

AMERICAN CAMPUS COMMUNITIES INC
Form 10-Q
August 09, 2007

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2007.

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 001-32265

AMERICAN CAMPUS COMMUNITIES, INC.
(Exact name of registrant as specified in its charter)

Maryland

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

**805 Las Cimas Parkway, Suite 400
Austin, TX**

(Address of Principal Executive Offices)

76-0753089

(IRS Employer Identification No.)

78746

(Zip Code)

(512) 732-1000

Registrant's telephone number, including area code

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Large accelerated filer

Accelerated Filer

Non-accelerated filer

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

Yes No

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

There were 23,537,970 shares of American Campus Communities, Inc.'s common stock with a par value of \$0.01 per share outstanding as of the close of business on August 3, 2007.

FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2007

TABLE OF CONTENTS

	PAGE NO.
PART I.	
<u>Item 1.</u>	
<u>Consolidated Financial Statements</u>	
<u>Consolidated Balance Sheets as of June 30, 2007 (unaudited) and December 31, 2006.</u>	1
<u>Consolidated Statements of Operations for the three and six months ended June 30, 2007 and 2006 (all unaudited).</u>	2
<u>Consolidated Statements of Comprehensive Income for the six months ended June 30, 2007 and 2006 (all unaudited).</u>	3
<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2007 and 2006 (all unaudited)</u>	4
<u>Notes to Consolidated Financial Statements</u>	5
<u>Item 2.</u>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
<u>Item 3.</u>	
<u>Quantitative and Qualitative Disclosure about Market Risk</u>	36
<u>Item 4.</u>	
<u>Controls and Procedures</u>	36
PART II.	
<u>Item 4.</u>	
<u>Submissions of Matters to a Vote of Security Holders</u>	37
<u>Item 6.</u>	
<u>Exhibits</u>	37
<u>SIGNATURES</u>	38

AMERICAN CAMPUS COMMUNITIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	June 30, 2007 (Unaudited)	December 31, 2006
Assets		
Investments in real estate:		
Owned properties, net	\$ 862,580	\$ 694,197
On-campus participating properties, net	74,790	76,688
Investments in real estate, net	937,370	770,885
Cash and cash equivalents	8,960	79,107
Restricted cash	15,718	11,260
Student contracts receivable, net	2,360	3,129
Other assets	24,776	20,000
Total assets	\$ 989,184	\$ 884,381
Liabilities and stockholders' equity		
Liabilities:		
Secured debt	\$ 533,956	\$ 432,294
Unsecured revolving credit facility	9,100	-
Accounts payable and accrued expenses	21,883	13,616
Other liabilities	34,923	29,436
Total liabilities	599,862	475,346
Minority interests	32,672	39,561
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Common shares, \$.01 par value, 800,000,000 shares authorized, 23,429,505 and 22,903,073 shares issued and outstanding at June 30, 2007 and December 31, 2006, respectively	234	229
Additional paid in capital	390,670	382,367
Accumulated earnings and distributions	(34,678)	(13,533)
Accumulated other comprehensive income	424	411
Total stockholders' equity	356,650	369,474
Total liabilities and stockholders' equity	\$ 989,184	\$ 884,381

See accompanying notes to consolidated financial statements.

AMERICAN CAMPUS COMMUNITIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, in thousands, except share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Revenues:				
Owned off-campus properties	\$ 28,007	\$ 22,221	\$ 55,152	\$ 40,347
On-campus participating properties	3,740	3,497	10,077	9,479
Third party development services	609	1,060	978	2,662
Third party development services - on-campus participating properties	37	36	73	72
Third party management services	650	691	1,372	1,353
Resident services	323	345	664	665
Total revenues	33,366	27,850	68,316	54,578
Operating expenses:				
Owned off-campus properties	13,046	10,765	24,908	18,532
On-campus participating properties	2,499	2,255	4,525	4,205
Third party development and management services	1,147	1,426	2,441	3,064
General and administrative	2,190	1,824	13,518	3,411
Depreciation and amortization	7,768	6,920	14,738	11,937
Ground/facility leases	495	246	790	438
Total operating expenses	27,145	23,436	60,920	41,587
Operating income	6,221	4,414	7,396	12,991
Nonoperating income and (expenses):				
Interest income	314	144	1,021	329
Interest expense	(6,920)	(7,066)	(13,380)	(12,402)
Amortization of deferred financing costs	(314)	(389)	(612)	(744)
Total nonoperating expenses	(6,920)	(7,311)	(12,971)	(12,817)
(Loss) income before income taxes, minority interests, and discontinued operations	(699)	(2,897)	(5,575)	174
Income tax provision	(60)	-	(120)	-
Minority interests	(26)	181	232	53
(Loss) income from continuing operations	(785)	(2,716)	(5,463)	227
Discontinued operations: Income attributable to discontinued operations	-	649	-	1,370
Net (loss) income	\$ (785)	\$ (2,067)	\$ (5,463)	\$ 1,597

(Loss) income per share - basic:								
(Loss) income from continuing operations per share	\$	(0.03)	\$	(0.16)	\$	(0.24)	\$	0.01
Net (loss) income per share	\$	(0.03)	\$	(0.12)	\$	(0.24)	\$	0.09
(Loss) income per share - diluted:								
(Loss) income from continuing operations per share	\$	(0.03)	\$	(0.15)	\$	(0.23)	\$	0.00
Net (loss) income per share	\$	(0.03)	\$	(0.12)	\$	(0.23)	\$	0.08
Weighted average common shares outstanding:								
Basic		23,271,223		17,221,896		23,107,888		17,215,870
Diluted		25,259,335		19,542,559		25,250,312		18,914,672
Distributions declared per common share								
	\$	0.3375	\$	0.3375	\$	0.675	\$	0.675

See accompanying notes to consolidated financial statements.

AMERICAN CAMPUS COMMUNITIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited, in thousands)

	Six Months Ended June 30,	
	2007	2006
Net (loss) income	\$ (5,463)	\$ 1,597
Other comprehensive income:		
Change in fair value of interest rate swaps	104	187
Net comprehensive (loss) income	\$ (5,359)	\$ 1,784

See accompanying notes to consolidated financial statements.

AMERICAN CAMPUS COMMUNITIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Six Months Ended June 30,	
	2007	2006
Operating activities		
Net (loss) income	\$ (5,463)	\$ 1,597
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Minority interests share of loss	(232)	(53)
Depreciation and amortization	14,738	12,453
Amortization of deferred financing costs and debt premiums/discounts	(122)	128
Share-based compensation	663	420
Amortization of gain on interest rate swap termination	(91)	-
Income tax provision	120	-
Changes in operating assets and liabilities:		
Restricted cash	(3,809)	(1,938)
Student contracts receivable, net	819	902
Other assets	(2,586)	(5,147)
Accounts payable and accrued expenses	7,511	4,191
Other liabilities	(1,979)	(1,158)
Net cash provided by operating activities	9,569	11,395
Investing activities		
Cash paid for property acquisitions	(38,161)	(69,241)
Investments in owned properties	(43,960)	(39,949)
Investments in on-campus participating properties	(227)	(120)
Purchase of corporate furniture, fixtures and equipment	(516)	(363)
Net cash used in investing activities	(82,864)	(109,673)
Financing activities		
Proceeds from revolving credit facility, net of paydowns	9,100	81,200
Proceeds from construction loans	17,370	14,492
Principal payments on debt	(3,103)	(2,321)
Change in construction accounts payable	(1,360)	3,140
Debt issuance and assumption costs	(1,638)	(1,227)
Distributions to common and restricted stockholders	(15,666)	(11,682)
Distributions to minority partners	(1,555)	(483)
Net cash provided by financing activities	3,148	83,119
Net change in cash and cash equivalents	(70,147)	(15,159)
Cash and cash equivalents at beginning of period	79,107	24,641
Cash and cash equivalents at end of period	\$ 8,960	\$ 9,482
Supplemental disclosure of non-cash investing and financing activities		
Loans assumed in connection with property acquisitions	\$ (88,307)	\$ (123,649)
Contribution of land from minority partner in development joint venture	\$ 2,756	\$ -
Issuance of Common Units in connection with property acquisitions	\$ -	\$ (49,096)
Issuance of Preferred Units in connection with property acquisitions	\$ -	\$ (3,075)
Change in fair value of derivative instruments, net	\$ 104	\$ 187

Supplemental disclosure of cash flow information

Interest paid	\$	13,945	\$	12,364
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See accompanying notes to consolidated financial statements.

4

AMERICAN CAMPUS COMMUNITIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Description of Business

American Campus Communities, Inc. (the “Company”) is a real estate investment trust (“REIT”) that was incorporated on March 9, 2004 and commenced operations effective with the completion of an initial public offering (“IPO”) on August 17, 2004. Through the Company’s controlling interest in American Campus Communities Operating Partnership LP (the “Operating Partnership”) and American Campus Communities Services, Inc., (the Company’s taxable REIT subsidiary or “TRS”), the Company is one of the largest owners, managers and developers of high quality student housing properties in the United States in terms of beds owned and under management. The Company is a fully integrated, self-managed and self-administered equity REIT with expertise in the acquisition, design, financing, development, construction management, leasing and management of student housing properties.

As of June 30, 2007, the Company’s property portfolio contained 43 student housing properties with approximately 26,900 beds and approximately 8,900 apartment units, consisting of 39 owned properties that are in close proximities to colleges and universities and four on-campus participating properties operated under ground/facility leases with the related university systems. These communities contain modern housing units, offer resort-style amenities and are supported by a classic resident assistant system and other student-oriented programming.

Through the TRS, the Company also provides construction management and development services for student housing properties owned by colleges and universities, charitable foundations, and others. As of June 30, 2007, the Company provided third party management and leasing services for 13 student housing properties (nine of which the Company served as the third party developer and construction manager) that represented approximately 8,700 beds in approximately 3,100 units. Third party management and leasing services are typically provided pursuant to multi-year management contracts that have initial terms that range from one to five years. As of June 30, 2007, the Company’s total owned and managed portfolio included 56 properties with approximately 35,600 beds in approximately 12,000 units.

2. Summary of Significant Accounting Policies

Principles of Consolidation and Combination

The accompanying consolidated financial statements include all of the accounts of the Company, the Operating Partnership and the subsidiaries of the Operating Partnership. The Company consolidates entities in which it has an ownership interest and over which it exercises significant control over major operating decisions, such as budgeting, investment and financing decisions. The real estate entities included in the consolidated financial statements have been consolidated only for the periods that such entities were under control by the Company. All significant intercompany balances and transactions have been eliminated in consolidation. All dollar amounts in the tables herein, except share and per share amounts, are stated in thousands unless otherwise indicated.

Recent Accounting Pronouncements

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* (“FIN 48”). FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 became effective on January 1, 2007. The Company, or its subsidiaries, files income tax returns in the U.S. Federal jurisdiction and various states’ jurisdictions. Open tax years for federal income tax purposes generally include tax years

2004-2006 as of the date of adoption. The Company adopted the provisions of FIN 48 on January 1, 2007. The Company does not have any material unrecognized tax benefits; therefore, the adoption of FIN 48 did not have a material impact on the Company's consolidated financial statements.

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company does not expect its adoption to have a material impact on the Company's consolidated financial statements.

AMERICAN CAMPUS COMMUNITIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (“SFAS 159”), which gives entities the option to measure eligible financial assets, financial liabilities and firm commitments at fair value on an instrument-by-instrument basis (i.e., the fair value option), which are otherwise not permitted to be accounted for at fair value under other accounting standards. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability or upon entering into a firm commitment. Subsequent changes in fair value must be recorded in earnings. Additionally, SFAS No. 159 allows for a one-time election for existing positions upon adoption, with the transition adjustment recorded to beginning retained earnings. This statement is effective for fiscal years beginning after November 15, 2007. The Company does not expect its adoption to have a material impact on the Company’s consolidated financial statements.

Interim Financial Statements

The accompanying interim financial statements are unaudited, but have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all disclosures required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting solely of normal recurring matters) necessary for a fair presentation of the financial statements for these interim periods have been included. Because of the seasonal nature of the Company’s operations, the results of operations and cash flows for any interim period are not necessarily indicative of results for other interim periods or for the full year. These financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December, 31, 2006.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investments in Real Estate

Investments in real estate are recorded at historical cost. Major improvements that extend the life of an asset are capitalized and depreciated over the remaining useful life of the asset. The cost of ordinary repairs and maintenance is charged to expense when incurred. Depreciation and amortization are recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and improvements	7-40 years
Leasehold interest - on-campus participating properties	25-34 years (shorter of useful life or respective lease term)
Furniture, fixtures and equipment	3-7 years

The cost of buildings and improvements includes the purchase price of the property, including legal fees and acquisition costs. Project costs directly associated with the development and construction of an owned real estate project, which include interest, property taxes, and amortization of deferred finance costs, are capitalized as construction in progress. Upon completion of the project, costs are transferred into the applicable asset category and

depreciation commences. Interest totaling approximately \$1.5 million and \$0.8 million was capitalized during the three months ended June 30, 2007 and 2006, respectively, and \$2.6 million and \$1.3 million was capitalized during the six months ended June 30, 2007 and 2006, respectively. Amortization of deferred financing costs totaling approximately \$0.1 million and \$31,000 was capitalized during the three months ended June 30, 2007 and 2006, respectively, and approximately \$0.2 million and \$0.1 million was capitalized during the six months ended June 30, 2007 and 2006, respectively.

Management assesses whether there has been an impairment in the value of the Company's investments in real estate whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is recognized when estimated expected future cash flows (undiscounted and before interest charges) are less than the carrying value of the property. The estimation of expected future net cash flows is inherently uncertain and relies on assumptions regarding current and future economics and market conditions. If such conditions change, then an adjustment to the carrying value of the Company's long-lived assets could occur in the future period in which the conditions change. To the extent that a property is impaired, the excess of the carrying amount of the property over its estimated fair value is charged to earnings. The Company believes that there were no impairments of the carrying values of its investments in real estate as of June 30, 2007.

AMERICAN CAMPUS COMMUNITIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company allocates the purchase price of acquired properties to net tangible and identified intangible assets based on relative fair values in accordance with Statement of Financial Accounting Standard (“SFAS”) No. 141, *Business Combinations*. Fair value estimates are based on information obtained from a number of sources, including independent appraisals that may be obtained in connection with the acquisition or financing of the respective property and other market data. Information obtained about each property as a result of due diligence, marketing and leasing activities is also considered. The value of in-place leases is based on the difference between (i) the property valued with existing in-place leases adjusted to market rental rates and (ii) the property valued “as-if” vacant. As lease terms are typically one year or less, rates on in-place leases generally approximate market rental rates. Factors considered in the valuation of in-place leases include an estimate of the carrying costs during the expected lease-up period considering current market conditions, nature of the tenancy, and costs to execute similar leases. Carrying costs include estimates of lost rentals at market rates during the expected lease-up period, as well as marketing and other operating expenses. The value of in-place leases is amortized over the remaining initial term of the respective leases, generally less than one year. The purchase price of property acquisitions is not expected to be allocated to tenant relationships, considering the terms of the leases and the expected levels of renewals. The Company’s allocation of purchase price is contingent upon the final true-up of certain proratons.

Intangible Assets

In connection with property acquisitions completed during the six months ended June 30, 2007 and 2006, the Company capitalized approximately \$1.2 million and \$2.3 million, respectively, related to management’s estimate of the fair value of the in-place leases assumed. These intangible assets are amortized on a straight-line basis over a term of approximately six months, which represents the average remaining term of the underlying leases. The amortization is included in depreciation expense in the accompanying consolidated statements of operations. See Note 3 for a detailed discussion of the property acquisitions completed during the six months ended June 30, 2007.

Debt Premiums and Discounts

Debt premiums and discounts represent fair value adjustments to account for the difference between the stated rates and market rates of debt assumed in connection with the Company’s property acquisitions. The debt premiums and discounts are amortized to interest expense over the term of the related loans using the effective-interest method. As of June 30, 2007 and December 31, 2006, unamortized debt premiums were \$5.8 million and \$6.4 million, respectively, and unamortized debt discounts were \$0.7 million and \$0.4 million, respectively. Debt premiums and discounts are included in secured debt on the accompanying consolidated balance sheets.

Third-Party Development Services Revenue and Costs

Development revenues are generally recognized based on a proportionate performance method based on contract deliverables, while construction revenues are recognized using the percentage of completion method, as determined by construction costs incurred relative to total estimated construction costs. Costs associated with such projects are deferred and recognized in relation to the revenues earned on executed contracts. For projects where the Company’s fee is based on a fixed price, any cost overruns incurred during construction, as compared to the original budget, will reduce the net fee generated on those projects. Incentive fees are generally recognized when the project is complete and performance has been agreed upon by all parties, or when performance has been verified by an independent third-party.

The Company also evaluates the collectibility of fee income and expense reimbursements generated through the provision of development and construction management services based upon the individual facts and circumstances,

including the contractual right to receive such amounts in accordance with the terms of the various projects, and reserves any amounts that are deemed to be uncollectible.

Pre-development expenditures such as architectural fees, permits and deposits associated with the pursuit of third-party and owned development projects are expensed as incurred, until such time that management believes it is probable that the contract will be executed and/or construction will commence. Because the Company frequently incurs these pre-development expenditures before a financing commitment and/or required permits and authorizations have been obtained, the Company bears the risk of loss of these pre-development expenditures if financing cannot ultimately be arranged on acceptable terms or the Company is unable to successfully obtain the required permits and authorizations. As such, management evaluates the status of third-party and owned projects that have not yet commenced construction on a periodic basis and expenses any deferred costs related to projects whose current status indicates the commencement of construction is unlikely and/or the costs may not provide future value to the Company in the form of revenues. Such write-offs are included in third-party development and management services expenses (in the case of third-party development projects) or general and administrative expenses (in the case of owned development projects) on the accompanying consolidated statements of operations. As of June 30, 2007, we have deferred approximately \$4.6 million in pre-development costs related to third-party and owned development projects that have not yet commenced construction. Such costs are included in other assets on the accompanying consolidated balance sheets.

AMERICAN CAMPUS COMMUNITIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Stock-Based Compensation

The Company accounts for equity based awards in accordance with SFAS No. 123 (R), *Share-Based Payment*. Accordingly, the Company has recognized compensation expense related to certain restricted stock awards (see Note 9) over the underlying vesting periods, which amounted to approximately \$0.5 million and \$0.3 million during the three months ended June 30, 2007 and 2006, respectively, and \$0.7 million and \$0.4 million during the six months ended June 30, 2007 and 2006, respectively.

Income Taxes

The Company has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the "Code"). To qualify as a REIT, the Company must meet a number of organizational and operational requirements, including a requirement that it currently distribute at least 90% of its adjusted taxable income to its stockholders. As a REIT, the Company will generally not be subject to corporate level federal income tax on taxable income it currently distributes to its stockholders. If the Company fails to qualify as a REIT in any taxable year, it will be subject to federal income taxes at regular corporate rates (including any applicable alternative minimum tax) and may not be able to qualify as a REIT for the subsequent four taxable years. Even if the Company qualifies for taxation as a REIT, the Company may be subject to certain state and local income and excise taxes on its income and property, and to federal income and excise taxes on its undistributed income.

The TRS manages the Company's non-REIT activities and is subject to federal, state and local income taxes.

Earnings Per Share

Basic earnings per share is computed using net income (loss) and the weighted average number of shares of the Company's common stock outstanding during the period, including restricted stock units ("RSUs") issued to outside directors. RSUs are included in both basic and diluted weighted average common shares outstanding because they were fully vested on the date of grant and all conditions required in order for the recipients to earn the RSUs have been satisfied. Diluted earnings per share reflects weighted average common shares issuable from the assumed conversion of restricted stock awards ("RSAs") granted to employees and common and preferred units of limited partnership interest in the Operating Partnership ("Common Units" and "Series A Preferred Units," respectively). See Note 7 for a discussion of Common Units and Series A Preferred Units.

AMERICAN CAMPUS COMMUNITIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following is a summary of the elements used in calculating basic and diluted earnings per share:

	Three Months Ended June 30,		Six Months Ended June 30,					
	2007		2006					
Basic earnings per share calculation:								
(Loss) income from continuing operations	\$	(785)	\$	(2,716)	\$	(5,463)	\$	227
Discontinued operations		-		649		-		1,370
Net (loss) income	\$	(785)	\$	(2,067)	\$	(5,463)	\$	1,597
(Loss) income from continuing operations - per share	\$	(0.03)	\$	(0.16)	\$	(0.24)	\$	0.01
Income from discontinued operations - per share	\$	-	\$	0.04	\$	-	\$	0.08
Net (loss) income - per share	\$	(0.03)	\$	(0.12)	\$	(0.24)	\$	0.09
Basic weighted average common shares outstanding		23,271,223		17,221,896		23,107,888		17,215,870
Diluted earnings per share calculation:								
(Loss) income from continuing operations	\$	(785)	\$	(2,716)	\$	(5,463)	\$	227
Series A Preferred Unit distributions		46		46		92		61
Loss from continuing operations allocated to Common Units		(55)		(339)		(417)		(292)
Loss from continuing operations, as adjusted		(794)		(3,009)		(5,788)		(4)
Discontinued operations		-		649		-		1,370
Income from discontinued operations allocated to Common Units		-		73		-		103
Income from discontinued operations, as adjusted		-		722		-		1,473
Net (loss) income, as adjusted	\$	(794)	\$	(2,287)	\$	(5,788)	\$	1,469
(Loss) income from continuing operations - per share	\$	(0.03)	\$	(0.15)	\$	(0.23)	\$	0.00
Income from discontinued operations - per share	\$	-	\$	0.03	\$	-	\$	0.08
Net (loss) income - per share	\$	(0.03)	\$	(0.12)	\$	(0.23)	\$	0.08
Basic weighted average common shares outstanding		23,271,223		17,221,896		23,107,888		17,215,870
Common Units		1,873,149		2,205,700		2,027,461		1,525,930

Series A Preferred Units	114,963	114,963	114,963	77,490
Restricted stock awards ⁽¹⁾	-	-	-	95,382
Diluted weighted average common shares outstanding	25,259,335	19,542,559	25,250,312	18,914,672

⁽¹⁾ 164,151 and 102,728 weighted average restricted stock awards are excluded from diluted weighted average common shares outstanding for the three months ended June 30, 2007 and 2006, respectively, and 158,788 weighted average restricted stock awards are excluded from diluted weighted average common shares outstanding for the six months ended June 30, 2007, because they would be anti-dilutive due to the Company's loss position for these periods.

3. Property Acquisitions

In January 2007, the Company acquired a 248-unit, 752-bed property (Village on Sixth) located near the campus of Marshall University in Huntington, West Virginia, for a purchase price of \$25.6 million, which excludes \$1.7 million of anticipated transaction costs, initial integration expenses and capital expenditures necessary to bring this property up to the Company's operating standards. As part of the transaction, the Company assumed two fixed-rate mortgage loans, which includes one for \$16.2 million with an annual interest rate of 5.5% and remaining term to maturity of 7.5 years and a second loan for \$1.4 million with an annual interest rate of 6.6% and remaining term to maturity of 9.9 years.

In February 2007, the Company acquired a three property portfolio (the "Edwards Portfolio") for a purchase price of \$102.0 million, which excludes \$3.7 million of anticipated transaction costs, initial integration expenses and capital expenditures necessary to bring these properties up to the Company's operating standards. As part of the transaction, the Company assumed \$70.7 million in fixed-rate mortgage debt with a weighted average annual interest rate of 5.7% and an average remaining term to maturity of 8.5 years. In August 2007, construction was completed on an additional phase at one of these properties. As contemplated in the original transaction, concurrent with the completion of construction, the Company purchased this additional phase consisting of 24 units and 84 beds, for approximately \$4.6 million.

AMERICAN CAMPUS COMMUNITIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Edwards Portfolio consists of one property in Lexington, Kentucky located near the campus of the University of Kentucky, one property in Toledo, Ohio located near the campus of the University of Toledo and one property in Ypsilanti, Michigan located near the campus of Eastern Michigan University. Including the purchase of the additional phase discussed above, these three properties contain 764 units and 1,971 beds.

The acquired properties' results of operations have been included in the accompanying consolidated statements of operations since their respective acquisition closing dates. The following pro forma information for the three and six months ended June 30, 2007 and 2006 presents consolidated financial information for the Company as if the property acquisitions discussed above, the Company's 2006 acquisitions and the Company's September 2006 equity offering had occurred at the beginning of the earliest period presented. The unaudited pro forma information is provided for informational purposes only and is not indicative of results that would have occurred or which may occur in the future:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Total revenues	\$ 33,366	\$ 34,224	\$ 70,554	\$ 69,743
Net (loss) income	\$ (215)	\$ (898)	\$ (4,298)	\$ 2,024
Net (loss) income per share - basic	\$ (0.01)	\$ (0.04)	\$ (0.19)	\$ 0.09
Net (loss) income per share - diluted	\$ (0.01)	\$ (0.04)	\$ (0.18)	\$ 0.09

4. Property Disposition and Discontinued Operations

The Village on University, an owned off-campus property, was sold in December 2006 for approximately \$51.0 million, resulting in net cash proceeds of approximately \$50.0 million. As such, the net income attributable to this property is reflected in the accompanying consolidated statements of operations as discontinued operations in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Below is a summary of the results of operations of the aforementioned property for all periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Total revenues	\$ -	\$ 1,387	\$ -	\$ 2,748
Total operating expenses	-	(738)	-	(1,378)
Net Income	\$ -	\$ 649	\$ -	\$ 1,370

5. Investments in Owned Properties

Owned properties consisted of the following:

	June 30, 2007	December 31, 2006
Land	\$ 91,664	\$ 75,263
Buildings and improvements	687,306	579,906
Furniture, fixtures and equipment	35,821	28,111
Construction in progress	105,212	56,958
	920,003	740,238
Less accumulated depreciation	(57,423)	(46,041)

Owned properties, net \$ 862,580 \$ 694,197

6. On-Campus Participating Properties

The Company is a party to ground/facility lease agreements (“Leases”) with certain state university systems and colleges (each, a “Lessor”) for the purpose of developing, constructing, and operating student housing facilities on university campuses. Under the terms of the Leases, title to the constructed facilities is held by the applicable Lessor and such Lessor receives a de minimus base rent paid at inception and 50% of defined net cash flows on an annual basis through the term of the lease. The Leases terminate upon the earlier to occur of the final repayment of the related debt, the amortization period of which is contractually stipulated, or the end of the lease term.

10

AMERICAN CAMPUS COMMUNITIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Pursuant to the Leases, in the event the leasehold estates do not achieve Financial Break Even (defined as revenues less operating expenses, excluding management fees, less debt service), the applicable Lessor would be required to make a rental payment, also known as the Contingent Payment, sufficient to achieve Financial Break Even. The Contingent Payment provision remains in effect until such time as any financing placed on the facilities would receive an investment grade rating without the Contingent Payment provision. In the event that the Lessor is required to make a Contingent Payment, future net cash flow distributions would be first applied to repay such Contingent Payments and then to unpaid management fees prior to normal distributions. Beginning in November 1999 and December 2002, as a result of the debt financing on the facilities achieving investment grade ratings without the Contingent Payment provision, the Texas A&M University System is no longer required to make Contingent Payments under either the Prairie View A&M University Village or University College Leases. The Contingent Payment obligation continues to be in effect for the Texas A&M International University and University of Houston leases.

In the event the Company seeks to sell its leasehold interest, the Leases provide the applicable Lessor the right of first refusal of a bona fide purchase offer and an option to purchase the lessee's rights under the applicable Lease.

In conjunction with the execution of each Lease, the Company has entered into separate five-year agreements to manage the related facilities for 5% of defined gross receipts. The five-year terms of the management agreements are not contingent upon the continuation of the Leases. Upon expiration of the initial five year terms, the agreements continue on a month-to-month basis.

On-campus participating properties are as follows:

Lessor/University	Lease Commencement	Required Debt Repayment⁽¹⁾	Historical Cost	
			June 30, 2007	December 31, 2006
Texas A&M University System / Prairie View A&M University ⁽²⁾	2/1/96	9/1/23	\$ 38,378	\$ 38,277
Texas A&M University System / Texas A&M International	2/1/96	9/1/23	6,024	6,009
Texas A&M University System / Prairie View A&M University ⁽³⁾	10/1/99	8/31/25 / 8/31/28	23,945	23,872
University of Houston System / University of Houston ⁽⁴⁾	9/27/00	8/31/35	34,666	34,628
			103,013	102,786
Less accumulated amortization			(28,223)	(26,098)
On-campus participating properties, net			\$ 74,790	\$ 76,688

⁽¹⁾ Represents the effective lease termination date. The Leases terminate upon the earlier to occur of the final repayment of the related debt or the end of the contractual lease term.

⁽²⁾ Consists of three phases placed in service between 1996 and 1998.

⁽³⁾ Consists of two phases placed in service in 2000 and 2003.

⁽⁴⁾ Consists of two phases placed in service in 2001 and 2005.

**AMERICAN CAMPUS COMMUNITIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

7. Minority Interests

The Company consolidates the accounts of the Operating Partnership and its subsidiaries into its consolidated financial statements. However, the Company does not own 100% of the Operating Partnership and certain consolidated real estate joint ventures. The amounts reported as minority interests on the Company's consolidated balance sheet reflect the portion of these consolidated entities' equity that the Company does not own. Accordingly, the amounts reported as minority interest on the Company's consolidated statements of operations reflect the portion of these consolidated entities' net income or loss not allocated to the Company.

Equity interests in the Operating Partnership not owned by the Company are held in the form of Common Units and Series A Preferred Units. Such Common Units and Series A Preferred Units are exchangeable into an equal number of shares of the Company's common stock, or, at the Company's election, cash. A Common Unit and a share of the Company's common stock have essentially the same economic characteristics, as they effectively participate equally in the net income and distributions of the Operating Partnership. Series A Preferred Units have a cumulative preferential per annum cash distribution rate of 5.99%, payable quarterly concurrently with the payment of dividends on the Company's common stock.

Income or loss allocated to minority interests on the Company's consolidated statements of operations includes the Series A Preferred Unit distributions as well as the pro rata share of the Operating Partnership's net income or loss allocated to Common Units. The Common Unitholders' minority interest in the Operating Partnership is reported at an amount equal to their ownership percentage of the net equity of the Operating Partnership at the end of each reporting period. Common Units and Series A Preferred Units issued in connection with the 2006 acquisition of the Royal Portfolio became exchangeable into an equal number of shares of the Company's common stock on March 1, 2007. As a result, 288,446 and 508,359 Common Units were converted into shares of the Company's common stock during the three and six months ended June 30, 2007, respectively. As of June 30, 2007 and December 31, 2006, approximately 7% and 9%, respectively, of the equity interests of the Operating Partnership was held by persons affiliated with Royal Properties and certain current and former members of management in the form of Common Units and Series A Preferred Units.

Minority interests also include the equity interests of unaffiliated joint venture partners in four joint ventures. Two of the joint ventures own and operate the Company's Callaway House and University Village at Sweet Home owned-off campus properties, which are located near the campuses of Texas A&M University and the State University of New York - Buffalo, respectively. The other two joint ventures own properties that are currently under development. One joint venture was formed to develop, own, and operate the Company's University Centre owned off-campus property, which is scheduled to open for occupancy in Fall 2007 and is located near the campuses of Rutgers University, New Jersey Institute of Technology and Essex County Community College. The other joint venture was formed to develop, own, and operate the Company's Villas at Chestnut Ridge owned off-campus property, which is scheduled to open for occupancy in Fall 2008 and is located near the campus of the State University of New York - Buffalo.

8. Debt

A summary of the Company's outstanding consolidated indebtedness, including unamortized debt premiums and discounts, is as follows:

	June 30, 2007	December 31, 2006
Debt secured by owned off-campus properties:		

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Mortgage loans payable	\$ 400,314	\$ 315,044
Construction loan payable	38,756	21,386
	439,070	336,430
Debt secured by on-campus participating properties:		
Mortgage loans payable	33,156	16,513
Construction loan payable	-	16,710
Bonds payable	56,675	56,675
	89,831	89,898
Revolving credit facility	9,100	-
Unamortized debt premiums/discounts	5,055	5,966
Total debt	\$ 543,056	\$ 432,294

12

AMERICAN CAMPUS COMMUNITIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Loans Assumed or Entered Into in Conjunction with Property Acquisitions

In connection with the January 2007 acquisition of Village on Sixth (see Note 3), an owned off-campus property, the Company assumed approximately \$17.6 million of fixed-rate mortgage debt, which is comprised of one \$16.2 million mortgage loan with an annual interest rate of 5.5% and May 2014 maturity date, and a second mortgage loan for \$1.4 million with an annual interest rate of 6.6% and October 2016 maturity date. Upon assumption of this debt, the Company recorded a debt discount of approximately \$0.3 million on the \$16.2 million mortgage loan and a debt premium of approximately \$0.1 million on the \$1.4 million mortgage loan, in each case to reflect the estimated fair value of the debt assumed. These mortgage loans are secured by liens on the related properties.

In connection with the February 2007 acquisition of the Edwards Portfolio (see Note 3), the Company assumed approximately \$70.7 million in fixed-rate mortgage debt. At the time of assumption, the debt had a weighted average interest rate of 5.7% and an average remaining term to maturity of 8.3 years. Upon assumption of these three loans, the Company recorded debt premiums of approximately \$0.1 million, to reflect the estimated fair value of the debt assumed. These three mortgage loans are secured by liens on the related properties.

Cullen Oaks Loans

In addition, in February 2007, the Company extended the maturity date of the Cullen Oaks Phase I and Phase II loans to February 2014. The extended loans bear interest at a rate of LIBOR plus 1.35% and require payments of interest only through May 2008 and monthly payments of principal and interest from May 2008 through the maturity date. In connection with these loan extensions, the Company terminated an existing interest rate swap agreement and entered into a new interest rate swap agreement (see Note 10).

Revolving Credit Facility

The Operating Partnership has a \$115 million revolving credit facility, which may be expanded by up to an additional \$110 million upon the satisfaction of certain conditions. The maturity date of the facility is August 17, 2009 and the Company guarantees the Operating Partnership's obligations under the facility.

Availability under the revolving credit facility is limited to an "aggregate borrowing base amount" equal to the lesser of (i) 65% of the value of certain properties, calculated as set forth in the credit facility, and (ii) the adjusted net operating income from these properties divided by a formula amount. The facility bears interest at a variable rate, at the Company's option, based upon a base rate or one-, two-, three-, or six-month LIBOR plus, in each case, a spread based upon the Company's total leverage. Additionally, the Company is required to pay an unused commitment fee ranging from 0.15% to 0.20% per annum, depending on the aggregate unused balance. As of June 30, 2007, the balance outstanding on the revolving credit facility totaled \$9.1 million, bearing interest at a weighted average rate of 6.71%, with remaining availability under the facility (subject to the satisfaction of certain financial covenants) totaling approximately \$101.3 million.

The terms of the facility include certain restrictions and covenants, which limit, among other items, the incurrence of additional indebtedness, liens, and the disposition of assets. The facility contains customary affirmative and negative covenants and also contains financial covenants that, among other things, require the Company to maintain certain minimum ratios of "EBITDA" (earnings before interest, taxes, depreciation and amortization) to fixed charges. The Company may not pay distributions that exceed 100% of funds from operations for any four consecutive quarters. The financial covenants also include consolidated net worth and leverage ratio tests. As of June 30, 2007, the Company was in compliance with all such covenants.

9.

Incentive Award Plan

The Company has adopted the 2004 Incentive Award Plan (the “Plan”). The Plan provides for the grant to selected employees and directors of the Company and the Company’s affiliates of stock options, RSUs, RSAs, and other stock-based incentive awards. The Company has reserved a total of 1,210,000 shares of the Company’s common stock for issuance pursuant to the Plan, subject to certain adjustments for changes in the Company’s capital structure, as defined in the Plan. As of June 30, 2007, the Company has issued 706,299 awards under the Plan which includes 367,682 common stock awards in the form of an outperformance bonus plan discussed in more detail below. A summary of the Company’s stock-based incentive awards under the Plan as of June 30, 2007 and changes during the six months ended June 30, 2007, is presented below:

13

**AMERICAN CAMPUS COMMUNITIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

	Common Units	Restricted Stock Units (RSUs)	Restricted Stock Awards (RSAs)	Outperformance Bonus Plan⁽¹⁾	Total
Outstanding at December 31, 2006	110,000	20,555	100,047	367,682	598,284
Granted ⁽²⁾ ⁽³⁾	-	5,376	91,607	-	96,983
Vested	-	-	(18,073)	-	(18,073)
Forfeited	-	-	(9,541)	-	(9,541)

B-5

6.1 Type of Option. Each Stock Option agreement shall identify the Stock Option represented thereby as an Incentive Stock Option or a Non-Qualified Stock Option, as the case may be.

6.2 Option Price. The Stock Option exercise price shall be fixed by the Committee and specified in each Stock Option agreement; provided, however, that the exercise price shall not be less than 100% (or 110% in the case of an Incentive Stock Option granted to an employee referred to in Section 6.7(ii) below) of the Fair Market Value of the shares of Common Stock subject to the Stock Option on the date the Stock Option is granted.

6.3 Vesting and Exercise Term. Each Stock Option agreement shall state the period or periods of time within which the Stock Option may be exercised, in whole or in part, which shall be such period or periods of time as may be determined by the Committee, provided that no Incentive Stock Option shall be exercisable after ten years from the date of grant thereof (or, in the case of an Incentive Stock Option granted to an employee referred to in Section 6.7(ii) below, such term shall in no event exceed five years from the date on which such Incentive Stock Option is granted). Each Stock Option agreement shall also state any conditions which must be satisfied before all or a portion of the Stock Option may be exercised. In so doing, the Committee may specify that a Stock Option may not be exercised until the completion of a service period or until Performance Goals are satisfied.

6.4 Payment for Shares. Subject to any vesting period specified in the Stock Option agreement, a Stock Option shall be deemed to be exercised when written notice of such exercise, in a form determined by the Committee, has been given to the Company in accordance with the terms of the Stock Option agreement by the Participant entitled to exercise the Stock Option and full payment for the shares of Common Stock with respect to which the Stock Option is exercised has been received by the Company. The Committee, in its sole discretion, may permit all or part of the payment of the exercise price (and taxes required to be withheld as provided in Section 16) to be made, to the extent permitted by applicable statutes and regulations, either: (i) in cash, by check or wire transfer, (ii) by tendering previously acquired shares of Common Stock having an aggregate Fair Market Value at the time of exercise equal to the total exercise price and such taxes, (iii) by withholding shares of Common Stock which otherwise would be acquired on exercise having an aggregate Fair Market Value at the time of exercise equal to the total exercise price and such taxes, (iv) delivery (including by facsimile or by electronic mail) to the Company or its designated agent of an executed irrevocable option exercise form together with irrevocable instructions from the Participant to a broker or dealer, reasonably acceptable to the Company, to sell certain of the shares of Common Stock purchased upon exercise of the Stock Option or to pledge such shares as collateral for a loan and promptly deliver to the Company the amount of sale or loan proceeds necessary to pay such purchase price and any tax withholding obligations that may arise in connection with such exercise (otherwise known as a broker-assisted cashless exercise) (v) by a combination of (i), (ii), (iii) and (iv) above, or (vi) in any other form of legal consideration as provided for under the terms of the Stock Option. No shares of Common Stock shall be issued to any Participant upon exercise of a Stock Option until the Company receives full payment therefor as described above. Upon the receipt of notice of exercise and full payment for the shares of Common Stock, the shares of Common Stock shall be deemed to have been issued and the Participant shall be entitled to receive such shares of Common Stock and shall be a stockholder with respect to such shares, and the shares of Common Stock shall be considered fully paid and nonassessable. No adjustment will be made for a dividend or other right for which the record date is prior to the date on which the Common Stock is issued, except as provided in Section 20 of the Plan. Each exercise of a Stock Option shall reduce, by an equal number, the total number of shares of Common Stock that may thereafter be purchased under such Stock Option.

6.5 Rights upon Termination of Continuous Service. In the event that a Participant's Continuous Service terminates for any reason, other than death, Disability or Retirement or for Cause, any rights of the Participant under any Stock Option shall immediately terminate; provided, however, that the Participant (or any successor or legal representative) shall have the right to exercise the Stock Option to the extent that the Stock Option was exercisable at the time of termination, until the earlier of (i) the date that is three months after the effective date of such termination of Continuous Service, or such other date as determined by the Committee in its sole discretion, or (ii) the expiration of the term of the Stock Option.

Notwithstanding the foregoing, the Participant (or any successor or legal representative) shall not have any rights under any Stock Option, to the extent that such Stock Option has not previously been exercised, and the Company shall not be obligated to sell or deliver shares of Common Stock (or have any other obligation or liability) under such Stock Option if the Committee shall determine in its sole discretion that the Participant's Continuous Service shall have been terminated for Cause (as such term is defined in the Participant's Stock Option agreement), which determination shall be made in good faith. In the event of such determination, the Participant (or any successor or legal representative) shall have no right under any Stock Option, to the extent that such Stock Option has not previously been exercised, to purchase any shares of Common Stock. Any Stock Option may be terminated entirely by the Committee at the time or at any time subsequent to a determination by the Committee under this Section 6.5 which has the effect of eliminating the Company's obligation to sell or deliver shares of Common Stock under such Stock Option.

Unless otherwise determined by the Committee, in the event that a Participant's Continuous Service terminates as a result of Retirement prior to the expiration of the Stock Option and without the Participant having fully exercised the Stock Option, the Participant or his or her successor or legal representative shall have the right to exercise the Stock Option, to the extent such Stock Option was exercisable at the time of Retirement, within the next 12 months following Retirement, or such other period as determined by the Committee in its sole discretion, but not later than the expiration of the term of the Stock Option.

Unless otherwise determined by the Committee, in the event that a Participant's Continuous Service terminates because such Participant dies or suffers a Disability prior to the expiration of the Stock Option and without the Participant having fully exercised the Stock Option, the Participant or his or her successor or legal representative shall have the right to exercise the Stock Option, to the extent such Stock Option was exercisable at the time of such event, within the next 12 months following such event, or such other period as determined by the Committee in its sole discretion, but not later than the expiration of the term of the Stock Option.

6.6 No Repricing. Subject to Section 20, the exercise price for a Stock Option may never be less than 100% of the Fair Market Value of the shares of Common Stock subject to the Stock Option on the date the Stock Option is granted. Notwithstanding anything in the Plan to the contrary, the repricing of a Stock Option is prohibited without prior approval of the Company's stockholders by a majority of votes cast in favor of such proposal. For this purpose, a repricing means any of the following (or any other action that has the same effect as any of the following): (A) changing the terms of a Stock Option to lower its exercise price; (B) any other action that is treated as a repricing under generally accepted accounting principles; and (C) repurchasing for cash or canceling a Stock Option at a time when its exercise price is greater than the Fair Market Value of the underlying shares of Common Stock in exchange for another award, unless the cancellation and exchange occurs in connection with a change in capitalization or other similar change permitted under Section 20. Such cancellation and exchange would be considered a repricing regardless of whether it is treated as a repricing under generally accepted accounting principles and regardless of whether it is voluntary on the part of the Participant.

6.7 Special Incentive Stock Option Rules. Notwithstanding the foregoing, in the case of an Incentive Stock Option, each Stock Option agreement shall contain such other terms, conditions and provisions as the Committee determines necessary or desirable in order to qualify such Stock Option as an Incentive Stock Option under the Code including, without limitation, the following:

(i) To the extent that the aggregate Fair Market Value (determined as of the time the Stock Option is granted) of the Common Stock, with respect to which Incentive Stock Options granted under this Plan (and all other plans of the Company and its Subsidiaries) become exercisable for the first time by any person in any calendar year, exceeds \$100,000, such Stock Options shall be treated as Non-Qualified Stock Options.

(ii) No Incentive Stock Option shall be granted to any employee if, at the time the Incentive Stock Option is granted, the employee (by reason of the attribution rules applicable under Section 424(d) of the Code)

owns more than 10% of the combined voting power of all classes of stock of the Company or any Subsidiary unless at the time such Incentive Stock Option is granted the Stock Option exercise price is at least 110% of the Fair Market Value (determined as of the time the Incentive Stock Option is granted) of the shares of Common Stock subject to the Incentive Stock Option and such Incentive Stock Option by its terms is not exercisable after the expiration of five years from the date of grant.

If an Incentive Stock Option is exercised after the expiration of the exercise periods that apply for purposes of Section 422 of the Code, such Stock Option shall thereafter be treated as a Non-Qualified Stock Option.

6.8 Conversion of Director Fees. The Board may, at its sole discretion, permit an Outside Director to receive all or a portion of his or her annual retainer fee, any fees for attending meetings of the Board or committees thereof, committee chairmanship fees or any other fees payable to an Outside Director in the form of a Stock Option. The terms and conditions of such Stock Option, including (without limitation) the method for converting the annual retainer fee or any other fee payable to an Outside Director into a Stock Option, the date of grant, the vesting schedule, if any, and the time period for an Outside Director to elect such a Stock Option shall be determined solely by the Board. The Board's decision shall be final, binding and conclusive.

Section 7. Stock Appreciation Rights. Stock Appreciation Rights entitle Participants to increases in the Fair Market Value of shares of Common Stock. The terms and conditions of each Stock Appreciation Right granted under the Plan shall be specified by the Committee, in its sole discretion, and shall be set forth in a written agreement between the Company and the Participant or notice from the Company to the Participant in such form as the Committee shall approve from time to time or as may be reasonably required in view of the terms and conditions approved by the Committee from time to time. The agreements shall contain in substance the following terms and conditions and may contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Committee shall deem desirable.

7.1 Award. Stock Appreciation Rights shall entitle the Participant, subject to such terms and conditions determined by the Committee, to receive upon exercise thereof an award equal to all or a portion of the excess of: (i) the Fair Market Value of a specified number of shares of Common Stock at the time of exercise, over (ii) a specified price which shall not be less than 100% of the Fair Market Value of the Common Stock at the time the right is granted or, if connected with a previously issued Stock Option, not less than 100% of the Fair Market Value of the Common Stock at the time such Stock Option was granted. Such amount may be paid by the Company in cash, Common Stock (valued at its then Fair Market Value) or any combination thereof, as the Committee may determine. Stock Appreciation Rights may be, but are not required to be, granted in connection with a previously or contemporaneously granted Stock Option, provided that such Stock Appreciation Rights shall be subject to the same terms and conditions as apply to the underlying Stock Option to which they relate. Stock Options surrendered in the exercise of Stock Appreciation Rights shall no longer be exercisable to the extent the related Stock Appreciation Rights have been exercised.

7.2 Term. Each agreement shall state the period or periods of time within which the Stock Appreciation Right may be exercised, in whole or in part, subject to such terms and conditions prescribed for such purpose by the Committee. The Committee shall have the power to permit an acceleration of previously established exercise terms upon such circumstances and subject to such terms and conditions as the Committee deems appropriate. Stock Appreciation Rights granted in connection with a previously or contemporaneously granted Stock Option may be exercised at the time the Stock Option vests but not later than the expiration date of such Stock Option.

7.3 Rights upon Termination of Continuous Service. In the event that a Participant's Continuous Service terminates for any reason, other than death, Disability or Retirement, any rights of the Participant under any Stock Appreciation Right shall immediately terminate; provided, however, the Participant (or any successor or legal representative) shall have the right to exercise the Stock Appreciation Right to the extent that the Stock Appreciation Right was exercisable at the time of termination, until the earlier of (i) the date that is three months

after the effective date of such termination of Continuous Service, or such other date as determined by the Committee in its sole discretion, or (ii) the expiration of the term of the Stock Appreciation Right.

Notwithstanding the foregoing, the Participant (or any successor or legal representative) shall not have any rights under any Stock Appreciation Right, to the extent that such Stock Appreciation Right has not previously been exercised, and the Company shall not be obligated to pay or deliver any cash, Common Stock or any combination thereof (or have any other obligation or liability) under such Stock Appreciation Right if the Committee shall determine in its sole discretion that the Participant's Continuous Service shall have been terminated for Cause (as such term is defined in the Participant's Stock Appreciation Right agreement), which determination shall be made in good faith. In the event of such determination, the Participant (or any successor or legal representative) shall have no right under such Stock Appreciation Right, to the extent that such Stock Appreciation Right has not previously been exercised. Any Stock Appreciation Right may be terminated entirely by the Committee at the time of or at any time subsequent to the determination by the Committee under this Section 7.3 which has the effect of eliminating the Company's obligations under such Stock Appreciation Right.

Unless otherwise determined by the Committee, in the event that a Participant's Continuous Service terminates as a result of Retirement prior to the expiration of his or her Stock Appreciation Right and without having fully exercised his or her Stock Appreciation Right, the Participant or his or her successor or legal representative shall have the right to exercise any Stock Appreciation Right, to the extent such Stock Appreciation Right was exercisable at the time of Retirement, within the next 12 months following Retirement, or such other period as determined by the Committee in its sole discretion, but not later than the expiration of the Stock Appreciation Right.

Unless otherwise determined by the Committee, in the event that a Participant's Continuous Service terminates because such Participant dies or suffers a Disability prior to the expiration of his or her Stock Appreciation Right and without having fully exercised his or her Stock Appreciation Right, the Participant or his or her successor or legal representative shall have the right to exercise any Stock Appreciation Right, whether or not the Stock Appreciation Right was exercisable at the time of such event, within the next 12 months following such event, or such other period as determined by the Committee in its sole discretion, but not later than the expiration of the Stock Appreciation Right.

7.4 No Repricing. Notwithstanding anything in the Plan to the contrary, the repricing of a Stock Appreciation Right is prohibited without any prior approval of the Company's stockholders. For this purpose, a repricing means any of the following (or any other action that has the same effect as any of the following): (i) changing the terms of a Stock Appreciation Right to lower its base price; (ii) any other action that is treated as a repricing under generally accepted accounting principles; and (iii) repurchasing for cash or canceling a Stock Appreciation Right at a time when its base price is greater than the Fair Market Value of the underlying shares of Common Stock in exchange for another award, unless the cancellation and exchange occurs in connection with a change in capitalization or other similar change permitted under Section 20. Such cancellation and exchange would be considered a repricing regardless of whether it is treated as a repricing under generally accepted accounting principles and regardless of whether it is voluntary on the part of the Participant.

Section 8. Restricted Stock Awards. Restricted Stock Awards shall consist of shares of Common Stock restricted against transfer (Restricted Stock) and subject to a substantial risk of forfeiture. The terms and conditions of each Restricted Stock Award granted under the Plan shall be specified by the Committee, in its sole discretion, and shall be set forth in a written agreement between the Company and the Participant or notice from the Company to the Participant in such form as the Committee shall approve from time to time or as may be reasonably required in view of the terms and conditions approved by the Committee from time to time. The agreements shall contain in substance the following terms and conditions and may contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Committee shall deem desirable.

8.1 Vesting Period. Restricted Stock Awards shall be subject to the restrictions described in the preceding paragraph over such vesting period as the Committee determines. To the extent the Committee deems necessary or appropriate to protect against loss of deductibility pursuant to Section 162(m) of the Code, Restricted Stock Awards to any Participant may also be conditioned upon the achievement of Performance Goals in the same manner as provided in Section 9 with respect to Performance Awards. The Committee may, in its sole discretion, provide for the lapse of restrictions in installments or otherwise and may waive or accelerate the restriction lapse at its discretion. Except as otherwise provided in a Restricted Stock Award agreement, the Participant shall have all the rights of a stockholder during the vesting period.

8.2 Restriction upon Transfer. Shares awarded may not be sold, assigned, transferred, exchanged, pledged, hypothecated or otherwise encumbered, except as herein provided or as provided in any agreement entered into between the Company and a Participant in connection with the Plan, during the vesting period applicable to such shares.

8.3 Restricted Stock Units. Restricted Stock Awards may be granted in the form of restricted stock units that are not issued until the vesting conditions are satisfied. Until the shares of Common Stock are issued, no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the units to acquire shares of Common Stock except that the Committee may in its discretion provide for the payment of dividend equivalents on outstanding restricted stock units. Restricted stock units may be settled in shares of Common Stock or cash.

8.4 Termination of Continuous Service. Except as otherwise provided in the written agreement relating to the Participant's Restricted Stock Award, in the event that a Participant's Continuous Service terminates for any reason other than death or Disability, any rights of the Participant or his or her successors or legal representatives under any Restricted Stock Award that remains subject to restrictions shall immediately terminate and any Restricted Stock Award with unexpired restrictions shall be forfeited to the Company without payment of any consideration. Unless otherwise determined by the Committee, in the event that a Participant's Continuous Service terminates due to death or Disability, all unvested Restricted Stock Awards under the Plan shall immediately vest and shall no longer be subject to any restrictions.

8.5 Conversion of Director Fees. The Board may, at its sole discretion, permit an Outside Director to receive all or a portion of his or her annual retainer fee, any fees for attending meetings of the Board or committees thereof, committee chairmanship fees or any other fees payable to an Outside Director in the form of a Restricted Stock Award. The terms and conditions of such Restricted Stock Award, including (without limitation) the method for converting the annual retainer fee or any other fee payable to an Outside Director into a Restricted Stock Award, the date of grant, the vesting schedule, if any, and the time period for an Outside Director to elect such a Restricted Stock Award shall be determined solely by the Board. The Board's decision shall be final, binding and conclusive.

Section 9. Performance Awards. Performance Awards may be made by reference to performance units, performance shares or performance cash and may, at the discretion of the Committee, be awarded upon the satisfaction of Performance Goals. The vesting or settlement of Performance Awards may also, in the discretion of the Committee, be conditioned upon the achievement of Performance Goals. The terms and conditions of each Performance Award granted under the Plan shall be specified by the Committee, in its sole discretion, and shall be set forth in a written agreement between the Company and the Participant or notice from the Company to the Participant in such form as the Committee shall approve from time to time or as may be reasonably required in view of the terms and conditions approved by the Committee from time to time. When the Committee desires a Performance Award to qualify as performance-based compensation under Section 162(m) of the Code, the Committee shall establish the Performance Goals for the respective Performance Award prior to or within 90 days of the beginning of the Performance Period relating to such Performance Goal, or at such other date as may be permitted or required for the Performance Award to qualify as performance-based compensation under Section 162(m) of the Code, and not later than after 25 percent of such Performance Period has elapsed, and such

Performance Goals shall otherwise comply with the requirements of Section 162(m) of the Code. For all other Performance Awards, the Performance Goals must be established before the end of the respective Performance Period. The Committee may make grants of Performance Awards in such a manner that more than one Performance Period is in progress concurrently. For each Performance Period, the Committee shall establish the number of Performance Awards and their contingent values which may vary depending on the degree to which Performance Criteria established by the Committee are met. The Committee shall have the power to impose such other restrictions on Performance Awards intended to qualify as performance-based compensation under Section 162(m) of the Code as it may deem necessary or appropriate to ensure that such Performance Awards satisfy all such requirements.

9.1 Performance Criteria. The Committee may establish Performance Goals applicable to Performance Awards based upon the Performance Criteria and other factors set forth below based upon performance of the Company as a whole or upon the performance of a Subsidiary, segment or division and either as an absolute measure or as a measure of comparative performance relative to a peer group of companies, an index, budget, prior period, or other standard selected by the Committee. Performance Criteria for the Company shall relate to the achievement of predetermined financial and operating objectives for the Company and its Subsidiaries on a consolidated basis. Performance Criteria for a Subsidiary, segment or division shall relate to the achievement of financial and operating objectives of such business unit for which the Participant is accountable. Performance Criteria means one or more of the following measures: revenue (or any component thereof), net income as a percentage of revenue, operating income, earnings per share, share price, operating margin as a percentage of revenue, strategic team goals, net operating profit after taxes, net operating profit after taxes per share, return on invested capital, return on assets or net assets, return on net assets employed before interest and taxes, total stockholder return, relative total stockholder return (as compared with a peer group of the Company established by the Committee prior to issuance of the Performance Award), earnings before or after income taxes, interest charges, depreciation, amortization and/or rental expense, net income, cash flow (or any component thereof), cash flow (or any component thereof) per share, free cash flow, free cash flow per share, revenue growth, cost containment or reduction, billings growth, customer satisfaction or any combination thereof, or such similar objectively determinable financial or other measures as may be adopted by the Committee. The Performance Goals may differ among Participants, including among similarly situated Participants. Performance Criteria shall be calculated in accordance with the Company's financial statements or generally accepted accounting principles, on an operating basis, or under a methodology established by the Committee prior to the issuance of a Performance Award that is consistently applied and identified and may include adjustments for such matters as the Committee may determine prior to the issuance of the Performance Award. The Committee shall have the authority, to the extent consistent with the requirements for performance-based compensation under Section 162(m) of the Code, to make equitable adjustments to the Performance Goals in recognition of unusual or nonrecurring events affecting the Company or any Subsidiary or the financial statements of the Company or any Subsidiary in response to changes in applicable laws or regulations, or to account for items of gain, loss or expense determined to be extraordinary or unusual in nature or infrequent in occurrence or related to the disposal of a segment of a business or related to a change in accounting principles.

9.2 Modification. If the Committee determines, in its discretion exercised in good faith, that the established Performance Goals are no longer suitable to the Company's objectives because of a change in the Company's business, operations, corporate structure, capital structure, or other conditions the Committee deems to be appropriate, the Committee may modify the Performance Goals to the extent it considers such modification to be necessary; provided, however, if the Committee still intends that such Performance Award continues to qualify as performance-based compensation under Section 162(m) of the Code, no such modification shall be made with respect to such Performance Award unless (i) such modification is made no later than the deadline established under Section 162(m) of the Code, and (ii) no Performance Award is paid under the modified Performance Goal until after the material terms of the modified Performance Goal are disclosed to and approved by the Company's stockholders to the extent required by Section 162(m) of the Code.

9.3 Payment. The basis for the grant, vesting or payment, as applicable, of Performance Awards for a given Performance Period shall be the achievement of those Performance Goals determined by the Committee as specified in the Performance Award agreement. At any time prior to the payment of a Performance Award, unless otherwise provided by the Committee or prohibited by the Plan, the Committee shall have the authority to reduce or eliminate the amount payable with respect to the Performance Award, or to cancel any part or all of the Performance Award but, with respect to Performance Awards the Committee still intends to qualify as performance-based compensation under Section 162(m) of the Code, shall not have the authority in its discretion to increase the amount payable with respect to the Performance Award except as permitted under Section 20. The Committee's determination with respect to a Performance Period of whether and to what extent a Performance Goal has been achieved, and, if so, of the amount of the Performance Award earned for the Performance Period shall be final and binding on the Company and all Participants, and, with respect to Performance Awards that are intended to qualify as performance-based compensation under Section 162(m) of the Code, these determinations shall be certified in writing before such Performance Awards are paid. Except as otherwise provided in the Performance Award agreement, all performance cash and performance unit awards shall be paid to the Participant in cash.

9.4 Termination of Continuous Service. Except as otherwise provided in the written agreement relating to the Participant's Performance Award, in the event that a Participant's Continuous Service terminates for any reason other than death or Disability, any rights of the Participant or his or her successors or legal representatives under any outstanding Performance Awards shall immediately terminate and any outstanding Performance Awards shall be forfeited.

Section 10. Other Stock-Based Awards. Other Stock-Based Awards may be awarded, subject to limitations under applicable law, that are denominated or payable in, valued in whole or in part by reference to, or otherwise based on, or related to, shares of Common Stock, as deemed by the Committee to be consistent with the purposes of the Plan, including, without limitation, purchase rights, convertible or exchangeable debentures, or other rights convertible into shares of Common Stock and awards valued by reference to the value of securities of or the performance of specified Subsidiaries. Other Stock-Based Awards may be awarded either alone or in addition to or in tandem with any other awards under the Plan or any other plan of the Company. The terms and conditions of each Other Stock-Based Award granted under the Plan shall be specified by the Committee, in its sole discretion, and shall be set forth in a written agreement between the Company and the Participant or notice from the Company to the Participant in such form as the Committee shall approve from time to time or as may be reasonably required in view of the terms and conditions approved by the Committee from time to time.

To the extent the Committee deems necessary or appropriate to protect against loss of deductibility pursuant to Section 162(m) of the Code, Other Stock-Based Awards to any Participant may also be conditioned upon the achievement of Performance Goals in the same manner as provided in Section 9 with respect to Performance Awards.

Section 11. Securities Law Requirements. No shares of Common Stock shall be issued upon the exercise or payment of any award unless and until:

- (i) The shares of Common Stock underlying the award have been registered under the Securities Act of 1933, as amended (the Act), or the Company has determined that an exemption from the registration requirements under the Act is available or the registration requirements of the Act do not apply to such exercise or payment;
- (ii) The Company has determined that all applicable listing requirements of any stock exchange or quotation system on which the shares of Common Stock are listed have been satisfied; and
- (iii) The Company has determined that any other applicable provision of state or federal law, including without limitation applicable state securities laws, has been satisfied.

Section 12. Restrictions on Transfer; Representations of Participant; Legends. Regardless of whether the offering and sale of shares of Common Stock has been registered under the Act or has been registered or qualified under the securities laws of any state, the Company may impose restrictions upon the sale, pledge, or other transfer of such shares, including the placement of appropriate legends on stock certificates, if, in the judgment of the Company and its counsel, such restrictions are necessary or desirable in order to achieve compliance with the provisions of the Act, the securities laws of any state, or any other law. As a condition to the Participant's receipt of shares, the Company may require the Participant to represent that such shares are being acquired for investment, and not with a view to the sale or distribution thereof, except in compliance with the Act, and to make such other representations as are deemed necessary or appropriate by the Company and its counsel.

The Company may, but shall not be obligated to, register or qualify the sale of shares under the Act or any other applicable law. In the event of any public offering of Common Stock or other securities of the Company, it may be necessary for the Company to restrict for a period of time (during or following the offering process) the transfer of shares of Common Stock issued to a Participant under the Plan (including any securities issued with respect to such shares in accordance with Section 20 of the Plan). As a condition of the Participant's receipt of shares, the Committee may require the Participant to agree not to effect any sale, transfer, pledge or other disposal of the Participant's shares during such time and agrees to execute any lock-up letter or similar agreement requested by the Company or its underwriters.

Section 13. Single or Multiple Agreements. Multiple forms of awards or combinations thereof may be evidenced by a single agreement or notices or multiple agreements or notices, as determined by the Committee.

Section 14. Rights of a Stockholder. The recipient of any award under the Plan, unless otherwise provided by the Plan, shall have no rights as a stockholder with respect thereto unless and until shares of Common Stock are issued to him.

Section 15. No Right to Continue Employment or Service. Nothing in the Plan or any instrument executed or award granted pursuant thereto shall confer upon any Participant any right to continue to serve the Company or any Subsidiary in the capacity in effect at the time the award was granted or shall affect the right of the Company or any Subsidiary to terminate (i) the employment of an employee with or without notice and with or without cause, (ii) the service of a consultant or adviser pursuant to the terms of such consultant's or adviser's agreement with the Company or any Subsidiary or (iii) the service of a director pursuant to the Bylaws of the Company or any Subsidiary and any applicable provisions of the corporate law of the state in which the Company or any Subsidiary is incorporated, as the case may be.

Section 16. Withholding. The Company's obligations hereunder in connection with any award shall be subject to applicable foreign, federal, state and local withholding tax requirements. Foreign, federal, state and local withholding tax due under the terms of the Plan may be paid in cash or shares of Common Stock (either through the surrender of already-owned shares of Common Stock, the withholding of shares of Common Stock otherwise issuable upon the exercise or payment of such award or by broker-assisted cashless exercise) having a Fair Market Value equal to the required withholding and upon such other terms and conditions as the Committee shall determine; provided, however, the Committee, in its sole discretion, may require that such taxes be paid in cash.

Section 17. Indemnification. No member of the Board or the Committee, nor any officer or employee of the Company or a Subsidiary acting on behalf of the Board or the Committee, shall be personally liable for any action, determination or interpretation taken or made in good faith with respect to the Plan, and all members of the Board or the Committee and each and any officer or employee of the Company or any Subsidiary acting on their behalf shall, to the extent permitted by law, be fully indemnified and protected by the Company in respect of any such action, determination or interpretation.

Section 18. Non-Assignability. No right or benefit hereunder shall in any manner be subject to the debts, contracts, liabilities or torts of the person entitled to such right or benefit. No award under the Plan shall be assignable or transferable by the Participant except by will, by the laws of descent and distribution and by such other means as the Committee may approve from time to time, and all awards shall be exercisable, during the Participant's lifetime, only by the Participant.

However, the Participant, with the approval of the Committee, may transfer a Non-Qualified Stock Option for no consideration to or for the benefit of the Participant's Immediate Family (including, without limitation, to a trust for the benefit of the Participant's Immediate Family or to a partnership or limited liability company for one or more members of the Participant's Immediate Family), subject to such limits as the Committee may establish, and the transferee shall remain subject to all the terms and conditions applicable to the Non-Qualified Stock Option prior to such transfer. The foregoing right to transfer a Non-Qualified Stock Option shall apply to the right to consent to amendments to the Stock Option agreement and, in the discretion of the Committee, shall also apply to the right to transfer ancillary rights associated with the Non-Qualified Stock Option. The term Immediate Family shall mean the Participant's spouse, parents, children, stepchildren, adoptive relationships, sisters, brothers and grandchildren (and, for this purpose, shall also include the Participant).

At the request of the Participant and subject to the approval of the Committee, Common Stock purchased upon exercise of a Non-Qualified Stock Option may be issued or transferred into the name of the Participant and his or her spouse jointly with rights of survivorship.

Except as set forth above or in a Stock Option agreement, any attempted assignment, sale, transfer, pledge, mortgage, encumbrance, hypothecation, or other disposition of an award under the Plan contrary to the provisions hereof, or the levy of any execution, attachment, or similar process upon an award under the Plan shall be null and void and without effect.

Section 19. Nonuniform Determinations. The Committee's determinations under the Plan (including without limitation determinations of the persons to receive awards, the form, amount and timing of such awards, the terms and provisions of such awards and the agreements evidencing same, and the establishment of values and performance targets) need not be uniform and may be made by it selectively among persons who receive, or are eligible to receive, awards under the Plan, whether or not such persons are similarly situated.

Section 20. Adjustments. In the event of any change in the outstanding shares of Common Stock, without the receipt of consideration by the Company, by reason of a stock dividend, stock split, reverse stock split or distribution, recapitalization, merger, reorganization, reclassification, consolidation, split-up, spin-off, combination of shares, exchange of shares, partial or complete liquidation of the Company, or other change in corporate structure affecting the Common Stock and not involving the receipt of consideration by the Company, the Committee or the Board shall make appropriate adjustments in (a) the aggregate number of shares of Common Stock (i) available for issuance under the Plan, (ii) for which grants or awards may be made to any Participant or to any group of Participants (e.g., Outside Directors), (iii) which are available for issuance under Stock Options, Stock Appreciation Rights, Restricted Stock Awards, Performance Awards and Other Stock-Based Awards, (iv) covered by outstanding unexercised awards and grants denominated in shares or units of Common Stock, and (v) underlying Stock Options granted pursuant to Section 6.8 or Restricted Stock Awards granted pursuant to Section 8.5, (b) the exercise or other applicable price related to outstanding awards or grants and (c) the appropriate Fair Market Value and other price determinations relevant to outstanding awards or grants and shall make such other adjustments as may be appropriate under the circumstances; provided, that the number of shares subject to any award or grant always shall be a whole number.

Section 21. Termination and Amendment. The Board may terminate or amend the Plan or any portion thereof at any time and the Committee may amend the Plan to the extent provided in Section 3, without approval of the stockholders of the Company, unless stockholder approval is required by Rule 16b-3 of the Exchange Act, applicable stock exchange or NASDAQ or other quotation system rules, applicable Code provisions, or other

applicable laws or regulations. No amendment, termination or modification of the Plan shall affect any award theretofore granted in any material adverse way without the consent of the recipient.

Section 22. Severability. If any of the terms or provisions of this Plan, or awards made under this Plan, conflict with the requirements of Section 162(m) or Section 422 of the Code with respect to awards subject to or governed by Section 162(m) or Section 422 of the Code, then such terms or provisions shall be deemed inoperative to the extent they so conflict with the requirements of Section 162(m) or Section 422 of the Code. With respect to an Incentive Stock Option, if this Plan does not contain any provision required to be included herein under Section 422 of the Code (as the same shall be amended from time to time), such provision shall be deemed to be incorporated herein with the same force and effect as if such provision had been set out herein.

Section 23. Effect on Other Plans. Participation in this Plan shall not affect an employee's eligibility to participate in any other benefit or incentive plan of the Company or any Subsidiary and any awards made pursuant to this Plan shall not be used in determining the benefits provided under any other plan of the Company or any Subsidiary unless specifically provided.

Section 24. Effective Date of the Plan. The Plan shall become effective on May 12, 2010 (the Effective Date), subject to approval of the stockholders of the Company to the extent required by applicable Code provisions or other applicable law.

Section 25. Governing Law. This Plan and all agreements executed in connection with the Plan, and all disputes and controversies related thereto, shall be governed by, and construed in accordance with, the laws of the State of New York, without regard to its conflicts of law doctrine that would apply any other law.

Section 26. Gender and Number. Words denoting the masculine gender shall include the feminine gender, and words denoting the feminine gender shall include the masculine gender. Words in the plural shall include the singular, and the singular shall include the plural.

Section 27. Acceleration of Exercisability and Vesting. The Committee shall have the power to accelerate the time at which an award may first be exercised or the time during which an award or any part thereof will vest in accordance with the Plan, notwithstanding the provisions in the award stating the time at which it may first be exercised or the time during which it will vest, unless such award is subject to the provisions of Section 409A of the Code.

Section 28. Modification of Awards. Within the limitations of the Plan and subject to Sections 20 and 34, the Committee may modify outstanding awards or accept the cancellation of outstanding awards for the granting of new awards in substitution therefor. Notwithstanding the preceding sentence, except for any adjustment described in Section 20 or 34, no modification of an award shall, without the consent of the Participant, alter or impair any rights or obligations under any award previously granted under the Plan in any material adverse way without the affected Participant's consent. For purposes of the preceding sentence, any modification to any of the following terms or conditions of an outstanding unexercised award or grant shall be deemed to be a material modification: (i) the number of shares of Common Stock covered by such award or grant, (ii) the exercise or other applicable price or Fair Market Value determination related to such award or grant, (iii) the period of time within which the award or grant vests and is exercisable and the terms and conditions of such vesting and exercise, (iv) the type of award or Stock Option, and (v) the restrictions on transferability of the award or grant and of any shares of Common Stock issued in connection with such award or grant.

Section 29. No Strict Construction. No rule of strict construction shall be applied against the Company, the Committee, or any other person in the interpretation of any of the terms of the Plan, any agreement executed in connection with the Plan, any award granted under the Plan, or any rule, regulation or procedure established by the Committee.

Section 30. Successors. This Plan is binding on and will inure to the benefit of any successor to the Company, whether by way of merger, consolidation, purchase, or otherwise.

Section 31. Plan Provisions Control. The terms of the Plan govern all awards granted under the Plan, and in no event will the Committee have the power to grant any award under the Plan which is contrary to any of the provisions of the Plan. In the event any provision of any award granted under the Plan shall conflict with any term in the Plan, the term in the Plan shall control.

Section 32. Headings. The headings used in the Plan are for convenience only, do not constitute a part of the Plan, and shall not be deemed to limit, characterize, or affect in any way any provisions of the Plan, and all provisions of the Plan shall be construed as if no captions had been used in the Plan.

Section 33. Code Section 409A. It is intended that the Stock Options awarded pursuant to Section 6, Stock Appreciation Rights awarded pursuant to Section 7, and Restricted Stock Awards awarded pursuant to Section 8 not constitute a deferral of compensation within the meaning of Section 409A of the Code. It is further intended that the Performance Awards and Other Stock Awards granted pursuant to Sections 9 and 10 not constitute a deferral of compensation within the meaning of Section 409A of the Code or otherwise shall comply with the requirements of Section 409A of the Code and the Treasury regulations and other interpretive guidance issued thereunder in all material respects. The Plan shall be interpreted for all purposes and operated to the extent necessary in order to comply with the intent expressed in this Section 33. Notwithstanding the foregoing, the Company shall not be required to assume any increased economic burden in connection therewith. Although the Company intends to administer the Plan so that it will comply with the requirements of Section 409A of the Code, the Company does not represent or warrant that the Plan will comply with Section 409A of the Code or any other provision of federal, state, local, or non-United States law. Neither the Company nor any of its Subsidiaries, nor its or their respective directors, officers, employees, or advisers, shall be liable to any Participant (or any other individual claiming a benefit through the Participant) for any tax, interest, or penalties the Participant might owe as a result of participation in the Plan.

Section 34. Change in Control. Except as otherwise provided in the applicable award agreement, or in any other agreement between the Company or a Subsidiary and the Participant, or as determined by the Board in its sole discretion, in the event of a Change in Control, (i) the vesting of all Stock Options shall be accelerated in full (provided such awards have not already terminated or expired), (ii) the restrictions applicable to all outstanding Restricted Stock Awards shall lapse and such awards shall be settled in full within 45 days of the Change in Control, and (iii) all Performance Awards will become vested at the target performance level (as specified by the Committee) and will be settled within 45 days of the Change in Control unless such Performance Awards are subject to the provisions of Code Section 409A.

Except as otherwise provided in the applicable award agreement, or in any other agreement between the Company or a Subsidiary and the Participant, or as determined by the Board in its sole discretion, if any Stock Option or other right to acquire Common Stock under the Plan has been fully accelerated but is not exercised prior to the consummation of a Change in Control approved by the Board (other than a Change in Control described in Section 2.2(e)), such Stock Option or right will terminate, subject to any provision that has been expressly made by the Committee for the survival, substitution, exchange or other settlement of such Stock Option or right.

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MR A SAMPLE	000004	00000000.000000 ext	00000000.000000 ext
DESIGNATION (IF ANY)		00000000.000000 ext	00000000.000000 ext
ADD 1		00000000.000000 ext	00000000.000000 ext
ADD 2			
ADD 3			
ADD 4			
ADD 5			
ADD 6			

Using a **black ink** pen, mark your votes with an **X** as shown in this example. Please do not write outside the designated areas. **X**

q PLEASE FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE. q

A Proposals The Board of Directors recommends a vote **FOR** all the nominees listed below.

+

1. Election of Class I Directors: **For** **Withhold**
01 - Randolph A. Marks

0 2 -
Randall L. Clark

For **Withhold**
.. ..

2. To consider and approve the Company s Non-Employee Director Deferred Compensation Plan. **For** **Against** **Abstain**
..

For **Against** **Abstain**

3. To consider and approve the Company s 2010 Equity Award Plan; and to authorize the issuance of 900,000 shares of the **For** **Against** **Abstain**
..

For **Against** **Abstain**
..

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Company's Common Stock
thereunder.

4. Said proxies are given discretionary authority to vote and act upon such other matters as may properly come before the meeting or any adjournment thereof.

B Non-Voting Items

Change of Address Please print new address below.

Meeting Attendance
Mark box to the right if
you plan to attend the
Annual Meeting. ••

C Authorized Signatures This section must be completed for your vote to be counted. **Date and Sign Below**

Please date and sign exactly as name appears hereon. Each joint tenant must sign. When signing as attorney, executor, trustee, etc., give full title. If signer is a corporation, sign in full corporate name by authorized officer. If a partnership, sign in partnership name by an authorized person.

Date (mm/dd/yyyy) Please print date below. Signature 1 Please keep signature within the box. Signature 2 Please keep signature within the box.

/ /

q PLEASE FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE. q

Proxy Computer Task Group, Incorporated

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned hereby appoints William D. McGuire and Thomas E. Baker and each of them, as proxy or proxies, with power of substitution to vote all of the shares of Common Stock of Computer Task Group, Incorporated (the Company) which the undersigned may be entitled to vote, as specified on the reverse side of this card, and, if applicable, hereby directs the trustee of the Company's 401(K) Profit Sharing Retirement Plan (the Plan) to vote the shares allocated to the account of the undersigned or otherwise which the undersigned is entitled to vote pursuant to the Plan, as specified on the reverse side of this card, at the Annual Meeting of Shareholders of the Company to be held at the Company's Headquarters, 800 Delaware Avenue, Buffalo, New York on Wednesday, May 12, 2010 at 10:00 a.m. or at any adjournment thereof.

Shares represented by this proxy that are properly executed and returned to us will be voted at the meeting in accordance with the undersigned shareholders' instructions. In the absence of instructions, shares represented by the proxies will be voted FOR each of the proposals.

MARK, SIGN AND DATE ON REVERSE SIDE