real estate investment and management company. The Company agreed, pursuant to the limited liability company agreement, to invest up to \$5,000 of capital from time to time, subject to the satisfaction of certain terms and conditions by the principals of Matapeake. The Company expects its contributions will comprise less than 50% of the total capital contributed to Matapeake. As of March 31, 2008, the Company had invested \$1,139 toward its aggregate \$5,000 commitment.

The Company also may from time to time source owned property investments to Matapeake. The Company intends to retain an interest in any property sourced to Matapeake. To date, the Company has not sourced any properties to Matapeake.

10. Repurchase Agreement and Revolver

As of March 31, 2008, the Company had a \$250,000 repurchase agreement and a \$30,000 revolving loan agreement (the “Revolver”) in place for short-term liquidity requirements, in each case with Wachovia Bank, N.A. As discussed under Note 22 below, each of these agreements was consolidated into a new credit agreement with Wachovia Bank, N.A. on April 29, 2008, and, as a result, the Company’s repurchase agreement and Revolver were terminated at that time.

The repurchase agreement was a 364-day secured facility and was scheduled to mature on August 23, 2008. The Company’s core borrowing capacity on the repurchase agreement was \$250,000.

Borrowings under the Company's repurchase agreement were secured by the assets financed and the Company's obligations were fully recourse to its other assets.

18

Edgar Filing: CapLease, Inc. - Form 10-Q

CapLease, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Dollar amounts in thousands, except per share amounts)

March 31, 2008 (unaudited)

Amounts related to the Company's repurchase agreement as of March 31, 2008 and December 31, 2007, were as follows:

	Mar 31, 2008 (unaudited)	Dec 31, 2007
<i>Collateral carry value</i>		
Loans held for investment	\$ 89,927	\$ 67,255
Intercompany mortgage loans on CapLease properties	165,789	167,544
Commercial mortgage-backed securities	36,481	59,464
Total	\$ 292,197	\$ 294,263
<i>Borrowings</i>		
Loans held for investment	\$ 72,718	\$ 56,888
Intercompany mortgage loans on CapLease properties	131,075	132,572
Commercial mortgage-backed securities	27,318	43,409
Total	\$ 231,111	\$ 232,869

The Company was required to pay interest on amounts borrowed under its repurchase agreement with Wachovia Bank at prevailing short-term rates (30-day London Interbank Offered Rate ("LIBOR")) plus a pricing spread (determined based upon the class and credit rating of the asset financed). Weighted average effective financing rates on the Company's repurchase agreement borrowings for the three months ended March 31, 2008 and March 31, 2007, were as follows:

	For the three months ended March 31, 2008 unaudited	2007 unaudited
Wachovia-mortgage loan repurchase agreements	4.49%	6.31%
Wachovia-CMBS repurchase agreements	4.61%	6.18%

The effective financing rates for the 2008 period reflects a weighted average 30-day LIBOR of 3.51% for the three months ended March 31, 2008. As of March 31, 2008 and March 31, 2007, the 30-day LIBOR rate was 2.70% and 5.32%, respectively.

The Revolver provided that the Company may borrow up to \$30,000 from time to time over the three year term through July 2010, and its borrowings would bear interest at prevailing short-term interest rates (30-day LIBOR) plus 125 basis points.

The Company's borrowings under the Revolver were secured by a first mortgage on its owned property in Johnston, Rhode Island, which is leased to the Factory Mutual Insurance Company, and an assignment of the Company's interest

in the lease and rents on the property. The Revolver was a fully recourse lending arrangement. The Company was permitted to use proceeds from borrowings under the Revolver for any corporate purpose, including to fund investments or repay other indebtedness.

As of March 31, 2008, the Company had no borrowings under the Revolver.

The Company was required to comply with the following financial covenants under the repurchase agreement and the Revolver: minimum liquidity, minimum consolidated net worth and maximum leverage.

11. Risk Management Transactions

The Company enters into risk management transactions as an integral component of its overall portfolio financing strategy. The Company employs risk management transactions to manage its exposure to changes in interest rates associated with the Company's expected future debt issuances. Through these risk management transactions, the Company seeks to significantly secure its cost of financing on the associated long-term debt issuance and, thus, attempt to significantly secure its positive spread on the assets financed.

CapLease, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Dollar amounts in thousands, except per share amounts)

March 31, 2008 (unaudited)

Since its initial public offering, the Company's risk management transactions have consisted primarily of forward starting interest rate swaps, and they are expected to continue to consist primarily of forward starting interest rate swaps for the foreseeable future. These swap contracts are generally entered into at the time the Company concludes to issue long-term fixed rate debt in the future and are closed-out or terminated at the time of pricing or issuance of the debt.

Pursuant to the swap contract, the Company agrees to exchange a series of interest rate cash flows with a third party (the counterparty) over a prescribed period. For example, a typical swap contract entered into by the Company provides that the Company will pay fixed interest payments to the counterparty in exchange for floating rate interest payments to the Company by the counterparty. Payments are established based on a notional amount which generally represents the amount of long-term fixed rate debt the Company expects to issue. The parties do not exchange notional amounts. The Company typically terminates swap contracts at the time of pricing or debt issuance, termination results in payment or receipt of cash in amount that approximates the present value of the expected future cash flows remaining on the swap contract. Payments are normally exchanged beginning on the date of the expected debt issuance.

The Company does not use risk management transactions for trading or speculative purposes and it only enters into swap contracts with major financial institutions and, therefore, the Company considers the risk of counterparty default to be remote.

For financial reporting purposes, the interest rate swaps are treated as cash flow hedges to the extent they have been designated and qualify as such, which basically means the Company has satisfied a variety of technical requirements under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS No. 133"), such as hedge documentation requirements and initial and subsequent quarterly hedge effectiveness tests. The swap transactions are marked to fair value at each reporting date and the effective portion of the Company's realized and unrealized gains and losses on such transactions are treated as a component of "Other Comprehensive Income (Loss)" on the Company's Consolidated Balance Sheet and are not reported as a component of current income or loss on the Company's Consolidated Statement of Operations. The effective portion of the Company's realized gains and losses, which generally represent the net payments the Company makes or receives on the interest rate swaps, are then reclassified and amortized as part of interest expense on the Company's Consolidated Statement of Operations beginning at issuance of the related debt and continuing over the expected term of such issuance.

To the extent the SFAS No. 133 cash flow hedge criteria are not met or the hedge is deemed ineffective, some or all of the realized and unrealized gains and losses on such transactions are treated as a component of current income or loss on the Company's Statement of Operations. No assurance can be made that the Company will continue to satisfy the cash flow hedge requirements of SFAS No. 133 and as to the portion of the Company's gains and losses that will be deemed effective under SFAS No. 133. Changes in management's initial assumptions regarding the proposed debt issuance (e.g., timing and the amount and type of debt) and changes in the shape of the yield curve (which represents market expectations of future interest rates) are among the factors that could cause the Company to include a greater portion of its gains and losses from the associated risk management transactions as current income or loss.

While the Company's risk management transactions are expected to hedge the Company's risk related to changes in interest rates, these transactions are not intended or expected to hedge the risk of changes in credit spreads. As a result, to the extent credit spreads widen in advance of our issuance of long-term financing, the Company expects that its cost

of financing will increase.

There can be no assurance that the Company's use of risk management transactions to manage its exposure to changes in interest rates will be completely or even partially successful.

As of March 31, 2008, the Company was using interest rate swaps, which have been designated and qualified as cash flow hedges, to hedge its exposure to changes in the interest-related cash outflows on forecasted future borrowings through November 2017. Amounts related to open swap positions, as of March 31, 2008 and December 31, 2007, which consisted of a single interest swap contract, were as follows:

20

CapLease, Inc. and Subsidiaries
 Notes to Consolidated Financial Statements
 (Dollar amounts in thousands, except per share amounts)

March 31, 2008 (unaudited)

<i>Description</i>	Mar 31, 2008 Unaudited		Dec 31, 2007	
	Notional Amount	Fair value	Notional Amount	Fair value
Interest rate swap	\$ 175,485	\$ (9,624)	\$ 177,442	\$ (4,559)

At March 31, 2008 and December 31, 2007, the Company had hedged the following future borrowings:

	Mar 31, 2008 Unaudited	Dec 31, 2007
Future borrowings (principal amount)	\$ 175,485	\$ 177,442

At March 31, 2008 and December 31, 2007, derivative liabilities with a fair value of \$9,624 and \$4,559, respectively, were included in "Accounts payable, accrued expenses and other liabilities" on the Company's Consolidated Balance Sheet. At March 31, 2008, the Company determined the fair value of derivative liabilities in accordance with the fair value measurement guidance of SFAS No. 157. See Note 7 for more information on the Company's fair value measurements.

For the three months ended March 31, 2008 and March 31, 2007, the Company had net realized gains and (losses) of \$(299) and \$196, respectively, related to cash flow hedges. For the three months ended March 31, 2008 and March 31, 2007, the Company reclassified \$156 and \$302, respectively, from Accumulated Other Comprehensive Income (Loss) into interest expense related to the underlying debt issuances.

Within the next twelve months, the Company estimates that \$638 of net losses currently held within Accumulated Other Comprehensive Income (Loss) will be reclassified to earnings as additional interest expense.

The change in net unrealized gains and (losses) of \$(5,249) and \$(110) in the three months ended March 31, 2008 and March 31, 2007, respectively, for derivatives designated as cash flow hedges is separately disclosed in the Company's Consolidated Statement of Changes in Stockholders' Equity.

The Company had net expense from derivatives of \$2,060 and \$11 for the three months ended March 31, 2008 and March 31, 2007, respectively. These amounts are included in "Loss on derivatives" on the Consolidated Statements of Operations. The loss in the 2008 period includes approximately \$1,550 of hedge ineffectiveness resulting from changes in (i) management's estimates of when the related hedged debt will be issued, and (ii) the shape of the yield curve (which represents market expectations of future interest rates). The Company revised its expected long-term debt issuance date due to the current dislocations in the credit markets.

Consistent with the cash flows of the related financing, the Company classifies the cash flows from derivatives that are accounted for as cash flow hedges as a financing activity on the Consolidated Statements of Cash Flows.

12. Long-Term Debt

The Company's long-term debt consists of the following:

mortgage notes on real estate investments;

collateralized debt obligations;

a secured term loan;

CapLease, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Dollar amounts in thousands, except per share amounts)

March 31, 2008 (unaudited)

convertible senior notes; and

debt related to trust preferred securities.

Mortgage Notes on Real Estate Investments

The Company has financed most of its owned real properties with third party mortgage debt. The Company's mortgage notes payable are summarized in the following table:

Property Level Debt - Fixed Rate	Mar 31, 2008		Dec 31, 2007		Coupon	Effective Financing Rate (1)	Maturity
	Face (unaudited)	Carry Value (unaudited)	Face	Carry Value			
The Travelers Corporation, Hartford, CT	\$ 18,363	\$ 19,721	\$ 19,406	\$ 20,944	9.80%	5.53%	Sep 2011
The Travelers Corporation, Hartford, CT	12,851	14,316	12,511	14,046	10.76%	7.67%	Oct 2011
Nestle Holdings, Inc., Breinigsville, PA; Fort Wayne, IN; and Lathrop, CA	117,000	117,000	117,000	117,000	6.32%	5.65%	Aug 2012
Choice Hotels International, Inc., Silver Spring, MD	30,726	30,726	30,937	30,937	5.30%	5.34%	May 2013
Omnicom Group, Inc., Irving, TX	13,545	13,545	13,575	13,575	5.24%	5.30%	May 2013
Capital One Financial Corporation, Plano, TX	20,811	20,811	20,866	20,866	5.24%	5.29%	May 2013
Aon Corporation, Glenview, IL	64,438	64,438	64,708	64,708	5.23%	5.75%	Nov 2014
Cadbury Schweppes Holdings (US), Whippany, NJ	34,922	34,922	35,065	35,065	5.26%	5.34%	Mar 2015
ITT Industries, Inc., Herndon, VA	41,532	41,532	41,591	41,591	5.33%	5.40%	Jun 2015
Lowes Companies, Inc., Aliso Viejo, CA	42,125	42,125	42,125	42,125	5.10%	5.37%	Jul 2015
Abbott Laboratories, Waukegan, IL	15,208	15,208	15,224	15,224	5.11%	5.16%	Aug 2015
United States Government (FBI), Birmingham, AL	18,800	18,800	18,800	18,800	5.23%	5.31%	Sep 2015
United States Government (NIH), N. Bethesda, MD	63,307	63,307	63,632	63,632	5.32%	5.56%	Sep 2015
United States Government (SSA), Austin, TX	5,391	5,391	5,391	5,391	5.23%	5.46%	Sep 2015
United States Government (DEA), Birmingham, AL	11,280	11,280	11,280	11,280	5.23%	5.42%	Sep 2015

Edgar Filing: CapLease, Inc. - Form 10-Q

Tiffany & Co., Parsippany, NJ	58,400	58,400	58,400	58,400	5.33%	5.34%	Oct 2015
Allstate Insurance Company, Charlotte, NC	20,209	20,209	20,209	20,209	5.68%	5.71%	Jan 2016
Allstate Insurance Company, Roanoke, VA	21,516	21,516	21,516	21,516	5.68%	5.76%	Jan 2016
Farmers New World Life Insurance Company, Mercer Island, WA	30,200	30,200	30,200	30,200	5.69%	5.72%	Jan 2016
TJX Companies, Inc., Philadelphia, PA	71,167	71,167	71,273	71,273	5.57%	5.59%	Mar 2016
United States Government (VA), Ponce, PR	6,260	6,504	6,386	6,642	7.30%	6.41%	Apr 2016
Pearson Plc., Lawrence, KS	16,025	16,025	16,025	16,025	5.84%	5.95%	May 2016
Koninklijke Ahold, N.V., Levittown, PA	14,576	14,576	14,621	14,621	6.05%	6.11%	Jul 2016
AMVESCAP PLC, Denver, CO	43,700	43,700	43,700	43,700	6.03%	6.08%	Jul 2016
Walgreen Co., Pennsauken, NJ	1,747	1,860	1,783	1,901	7.65%	6.04%	Oct 2016
United States Government (FBI), Albany, NY	10,137	10,137	10,137	10,137	5.50%	5.68%	Nov 2016
Aetna Life Insurance Company, Fresno, CA	16,043	16,043	16,043	16,043	5.63%	5.68%	Dec 2016
T-Mobile USA, Inc., Nashville, TN	10,885	10,885	10,885	10,885	5.59%	5.69%	Dec 2016
Time Warner Entertainment Company, L.P., Milwaukee, WI	17,500	17,500	17,500	17,500	5.55%	5.59%	Dec 2016
Farmers Group, Inc., Simi Valley, CA	25,620	25,620	25,620	25,620	5.81%	5.85%	Jan 2017
Johnson Controls, Inc., Largo, FL	16,200	16,200	16,200	16,200	5.48%	5.52%	Jan 2017
County of Yolo, California, Woodland, CA	10,332	10,332	10,332	10,332	5.68%	5.75%	Feb 2017
Bunge North America, Inc., Fort Worth, TX	6,262	6,262	6,262	6,262	5.45%	5.55%	May 2017
AmeriCredit Corp., Arlington, TX	28,477	28,133	28,586	28,234	5.28%	5.51%	Sep 2017
Walgreen Co., Portsmouth, VA	3,036	3,212	3,068	3,249	7.20%	6.18%	Jul 2018
United States Government (EPA), Kansas City, KS	20,775	24,026	20,775	24,082	7.57%	5.74%	Oct 2022
United States Government (OSHA), Sandy, UT	14,538	15,475	14,605	15,555	6.28%	5.52%	Jan 2024
Total	\$ 973,904	\$ 981,104	\$ 976,237	\$ 983,770			

(1)The effective rate is the Company's approximate borrowing cost, including the effect of hedge gains or losses and other deferred financing costs associated with the related borrowing.

The mortgage notes are secured by the respective properties and an assignment of the relevant leases on the properties. See Note 4 regarding the separate and distinct nature of the Company's SPEs. The Company's book value before accumulated depreciation and amortization on owned properties encumbered with mortgage debt aggregated \$1,455,931 at March 31, 2008, and \$1,455,751 at December 31, 2007.

CapLease, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share amounts)

March 31, 2008 (unaudited)

Collateralized Debt Obligations

The Company issued a collateralized debt obligation, or CDO, in March 2005. The CDO was an entirely fixed rate financing. The Company aggregated approximately \$300,000 of assets and then transferred these assets into a wholly-owned securitization vehicle, and issued \$285,000 face amount of multi-class notes and \$15,000 of preferred equity through the securitization vehicle. The assets serve as collateral for the Company's obligations under the notes. The securitization vehicle is an SPE, with its business limited to the issuance of the notes and the preferred equity, the acquisition of the collateral and certain other related matters. The net amount of the debt the Company issued was \$268,130, inclusive of a \$370 discount to face, as the Company retained the three most junior note classes aggregating a face amount of \$16,500 and the full \$15,000 of preferred equity. Each of the five note classes of the CDO was rated investment grade. Through October 2009, the Company expects to reinvest principal repayments on the underlying assets into qualifying replacement collateral. The CDO notes have a stated maturity in January 2040, but are expected to mature in January 2015 when they become subject to an auction call procedure. The Company's weighted average effective financing rate (inclusive of original issue discount and debt issuance and hedge costs) on its CDO is approximately 5.67%. The CDO debt is non-recourse to the Company but is secured by the collateral assets. The following table summarizes the assets posted as CDO collateral as of March 31, 2008.

	Carry Value
Loans held for investment	\$ 162,081
Intercompany mortgage loans on CapLease properties	43,201
Commercial mortgage-backed securities	77,043
Total	\$ 282,325

Secured Term Loan

On December 18, 2007, the Company completed a \$129,521 secured term loan with KBC Bank, N.V. Upon closing of the financing, the Company pledged approximately \$163,145 principal amount of collateral to secure its obligations under the loan. The interest coupon on the loan is fixed at 5.81% annually until the loan matures in January 2018. The Company's effective financing rate on the loan is 6.05% annually (inclusive of hedge and closing costs). The loan is non-recourse to the Company, subject to limited non-recourse exceptions. The following table summarizes the assets pledged as collateral for the Company's obligations under the loan as of March 31, 2008.

	Carry Value
Loans held for investment	\$ 44,236
Intercompany mortgage loans on CapLease properties	55,248
Commercial mortgage-backed securities	59,133
Total	\$ 158,617

Convertible Senior Notes

On October 9, 2007, CapLease completed a private offering to qualified institutional buyers pursuant to Rule 144A of the Securities Act of 1933, as amended, of \$75,000 principal amount of 7.50% convertible senior notes due 2027. The notes represent general unsecured obligations of CapLease and rank equally in right of payment with all of its other existing and future obligations that are unsecured and unsubordinated. The notes are jointly and severally, fully and

unconditionally guaranteed, on a senior unsecured basis by four of CapLease's subsidiaries, Caplease, LP, Caplease Debt Funding, LP, Caplease Services Corp. and Caplease Credit LLC.

The net proceeds of the offering, after deducting the initial purchasers' discount and offering expenses, were approximately \$72,774. CapLease used \$15,000 of the net proceeds to purchase shares of its common stock at the closing of the offering, and the remaining proceeds for general corporate purposes, including to repay borrowings under the Company's repurchase agreement.

CapLease, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share amounts)

March 31, 2008 (unaudited)

The notes bear interest at an annual rate of 7.50% and will mature on October 1, 2027, unless earlier converted, redeemed or repurchased. The Company's effective financing rate on the notes, which includes the effect of the offering discount and expenses of the transaction, is approximately 8.24%.

The holders may convert their notes into cash, shares of CapLease common stock, or any combination thereof, at CapLease's option, under certain circumstances, including in connection with certain change of control events defined in the note indenture (each, a "change of control") or a transaction that results in CapLease's common stock not being approved for listing on a U.S. national securities exchange (a "termination of trading"). Upon conversion, if CapLease does not elect otherwise, it will settle its conversion obligation in shares of its common stock.

The initial conversion rate for each \$1 principal amount of notes is 88.3704 shares of CapLease's common stock, which is equivalent to an initial conversion price of approximately \$11.32 per share. The initial conversion rate will be adjusted for certain events, including in the event CapLease makes any quarterly cash dividend in excess of \$0.20 per share.

CapLease has the right to redeem the notes in whole or in part, for cash at any time or from time to time on or after October 5, 2012. Prior to October 5, 2012, CapLease may also redeem the notes to preserve its status as a real estate investment trust. The redemption price will be 100% of the principal amount of the notes to be redeemed, plus any accrued and unpaid interest.

Holders may require CapLease to repurchase their notes, in whole or in part, on October 1, 2012, October 1, 2017 and October 1, 2022, for a cash price equal to 100% of the principal amount of the notes to be repurchased, plus any accrued and unpaid interest.

Holders will also have the right to require CapLease to repurchase their notes, in whole or in part for cash, if a change of control or termination of trading occurs prior to October 1, 2012. The repurchase price will be 100% of the principal amount of the notes to be repurchased, plus any accrued and unpaid interest.

Trust Preferred Securities

In December 2005, the Operating Partnership issued \$30,000 in aggregate principal amount of fixed/floating rate preferred securities through its wholly-owned subsidiary, Caplease Statutory Trust I. The trust simultaneously issued 930 of its common securities to the Operating Partnership for a purchase price of \$930, which constitutes all of the issued and outstanding common securities of the trust. The trust used the proceeds from the sale of the trust preferred securities together with the proceeds from the sale of the common securities to purchase \$30,930 in aggregate principal amount of unsecured fixed/floating rate junior subordinated notes due January 30, 2036, issued by the Operating Partnership. The junior subordinated notes, the common and the trust preferred securities have substantially identical terms, requiring quarterly interest payments calculated at a fixed interest rate equal to 7.68% per annum through January 30, 2016, and subsequently at a variable interest rate equal to LIBOR plus 2.60% per annum. The notes mature on January 30, 2036, and may be redeemed, in whole or in part, at par, at the Company's option, beginning on January 30, 2011. The trust preferred and common securities do not have a stated maturity date; however, they are subject to mandatory redemption upon the redemption or maturity of the notes.

The principal amount of the junior subordinated notes of \$30,930 is reported as "Other long-term debt" on the Company's Consolidated Balance Sheet. However, because the Company is not deemed to be the primary beneficiary

of the trust under FASB Interpretation Number 46, *Consolidation of Variable Interest Entities*, the Company's investment in the trust is not eliminated from the Company's financial statements in consolidation. Instead, the Company records its investment in the trust's common shares of \$930 as part of "Other assets" on the Company's Consolidated Balance Sheet.

The Company incurred issuance costs associated with the offering of \$972. These costs are included as a component of "Other assets" on the Company's Consolidated Balance Sheet, and are being amortized into interest expense using the effective yield method through the date the fixed interest period expires (the expected maturity date of the trust preferred securities). The Company's effective financing rate on the trust preferred securities, inclusive of deferred issuance costs, is approximately 8.30% per annum.

CapLease, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Dollar amounts in thousands, except per share amounts)

March 31, 2008 (unaudited)

Scheduled principal amortization and balloon payments for all of the Company's long-term debt as of March 31, 2008 for the next five years and thereafter are as follows:

	Scheduled Amortization	Balloon Payments	Total
9 Months Ending December 31, 2008	\$ 13,082	\$ –	\$ 13,082
2009	22,979	–	22,979
2010	50,724	–	50,724
2011	42,171	18,861	61,032
2012	43,750	192,000	235,750
Thereafter	165,580	934,174	1,099,754
	\$ 338,286	\$ 1,145,035	\$ 1,483,321

For purposes of the above table and with respect to the convertible senior notes issued in October 2007, the Company has assumed a balloon payment date in October 2012 when the notes become subject to a holder redemption right (rather than the stated maturity date in 2027).

13. Commitments and Contingencies

The Company is involved from time to time in litigation arising in the ordinary course of business. The Company is not currently involved in any matter which management believes will have a material adverse effect on the Company's business, results of operations or financial condition.

As an owner of commercial real estate, the Company is subject to potential environmental costs. At March 31, 2008, the Company was not aware of any environmental concerns that would have a material adverse effect on the Company's business, results of operations or financial condition.

The Company is obligated under a letter of credit with respect to one of its 1999 securitization transactions (BSCMS 1999-CLF1). The maximum potential amount of future required payments under the letter of credit is \$2,850. The letter of credit expires on February 18, 2009. The trustee may draw the letter of credit if there are realized losses on the mortgage loans that would create a shortfall in the interest or principal on any investment grade certificate. The letter of credit may be withdrawn when the ratings of the investment grade certificates are no longer dependent upon the credit support provided by the letter of credit. During February 2005, one of the mortgage loans in the securitization on a property leased to Winn-Dixie defaulted, in connection with the bankruptcy of Winn-Dixie. However, management does not expect any draw on the letter of credit as a result of this mortgage default, or otherwise. Letter of credit fees included in interest expense were \$25 and \$25 for the three months ended March 31, 2008 and March 31, 2007, respectively.

During October 2006, the Company acquired a real property in Fresno, California leased to Aetna Life Insurance Company, and agreed to fund expected improvements to the real property of approximately \$812. During November 2006, the Company arranged long-term financing on this property and it funded a reserve account with its lender for the full amount of this obligation. The Company expects these funds will be disbursed in full as improvements are completed. As of March 31, 2008, \$600 of these funds have been disbursed.

As discussed under Note 9 above, the Company has agreed to contribute up to \$5,000 of capital to Matapeake, a real estate investment and management company, subject to the satisfaction of certain terms and conditions by the principals of Matapeake. As of March 31, 2008, the Company had invested \$1,139 toward its aggregate \$5,000 commitment.

CapLease, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Dollar amounts in thousands, except per share amounts)

March 31, 2008 (unaudited)

14. Minority Interests

As of March 31, 2008, the Operating Partnership had issued and outstanding 263,157 common units of limited partnership to a minority interest holder. All of these units were issued in connection with the Company's acquisition of a property in June 2006 from the minority interest holder. Beginning on June 13, 2008, the units of limited partnership are redeemable by the holder, at its option, on the basis of one unit for either one share of CapLease common stock or cash equal to the fair market value of a share of common stock at the time of the redemption. The units of limited partnership do not have a liquidation preference.

Cash distributions by the Operating Partnership will be paid in the following priority: first, to the minority interest holder until such holder receives the amount it would have received if the holder's units of limited partnership interest were converted to an equal number of shares of CapLease common stock, and then, to CapLease. Since July 2006, the minority interest holder has been paid a cash dividend of \$0.20 per limited partnership unit simultaneous with the payment of CapLease's cash dividend of \$0.20 per share of common stock.

Net income has been allocated to the minority interest holder on an "as converted" basis. In other words, the limited partnership units are treated as converted to shares of CapLease common stock, and the minority interest holder is allocated a percentage of the Company's net income based on its percentage of as converted common shares outstanding.

15. Stockholders' Equity

Stock Issuances

CapLease's authorized capital stock consists of 500,000,000 shares of common stock, \$0.01 per share, and 100,000,000 shares of preferred stock, \$0.01 per share. As of March 31, 2008, CapLease had issued and outstanding 44,744,280 shares of common stock, and 1,400,000 shares of 8.125% Series A cumulative redeemable preferred stock.

During March 2008, CLF, Inc. issued 393,950 shares of common stock to its executive officers, other employees and directors pursuant to the Company's stock incentive plan. As of March 31, 2008, the Company had awarded 1,791,195 shares of common stock under the stock plan, all in the form of stock awards to executive officers, other employees and directors of the Company (see Note 16 below).

Dividends

CapLease has paid cash dividends to its common stockholders each quarter since the third quarter of 2004, and to its Series A preferred stockholders each quarter since the fourth quarter of 2005.

The following table summarizes the dividend history on shares of CapLease common stock for the periods indicated.

Quarter Ended	Record Date	Payment Date	Dividend Per Share	Total Amount
12/31/2006	12/29/2006	1/16/2007	\$ 0.20	\$ 6,818
3/31/2007	3/30/2007	4/16/2007	0.20	6,883

Edgar Filing: CapLease, Inc. - Form 10-Q

6/30/2007	6/29/2007	7/16/2007	0.20	9,046
9/30/2007	9/28/2007	10/15/2007	0.20	9,175
12/31/2007	12/31/2007	1/15/2008	0.20	8,870
3/31/2008	3/31/2008	4/15/2008	0.20	8,949

CapLease, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Dollar amounts in thousands, except per share amounts)

March 31, 2008 (unaudited)

The following table summarizes the dividend history on shares of CapLease Series A preferred stock for the periods indicated.

Quarter Ended	Record Date	Payment Date	Dividend Per Share	Total Amount
12/31/2006	12/29/2006	1/16/2007	\$ 0.5078125	\$ 711
3/31/2007	3/30/2007	4/16/2007	0.5078125	711
6/30/2007	6/30/2007	7/16/2007	0.5078125	711
9/30/2007	9/28/2007	10/15/2007	0.5078125	711
12/31/2007	12/28/2007	1/15/2008	0.5078125	711
3/31/2008	3/31/2008	4/15/2008	0.5078125	711

16. Stock Based Compensation

The Company adopted a stock incentive plan for its employees and directors during March 2004 in connection with its initial public offering. 2,323,000 shares of common stock are authorized for issuance under the stock plan. As of March 31, 2008, the Company had awarded 1,791,195 shares of common stock under the stock plan, all in the form of stock awards to executive officers, other employees and directors of the Company. The Company has not awarded any options, stock appreciation rights or other stock based compensation under the stock plan.