

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, 2019

Commission file number 1-12672

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

Maryland
(State or other jurisdiction of
incorporation or organization)

77-0404318
(I.R.S. Employer
Identification No.)

Ballston Tower
671 N. Glebe Rd, Suite 800
Arlington, Virginia 22203
(Address of principal executive offices, including zip code)

(703) 329-6300
(Registrant's telephone number, including area code)
(Former name, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	AVB	New York Stock Exchange

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 twelve (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 ninety (90) days.

Yes No

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

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

139,656,943 shares of common stock, par value \$0.01 per share, were outstanding as of July 31, 2019.

AVALONBAY COMMUNITIES, INC.
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AVALONBAY COMMUNITIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share data)

	6/30/2019	12/31/2018
	(unaudited)	
ASSETS		
Real estate:		
Land and improvements	\$ 4,137,471	\$ 4,077,090
Buildings and improvements	15,988,751	15,651,035
Furniture, fixtures and equipment	757,243	696,200
	20,883,465	20,424,325
Less accumulated depreciation	(4,872,896)	(4,601,447)
Net operating real estate	16,010,569	15,822,878
Construction in progress, including land	1,939,808	1,768,132
Land held for development	18,606	84,712
Real estate assets held for sale, net	40,461	55,208
Total real estate, net	18,009,444	17,730,930
Cash and cash equivalents	243,576	91,659
Cash in escrow	86,468	126,205
Resident security deposits	35,084	31,816
Investments in unconsolidated real estate entities	208,519	217,432
Deferred development costs	60,217	47,443
Prepaid expenses and other assets	166,886	134,715
Right of use lease assets	122,381	—
Total assets	\$ 18,932,575	\$ 18,380,200
LIABILITIES AND EQUITY		
Unsecured notes, net	\$ 6,355,132	\$ 5,905,993
Variable rate unsecured credit facility	—	—
Mortgage notes payable, net	997,085	1,134,270
Dividends payable	213,403	204,191
Payables for construction	104,545	96,983
Accrued expenses and other liabilities	258,486	297,700
Lease liabilities	138,163	—
Accrued interest payable	48,169	46,648
Resident security deposits	63,183	58,415
Liabilities related to real estate assets held for sale	541	150
Total liabilities	8,178,707	7,744,350
Commitments and contingencies		
Redeemable noncontrolling interests	3,338	3,244
Equity:		
Preferred stock, \$0.01 par value; \$25 liquidation preference; 50,000,000 shares authorized at June 30, 2019 and December 31, 2018; zero shares issued and outstanding at June 30, 2019 and December 31, 2018	—	—
Common stock, \$0.01 par value; 280,000,000 shares authorized at June 30, 2019 and December 31, 2018; 139,656,557 and 138,508,424 shares issued and outstanding at June 30, 2019 and December 31, 2018, respectively	1,397	1,385
Additional paid-in capital	10,519,239	10,306,588
Accumulated earnings less dividends	262,548	350,777
Accumulated other comprehensive loss	(33,184)	(26,144)
Total stockholders' equity	10,750,000	10,632,606
Noncontrolling interests	530	—
Total equity	10,750,530	10,632,606
Total liabilities and equity	\$ 18,932,575	\$ 18,380,200

See accompanying notes to Condensed Consolidated Financial Statements.

AVALONBAY COMMUNITIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)
(Dollars in thousands, except per share data)

	For the three months ended		For the six months ended	
	6/30/2019	6/30/2018	6/30/2019	6/30/2018
Revenue:				
Rental and other income	\$ 576,149	\$ 568,285	\$ 1,141,194	\$ 1,128,191
Management, development and other fees	1,114	954	2,252	1,841
Total revenue	<u>577,263</u>	<u>569,239</u>	<u>1,143,446</u>	<u>1,130,032</u>
Expenses:				
Operating expenses, excluding property taxes	132,924	130,836	256,378	262,094
Property taxes	62,187	59,994	123,516	119,891
Interest expense, net	50,010	56,585	97,902	111,698
Loss on extinguishment of debt, net	229	642	509	1,039
Depreciation expense	162,693	156,685	324,749	315,743
General and administrative expense	18,965	15,209	32,671	29,640
Expensed transaction, development and other pursuit costs, net of recoveries	2,711	1,047	3,806	1,847
Casualty and impairment gain, net	—	—	—	(58)
Total expenses	<u>429,719</u>	<u>420,998</u>	<u>839,531</u>	<u>841,894</u>
Equity in income (loss) of unconsolidated real estate entities	197	789	(863)	2,529
Gain on sale of communities	20,530	105,201	35,365	105,201
Gain on other real estate transactions, net	34	370	300	323
Income before income taxes	168,305	254,601	338,717	396,191
Income tax expense (refund)	—	58	(6)	58
Net income	168,305	254,543	338,723	396,133
Net (income) loss attributable to noncontrolling interests	(24)	119	(76)	172
Net income attributable to common stockholders	<u>\$ 168,281</u>	<u>\$ 254,662</u>	<u>\$ 338,647</u>	<u>\$ 396,305</u>
Other comprehensive income (loss):				
(Loss) gain on cash flow hedges	(2,888)	—	(10,119)	11,499
Cash flow hedge losses reclassified to earnings	1,611	1,455	3,079	3,213
Comprehensive income	<u>\$ 167,004</u>	<u>\$ 256,117</u>	<u>\$ 331,607</u>	<u>\$ 411,017</u>
Earnings per common share - basic:				
Net income attributable to common stockholders	<u>\$ 1.21</u>	<u>\$ 1.84</u>	<u>\$ 2.43</u>	<u>\$ 2.87</u>
Earnings per common share - diluted:				
Net income attributable to common stockholders	<u>\$ 1.21</u>	<u>\$ 1.84</u>	<u>\$ 2.43</u>	<u>\$ 2.87</u>

See accompanying notes to Condensed Consolidated Financial Statements.

AVALONBAY COMMUNITIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(Dollars in thousands)

	For the six months ended	
	6/30/2019	6/30/2018
Cash flows from operating activities:		
Net income	\$ 338,723	\$ 396,133
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation expense	324,749	315,743
Amortization of deferred financing costs	3,565	4,042
Amortization of debt discount	789	849
Loss on extinguishment of debt, net	509	1,039
Amortization of stock-based compensation	13,719	10,127
Equity in loss of, and return on, unconsolidated real estate entities and noncontrolling interests, net of eliminations	10,131	3,143
Casualty and impairment gain, net	—	(58)
Abandonment of development pursuits	1,285	725
Cash flow hedge losses reclassified to earnings	3,079	3,213
Gain on sale of real estate assets	(35,665)	(105,524)
Increase in resident security deposits, prepaid expenses and other assets	(24,241)	(3,875)
Increase (decrease) in accrued expenses, other liabilities and accrued interest payable	1,624	(260)
Net cash provided by operating activities	<u>638,267</u>	<u>625,297</u>
Cash flows from investing activities:		
Development/redevelopment of real estate assets including land acquisitions and deferred development costs	(560,385)	(604,540)
Acquisition of real estate assets, including partnership interest	(152,260)	—
Capital expenditures - existing real estate assets	(48,006)	(37,081)
Capital expenditures - non-real estate assets	(4,222)	(1,896)
Increase in payables for construction	7,562	7,421
Proceeds from sale of real estate, net of selling costs	168,034	299,226
Insurance proceeds for property damage claims	—	58
Mortgage note receivable lending	(507)	(2,291)
Mortgage note receivable payments	978	27,511
Distributions from unconsolidated real estate entities	—	2,013
Investments in unconsolidated real estate entities	(1,218)	(7,102)
Net cash used in investing activities	<u>(590,024)</u>	<u>(316,681)</u>
Cash flows from financing activities:		
Issuance of common stock, net	206,193	833
Dividends paid	(415,295)	(399,070)
Repayments of mortgage notes payable, including prepayment penalties	(137,653)	(59,314)
Issuance of unsecured notes	449,803	299,442
Payment of deferred financing costs	(10,668)	(3,345)
Payment of finance lease obligation	(535)	(535)
(Payment) receipt for termination of forward interest rate swaps	(12,309)	12,598
Contribution from noncontrolling interest	337	—
Payments related to tax withholding for share-based compensation	(14,286)	(10,524)
Distributions to DownREIT partnership unitholders	(23)	(22)
Distributions to joint venture and profit-sharing partners	(227)	(208)
Preferred interest obligation redemption and dividends	(1,400)	(480)
Net cash provided by (used in) financing activities	<u>63,937</u>	<u>(160,625)</u>
Net increase in cash and cash equivalents	112,180	147,991
Cash and cash equivalents and restricted cash, beginning of period	217,864	201,906
Cash and cash equivalents and restricted cash, end of period	<u>\$ 330,044</u>	<u>\$ 349,897</u>
Cash paid during the period for interest, net of amount capitalized	<u>\$ 88,948</u>	<u>\$ 95,204</u>

See accompanying notes to Condensed Consolidated Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported in the Condensed Consolidated Statements of Cash Flows (dollars in thousands):

	For the six months ended	
	6/30/2019	6/30/2018
Cash and cash equivalents	\$ 243,576	\$ 101,565
Cash in escrow	86,468	248,332
Cash, cash equivalents and restricted cash reported in the Condensed Consolidated Statements of Cash Flows	<u>\$ 330,044</u>	<u>\$ 349,897</u>

Supplemental disclosures of non-cash investing and financing activities:

During the six months ended June 30, 2019:

- As described in Note 4, "Equity," 150,359 shares of common stock were issued as part of the Company's stock-based compensation plans, of which 73,072 shares related to the conversion of performance awards to restricted shares, and the remaining 77,287 shares valued at \$15,145,000 were issued in connection with new stock grants; 1,092 shares valued at \$208,000 were issued through the Company's dividend reinvestment plan; 75,195 shares valued at \$14,206,000 were withheld to satisfy employees' tax withholding and other liabilities; and 1,438 restricted shares with an aggregate value of \$250,000 previously issued in connection with employee compensation were canceled upon forfeiture.
- Common stock dividends declared but not paid totaled \$212,822,000.
- The Company recorded an increase of \$269,000 in redeemable noncontrolling interest with a corresponding decrease to accumulated earnings less dividends to adjust the redemption value associated with the put options held by joint venture partners and DownREIT partnership units. For further discussion of the nature and valuation of these items, see Note 11, "Fair Value."
- The Company recorded an increase to other liabilities of \$4,198,000, an increase in prepaid expenses and other assets of \$18,000 and a corresponding adjustment to accumulated other comprehensive loss, and reclassified \$3,079,000 of cash flow hedge losses from other comprehensive income (loss) to interest expense, net, to record the impact of the Company's derivative and hedge accounting activity.
- The Company recorded \$122,276,000 of lease liabilities and offsetting right of use lease assets for its ground and office leases, upon the adoption of ASU 2016-02, Leases, as of January 1, 2019. For further discussion on the adoption of the guidance, see Note 1, "Organization, Basis of Presentation and Significant Accounting Policies."

During the six months ended June 30, 2018:

- The Company issued 186,382 shares of common stock were issued as part of the Company's stock-based compensation plans, of which 88,297 shares related to the conversion of performance awards to restricted shares, and the remaining 98,085 shares valued at \$15,837,000 were issued in connection with new stock grants; 1,135 shares valued at \$190,000 were issued through the Company's dividend reinvestment plan; 67,854 shares valued at \$10,524,000 were withheld to satisfy employees' tax withholding and other liabilities; and 4,434 restricted shares with an aggregate value of \$648,000 previously issued in connection with employee compensation were canceled upon forfeiture.
- Common stock dividends declared but not paid totaled \$203,472,000.
- The Company recorded an increase of \$354,000 in redeemable noncontrolling interest with a corresponding decrease to accumulated earnings less dividends to adjust the redemption value associated with the put options held by joint venture partners and DownREIT partnership units.
- The Company reclassified \$3,213,000 of cash flow hedge losses from other comprehensive income to interest expense, net, to record the impact of the Company's derivative and hedge accounting activity.

AVALONBAY COMMUNITIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Organization, Basis of Presentation and Significant Accounting Policies

Organization and Basis of Presentation

AvalonBay Communities, Inc. (the "Company," which term, unless the context otherwise requires, refers to AvalonBay Communities, Inc. together with its subsidiaries), is a Maryland corporation that has elected to be treated as a real estate investment trust ("REIT") for federal income tax purposes under the Internal Revenue Code of 1986 (the "Code"). The Company focuses on the development, redevelopment, acquisition, ownership and operation of multifamily communities primarily in New England, the New York/New Jersey metro area, the Mid-Atlantic, the Pacific Northwest, and Northern and Southern California.

At June 30, 2019, the Company owned or held a direct or indirect ownership interest in 273 operating apartment communities containing 79,161 apartment homes in 12 states and the District of Columbia, of which seven communities containing 3,026 apartment homes were under redevelopment. In addition, the Company owned or held a direct or indirect ownership interest in 21 communities under development that are expected to contain an aggregate of 7,023 apartment homes when completed, as well as a mixed-use project being developed in which the Company is currently pursuing a potential for-sale strategy of individual condominium units. The Company also owned or held a direct or indirect ownership interest in land or rights to land on which the Company expects to develop an additional 28 communities that, if developed as expected, will contain an estimated 9,004 apartment homes.

The interim unaudited financial statements 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 ("SEC"). Certain information and footnote disclosures normally included in financial statements required by GAAP have been condensed or omitted pursuant to such rules and regulations. These unaudited financial statements should be read in conjunction with the financial statements and notes included in the Company's 2018 Annual Report on Form 10-K. The results of operations for the three and six months ended June 30, 2019 are not necessarily indicative of the operating results for the full year. Management believes the disclosures are adequate to ensure the information presented is not misleading. In the opinion of management, all adjustments and eliminations, consisting only of normal, recurring adjustments necessary for a fair presentation of the financial statements for the interim periods, have been included.

Capitalized terms used without definition have meanings provided elsewhere in this Form 10-Q.

Earnings per Common Share

Basic earnings per share is computed by dividing net income attributable to common stockholders by the weighted average number of shares outstanding during the period. All outstanding unvested restricted share awards contain rights to non-forfeitable dividends and participate in undistributed earnings with common shareholders and, accordingly, are considered participating securities that are included in the two-class method of computing basic earnings per share ("EPS"). Both the unvested restricted shares and other potentially dilutive common shares, and the related impact to earnings, are considered when calculating earnings per share on a diluted basis. The Company's earnings per common share are determined as follows (dollars in thousands, except per share data):

	For the three months ended		For the six months ended	
	6/30/2019	6/30/2018	6/30/2019	6/30/2018
Basic and diluted shares outstanding				
Weighted average common shares - basic	139,113,390	137,840,045	138,724,479	137,802,461
Weighted average DownREIT units outstanding	7,500	7,500	7,500	7,500
Effect of dilutive securities	497,341	367,465	495,397	374,334
Weighted average common shares - diluted	<u>139,618,231</u>	<u>138,215,010</u>	<u>139,227,376</u>	<u>138,184,295</u>
Calculation of Earnings per Share - basic				
Net income attributable to common stockholders	\$ 168,281	\$ 254,662	\$ 338,647	\$ 396,305
Net income allocated to unvested restricted shares	(435)	(727)	(935)	(1,167)
Net income attributable to common stockholders, adjusted	<u>\$ 167,846</u>	<u>\$ 253,935</u>	<u>\$ 337,712</u>	<u>\$ 395,138</u>
Weighted average common shares - basic	<u>139,113,390</u>	<u>137,840,045</u>	<u>138,724,479</u>	<u>137,802,461</u>
Earnings per common share - basic	<u>\$ 1.21</u>	<u>\$ 1.84</u>	<u>\$ 2.43</u>	<u>\$ 2.87</u>
Calculation of Earnings per Share - diluted				
Net income attributable to common stockholders	\$ 168,281	\$ 254,662	\$ 338,647	\$ 396,305
Add: noncontrolling interests of DownREIT unitholders in consolidated partnerships	12	11	23	22
Adjusted net income attributable to common stockholders	<u>\$ 168,293</u>	<u>\$ 254,673</u>	<u>\$ 338,670</u>	<u>\$ 396,327</u>
Weighted average common shares - diluted	<u>139,618,231</u>	<u>138,215,010</u>	<u>139,227,376</u>	<u>138,184,295</u>
Earnings per common share - diluted	<u>\$ 1.21</u>	<u>\$ 1.84</u>	<u>\$ 2.43</u>	<u>\$ 2.87</u>

All options to purchase shares of common stock outstanding as of June 30, 2019 and 2018 are included in the computation of diluted earnings per share.

Derivative Instruments and Hedging Activities

The Company enters into interest rate swap and interest rate cap agreements (collectively, "Hedging Derivatives") for interest rate risk management purposes and in conjunction with certain variable rate secured debt to satisfy lender requirements. The Company does not enter into Hedging Derivative transactions for trading or other speculative purposes. The Company assesses the effectiveness of qualifying cash flow and fair value hedges, both at inception and on an on-going basis. Hedge ineffectiveness is reported as a component of interest expense, net. The fair values of Hedging Derivatives that are in an asset position are recorded in prepaid expenses and other assets. The fair value of Hedging Derivatives that are in a liability position are included in accrued expenses and other liabilities. The Company does not present or disclose the fair value of Hedging Derivatives on a net basis. Fair value changes for derivatives that are not in qualifying hedge relationships are reported as a component of interest expense, net. For the Hedging Derivative positions that the Company has determined qualify as effective cash flow hedges, the Company has recorded the cumulative changes in the fair value of Hedging Derivatives in other comprehensive loss. Amounts recorded in accumulated other comprehensive loss will be reclassified into earnings in the periods in which earnings are affected by the hedged cash flow. The effective portion of the change in fair value of the Hedging Derivatives that the Company has determined qualified as effective fair value hedges is reported as an adjustment to the carrying amount of the corresponding debt being hedged. See Note 11, "Fair Value," for further discussion of derivative financial instruments.

Legal and Other Contingencies

The Company is involved in various claims and/or administrative proceedings that arise in the ordinary course of its business. While no assurances can be given, the Company does not currently believe that any of these outstanding litigation matters, individually or in the aggregate, will have a material adverse effect on its financial condition or results of operations.

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Acquisitions of Investments in Real Estate

The Company accounts for acquisitions of investments in real estate in accordance with the authoritative guidance for the initial measurement, which first requires that the Company determine if the real estate investment is the acquisition of an asset or a business combination. Under either model, the Company must identify and determine the fair value of any assets acquired, liabilities assumed and any noncontrolling interest in the acquiree. Typical assets acquired and liabilities assumed include land, building, furniture, fixtures and equipment, debt and identified intangible assets and liabilities, consisting of the value of above or below market leases and in-place leases. In making estimates of fair values for purposes of allocating purchase price, the Company utilizes various sources, including its own analysis of recently acquired and existing comparable properties in its portfolio and other market data. Consideration for acquisitions is typically in the form of cash unless otherwise disclosed. For a business combination, the Company records the assets acquired and liabilities assumed based on the fair value of each respective item. For an asset acquisition, the allocation of the purchase price is based on the relative fair value of the net assets. The Company expenses all applicable acquisition costs for a business combination and capitalizes all applicable acquisition costs for an asset acquisition. The Company expects that acquisitions of individual operating communities will generally be viewed as asset acquisitions.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to amounts in prior years' notes to financial statements to conform to current year presentations as a result of changes in held for sale classification, disposition activity and segment classification.

Leases

The Company is party to leases as both a lessor and a lessee, primarily as follows:

- lessor of residential and retail space within its apartment communities; and
- lessee under (i) ground leases for land underlying current operating or development communities, (ii) office leases for its corporate headquarters and regional offices and (iii) leases of equipment.

The Company adopted ASU 2016-02, Leases, as of January 1, 2019 using the prospective adoption approach, applying the provisions of the new standard to existing leases as of the date of adoption.

Lessee Considerations

The Company assessed whether a contract is or contains a lease based on whether the contract conveys the right to control the use of an identified asset, including specified portions of larger assets, for a period of time in exchange for consideration. The Company identified leases as contracts in which it has the right to direct the use of the property and obtain all of the economic benefits.

The Company's leases include both fixed and variable lease payments, which are based on an index or rate such as the consumer price index (CPI) or percentage rents based on total sales. When evaluating what payments to include in the measurement of the lease liability, the Company included lease payments that depend on an index or rate only. Variable lease payments that are not based on an index or rate including changes in CPI, percentage rents based on total sales, fair market value resets and others are not included in the measurement of the lease liability, but will be recognized as variable lease expense in the period in which they are incurred.

For leases that have options to extend the term or terminate the lease early, the Company considered whether these options are reasonably certain to be exercised, taking into account physical improvements, installation or relocation costs, rent during the option periods and the cost of returning the assets to a contractually specified condition. The Company only factored the impact of options into the lease term if the option was considered reasonably certain to be exercised.

The Company determined the discount rate associated with its ground and office leases using the Company's actual borrowing rates as well as indicative market pricing for longer term rates. The Company determined the discount rates on a lease by lease basis using the incremental borrowing rate and taking into consideration the remaining term of each of the lease agreements.

Lessor Considerations

The Company evaluated leases in which it is the lessor, which are composed of residential and retail leases at its apartment communities. The accounting model for lessors did not significantly change as a result of ASU 2016-02, with the impacts primarily related to the accounting for sales-type and direct financing leases. The Company evaluated its residential and retail leases determining that they continue to be considered to be operating leases. For lease agreements that provide for rent concessions and/or scheduled fixed and determinable rent increases, rental income is recognized on a straight-line basis over the noncancellable term of the lease. The Company's residential lease term is generally one year. Some of the Company's retail leases have fixed-price renewal options, and the lessee may be able to exercise its renewal option at an amount less than the fair value of the rent at such time. The Company only includes renewal options in the lease term, if at the commencement of the lease, the option period rent is reasonably certain to be less than the base period rent and therefore exercised by the lessee.

Additionally, for the Company's residential and retail leases, which are comprised of the lease component and common area maintenance as a non-lease component, the Company determined that (i) the leases are operating leases, (ii) the lease component is the predominant component and (iii) that all components of its operating leases share the same timing and pattern of transfer.

The Company changed its presentation of charges for uncollectible lease revenue associated with its residential and retail leasing activity, reflecting those amounts as a component of rental and other income on the accompanying Condensed Consolidated Statement of Comprehensive Income for the three and six months ended June 30, 2019. However, in accordance with its prospective adoption of the lease standard, the Company did not adjust the prior year period presentation of charges for uncollectible lease revenue associated with its residential and retail leasing activity as a component of operating expenses, excluding property taxes, on the on the accompanying Condensed Consolidated Statement of Comprehensive Income for the three and six months ended June 30, 2018.

Implementation Considerations and Impact

As discussed above, the Company used the prospective adoption approach for the standard. Additionally, in conjunction with the implementation of the standard, the Company elected to apply certain lessee practical expedients allowed under the standard including:

- not reassessing (i) whether any expired or existing contracts are or contain leases, (ii) the lease classification for any expired or existing leases and (iii) the accounting for initial direct costs for any existing leases;
- not evaluating short term leases;
- not assessing whether existing land easements are, or contain leases; and
- making an accounting policy election by class of underlying asset, to not separate non-lease components from lease components and instead to account for each separate lease and non-lease component as a single lease component.

Also in conjunction with the implementation of the standard, the Company elected to apply the following practical expedients for lessors, making an accounting policy election:

- by class of underlying asset for retail and residential leases, to not separate non-lease components from lease components and instead to account for each separate lease and non- lease component as a single lease component;
- to exclude costs paid by lessees directly to third parties on behalf of the Company; and
- to exclude sales taxes and other similar taxes assessed by a government authority and collected by the Company from the lessee.

Upon adoption, the Company recorded lease liabilities and offsetting right of use lease assets for its ground and office leases of \$122,276,000. In addition, the Company made certain other reclassifications in the current year period of lease related amounts on its Condensed Consolidated Balance Sheet to conform to the presentation under the new standard. The adoption of the standard did not have a material impact on the accompanying Condensed Consolidated Statements of Comprehensive Income.

Revenue and Gain Recognition

The majority of the Company's revenue is derived from residential and retail rental income and other lease income, which are accounted for under ASU 2016-02, Leases, discussed above. The Company's revenue streams that are not accounted for under ASU 2016-02 include:

- **Management fees** - The Company has investment interests in real estate joint ventures, for which the Company may manage (i) the venture, (ii) the associated operating communities owned by the ventures and/or (iii) the development or redevelopment of those operating communities. For these activities, the Company receives asset management, property management, development and/or redevelopment fee revenue. The performance obligation is the management of the venture, community or other defined task such as the development or redevelopment of the community. While the individual activities that comprise the performance obligation of the management fees can vary day to day, the nature of the overall performance obligation to provide management service is the same and considered by the Company to be a series of services that have the same pattern of transfer to the customer and the same method to measure progress toward satisfaction of the performance obligation. The Company recognizes revenue for fees as earned on a monthly basis.
- **Rental and non-rental related income** - The Company recognizes revenue for new rental related income not included as components of a lease, such as reservation and application fees, as well as for non-rental related income, as earned.
- **Gains or losses on sales of real estate** - The Company accounts for the sale of real estate assets and any related gain recognition in accordance with the accounting guidance applicable to sales of real estate, which establishes standards for recognition of profit on all real estate sales transactions, other than retail land sales. The Company recognizes the sale, and associated gain or loss from the disposition, provided that the earnings process is complete and the Company does not have significant continuing involvement. A gain or loss is recognized when the criteria for an asset to be derecognized are met, which include when (i) a contract exists and (ii) the buyer obtained control of the nonfinancial asset that was sold. In addition, a gain or loss recognized on the sale of a nonfinancial asset to an unconsolidated entity is recognized at 100%, and not the Company's proportionate ownership percentage.

The following table provides details of the Company's revenue streams disaggregated by the Company's reportable operating segments, further discussed in Note 8, "Segment Reporting," for the three and six months ended June 30, 2019 and 2018. Segment information for total revenue has been adjusted to exclude the real estate assets that were sold from January 1, 2018 through June 30, 2019, or otherwise qualify as held for sale as of June 30, 2019, as described in Note 6, "Real Estate Disposition Activities." Additionally, as discussed above, the Company changed its presentation of charges for uncollectible lease revenue for the three and six months ended June 30, 2019, including it as an adjustment to revenue and not as a component of operating expenses, as it is presented for prior periods on the accompanying Condensed Consolidated Statement of Comprehensive Income. In order to provide comparability between periods presented in the Company's segment reporting, the Company has included charges for uncollectible lease revenue for its segment results as a component of revenue for all periods presented. See Note 8, "Segment Reporting," for further discussion (dollars in thousands):

	For the three months ended				
	Established Communities	Other Stabilized Communities	Development/Redevelopment Communities	Non-allocated (1)	Total
For the period ended June 30, 2019					
Management, development and other fees	\$ —	\$ —	\$ —	\$ 1,114	\$ 1,114
Rental and non-rental related income (2)	1,817	385	192	—	2,394
Total non-lease revenue (3)	1,817	385	192	1,114	3,508
Lease income (4)	455,732	75,126	39,871	—	570,729
Business interruption insurance proceeds	250	185	—	—	435
Total revenue	\$ 457,799	\$ 75,696	\$ 40,063	\$ 1,114	\$ 574,672
For the period ended June 30, 2018					
Management, development and other fees	\$ —	\$ —	\$ —	\$ 954	\$ 954
Rental and non-rental related income (2)	1,292	316	85	—	1,693
Total non-lease revenue (3)	1,292	316	85	954	2,647
Lease income (4)	442,294	58,818	31,880	—	532,992
Total revenue	\$ 443,586	\$ 59,134	\$ 31,965	\$ 954	\$ 535,639

	For the six months ended				
	Established Communities	Other Stabilized Communities	Development/Redevelopment Communities	Non-allocated (1)	Total
For the period ended June 30, 2019					
Management, development and other fees	\$ —	\$ —	\$ —	\$ 2,252	\$ 2,252
Rental and non-rental related income (2)	3,373	1,047	332	—	4,752
Total non-lease revenue (3)	3,373	1,047	332	2,252	7,004
Lease income (4)	906,210	147,121	75,311	—	1,128,642
Business interruption insurance proceeds	404	203	—	—	607
Total revenue	\$ 909,987	\$ 148,371	\$ 75,643	\$ 2,252	\$ 1,136,253
For the period ended June 30, 2018					
Management, development and other fees	\$ —	\$ —	\$ —	\$ 1,841	\$ 1,841
Rental and non-rental related income (2)	2,218	907	148	—	3,273
Total non-lease revenue (3)	2,218	907	148	1,841	5,114
Lease income (4)	878,200	113,987	63,263	—	1,055,450
Total revenue	\$ 880,418	\$ 114,894	\$ 63,411	\$ 1,841	\$ 1,060,564

- (1) Revenue represents third-party management, asset management and developer fees and miscellaneous income which are not allocated to a reportable segment.
- (2) Amounts include revenue streams related to activities that are not considered components of a lease, including but not limited to, apartment hold fees and application fees, as well as revenue streams not related to leasing activities, including but not limited to, vendor revenue sharing, building advertising, vending and dry cleaning revenue.
- (3) Represents all revenue accounted for under ASC 2014-09.
- (4) Amounts include all revenue streams derived from residential and retail rental income and other lease income, which are accounted for under ASU 2016-02.

Due to the nature and timing of the Company's identified revenue streams, there are no material amounts of outstanding or unsatisfied performance obligations as of June 30, 2019.

2. Interest Capitalized

The Company capitalizes interest during the development and redevelopment of real estate assets. Capitalized interest associated with the Company's development or redevelopment activities totaled \$17,127,000 and \$14,567,000 for the three months ended June 30, 2019 and 2018, respectively, and \$34,716,000 and \$27,731,000 for the six months ended June 30, 2019 and 2018, respectively.

3. Mortgage Notes Payable, Unsecured Notes and Credit Facility

The Company's mortgage notes payable, unsecured notes, variable rate unsecured term loans ("Term Loans") and Credit Facility, as defined below, as of June 30, 2019 and December 31, 2018 are summarized below. The following amounts and discussion do not include the mortgage notes related to the communities classified as held for sale, if any, as of June 30, 2019 and December 31, 2018, as shown in the accompanying Condensed Consolidated Balance Sheets (dollars in thousands) (see Note 6, "Real Estate Disposition Activities").

	6/30/2019	12/31/2018
Fixed rate unsecured notes (1)	\$ 5,850,000	\$ 5,400,000
Variable rate unsecured notes (1)	300,000	300,000
Term Loans (1)	250,000	250,000
Fixed rate mortgage notes payable - conventional and tax-exempt (2)	517,039	533,215
Variable rate mortgage notes payable - conventional and tax-exempt (2)	497,850	619,140
Total mortgage notes payable, unsecured notes and Term Loans	7,414,889	7,102,355
Credit Facility	—	—
Total mortgage notes payable, unsecured notes, Term Loans and Credit Facility	\$ 7,414,889	\$ 7,102,355

- (1) Balances at June 30, 2019 and December 31, 2018 exclude \$9,346 and \$9,879, respectively, of debt discount, and \$35,522 and \$34,128, respectively, of deferred financing costs, as reflected in unsecured notes, net on the accompanying Condensed Consolidated Balance Sheets.
- (2) Balances at June 30, 2019 and December 31, 2018 exclude \$14,530 and \$14,590, respectively, of debt discount, and \$3,274 and \$3,495, respectively, of deferred financing costs, as reflected in mortgage notes payable on the accompanying Condensed Consolidated Balance Sheets.

In addition to the Credit Facility discussed in this Form 10-Q, the following debt activity occurred during the six months ended June 30, 2019:

- In February 2019, the Company amended and restated the \$250,000,000 variable rate unsecured term loan that it originally entered into in February 2017, of which \$100,000,000 matures in February 2022 with stated pricing of LIBOR plus 0.90%, which remained the same, and \$150,000,000 matures in February 2024 with stated pricing of LIBOR plus 0.85% that decreased from LIBOR plus 1.50%.
- In April 2019, the Company repaid \$13,363,000 of 2.99% fixed rate debt and \$33,854,000 of variable rate debt secured by Avalon Natick at par on its maturity date.
- In May 2019, the Company repaid \$7,635,000 principal amount of variable rate debt secured by Eaves Mission Viejo at par in advance of its scheduled maturity date. The Company utilized \$3,706,000 of restricted cash held in a principal reserve fund to repay a portion of the outstanding indebtedness.
- In May 2019, the Company repaid \$20,800,000 principal amount of variable rate debt secured by AVA Nob Hill at par in advance of its scheduled maturity date. The Company utilized \$10,584,000 of restricted cash held in a principal reserve fund to repay a portion of the outstanding indebtedness.
- In May 2019, the Company repaid \$38,800,000 principal amount of variable rate debt secured by Avalon Campbell at par in advance of its scheduled maturity date. The Company utilized \$22,622,000 of restricted cash held in a principal reserve fund to repay a portion of the outstanding indebtedness.
- In May 2019, the Company repaid \$17,600,000 principal amount of variable rate debt secured by Eaves Pacifica at par in advance of its scheduled maturity date. The Company utilized \$10,263,000 of restricted cash held in a principal reserve fund to repay a portion of the outstanding indebtedness.
- In May 2019, the Company issued \$450,000,000 principal amount of unsecured notes in a public offering under its existing shelf registration statement for net proceeds of approximately \$446,877,000. The notes mature in June 2029 and were issued at a 3.30% interest rate. The effective interest rate of the notes is 3.66%, including the impact of an interest rate hedge and offering costs.

In February 2019, the Company entered into a \$1,750,000,000 Fifth Amended and Restated Revolving Loan Agreement (the “Credit Facility”) with a syndicate of banks, which replaces its prior \$1,500,000,000 credit facility dated as of January 14, 2016. The term of the Credit Facility ends on February 28, 2024.

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The Credit Facility bears interest at varying levels based on (i) the London Interbank Offered Rate (“LIBOR”) applicable to the period of borrowing for a particular draw of funds from the facility (e.g., one month to maturity, three months to maturity, etc.) and (ii) the rating levels issued for our unsecured notes. The current stated pricing for drawn borrowings is LIBOR plus 0.775% per annum (3.15% at June 30, 2019), assuming a one month borrowing rate. The stated spread over LIBOR can vary from LIBOR plus 0.70% to LIBOR plus 1.45% based upon the rating of the Company's unsecured notes. The Credit Facility also provides a competitive bid option that is available for borrowings of up to 65% of the Credit Facility amount. This option allows banks that are part of the lender consortium to bid to provide the Company loans at a rate that is lower than the stated pricing provided by the unsecured credit facility. The competitive bid option may result in lower pricing than the stated rate if market conditions allow. The annual facility fee for the Credit Facility remained 0.125%, resulting in a fee of \$2,188,000 annually based on the \$1,750,000,000 facility size and based on the Company's current credit rating.

The Company had no borrowings outstanding under the Credit Facility as of June 30, 2019 and December 31, 2018. The Company had \$35,461,000 and \$39,810,000 outstanding in letters of credit that reduced the borrowing capacity as of June 30, 2019 and December 31, 2018, respectively. In addition, the Company had \$100,000 outstanding in additional letters of credit as of June 30, 2019.

In the aggregate, secured notes payable mature at various dates from November 2019 through July 2066, and are secured by certain apartment communities (with a net carrying value of \$1,667,725,000, excluding communities classified as held for sale, as of June 30, 2019).

The weighted average interest rate of the Company's fixed rate secured notes payable (conventional and tax-exempt) was both 3.8% at June 30, 2019 and December 31, 2018, respectively. The weighted average interest rate of the Company's variable rate secured notes payable (conventional and tax-exempt) including the effect of certain financing related fees, was 3.5% and 3.4% at June 30, 2019 and December 31, 2018, respectively.

Scheduled payments and maturities of secured notes payable and unsecured notes outstanding at June 30, 2019 are as follows (dollars in thousands):

Year	Secured notes principal payments	Secured notes maturities	Unsecured notes and Term Loans maturities	Stated interest rate of unsecured notes and Term Loans
2019	1,931	66,285	—	N/A
2020	8,782	140,429	400,000	3.625%
2021	9,304	27,844	250,000	3.950%
			300,000	LIBOR + 0.43%
2022	9,918	—	450,000	2.950%
			100,000	LIBOR + 0.90%
2023	10,739	—	350,000	4.200%
			250,000	2.850%
2024	11,577	—	300,000	3.500%
			150,000	LIBOR + 0.85%
2025	12,508	—	525,000	3.450%
			300,000	3.500%
2026	13,545	—	475,000	2.950%
			300,000	2.900%
2027	13,575	186,505	400,000	3.350%
2028	20,607	—	450,000	3.200%
Thereafter	200,904	280,436	350,000	3.900%
			300,000	4.150%
			300,000	4.350%
			450,000	3.300%
	<u>\$ 313,390</u>	<u>\$ 701,499</u>	<u>\$ 6,400,000</u>	

The Company was in compliance at June 30, 2019 with customary financial and other covenants under the Credit Facility, the Term Loans and the Company's fixed rate unsecured notes.

4. Equity

The following summarizes the changes in equity for the six months ended June 30, 2019 (dollars in thousands):

	Common stock	Additional paid-in capital	Accumulated earnings less dividends	Accumulated other comprehensive loss	Total AvalonBay stockholder's equity	Noncontrolling interests	Total equity
Balance at December 31, 2018	\$ 1,385	\$ 10,306,588	\$ 350,777	\$ (26,144)	\$ 10,632,606	\$ —	\$ 10,632,606
Net income attributable to common stockholders	—	—	170,366	—	170,366	—	170,366
Loss on cash flow hedges, net	—	—	—	(7,231)	(7,231)	—	(7,231)
Cash flow hedge losses reclassified to earnings	—	—	—	1,468	1,468	—	1,468
Change in redemption value of redeemable noncontrolling interest	—	—	(224)	—	(224)	—	(224)
Dividends declared to common stockholders (\$1.52 per share)	—	—	(212,166)	—	(212,166)	—	(212,166)
Issuance of common stock, net of withholdings	9	143,202	(1,892)	—	141,319	—	141,319
Amortization of deferred compensation	—	7,861	—	—	7,861	—	7,861
Balance at March 31, 2019	\$ 1,394	\$ 10,457,651	\$ 306,861	\$ (31,907)	\$ 10,733,999	\$ —	\$ 10,733,999
Net income attributable to common stockholders	—	—	168,281	—	168,281	—	168,281
Loss on cash flow hedges, net	—	—	—	(2,888)	(2,888)	—	(2,888)
Cash flow hedge losses reclassified to earnings	—	—	—	1,611	1,611	—	1,611
Change in redemption value of redeemable noncontrolling interest	—	—	(45)	—	(45)	—	(45)
Noncontrolling interest contribution	—	—	—	—	—	530	530
Dividends declared to common stockholders (\$1.52 per share)	—	—	(212,549)	—	(212,549)	—	(212,549)
Issuance of common stock, net of withholdings	3	50,803	—	—	50,806	—	50,806
Amortization of deferred compensation	—	10,785	—	—	10,785	—	10,785
Balance at June 30, 2019	\$ 1,397	\$ 10,519,239	\$ 262,548	\$ (33,184)	\$ 10,750,000	\$ 530	\$ 10,750,530

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The following summarizes the changes in equity for the six months ended June 30, 2018 (dollars in thousands):

	Common stock	Additional paid-in capital	Accumulated earnings less dividends	Accumulated other comprehensive loss	Total equity
Balance at December 31, 2017	\$ 1,381	\$ 10,235,475	\$ 188,609	\$ (37,419)	\$ 10,388,046
Net income attributable to common stockholders	—	—	141,643	—	141,643
Gain on cash flow hedges, net	—	—	—	11,501	11,501
Cash flow hedge losses reclassified to earnings	—	—	—	1,756	1,756
Change in redemption value of redeemable noncontrolling interest	—	—	(63)	—	(63)
Dividends declared to common stockholders (\$1.47 per share)	—	—	(203,166)	—	(203,166)
Issuance of common stock, net of withholdings	1	(12,286)	1,143	—	(11,142)
Amortization of deferred compensation	—	6,549	—	—	6,549
Balance at March 31, 2018	<u>\$ 1,382</u>	<u>\$ 10,229,738</u>	<u>\$ 128,166</u>	<u>\$ (24,162)</u>	<u>\$ 10,335,124</u>
Net income attributable to common stockholders	—	—	254,662	—	254,662
Cash flow hedge losses reclassified to earnings	—	—	—	1,455	1,455
Change in redemption value of redeemable noncontrolling interest	—	—	(291)	—	(291)
Dividends declared to common stockholders (\$1.47 per share)	—	—	(203,472)	—	(203,472)
Issuance of common stock, net of withholdings	—	627	1	—	628
Amortization of deferred compensation	—	10,082	—	—	10,082
Balance at June 30, 2018	<u>\$ 1,382</u>	<u>\$ 10,240,447</u>	<u>\$ 179,066</u>	<u>\$ (22,707)</u>	<u>\$ 10,398,188</u>

As of June 30, 2019 and December 31, 2018, the Company's charter had authorized for issuance a total of 280,000,000 shares of common stock and 50,000,000 shares of preferred stock.

During the six months ended June 30, 2019, the Company:

- i. issued 69,686 shares of common stock in connection with stock options exercised;
- ii. issued 1,092 common shares through the Company's dividend reinvestment plan;
- iii. issued 150,359 common shares in connection with restricted stock grants and the conversion of performance awards to restricted shares;
- iv. issued 994,634 shares under CEP IV and CEP V, as discussed below;
- v. withheld 75,195 common shares to satisfy employees' tax withholding and other liabilities;
- vi. issued 7,156 common shares through the Employee Stock Purchase Plan; and
- vii. canceled 1,438 common shares of restricted stock upon forfeiture.

Any deferred compensation related to the Company's stock option, restricted stock and performance award grants during the six months ended June 30, 2019 is not reflected on the accompanying Condensed Consolidated Balance Sheets as of June 30, 2019, and will not be reflected until recognized as compensation cost.

In December 2015, the Company commenced a fourth continuous equity program ("CEP IV") under which the Company was able to sell (and/or enter into forward sale agreements for the sale of) up to \$1,000,000,000 of its common stock from time to time. In conjunction with CEP IV, the Company engaged sales agents who received compensation up to 2.0% of the gross sales price for shares sold.

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In May 2019, the Company replaced CEP IV with a new continuous equity program ("CEP V") under which the Company may sell (and/or enter into forward sale agreements for the sale of) up to \$1,000,000,000 of its common stock from time to time. Actual sales will depend on a variety of factors to be determined by the Company, including market conditions, the trading price of the Company's common stock and determinations by the Company of the appropriate sources of funding for the Company. In conjunction with CEP V, the Company engaged sales agents who will receive compensation of up to 1.5% of the gross sales price for shares sold. The Company expects that, if entered into, it will physically settle each forward sale agreement on one or more dates specified by the Company on or prior to the maturity date of that particular forward sale agreement, in which case the Company will expect to receive aggregate net cash proceeds at settlement equal to the number of shares underlying the particular forward agreement multiplied by the relevant forward sale price. However, the Company may also elect to cash settle or net share settle a forward sale agreement. In connection with each forward sale agreement, the Company will pay the relevant forward seller, in the form of a reduced initial forward sale price, a commission of up to 1.5% of the sales prices of all borrowed shares of common stock sold. As of June 30, 2019, there are no outstanding forward sales agreements.

During the first quarter of 2019, the Company sold 755,054 shares at an average sales price of \$198.26 per share, for net proceeds of \$147,450,000 under CEP IV. The Company did not have any sales under CEP IV during the three months ended June 30, 2019. During the three months ended June 30, 2019, the Company sold 239,580 shares at an average sales price of \$208.70 per share, for net proceeds of \$49,250,000 under CEP V. As of June 30, 2019, the Company had \$950,000,000 remaining authorized for issuance under CEP V.

5. Investments in Real Estate Entities

Investments in Unconsolidated Real Estate Entities

As of June 30, 2019, the Company had investments in six unconsolidated real estate entities with ownership interest percentages ranging from 20.0% to 55.0%, excluding joint ventures formed with Equity Residential as part of the Archstone acquisition. The Company accounts for its investments in unconsolidated real estate entities under the equity method of accounting. The significant accounting policies of the Company's unconsolidated real estate entities are consistent with those of the Company in all material respects.

The following is a combined summary of the financial position of the entities accounted for using the equity method discussed above as of the dates presented (dollars in thousands):

	6/30/2019	12/31/2018
	(unaudited)	
Assets:		
Real estate, net	\$ 1,368,946	\$ 1,420,039
Other assets	197,107	45,142
Total assets	<u>\$ 1,566,053</u>	<u>\$ 1,465,181</u>
Liabilities and partners' capital:		
Mortgage notes payable, net and credit facility	\$ 834,489	\$ 837,311
Other liabilities	157,301	15,624
Partners' capital	574,263	612,246
Total liabilities and partners' capital	<u>\$ 1,566,053</u>	<u>\$ 1,465,181</u>

The following is a combined summary of the operating results of the entities accounted for using the equity method discussed above for the periods presented (dollars in thousands):

	For the three months ended		For the six months ended	
	6/30/2019	6/30/2018	6/30/2019	6/30/2018
	(unaudited)		(unaudited)	
Rental and other income	\$ 35,958	\$ 21,916	\$ 71,268	\$ 43,717
Operating and other expenses	(13,670)	(8,104)	(27,638)	(16,409)
Interest expense, net	(8,540)	(5,571)	(17,092)	(11,189)
Depreciation expense	(18,346)	(5,894)	(40,042)	(11,774)
Net (loss) income	<u>\$ (4,598)</u>	<u>\$ 2,347</u>	<u>\$ (13,504)</u>	<u>\$ 4,345</u>

In conjunction with the acquisition of the Archstone Multifamily Partners AC LP (the "U.S. Fund"), Multifamily Partners AC JV LP (the "AC JV") and Brandywine Apartments of Maryland, LLC ("Brandywine"), the Company incurred costs in excess of its equity in the underlying net assets of the respective investments. These costs represent \$30,544,000 and \$31,188,000 at June 30, 2019 and December 31, 2018, respectively, of the Company's respective investment balances. These amounts are being amortized over the lives of the underlying assets as a component of equity in income of unconsolidated real estate entities on the accompanying Condensed Consolidated Statements of Comprehensive Income.

Investments in Consolidated Real Estate Entities

During the six months ended June 30, 2019, the Company acquired two consolidated communities:

- Avalon Southlands, located in Aurora, CO, which contains 338 apartment homes and was acquired for a purchase price of \$91,250,000.
- Avalon Cerritos, located in Cerritos, CA, which contains 132 apartment homes and was acquired for a purchase price of \$60,500,000.

The Company accounted for these as asset acquisitions and recorded the acquired assets and assumed liabilities, including identifiable intangibles, at their relative fair values based on the purchase price and acquisition costs incurred. The Company used third party pricing or internal models for the values of the land, a valuation model for the values of the buildings, and an internal model to determine the fair values of the remaining real estate assets and in-place leases. Given the heterogeneous nature of multifamily real estate, the fair values for the land, debt, real estate assets and in-place leases incorporated significant unobservable inputs and therefore are considered to be Level 3 prices within the fair value hierarchy.

In conjunction with the development of Avalon Brooklyn Bay, the Company entered into a joint venture agreement to construct a mixed-use building that contains rental apartments, for-sale residential condominium units and related common elements. The Company owns a 70.0% interest in the venture, which represents a 100% interest in the rental apartments, and the venture partner owns the remaining 30.0% interest, which represents a 100% interest in the for-sale residential condominium units. The Company was responsible for the development and construction of the structure, and provided a loan to the venture partner for the venture partner's share of costs. The venture is considered a VIE, and the Company consolidates its interest in the rental apartments and common areas, which are included in total real estate, net on the accompanying Condensed Consolidated Balance Sheets. The development of Avalon Brooklyn Bay was completed during 2018. The Company has a receivable from the venture partner in the form of a variable rate mortgage note, secured by the remaining for-sale residential condominium units. Beginning in 2018, the mortgage note is being repaid by the venture partner with the proceeds the venture partner receives from the sales of the residential condominium units. The balances as of June 30, 2019 and December 31, 2018 were \$12,272,000 and \$12,819,000, respectively, representing outstanding principal and interest, net of repayments. These amounts are reported as a component of prepaid expenses and other assets on the accompanying Condensed Consolidated Balance Sheets. The Company recognizes interest income on the accrual basis.

As of June 30, 2019, the Company is pursuing a potential for-sale strategy of the individual condominium units for the residential portion of the 15 West 61st Street development, which is currently under construction and contains 172 residential units and 67,000 square feet of retail space for a projected total capitalized cost of \$624,000,000. The Company expects to complete construction of both the residential and retail components of this development during 2019, and intends to own and operate the retail portion of the development. The Company incurred \$945,000 and \$158,000 during the three months ended June 30, 2019 and 2018, respectively, and \$1,418,000 and \$158,000 for the six months ended June 30, 2019 and 2018, respectively, in selling, general and administrative costs associated with 15 West 61st Street, included in expensed transaction, development and other pursuit costs, net of recoveries, on the accompanying Condensed Consolidated Statements of Comprehensive Income.

Expensed Transaction, Development and Other Pursuit Costs and Casualty and Impairment of Long-Lived Assets

The Company capitalizes pre-development costs incurred in pursuit of new development opportunities for which the Company currently believes future development is probable ("Development Rights"). Future development of these Development Rights is dependent upon various factors, including zoning and regulatory approval, rental market conditions, construction costs and the availability of capital. Initial pre-development costs incurred for pursuits for which future development is not yet considered probable are expensed as incurred. In addition, if the status of a Development Right changes, making future development by the Company no longer probable, any capitalized pre-development costs are expensed. The Company expensed costs related to the abandonment of Development Rights and costs for pursuits where development is not yet considered probable, as well as costs incurred in pursuing the acquisition or disposition of assets for which such acquisition and disposition activity did not occur, in the amounts of \$1,766,000 and \$889,000 for the three months ended June 30, 2019 and 2018, respectively, and \$2,388,000 and \$1,689,000 for the six months ended June 30, 2019 and 2018, respectively. These costs are included in expensed transaction, development and other pursuit costs, net of recoveries on the accompanying Condensed Consolidated Statements of Comprehensive Income. Abandoned pursuit costs can vary greatly, and the costs incurred in any given period may be significantly different in future periods.

The Company evaluates its real estate and other long-lived assets for impairment when potential indicators of impairment exist. Such assets are stated at cost, less accumulated depreciation and amortization, unless the carrying amount of the asset is not recoverable. If events or circumstances indicate that the carrying amount of a property or long-lived asset may not be recoverable, the Company assesses its recoverability by comparing the carrying amount of the property or long-lived asset to its estimated undiscounted future cash flows. If the carrying amount exceeds the aggregate undiscounted future cash flows, the Company recognizes an impairment loss to the extent the carrying amount exceeds the estimated fair value of the property or long-lived asset. Based on periodic tests of recoverability of long-lived assets, the Company did not recognize any impairment losses for the three and six months ended June 30, 2019 and 2018.

The Company assesses its portfolio of land held for both development and investment for impairment if the intent of the Company changes with respect to either the development of, or the expected holding period for, the land. During the three and six months ended June 30, 2019 and 2018, the Company did not recognize any impairment charges on its investment in land.

The Company evaluates its unconsolidated investments for other than temporary impairment, considering both the extent and amount by which the carrying value of the investment exceeds the fair value, and the Company's intent and ability to hold the investment to recover its carrying value. The Company also evaluates its proportionate share of any impairment of assets held by unconsolidated investments. There were no other than temporary impairment losses recognized by any of the Company's investments in unconsolidated real estate entities during the three and six months ended June 30, 2019 and 2018.

6. Real Estate Disposition Activities

The following real estate sales occurred during the six months ended June 30, 2019:

- In January 2019, the Company sold Oakwood Arlington, located in Arlington, VA, containing an aggregate of 184 apartment homes for \$70,000,000. The Company's gain on disposition was \$16,382,000, reported in gain on sale of communities on the accompanying Condensed Consolidated Statements of Comprehensive Income.
- In January and March 2019, the Company sold two undeveloped land parcels for an aggregate sale price of \$3,680,000. The Company recognized a gain on disposition of \$214,000, reported in gain on other real estate transactions, net on the accompanying Condensed Consolidated Statements of Comprehensive Income.
- In April 2019, the Company sold Archstone Toscano, located in Houston, TX, containing an aggregate of 474 apartment homes for \$98,000,000. The Company's gain on disposition was \$20,604,000, reported in gain on sale of communities on accompanying Condensed Consolidated Statement of Comprehensive Income.

At June 30, 2019, the Company had one community that qualified as held for sale.

7. Commitments and Contingencies

Lease Obligations

The Company owns 11 apartment communities, one community under development, and two commercial properties, located on land subject to land leases expiring between October 2026 and March 2142. All of the ground leases, except for one of the apartment communities, are accounted for as operating leases, for which the Company recognizes rental expense on a straight-line basis over the lease term. These operating leases have varying rental escalation terms, primarily based on variables determined at future dates such as changes in the Consumer Price Index, and five of these leases have purchase options exercisable through 2095. In addition, the Company is party to 15 leases for its corporate and regional offices with varying terms through 2031, all of which are accounted for as operating leases, two of which have been executed and do not commence until 2020.

As of June 30, 2019, the Company has total operating lease assets of \$100,377,000 and lease obligations of \$117,938,000, reported as components of right of use lease assets and lease liabilities, respectively, on the accompanying Condensed Consolidated Balance Sheets. The Company incurred costs of \$3,568,000 and \$7,105,000 for the three and six months ended June 30, 2019, respectively, related to operating leases.

One apartment community is located on land subject to a land lease which is accounted for as a finance lease and has the option for the Company to purchase the land at some point during the lease term which expires in 2046. In addition to the leases described above, the Company is party to two leases for portions of parking garages, one adjacent to an apartment community and one adjacent to a community under development, accounted for as finance leases and subject to the Company's lease accounting policies discussed in Note 1, "Organization, Basis of Presentation and Significant Accounting Policies." The Company has total finance lease assets of \$22,004,000 and lease obligations of \$20,225,000, reported as components of right of use lease assets and lease liabilities, respectively, on the accompanying Condensed Consolidated Balance Sheets.

The following table details the weighted average remaining lease term and discount rates for the Company's ground and office leases:

Weighted-average remaining lease term - finance leases	27 years
Weighted-average remaining lease term - operating leases	54 years
Weighted-average discount rate - finance leases	4.63%
Weighted-average discount rate - operating leases	4.45%

The following tables details the future minimum lease payments under the Company's current leases and a reconciliation of undiscounted and discounted cash flows for operating and finance leases (dollars in thousands):

	Payments due by period					
	2019	2020	2021	2022	2023	Thereafter
Operating Lease Obligations	\$ 6,676	\$ 11,787	\$ 13,432	\$ 13,355	\$ 12,810	\$ 372,696
Finance Lease Obligations	538	1,077	1,080	1,082	1,084	41,220
	<u>\$ 7,214</u>	<u>\$ 12,864</u>	<u>\$ 14,512</u>	<u>\$ 14,437</u>	<u>\$ 13,894</u>	<u>\$ 413,916</u>
	Total undiscounted cash flows		Total lease liabilities		Difference between discounted and undiscounted cash flows	
Operating Lease Obligations	\$ 430,756		\$ 117,938		\$ 312,818	
Finance Lease Obligations	46,081		20,225		25,856	
	<u>\$ 476,837</u>		<u>\$ 138,163</u>		<u>\$ 338,674</u>	

8. Segment Reporting

The Company's reportable operating segments include Established Communities, Other Stabilized Communities, and Development/Redevelopment Communities. Annually as of January 1, the Company determines which of its communities fall into each of these categories and generally maintains that classification throughout the year for the purpose of reporting segment operations, unless disposition or redevelopment plans regarding a community change. In addition, the Company owns land for future development and has other corporate assets that are not allocated to an operating segment.

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The Company's segment disclosures present the measure(s) used by the chief operating decision maker for purposes of assessing each segment's performance. The Company's chief operating decision maker ("CODM") is comprised of several members of its executive management team who use net operating income ("NOI") as the primary financial measure for Established Communities and Other Stabilized Communities. NOI is defined by the Company as total property revenue less direct property operating expenses (including property taxes), and excluding corporate-level income (including management, development and other fees), corporate-level property management and other indirect operating expenses, expensed transaction, development and other pursuit costs, net of recoveries, interest expense, net, loss on extinguishment of debt, net, general and administrative expense, equity in income of unconsolidated real estate entities, depreciation expense, corporate income tax expense, casualty and impairment (gain) loss, net, gain on sale of communities, (gain) loss on other real estate transactions, net and net operating income from real estate assets sold or held for sale. Although the Company considers NOI a useful measure of a community's or communities' operating performance, NOI should not be considered an alternative to net income or net cash flow from operating activities, as determined in accordance with GAAP. NOI excludes a number of income and expense categories as detailed in the reconciliation of NOI to net income.

A reconciliation of NOI to net income for the three and six months ended June 30, 2019 and 2018 is as follows (dollars in thousands):

	For the three months ended		For the six months ended	
	6/30/2019	6/30/2018	6/30/2019	6/30/2018
Net income	\$ 168,305	\$ 254,543	\$ 338,723	\$ 396,133
Indirect operating expenses, net of corporate income	23,018	19,677	42,740	38,636
Expensed transaction, development and other pursuit costs, net of recoveries	2,711	1,047	3,806	1,847
Interest expense, net	50,010	56,585	97,902	111,698
Loss on extinguishment of debt, net	229	642	509	1,039
General and administrative expense	18,965	15,209	32,671	29,640
Equity in (income) loss of unconsolidated real estate entities	(197)	(789)	863	(2,529)
Depreciation expense	162,693	156,685	324,749	315,743
Income tax expense (refund)	—	58	(6)	58
Casualty and impairment gain, net	—	—	—	(58)
Gain on sale of communities	(20,530)	(105,201)	(35,365)	(105,201)
Gain on other real estate transactions, net	(34)	(370)	(300)	(323)
Net operating income from real estate assets sold or held for sale	(1,495)	(19,680)	(4,077)	(40,377)
Net operating income	\$ 403,675	\$ 378,406	\$ 802,215	\$ 746,306

The following is a summary of NOI from real estate assets sold or held for sale for the periods presented (dollars in thousands):

	For the three months ended		For the six months ended	
	6/30/2019	6/30/2018	6/30/2019	6/30/2018
Rental income from real estate assets sold or held for sale	\$ 2,591	\$ 30,024	\$ 7,193	\$ 61,857
Operating expenses from real estate assets sold or held for sale	(1,096)	(10,344)	(3,116)	(21,480)
Net operating income from real estate assets sold or held for sale	\$ 1,495	\$ 19,680	\$ 4,077	\$ 40,377

The primary performance measure for communities under development or redevelopment depends on the stage of completion. While under development, management monitors actual construction costs against budgeted costs as well as lease-up pace and rent levels compared to budget.

The following table provides details of the Company's segment information as of the dates specified (dollars in thousands). The segments are classified based on the individual community's status at January 1, 2019. Segment information for the three and six months ended June 30, 2019 and 2018 has been adjusted to exclude the real estate assets that were sold from January 1, 2018 through June 30, 2019, or otherwise qualify as held for sale as of June 30, 2019, as described in Note 6, "Real Estate Disposition Activities."

In addition to NOI, the Company's CODM considers total revenue in assessing each segment's performance. As discussed in Note 1, "Organization, Basis of Presentation and Significant Accounting Policies," the Company changed its presentation of charges for uncollectible lease revenue beginning with the three and six months ended June 30, 2019, including it as an adjustment to revenue and not as a component of operating expenses, as it is presented for prior periods on the accompanying Condensed Consolidated Statement of Comprehensive Income. Consistent with how the Company's CODM evaluates total revenue, and to

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provide comparability between periods presented in the Company's segment reporting, the Company has included charges for uncollectible lease revenue for its segment results as a component of revenue for all periods presented in the following table. Total revenue for the three and six months ended June 30, 2018 as presented in the following table includes \$3,576,000 and \$7,611,000, respectively, of charges for uncollectible lease revenue.

	For the three months ended		For the six months ended		Gross real estate (1)
	Total revenue	NOI	Total revenue	NOI	
For the period ended June 30, 2019					
Established					
New England	\$ 63,819	\$ 41,907	\$ 127,092	\$ 83,715	\$ 2,118,237
Metro NY/NJ	103,073	73,212	204,276	145,055	3,531,694
Mid-Atlantic	73,094	51,073	145,103	102,125	2,674,020
Pacific Northwest	28,224	20,605	56,026	40,815	987,121
Northern California	88,301	67,384	175,661	135,622	2,776,718
Southern California	101,288	72,593	201,829	145,288	3,589,188
Total Established	457,799	326,774	909,987	652,620	15,676,978
Other Stabilized	75,696	50,813	148,371	100,024	3,327,804
Development / Redevelopment	40,063	26,088	75,643	49,571	3,719,999
Land Held for Development	N/A	N/A	N/A	N/A	18,606
Non-allocated (2)	1,114	N/A	2,252	N/A	98,492
Total	\$ 574,672	\$ 403,675	\$ 1,136,253	\$ 802,215	\$ 22,841,879
For the period ended June 30, 2018					
Established					
New England	\$ 62,110	\$ 40,750	\$ 123,318	\$ 80,441	\$ 2,109,273
Metro NY/NJ	99,745	70,412	197,774	139,429	3,518,123
Mid-Atlantic	71,099	49,917	140,868	98,772	2,662,775
Pacific Northwest	26,894	19,142	53,381	37,766	984,029
Northern California	85,559	66,133	169,983	130,946	2,764,856
Southern California	98,179	71,482	195,094	141,082	3,561,270
Total Established	443,586	317,836	880,418	628,436	15,600,326
Other Stabilized	59,134	38,776	114,894	75,000	2,764,061
Development / Redevelopment	31,965	21,794	63,411	42,870	2,618,434
Land Held for Development	N/A	N/A	N/A	N/A	130,802
Non-allocated (2)	954	N/A	1,841	N/A	79,703
Total	\$ 535,639	\$ 378,406	\$ 1,060,564	\$ 746,306	\$ 21,193,326

(1) Does not include gross real estate assets held for sale of \$77,030 as of June 30, 2019 and gross real estate either sold or classified as held for sale subsequent to June 30, 2018 of \$1,153,352.

(2) Revenue represents third-party management, asset management and developer fees and miscellaneous income which are not allocated to a reportable segment.

9. Stock-Based Compensation Plans

As part of its long term compensation plans, the Company has granted stock options, performance awards and restricted stock. Details of the outstanding awards and activity are presented below.

Information with respect to stock options granted under the Company's Second Amended and Restated 2009 Equity Incentive Plan (the "2009 Plan") for the six months ended June 30, 2019, is as follows:

	2009 Plan shares	Weighted average exercise price per share
Options Outstanding, December 31, 2018	124,212	\$ 128.84
Exercised	(69,686)	128.50
Granted	—	—
Forfeited	—	—
Options Outstanding, June 30, 2019	54,526	\$ 129.28
Options Exercisable, June 30, 2019	49,861	\$ 126.30

Information with respect to performance awards granted is as follows:

	Performance awards	Weighted average grant date fair value per award
Outstanding at December 31, 2018	267,129	\$ 157.21
Granted (1)	79,840	200.69
Change in awards based on performance (2)	(16,760)	142.03
Converted to restricted stock or options	(73,072)	142.03
Forfeited	(154)	161.96
Outstanding at June 30, 2019	256,983	\$ 176.03

(1) The amount of restricted stock that ultimately may be earned is based on the total shareholder return metrics related to the Company's common stock for 47,091 performance awards and financial metrics related to operating performance and leverage metrics of the Company for 32,749 performance awards.

(2) Represents the change in the number of performance awards earned based on actual performance achievement for the performance period.

The Company used a Monte Carlo model to assess the compensation cost associated with the portion of the performance awards granted in 2019 for which achievement will be determined by using total shareholder return measures. The assumptions used are as follows:

	2019
Dividend yield	3.1%
Estimated volatility over the life of the plan (1)	13.9% - 18.8%
Risk free rate	2.46% - 2.57%
Estimated performance award value based on total shareholder return measure	\$204.15

(1) Estimated volatility over the life of the plan is using 50% historical volatility and 50% implied volatility.

For the portion of the performance awards granted in 2019 for which achievement will be determined by using financial metrics, the compensation cost was based on the grant date fair value of \$195.72, and the Company's estimate of corporate achievement for the financial metrics.

Information with respect to restricted stock granted is as follows:

	Restricted stock shares	Restricted stock shares weighted average grant date fair value per share	Restricted stock shares converted from performance awards
Outstanding at December 31, 2018	160,411	\$ 166.33	209,238
Granted - restricted stock shares	77,287	195.96	73,072
Vested - restricted stock shares	(77,244)	166.52	(110,366)
Forfeited	(1,438)	174.19	—
Outstanding at June 30, 2019	159,016	\$ 180.57	171,944

Total employee stock-based compensation cost recognized in income was \$13,129,000 and \$9,843,000 for the six months ended June 30, 2019 and 2018, respectively, and total capitalized stock-based compensation cost was \$5,374,000 and \$5,490,000 for the six months ended June 30, 2019 and 2018, respectively. At June 30, 2019, there was a total unrecognized compensation cost of \$41,250,000 for unvested restricted stock and performance awards, which does not include forfeitures, and is expected to be recognized over a weighted average period of 2.3 years.

10. Related Party Arrangements

Unconsolidated Entities

The Company manages unconsolidated real estate entities for which it receives asset management, property management, development and redevelopment fee revenue. From these entities, the Company earned fees of \$1,114,000 and \$954,000 for the three months ended June 30, 2019 and 2018, respectively, and \$2,252,000 and \$1,841,000 for the six months ended June 30, 2019 and 2018, respectively. In addition, the Company has outstanding receivables associated with its property and construction management role of \$2,271,000 and \$2,519,000 as of June 30, 2019 and December 31, 2018, respectively.

Director Compensation

The Company recorded non-employee director compensation expense relating to restricted stock grants and deferred stock awards in the amount of \$405,000 and \$357,000 in the three months ended June 30, 2019 and 2018, respectively, and \$830,000 and \$746,000 in the six months ended June 30, 2019 and 2018, respectively, as a component of general and administrative expense. Deferred compensation relating to these restricted stock grants and deferred stock awards to non-employee directors was \$1,315,000 and \$571,000 on June 30, 2019 and December 31, 2018, respectively, reported as a component of prepaid expenses and other assets on the accompanying Condensed Consolidated Balance Sheets.

11. Fair Value

Financial Instruments Carried at Fair Value

Derivative Financial Instruments

The Company uses interest rate swap and interest rate cap agreements to manage its interest rate risk. These instruments are carried at fair value in the Company's financial statements. In adjusting the fair value of its derivative contracts for the effect of counterparty nonperformance risk, the Company has considered the impact of its net position with a given counterparty, as well as any applicable credit enhancements, such as collateral postings, thresholds, mutual puts and guarantees. The Company minimizes its credit risk on these transactions by dealing with major, creditworthy financial institutions which have an A or better credit rating by the Standard & Poor's Ratings Group. As part of its on-going control procedures, the Company monitors the credit ratings of counterparties and the exposure of the Company to any single entity, thus reducing credit risk concentration. The Company believes the likelihood of realizing losses from counterparty nonperformance is remote. Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, such as interest rate, term to maturity and volatility, the credit valuation adjustments associated with its derivatives use Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by itself and its counterparties. As of June 30, 2019, the Company assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined it is not significant. As a result, the Company has determined that its derivative valuations are classified in Level 2 of the fair value hierarchy.

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The following table summarizes the consolidated derivative positions at June 30, 2019 (dollars in thousands):

	Non-designated Hedges	Cash Flow Hedges Interest Rate Swaps
Notional balance	\$ 446,177	\$ 250,000
Weighted average interest rate (1)	3.5%	N/A
Weighted average swapped/capped interest rate	6.5%	2.2%
Earliest maturity date	Jan 2021	Oct 2020
Latest maturity date	Nov 2021	Oct 2020

(1) Represents the weighted average interest rate on the hedged debt.

During the three and six months ended June 30, 2019, in conjunction with the issuance of the Company's 3.30% notes due 2029 in May 2019, the Company settled \$250,000,000 of forward interest rate swap agreements designated as cash flow hedges of the interest rate variability on the forecasted issuance of the unsecured notes, making a payment of \$12,309,000. The Company has deferred this amount in accumulated other comprehensive loss on the accompanying Condensed Consolidated Balance Sheets, and will recognize the impact as a component of interest expense, net, over the 10 year term of the debt.

In addition, during the three and six months ended June 30, 2019, the Company entered into \$250,000,000 of new forward interest rate swap agreements executed to reduce the impact of variability in interest rates on a portion of the Company's expected debt issuance activity in 2020.

As of June 30, 2019, the Company had \$250,000,000 outstanding forward interest rate swap agreements. At maturity of the remaining outstanding swap agreements, the Company expects to cash settle the contracts and either pay or receive cash for the then current fair value. Assuming that the Company issues the debt as expected, the hedging impact from these positions will then be recognized over the life of the issued debt as a yield adjustment.

The Company had four derivatives designated as cash flow hedges and five derivatives not designated as hedges at June 30, 2019. Fair value changes for derivatives not in qualifying hedge relationships for the three and six months ended June 30, 2019 and 2018 were not material. During the six months ended June 30, 2019, the Company deferred \$10,119,000 of losses for cash flow hedges reported as a component of accumulated other comprehensive loss.

The following table summarizes the deferred losses reclassified from accumulated other comprehensive loss as a component of interest expense, net (dollars in thousands):

	For the three months ended		For the six months ended	
	6/30/2019	6/30/2018	6/30/2019	6/30/2018
Cash flow hedge losses reclassified to earnings	\$ 1,611	\$ 1,455	\$ 3,079	\$ 3,213

The Company anticipates reclassifying approximately \$6,983,000 of net hedging losses from accumulated other comprehensive loss into earnings within the next 12 months as an offset to the hedged item during this period. The Company did not have any derivatives designated as fair value hedges as of June 30, 2019 and 2018.

Redeemable Noncontrolling Interests

The Company is party to investments in two consolidated ventures, which contain redemption options (the "Puts") that allow joint venture partners of the Company to require the Company to purchase their interests in the investment at a guaranteed minimum amount. The Puts are payable in cash. The Company determines the fair value of the Puts based on unobservable inputs considering the assumptions that market participants would make in pricing the obligations, applying a guaranteed rate of return to the joint venture partners' net capital contribution balances as of period end. Given the significance of the unobservable inputs, the valuations are classified in Level 3 of the fair value hierarchy.

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The Company issued units of limited partnership interest in DownREITs which provide the DownREIT limited partners the ability to present all or some of their units for redemption for cash as determined by the partnership agreement. Under the DownREIT agreements, for each limited partnership unit, the limited partner is entitled to receive cash in the amount equal to the fair value of the Company's common stock on or about the date of redemption. In lieu of cash redemption, the Company may elect to exchange such units for an equal number of shares of the Company's common stock. The limited partnership units in the DownREITs are valued using the market price of the Company's common stock, a Level 1 price under the fair value hierarchy.

Financial Instruments Not Carried at Fair Value*Cash and Cash Equivalents*

Cash and cash equivalent balances are held with various financial institutions within accounts designed to preserve principal. The Company monitors credit ratings of these financial institutions and the concentration of cash and cash equivalent balances with any one financial institution and believes the likelihood of realizing material losses related to cash and cash equivalent balances is remote. Cash and cash equivalents are carried at their face amounts, which reasonably approximate their fair values and are Level 1 within the fair value hierarchy.

Other Financial Instruments

Rents and other receivables and prepaid expenses, accounts and construction payable and accrued expenses and other liabilities are carried at their face amounts, which reasonably approximate their fair values.

The Company values its unsecured notes using quoted market prices, a Level 1 price within the fair value hierarchy. The Company values its notes payable and outstanding amounts under the Credit Facility and Term Loans using a discounted cash flow analysis on the expected cash flows of each instrument. This analysis reflects the contractual terms of the instrument, including the period to maturity, and uses observable market-based inputs, including interest rate curves. The process also considers credit valuation adjustments to appropriately reflect the Company's nonperformance risk. The Company has concluded that the value of its notes payable and amounts outstanding under its Credit Facility and Term Loans are Level 2 prices as the majority of the inputs used to value its positions fall within Level 2 of the fair value hierarchy.

Financial Instruments Measured/Disclosed at Fair Value on a Recurring Basis

The following tables summarize the classification between the three levels of the fair value hierarchy of the Company's financial instruments measured/disclosed at fair value on a recurring basis (dollars in thousands):

Description	6/30/2019			
	Total Fair Value	Quoted Prices in Active Markets for Identical Asset (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash Flow Hedges				
Interest Rate Swaps - Assets	\$ 18	\$ —	\$ 18	\$ —
Interest Rate Swaps - Liabilities	(4,198)	—	(4,198)	—
Puts	(341)	—	—	(341)
DownREIT units	(1,524)	(1,524)	—	—
Indebtedness				
Fixed rate unsecured notes	(6,097,629)	(6,097,629)	—	—
Secured notes and variable rate unsecured indebtedness	(1,417,624)	—	(1,417,624)	—
Total	<u>\$ (7,521,298)</u>	<u>\$ (6,099,153)</u>	<u>\$ (1,421,804)</u>	<u>\$ (341)</u>

12/31/2018

Description	Total Fair Value	Quoted Prices in Active Markets for Identical Asset (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Non-Designated Hedges				
Interest Rate Caps	\$ 2	\$ —	\$ 2	\$ —
Cash Flow Hedges				
Interest Rate Swaps - Liabilities	(6,366)	—	(6,366)	—
Puts	(465)	—	—	(465)
DownREIT units	(1,305)	(1,305)	—	—
Indebtedness				
Fixed rate unsecured notes	(5,268,277)	(5,268,277)	—	—
Secured notes and variable rate unsecured indebtedness	(1,505,876)	—	(1,505,876)	—
Total	\$ (6,782,287)	\$ (5,269,582)	\$ (1,512,240)	\$ (465)

12. Subsequent Events

The Company has evaluated subsequent events through the date on which this Form 10-Q was filed, the date on which these financial statements were issued, and identified the items below for discussion.

In July and August 2019, the Company had the following activity.

- The Company sold AVA Stamford, a wholly-owned operating community, located in Stamford, CT. AVA Stamford contains 306 apartment homes, was sold for \$105,000,000 and was classified as held for sale as of June 30, 2019.
- The Company acquired Portico at Silver Spring Metro located in Silver Spring, MD, containing 151 apartment homes, for a purchase price of \$43,450,000.
- The Company entered into agreements to sell three wholly-owned operating communities containing an aggregate of 696 apartment homes and aggregate net real estate of \$84,340,000 as of June 30, 2019, resulting in the communities qualifying as held for sale subsequent to June 30, 2019. The Company sold one of these communities, Archstone Lexington, located in Flower Mound, TX, containing 222 apartment homes for \$45,100,000. The Company expects to complete the sales of the other two communities in the third quarter of 2019.
- In conjunction with the disposition of Archstone Lexington, the Company repaid \$21,700,000 principal amount of variable rate debt secured by Archstone Lexington at par in advance of its October 2020 maturity date.
- The Company entered into a \$30,250,000 fixed rate note secured by Avalon Cerritos, with a contractual interest rate of 3.26%, maturing in August 2029.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help provide an understanding of our business, financial condition and results of operations. This MD&A should be read in conjunction with our Condensed Consolidated Financial Statements and the accompanying Notes to Condensed Consolidated Financial Statements included elsewhere in this report. This report, including the following MD&A, contains forward-looking statements regarding future events or trends that should be read in conjunction with the factors described under "Forward-Looking Statements" included in this report. Actual results or developments could differ materially from those projected in such statements as a result of the factors described under "Forward-Looking Statements" as well as the risk factors described in Item 1A. "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2018 (the "Form 10-K").

Capitalized terms used without definition have the meanings provided elsewhere in this Form 10-Q.

Executive Overview

Business Description

We develop, redevelop, acquire, own and operate multifamily apartment communities primarily in New England, the New York/New Jersey metro area, the Mid-Atlantic, the Pacific Northwest, and Northern and Southern California. We focus on leading metropolitan areas that we believe are characterized by growing employment in high wage sectors of the economy, lower housing affordability and a diverse and vibrant quality of life. We believe these market characteristics offer the opportunity for superior risk-adjusted returns on apartment community investments relative to other markets that do not have these characteristics. We believe that the Denver, Colorado, and Southeast Florida markets share these characteristics, and in 2017 we began to invest in these markets through acquisitions and developments. We seek to create long-term shareholder value by accessing capital on cost effective terms; deploying that capital to develop, redevelop and acquire apartment communities in our selected markets; operating apartment communities; and selling communities when they no longer meet our long-term investment strategy or when pricing is attractive.

Our strategic vision is to be the leading apartment company in select U.S. markets, providing a range of distinctive living experiences that customers value. We pursue this vision by targeting what we believe are among the best markets and submarkets, leveraging our strategic capabilities in market research and consumer insight and being disciplined in our capital allocation and balance sheet management. Our communities are predominately upscale and generally command among the highest rents in their markets. However, we also pursue the ownership and operation of apartment communities that target a variety of customer segments and price points, consistent with our goal of offering a broad range of products and services. We regularly evaluate the allocation of our investments by the amount of invested capital and by product type within our individual markets.

Second Quarter 2019 Highlights

- Net income attributable to common stockholders for the three months ended June 30, 2019 was \$168,281,000, a decrease of \$86,381,000, or 33.9%, as compared to the prior year period. The decrease is primarily due to a decrease in real estate sales and related gains and an increase in depreciation expense in the current year period, partially offset by an increase in NOI from communities across the portfolio and a decrease in interest expense over the prior year period.
- Established Communities NOI for the three months ended June 30, 2019 was \$326,774,000, an increase of \$8,938,000, or 2.8%, over the prior year period.

At June 30, 2019, we owned or held a direct or indirect interest in:

- 21 communities under construction, which are expected to contain 7,023 apartment homes with a projected total capitalized cost of \$2,578,000,000; and
- land or rights to land on which we expect to develop an additional 28 apartment communities that, if developed as expected, will contain 9,004 apartment homes, and will be developed for an aggregate total capitalized cost of \$3,842,000,000.

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During the three months ended June 30, 2019, we sold Archstone Toscano, a wholly-owned operating community located in Houston, TX, containing 474 apartment homes. Archstone Toscano was sold for \$98,000,000, and our gain in accordance with GAAP was \$20,604,000.

During the three months ended June 30, 2019, we acquired Avalon Cerritos, a wholly-owned operating community located in Cerritos, CA. Avalon Cerritos contains 132 apartment homes and was acquired for a purchase price of \$60,500,000.

In July and August 2019, we sold two wholly-owned operating communities containing 528 apartment homes for \$150,100,000, and acquired one wholly-owned operating community containing 151 apartment homes for \$43,450,000.

We expect to be able to meet our reasonably foreseeable liquidity needs, as they arise, through a combination of one or more of the following sources: existing cash on hand; operating cash flows; borrowings under our Credit Facility; secured debt; the issuance of corporate securities (which could include unsecured debt, preferred equity and/or common equity); the sale of apartment communities; or through the formation of joint ventures including the activity discussed above. See the discussion under "Liquidity and Capital Resources".

Communities Overview

Our real estate investments consist primarily of current operating apartment communities, communities in various stages of development ("Development Communities") and Development Rights (as defined below). Our current operating communities are further distinguished as Established Communities, Other Stabilized Communities, Lease-Up Communities, Redevelopment Communities and Unconsolidated Communities. While we generally establish the classification of communities on an annual basis, we update the classification of communities during the calendar year to the extent that our plans with regard to the disposition or redevelopment of a community change. The following is a description of each category:

Current Communities are categorized as Established, Other Stabilized, Lease-Up, Redevelopment, or Unconsolidated according to the following attributes:

- *Established Communities (also known as Same Store Communities)* are consolidated communities in the markets where we have a significant presence (New England, New York/New Jersey, Mid-Atlantic, Pacific Northwest, and Northern and Southern California) and where a comparison of operating results from the prior year to the current year is meaningful, as these communities were owned and had stabilized occupancy as of the beginning of the respective prior year period. For the six month periods ended June 30, 2019 and 2018, Established Communities are communities that are consolidated for financial reporting purposes, had stabilized occupancy as of January 1, 2018, are not conducting or are not probable to conduct substantial redevelopment activities and are not held for sale as of June 30, 2019 or probable for disposition to unrelated third parties within the current year. A community is considered to have stabilized occupancy at the earlier of (i) attainment of 95% physical occupancy or (ii) the one-year anniversary of completion of development or redevelopment.
- *Other Stabilized Communities* are all other completed consolidated communities that have stabilized occupancy, as defined above, as of January 1, 2019, or which were acquired as of the beginning of the current calendar year. Other Stabilized Communities includes stabilized operating communities in our expansion markets of Denver, Colorado and Southeast Florida, but excludes communities that are conducting or are probable to conduct substantial redevelopment activities within the current year.
- *Lease-Up Communities* are consolidated communities where construction has been complete for less than one year and where physical occupancy has not reached 95%.
- *Redevelopment Communities* are consolidated communities where substantial redevelopment is in progress or is probable to begin during the current year. Redevelopment is considered substantial when capital invested during the reconstruction effort is expected to exceed the lesser of \$5,000,000 or 10% of the community's pre-redevelopment basis and is expected to have a material impact on the operations of the community, including occupancy levels and future rental rates.
- *Unconsolidated Communities* are communities that we have an indirect ownership interest in through our investment interest in an unconsolidated joint venture.

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Development Communities are communities that are under construction and for which a certificate or certificates of occupancy for the entire community have not been received. These communities may be partially complete and operating.

Development Rights are development opportunities in the early phase of the development process where we either have an option to acquire land or enter into a leasehold interest, where we are the buyer under a long-term conditional contract to purchase land, where we control the land through a ground lease or own land to develop a new community, or where we are the designated developer in a public-private partnership. We capitalize related pre-development costs incurred in pursuit of new developments for which we currently believe future development is probable.

We currently lease our corporate headquarters located in Arlington, Virginia, as well as our other regional and administrative offices under operating leases.

As of June 30, 2019, communities that we owned or held a direct or indirect interest in were classified as follows:

	Number of communities	Number of apartment homes
Current Communities		
Established Communities:		
New England	35	8,572
Metro NY/NJ	40	11,463
Mid-Atlantic	32	11,232
Pacific Northwest	16	4,116
Northern California	35	9,828
Southern California	53	14,689
Total Established	211	59,900
Other Stabilized Communities:		
New England	6	1,763
Metro NY/NJ	8	2,021
Mid-Atlantic	5	1,477
Pacific Northwest	—	—
Northern California	6	2,407
Southern California	4	1,822
Expansion Markets	6	1,746
Non-Core	2	540
Total Other Stabilized	37	11,776
Lease-Up Communities	3	800
Redevelopment Communities	7	3,026
Unconsolidated Communities	15	3,659
Total Current Communities	273	79,161
Development Communities (1)	21	7,023
Total Communities	294	86,184
Development Rights	28	9,004

(1) Development Communities excludes the development of 15 West 61st Street, containing 172 residential units and 67,000 square feet of retail space. We are pursuing a potential for-sale strategy of individual condominium units for the residential portion, while we expect to maintain ownership of the retail portion.

Results of Operations

Our year-over-year operating performance is primarily affected by both overall and individual geographic market conditions and apartment fundamentals and is reflected in changes in NOI of our Established Communities; NOI derived from acquisitions and development completions; the loss of NOI related to disposed communities. Our operating results are also affected by capital market and financing activity. A comparison of our operating results for the three and six months ended June 30, 2019 and 2018 follows (unaudited, dollars in thousands):

	For the three months ended				For the six months ended			
	6/30/2019	6/30/2018	\$ Change	% Change	6/30/2019	6/30/2018	\$ Change	% Change
Revenue:								
Rental and other income (1)	\$ 576,149	\$ 568,285	\$ 7,864	1.4 %	\$ 1,141,194	\$ 1,128,191	\$ 13,003	1.2 %
Management, development and other fees	1,114	954	160	16.8 %	2,252	1,841	411	22.3 %
Total revenue	577,263	569,239	8,024	1.4 %	1,143,446	1,130,032	13,414	1.2 %
Expenses:								
Direct property operating expenses, excluding property taxes (1)	108,777	110,193	(1,416)	(1.3)%	211,362	221,600	(10,238)	(4.6)%
Property taxes	62,187	59,994	2,193	3.7 %	123,516	119,891	3,625	3.0 %
Total community operating expenses	170,964	170,187	777	0.5 %	334,878	341,491	(6,613)	(1.9)%
Corporate-level property management and other indirect operating expenses	24,147	20,643	3,504	17.0 %	45,016	40,494	4,522	11.2 %
Expensed transaction, development and other pursuit costs, net of recoveries	2,711	1,047	1,664	158.9 %	3,806	1,847	1,959	106.1 %
Interest expense, net	50,010	56,585	(6,575)	(11.6)%	97,902	111,698	(13,796)	(12.4)%
Loss on extinguishment of debt, net	229	642	(413)	(64.3)%	509	1,039	(530)	(51.0)%
Depreciation expense	162,693	156,685	6,008	3.8 %	324,749	315,743	9,006	2.9 %
General and administrative expense	18,965	15,209	3,756	24.7 %	32,671	29,640	3,031	10.2 %
Casualty and impairment gain, net	—	—	—	—%	—	(58)	58	100.0 %
Total other expenses	258,755	250,811	7,944	3.2 %	504,653	500,403	4,250	0.8 %
Equity in income (loss) of unconsolidated real estate entities	197	789	(592)	(75.0)%	(863)	2,529	(3,392)	(134.1)%
Gain on sale of communities	20,530	105,201	(84,671)	(80.5)%	35,365	105,201	(69,836)	(66.4)%
Gain on other real estate transactions, net	34	370	(336)	(90.8)%	300	323	(23)	(7.1)%
Income before income taxes	168,305	254,601	(86,296)	(33.9)%	338,717	396,191	(57,474)	(14.5)%
Income tax expense (refund)	—	58	(58)	(100.0)%	(6)	58	(64)	N/A (2)
Net income	168,305	254,543	(86,238)	(33.9)%	338,723	396,133	(57,410)	(14.5)%
Net (income) loss attributable to noncontrolling interests	(24)	119	(143)	N/A (2)	(76)	172	(248)	N/A (2)
Net income attributable to common stockholders	\$ 168,281	\$ 254,662	\$ (86,381)	(33.9)%	\$ 338,647	\$ 396,305	\$ (57,658)	(14.5)%

(1) Historically for periods prior to January 1, 2019, we presented charges for uncollectible lease revenue in direct property operating expenses, excluding property taxes. With the adoption of ASU 2016-02, Leases, we are presenting such charges as an adjustment to rental and other income in our consolidated financial statements on a prospective basis, as of January 1, 2019.

(2) Percent change is not meaningful.

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Net income attributable to common stockholders decreased \$86,381,000, or 33.9%, to \$168,281,000 for the three months ended June 30, 2019 and decreased \$57,658,000, or 14.5%, to \$338,647,000 for the six months ended June 30, 2019 as compared to the prior year periods. The decreases for the three and six months ended June 30, 2019 are primarily due to decreases in real estate sales and related gains and increases in depreciation expense in the current year periods, partially offset by increases in NOI from communities across the portfolio and decreases in interest expense over the prior year periods.

NOI is considered by management to be an important and appropriate supplemental performance measure to net income because it helps both investors and management to understand the core operations of a community or communities prior to the allocation of any corporate-level or financing-related costs. NOI reflects the operating performance of a community and allows for an easier comparison of the operating performance of individual assets or groups of assets. In addition, because prospective buyers of real estate have different financing and overhead structures, with varying marginal impact to overhead as a result of acquiring real estate, NOI is considered by many in the real estate industry to be a useful measure for determining the value of a real estate asset or group of assets. We define NOI as total property revenue less direct property operating expenses (including property taxes), and excluding corporate-level income (including management, development and other fees), corporate-level property management and other indirect operating expenses, expensed transaction, development and other pursuit costs, net of recoveries, interest expense, net, loss on extinguishment of debt, net, general and administrative expense, equity in income of unconsolidated real estate entities, depreciation expense, corporate income tax expense, casualty and impairment (gain) loss, net, gain on sale of communities, (gain) loss on other real estate transactions, net and net operating income from real estate assets sold or held for sale.

NOI does not represent cash generated from operating activities in accordance with GAAP, and NOI should not be considered an alternative to net income as an indication of our performance. NOI should also not be considered an alternative to net cash flow from operating activities, as determined by GAAP, as a measure of liquidity, nor is NOI indicative of cash available to fund cash needs. Reconciliations of NOI for the three and six months ended June 30, 2019 and 2018 to net income for each period are as follows (unaudited, dollars in thousands):

	For the three months ended		For the six months ended	
	6/30/2019	6/30/2018	6/30/2019	6/30/2018
Net income	\$ 168,305	\$ 254,543	\$ 338,723	\$ 396,133
Indirect operating expenses, net of corporate income	23,018	19,677	42,740	38,636
Expensed transaction, development and other pursuit costs, net of recoveries	2,711	1,047	3,806	1,847
Interest expense, net	50,010	56,585	97,902	111,698
Loss on extinguishment of debt, net	229	642	509	1,039
General and administrative expense	18,965	15,209	32,671	29,640
Equity in (income) loss of unconsolidated real estate entities	(197)	(789)	863	(2,529)
Depreciation expense	162,693	156,685	324,749	315,743
Income tax expense (refund)	—	58	(6)	58
Casualty and impairment gain, net	—	—	—	(58)
Gain on sale of real estate assets	(20,530)	(105,201)	(35,365)	(105,201)
Gain on other real estate transactions, net	(34)	(370)	(300)	(323)
Net operating income from real estate assets sold or held for sale	(1,495)	(19,680)	(4,077)	(40,377)
Net operating income	\$ 403,675	\$ 378,406	\$ 802,215	\$ 746,306

The NOI changes for the three and six months ended June 30, 2019, compared to the prior year periods, consist of changes in the following categories (unaudited, dollars in thousands):

	For the three months ended		For the six months ended	
	6/30/2019	6/30/2018	6/30/2019	6/30/2018
Established Communities	\$ 8,938	\$ 24,184	\$ 24,184	\$ 24,184
Other Stabilized Communities	12,037	25,024	25,024	25,024
Development and Redevelopment Communities	4,294	6,701	6,701	6,701
Total	\$ 25,269	\$ 55,909	\$ 55,909	\$ 55,909

Historically for periods prior to January 1, 2019, we presented charges related to uncollectible lease revenue in operating expenses. With the adoption of ASU 2016-02, Leases, we are presenting such charges as an adjustment to revenue in our consolidated financial statements on a prospective basis, as of January 1, 2019. For reported segment financial information, including for Established Communities as discussed below, we have also included such charges as an adjustment to revenue for all prior year periods presented in order to provide comparability.

Rental and other income increased in the three and six months ended June 30, 2019 compared to the prior year periods due to additional rental income generated from newly developed, acquired and existing operating communities and an increase in rental rates at our Established Communities, discussed below. The change in classification of charges for uncollectible lease revenue, as described above, partially offsets the increase in rental and other income for the six months ended June 30, 2019 over the prior year period.

Consolidated Communities — The weighted average number of occupied apartment homes decreased to 72,323 apartment homes for the six months ended June 30, 2019, compared to 72,694 homes for the prior year period. The weighted average monthly revenue per occupied apartment home increased to \$2,626 for the six months ended June 30, 2019 compared to \$2,584 in the prior year period.

Established Communities — Rental revenue increased \$28,935,000, or 3.3%, for the six months ended June 30, 2019 compared to the prior year period due to an increase in average rental rates of 3.5% to \$2,633 per apartment home, partially offset by a decrease in economic occupancy of 0.2% to 96.0%. Economic occupancy takes into account the fact that apartment homes of different sizes and locations within a community have different economic impacts on a community's gross revenue. Economic occupancy is defined as gross potential revenue less vacancy loss, as a percentage of gross potential revenue. Gross potential revenue is determined by valuing occupied homes at leased rates and vacant homes at market rents.

The Metro New York/New Jersey region accounted for 22.4% of Established Community rental revenue for the six months ended June 30, 2019, and experienced an increase in rental revenue of 3.1% compared to the prior year period. Average rental rates increased 3.1% to \$3,083 per apartment home, and economic occupancy remained consistent at 96.1% for the six months ended June 30, 2019, compared to the prior year period. The New York State Housing Stability and Tenant Protection Act of 2019 (the "Act"), which was signed into law on June 14, 2019, now limits some of the fees we previously charged in New York State (including late fees and new lease application fees), eliminates our ability to raise rents on rent stabilized apartments up to the full legal rent when residents with a preferential rent renew their lease, and implements other changes that are expected to limit our rent increases on rent stabilized apartments and increase tenant rights generally. We expect the impact of the Act to be immaterial to our Metro New York/New Jersey results of operations.

The Southern California region accounted for 22.2% of Established Community rental revenue for the six months ended June 30, 2019, and experienced an increase in rental revenue of 3.4% compared to the prior year period. Average rental rates increased 3.7% to \$2,385 per apartment home, and were partially offset by a 0.3% decrease in economic occupancy to 95.9% for the six months ended June 30, 2019, compared to the prior year period.

The Northern California region accounted for 19.3% of Established Community rental revenue for the six months ended June 30, 2019, and experienced an increase in rental revenue of 3.3% compared to the prior year period. Average rental rates increased 3.9% to \$3,093 per apartment home, and were partially offset by a 0.6% decrease in economic occupancy to 96.2% for the six months ended June 30, 2019, compared to the prior year period.

The Mid-Atlantic region accounted for 16.0% of Established Community rental revenue for the six months ended June 30, 2019, and experienced an increase in rental revenue of 3.0% compared to the prior year period. Average rental rates increased 2.4% to \$2,234 per apartment home, and economic occupancy increased 0.6% to 96.3% for the six months ended June 30, 2019, compared to the prior year period.

The New England region accounted for 14.0% of Established Community rental revenue for the six months ended June 30, 2019, and experienced an increase in rental revenue of 3.0% compared to the prior year period. Average rental rates increased 3.2% to \$2,591 per apartment home, and were partially offset by a 0.2% decrease in economic occupancy to 95.5% for the six months ended June 30, 2019, compared to the prior year period.

The Pacific Northwest region accounted for 6.1% of Established Community rental revenue for the six months ended June 30, 2019, and experienced an increase in rental revenue of 4.8% compared to the prior year period. Average rental rates increased 4.9% to \$2,344 per apartment home, and were partially offset by a 0.1% decrease in economic occupancy to 96.4% for the six months ended June 30, 2019, compared to the prior year period.

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Direct property operating expenses, excluding property taxes, decreased \$1,416,000, or 1.3%, and \$10,238,000, or 4.6%, for the three and six months ended June 30, 2019 compared to the prior year periods. The decreases for the three and six months ended June 30, 2019 are primarily due to the change in classification of charges for uncollectible lease revenue, as described above, as well as decreases from dispositions in the prior and current year periods. The decreases are partially offset by increases in expenses related to the addition of newly developed and acquired apartment communities.

For Established Communities, direct property operating expenses, excluding property taxes, increased \$4,074,000, or 5.1%, and \$3,802,000, or 2.4%, for the three and six months ended June 30, 2019 compared to the prior year periods. The increases for the three and six months ended June 30, 2019 are primarily due to increased payroll and related benefit expenses, repair and maintenance costs and insurance costs, partially offset by decreased marketing costs.

Property taxes increased \$2,193,000, or 3.7%, and \$3,625,000, or 3.0%, for the three and six months ended June 30, 2019, compared to the prior year periods. The increases for the three and six months ended June 30, 2019 are primarily due to the addition of newly developed and acquired apartment communities, partially offset by decreased property taxes from dispositions.

For Established Communities, property taxes increased \$1,200,000, or 2.6%, and \$1,582,000, or 1.7%, for the three and six months ended June 30, 2019, compared to the prior year periods. The increases for the three and six months ended June 30, 2019 are primarily due to increased assessments in the current year period in the Company's East Coast markets, partially offset by successful appeals in Metro New York/New Jersey in the current year periods and decreased tax rates in the Pacific Northwest. The increase for the six months ended June 30, 2019 is also partially offset by a successful appeal in Northern California in the current year. For communities in California, property tax changes are determined by the change in the California Consumer Price Index, with increases limited by law (Proposition 13). We evaluate property tax increases internally and also engage third-party consultants to assist in our evaluations. We appeal property tax increases when appropriate.

Corporate-level property management and other indirect operating expenses increased \$3,504,000, or 17.0%, and \$4,522,000, or 11.2%, for the three and six months ended June 30, 2019, compared to the prior year periods, primarily due to increased compensation related costs and spending on corporate initiatives in the current year periods.

Expensed acquisition, development and other pursuit costs, net of recoveries primarily reflect abandoned pursuit costs, including costs incurred for development pursuits not yet considered probable for development, as well as the abandonment of Development Rights and costs related to abandoned acquisition and disposition pursuits. These costs can be volatile, particularly in periods of increased acquisition pursuit activity, periods of economic downturn or when there is limited access to capital, and therefore may vary significantly from period to period. Expensed acquisition, development and other pursuit costs, net of recoveries, were \$2,711,000 and \$1,047,000 for the three months ended June 30, 2019 and 2018, respectively, and \$3,806,000 and \$1,847,000 for the six months ended June 30, 2019 and 2018, respectively. These amounts include selling, general and administrative costs associated with the potential for-sale strategy for the residential portion of the 15 West 61st Street development of \$945,000 and \$158,000 for the three months ended June 30, 2019 and 2018, respectively, and \$1,418,000 and \$158,000 for the six months ended June 30, 2019 and 2018, respectively.

Interest expense, net decreased \$6,575,000, or 11.6%, and \$13,796,000, or 12.4%, for the three and six months ended June 30, 2019, compared to the prior year periods. This category includes interest costs offset by capitalized interest pertaining to development and redevelopment activity, amortization of premium/discount on debt, and interest income. The decreases for the three and six months ended June 30, 2019 are primarily due to increases in capitalized interest in the current year periods, as well as decreases in outstanding secured and unsecured indebtedness.

Depreciation expense increased \$6,008,000, or 3.8%, and \$9,006,000, or 2.9%, for the three and six months ended June 30, 2019, compared to the prior year periods, primarily due to the addition of newly developed and acquired apartment communities, partially offset by dispositions.

General and administrative expense increased \$3,756,000, or 24.7%, and \$3,031,000, or 10.2%, for the three and six months ended June 30, 2019, compared to the prior year periods, primarily due to increases in compensation related expenses in the current year periods. The increase for the six months ended June 30, 2019 is partially offset by a gain from a legal settlement and a decrease in legal fees in the current year period.

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Equity in income (loss) of unconsolidated real estate entities decreased \$592,000 and \$3,392,000 for the three and six months ended June 30, 2019, compared to the prior year periods. The decreases for the three and six months ended June 30, 2019 are primarily due to non-cash charges, including depreciation of in-place leases, associated with purchase accounting within the NYTA MF Investors LLC unconsolidated venture (the "NYC Joint Venture"), which were not present in the prior year periods.

Gain on sale of communities decreased for the three and six months ended June 30, 2019 compared to the prior year periods due to fewer sales in the current year periods. The amount of gain realized in a given period depends on many factors, including the number of communities sold, the size and carrying value of the communities sold and the market conditions in the local area.

Reconciliation of Non-GAAP Financial Measures

Consistent with the definition adopted by the Board of Governors of the National Association of Real Estate Investment Trusts® ("NAREIT"), we calculate Funds from Operations Attributable to Common Stockholders ("FFO") as net income or loss attributable to common stockholders computed in accordance with GAAP, adjusted for:

- gains or losses on sales of previously depreciated operating communities;
- cumulative effect of change in accounting principle;
- impairment write-downs of depreciable real estate assets;
- write-downs of investments in affiliates due to a decrease in the value of depreciable real estate assets held by those affiliates;
- depreciation of real estate assets; and
- similar adjustments for unconsolidated partnerships and joint ventures.

FFO and FFO adjusted for non-core items, or "Core FFO," as defined below, are generally considered by management to be appropriate supplemental measures of our operating and financial performance. In calculating FFO, we exclude gains or losses related to dispositions of previously depreciated property and exclude real estate depreciation, which can vary among owners of identical assets in similar condition based on historical cost accounting and useful life estimates. FFO can help one compare the operating performance of a real estate company between periods or as compared to different companies. By further adjusting for items that are not considered part of our core business operations, Core FFO allows one to compare the core operating performance of the Company between periods. We believe that in order to understand our operating results, FFO and Core FFO should be examined with net income as presented in our Condensed Consolidated Financial Statements included elsewhere in this report.

We calculate Core FFO as FFO, adjusted for:

- joint venture gains (if not adjusted through FFO), non-core costs, and promoted interests;
- casualty and impairment losses or gains, net on non-depreciable real estate;
- gains or losses from early extinguishment of consolidated borrowings;
- abandoned pursuits;
- business interruption insurance proceeds and the related lost NOI that is covered by the business interruption insurance proceeds;
- property and casualty insurance proceeds and legal settlements;
- gains or losses on sales of assets not subject to depreciation;
- advocacy contributions, representing payments to promote our business interests;
- hedge ineffectiveness;
- severance related costs;
- expensed transaction costs,
- potential residential for-sale condominium marketing and administrative costs and imputed carry cost;
- income taxes; and
- other non-core items.

FFO and Core FFO do not represent net income in accordance with GAAP, and therefore should not be considered an alternative to net income, which remains the primary measure, as an indication of our performance. In addition, FFO and Core FFO as calculated by other REITs may not be comparable to our calculations of FFO and Core FFO.

The following is a reconciliation of net income attributable to common stockholders to FFO attributable to common stockholders and to Core FFO attributable to common stockholders (unaudited, dollars in thousands, except per share amounts):

	For the three months ended		For the six months ended	
	6/30/2019	6/30/2018	6/30/2019	6/30/2018
Net income attributable to common stockholders	\$ 168,281	\$ 254,662	\$ 338,647	\$ 396,305
Depreciation - real estate assets, including joint venture adjustments	164,830	156,289	329,576	314,772
Distributions to noncontrolling interests	12	11	23	22
Gain on sale of previously depreciated real estate	(20,530)	(105,201)	(35,365)	(105,201)
FFO attributable to common stockholders	312,593	305,761	632,881	605,898
Adjusting items:				
Joint venture losses	—	7	—	7
Joint venture promote (1)	—	—	—	(925)
Casualty gain, net on real estate	—	—	—	(58)
Business interruption insurance proceeds	(435)	—	(607)	—
Lost NOI from casualty losses covered by business interruption insurance (2)	—	832	—	1,730
Loss on extinguishment of consolidated debt	229	642	509	1,039
Advocacy contributions	—	303	—	606
Severance related costs	1,353	132	1,372	502
Development pursuit write-offs and expensed transaction costs, net	1,327	243	1,604	570
Potential residential for-sale condominium marketing and administrative costs	945	158	1,418	158
Potential residential for-sale condominium imputed carry cost (3)	506	—	506	—
(Gain) loss on other real estate transactions, net	(34)	(370)	(301)	(323)
Legal settlements	38	67	(978)	367
Income taxes	—	—	(6)	—
Core FFO attributable to common stockholders	\$ 316,522	\$ 307,775	\$ 636,398	\$ 609,571
Weighted average common shares outstanding - diluted	139,618,231	138,215,010	139,227,376	138,184,295
EPS per common share - diluted	\$ 1.21	\$ 1.84	\$ 2.43	\$ 2.87
FFO per common share - diluted	\$ 2.24	\$ 2.21	\$ 4.55	\$ 4.38
Core FFO per common share - diluted	\$ 2.27	\$ 2.23	\$ 4.57	\$ 4.41

(1) Amounts represent our promoted interest in AvalonBay Value Added Fund II, L.P.

(2) Amounts for the three and six months ended June 30, 2018 relate to the Maplewood casualty loss in Q1 2017, for which the Company recognized \$3,495 in business interruption insurance proceeds in Q3 2017.

(3) Represents the imputed carry cost of potential for-sale residential condominium units where construction is complete and a potential for-sale condominium strategy is being pursued. We compute this adjustment by multiplying the total capitalized cost of completed and unsold potential for-sale residential condominium units by our weighted average unsecured debt rate.

FFO and Core FFO also do not represent cash generated from operating activities in accordance with GAAP, and therefore should not be considered an alternative to net cash flows from operating activities, as determined by GAAP, as a measure of liquidity. Additionally, it is not necessarily indicative of cash available to fund cash needs.

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A presentation of GAAP based cash flow metrics is as follows (unaudited, dollars in thousands) and a discussion of "Liquidity and Capital Resources" can be found later in this report:

	For the three months ended		For the six months ended	
	6/30/2019	6/30/2018	6/30/2019	6/30/2018
Net cash provided by operating activities	\$ 276,214	\$ 309,384	\$ 638,267	\$ 625,297
Net cash (used in) provided by investing activities	\$ (276,838)	\$ 2,599	\$ (590,024)	\$ (316,681)
Net cash provided by (used in) provided by financing activities	\$ 135,461	\$ (233,493)	\$ 63,937	\$ (160,625)

Liquidity and Capital Resources

We employ a disciplined approach to our liquidity and capital management. When we source capital, we take into account both our view of the most cost effective alternative available and our desire to maintain a balance sheet that provides us with flexibility. Our principal short-term liquidity needs are to fund:

- development and redevelopment activity in which we are currently engaged;
- the minimum dividend payments on our common stock required to maintain our REIT qualification under the Code;
- debt service and principal payments either at maturity or opportunistically before maturity; and
- normal recurring operating expenses and corporate overhead expenses.

Factors affecting our liquidity and capital resources are our cash flows from operations, financing activities and investing activities (including dispositions) as well as general economic and market conditions. Operating cash flow has historically been determined by: (i) the number of apartment homes currently owned, (ii) rental rates, (iii) occupancy levels and (iv) operating expenses with respect to apartment homes. The timing and type of capital markets activity in which we engage, as well as our plans for development, redevelopment, acquisition and disposition activity, are affected by changes in the capital markets environment, such as changes in interest rates or the availability of cost-effective capital. We regularly review our liquidity needs, the adequacy of cash flows from operations and other expected liquidity sources to meet these needs.

We had cash and cash equivalents and restricted cash of \$330,044,000 at June 30, 2019, an increase of \$112,180,000 from \$217,864,000 at December 31, 2018. As presented in our Condensed Consolidated Statements of Cash Flows included elsewhere in this report, the following discussion relates to changes in cash due to operating, investing and financing activities.

Operating Activities — Net cash provided by operating activities increased to \$638,267,000 for the six months ended June 30, 2019 from \$625,297,000 for the six months ended June 30, 2018. The change was driven primarily by increased NOI from existing, acquired and newly developed communities.

Investing Activities — Net cash used in investing activities totaled \$590,024,000 for the six months ended June 30, 2019. The net cash used was primarily due to:

- investment of \$560,385,000 in the development and redevelopment of communities;
- acquisition of two wholly-owned operating communities for \$152,260,000; and
- capital expenditures of \$52,228,000 for our operating communities and non-real estate assets.

These amounts are partially offset by proceeds from dispositions of \$168,034,000.

Financing Activities — Net cash provided by financing activities totaled \$63,937,000 for the six months ended June 30, 2019. The net cash provided by was primarily due to:

- proceeds from the issuance of unsecured notes in the amount of \$449,803,000; and
- the issuance of common stock in the amount of \$206,193,000, primarily through CEP IV and CEP V.

These amounts are partially offset by:

- payment of cash dividends in the amount of \$415,295,000; and
- the repayment of mortgage notes payable in the amount of \$137,653,000.

Variable Rate Unsecured Credit Facility

On February 28, 2019, we entered into a \$1,750,000,000 Fifth Amended and Restated Revolving Loan Agreement (the "Credit Facility") with a syndicate of banks, which replaces our prior \$1,500,000,000 credit facility dated as of January 14, 2016. The term of the Credit Facility ends on February 28, 2024.

The Credit Facility bears interest at varying levels based on (i) the London Interbank Offered Rate ("LIBOR") applicable to the period of borrowing for a particular draw of funds from the facility (e.g., one month to maturity, three months to maturity, etc.) and (ii) the rating levels issued for our unsecured notes. The current stated pricing for drawn borrowings is LIBOR plus 0.775% per annum (3.00% at July 31, 2019), assuming a one month borrowing rate. The stated spread over LIBOR can vary from LIBOR plus 0.70% to LIBOR plus 1.45% based upon the rating of our unsecured notes. The Credit Facility also provides a competitive bid option that is available for borrowings of up to 65% of the Credit Facility amount. This option allows banks that are part of the lender consortium to bid to provide us loans at a rate that is lower than the stated pricing provided by the unsecured credit facility. The competitive bid option may result in lower pricing than the stated rate if market conditions allow. The annual facility fee for the Credit Facility remained at 0.125%, resulting in a fee of \$2,188,000 annually based on the \$1,750,000,000 facility size and based on our current credit rating.

We had no borrowings outstanding under the Credit Facility and had \$21,422,000 outstanding in letters of credit that reduced our borrowing capacity as of July 31, 2019. In addition, we had \$16,614,000 outstanding in additional letters of credit as of July 31, 2019.

Financial Covenants

We are subject to financial and other covenants contained in the Credit Facility, the Term Loans and the indentures under which our unsecured notes were issued. The principal financial covenants include the following:

- limitations on the amount of total and secured debt in relation to our overall capital structure;
- limitations on the amount of our unsecured debt relative to the undepreciated basis of real estate assets that are not encumbered by property-specific financing; and
- minimum levels of debt service coverage.

We were in compliance with these covenants at June 30, 2019.

In addition, our secured borrowings may include yield maintenance, defeasance, or prepayment penalty provisions, which would result in us incurring an additional charge in the event of a full or partial prepayment of outstanding principal before the scheduled maturity. These provisions in our secured borrowings are generally consistent with other similar types of debt instruments issued during the same time period in which our borrowings were originated.

Continuous Equity Offering Program

In December 2015, we commenced a fourth continuous equity program ("CEP IV") under which we were able to sell (and/or enter into forward sale agreements for the sale of) up to \$1,000,000,000 of its common stock from time to time. In conjunction with CEP IV, we engaged sales agents who received compensation up to 2.0% of the gross sales price for shares sold.

In May 2019, we replaced CEP IV with a new continuous equity program ("CEP V") under which we may sell (and/or enter into forward sale agreements for the sale of) up to \$1,000,000,000 of our common stock from time to time. Actual sales will depend on a variety of factors to be determined, including market conditions, the trading price of our common stock and determinations of the appropriate sources of funding. In conjunction with CEP V, we engaged sales agents who will receive compensation of up to 1.5% of the gross sales price for shares sold. We expect that, if entered into, we will physically settle each forward sale agreement on one or more dates prior to the maturity date of that particular forward sale agreement, in which case we will expect to receive aggregate net cash proceeds at settlement equal to the number of shares underlying the particular forward agreement multiplied by the relevant forward sale price. However, we may also elect to cash settle or net share settle a forward sale agreement. In connection with each forward sale agreement, we will pay the relevant forward seller, in the form of a reduced initial forward sale price, a commission of up to 1.5% of the sales prices of all borrowed shares of common stock sold. As of June 30, 2019, there are no outstanding forward sales agreements.

During the first quarter of 2019, we sold 755,054 shares at an average sales price of \$198.26 per share, for net proceeds of \$147,450,000 under CEP IV. We did not have any sales under CEP IV during the three months ended June 30, 2019. During the

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three months ended June 30, 2019, we sold 239,580 shares at an average sales price of \$208.70 per share, for net proceeds of \$49,250,000 under CEP V. We have not engaged in sales activity subsequent to June 30, 2019. As of July 31, 2019, we had \$950,000,000 remaining authorized for issuance under CEP V.

Forward Interest Rate Swap Agreements

During the six months ended June 30, 2019, in conjunction with the issuance of our 3.30% notes due 2029 in May 2019, we settled \$250,000,000 of forward interest rate swap agreements designated as cash flow hedges of the interest rate variability of the unsecured notes, making a payment of \$12,309,000.

During the six months ended June 30, 2019, the Company entered into \$250,000,000 of forward interest rate swap agreements executed to reduce the impact of variability in interest rates on a portion of our expected debt issuance activity in 2020, which are outstanding as of June 30, 2019. At maturity of the outstanding swap agreements, we expect to cash settle the contracts and either pay or receive cash for the then current fair value. Assuming that we issue the debt as expected, the hedging impact from these positions will then be recognized over the life of the issued debt as a yield adjustment.

Future Financing and Capital Needs — Debt Maturities

One of our principal long-term liquidity needs is the repayment of long-term debt at maturity. For both our unsecured and secured notes, a portion of the principal of these notes may be repaid prior to maturity. Early retirement of our unsecured or secured notes could result in gains or losses on extinguishment. If we do not have funds on hand sufficient to repay our indebtedness as it becomes due, it will be necessary for us to refinance or otherwise provide liquidity to satisfy the debt at maturity. This refinancing may be accomplished by uncollateralized private or public debt offerings, equity issuances, additional debt financing that is secured by mortgages on individual communities or groups of communities or borrowings under our Credit Facility. Although we believe we will have the capacity to meet our currently anticipated liquidity needs, we cannot assure you that additional debt financing or debt or equity offerings will be available or, if available, that they will be on terms we consider satisfactory.

In addition to the Credit Facility discussed in this Form 10-Q, the following debt activity occurred during the six months ended June 30, 2019:

- In February 2019, we amended and restated the \$250,000,000 variable rate unsecured term loan that we originally entered into in February 2017, of which \$100,000,000 matures in February 2022 with stated pricing of LIBOR plus 0.90%, which remained the same, and \$150,000,000 matures in February 2024 with stated pricing of LIBOR plus 0.85% that decreased from LIBOR plus 1.50%.
- In April 2019, we repaid \$13,363,000 of 2.99% fixed rate debt and \$33,854,000 of variable rate debt secured by Avalon Natick at par on its maturity date.
- In May 2019, we repaid \$7,635,000 principal amount of variable rate debt secured by Eaves Mission Viejo at par in advance of its scheduled maturity date. We utilized \$3,706,000 of restricted cash held in a principal reserve fund to repay a portion of the outstanding indebtedness.
- In May 2019, we repaid \$20,800,000 principal amount of variable rate debt secured by AVA Nob Hill at par in advance of its scheduled maturity date. We utilized \$10,584,000 of restricted cash held in a principal reserve fund to repay a portion of the outstanding indebtedness.
- In May 2019, we repaid \$38,800,000 principal amount of variable rate debt secured by Avalon Campbell at par in advance of its scheduled maturity date. We utilized \$22,622,000 of restricted cash held in a principal reserve fund to repay a portion of the outstanding indebtedness.
- In May 2019, we repaid \$17,600,000 principal amount of variable rate debt secured by Eaves Pacifica at par in advance of its scheduled maturity date. We utilized \$10,263,000 of restricted cash held in a principal reserve fund to repay a portion of the outstanding indebtedness.
- In May 2019, we issued \$450,000,000 principal amount of unsecured notes in a public offering under our existing shelf registration statement for net proceeds of approximately \$446,877,000. The notes mature in June 2029 and were issued at a 3.30% interest rate. The effective interest rate of the notes is 3.66%, including the impact of the interest rate hedge discussed above and offering costs.

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In August 2019, in conjunction with the disposition of the wholly-owned operating community, we repaid \$21,700,000 principal amount of variable rate debt secured by Archstone Lexington at par in advance of its October 2020 maturity date. In addition, we entered into a \$30,250,000 fixed rate note secured by Avalon Cerritos, with a contractual interest rate of 3.26%, maturing in August 2029.

The following table details our consolidated debt maturities for the next five years, excluding our Credit Facility and amounts outstanding related to communities classified as held for sale, for debt outstanding at June 30, 2019 and December 31, 2018 (dollars in thousands). We are not directly or indirectly (as borrower or guarantor) obligated in any material respect to pay principal or interest on the indebtedness of any unconsolidated entities in which we have an equity or other interest.

Community	All-In interest rate (1)	Principal maturity date	Balance Outstanding (2)		Scheduled Maturities					
			12/31/2018	6/30/2019	2019	2020	2021	2022	2023	Thereafter
Tax-exempt bonds										
<i>Fixed rate</i>										
Avalon at Chestnut Hill	6.16%	Oct-2047	\$ 37,561	\$ 37,282	\$ 287	\$ 596	\$ 629	\$ 663	\$ 699	\$ 34,408
Avalon Westbury	3.86%	Nov-2036 (3)	62,200	62,200	—	—	—	—	—	62,200
			99,761	99,482	287	596	629	663	699	96,608
<i>Variable rate</i>										
Eaves Mission Viejo	2.67%	Jun-2025 (5)	7,635	—	—	—	—	—	—	—
AVA Nob Hill	2.65%	Jun-2025 (5)	20,800	—	—	—	—	—	—	—
Avalon Campbell	2.98%	Jun-2025 (5)	38,800	—	—	—	—	—	—	—
Eaves Pacifica	3.00%	Jun-2025 (5)	17,600	—	—	—	—	—	—	—
Avalon Acton	3.06%	Jul-2040 (4)	45,000	45,000	—	—	—	—	—	45,000
Avalon Clinton North	3.59%	Nov-2038 (4)	147,000	147,000	—	—	—	—	—	147,000
Avalon Clinton South	3.59%	Nov-2038 (4)	121,500	121,500	—	—	—	—	—	121,500
Avalon Midtown West	3.50%	May-2029 (4)	100,500	98,200	—	4,700	5,200	5,600	6,100	76,600
Avalon San Bruno I	3.48%	Dec-2037 (4)	64,450	64,450	—	1,400	1,900	2,000	2,200	56,950
			563,285	476,150	—	6,100	7,100	7,600	8,300	447,050
Conventional loans										
<i>Fixed rate</i>										
\$250 million unsecured notes	4.04%	Jan-2021	250,000	250,000	—	—	250,000	—	—	—
\$450 million unsecured notes	4.30%	Sep-2022	450,000	450,000	—	—	—	450,000	—	—
\$250 million unsecured notes	3.00%	Mar-2023	250,000	250,000	—	—	—	—	250,000	—
\$400 million unsecured notes	3.78%	Oct-2020	400,000	400,000	—	400,000	—	—	—	—
\$350 million unsecured notes	4.30%	Dec-2023	350,000	350,000	—	—	—	—	350,000	—
\$300 million unsecured notes	3.66%	Nov-2024	300,000	300,000	—	—	—	—	—	300,000
\$525 million unsecured notes	3.55%	Jun-2025	525,000	525,000	—	—	—	—	—	525,000
\$300 million unsecured notes	3.62%	Nov-2025	300,000	300,000	—	—	—	—	—	300,000
\$475 million unsecured notes	3.35%	May-2026	475,000	475,000	—	—	—	—	—	475,000
\$300 million unsecured notes	3.01%	Oct-2026	300,000	300,000	—	—	—	—	—	300,000
\$350 million unsecured notes	3.95%	Oct-2046	350,000	350,000	—	—	—	—	—	350,000
\$400 million unsecured notes	3.50%	May-2027	400,000	400,000	—	—	—	—	—	400,000
\$300 million unsecured notes	4.09%	Jul-2047	300,000	300,000	—	—	—	—	—	300,000
\$450 million unsecured notes	3.32%	Jan-2028	450,000	450,000	—	—	—	—	—	450,000
\$300 million unsecured notes	3.97%	Apr-2048	300,000	300,000	—	—	—	—	—	300,000
\$450 million unsecured notes	3.66%	Jun-2029	—	450,000	—	—	—	—	—	450,000
Avalon Walnut Creek	4.00%	Jul-2066	3,699	3,699	—	—	—	—	—	3,699
Eaves Los Feliz	3.68%	Jun-2027	41,400	41,400	—	—	—	—	—	41,400
Eaves Woodland Hills	3.67%	Jun-2027	111,500	111,500	—	—	—	—	—	111,500
Avalon Russett	3.77%	Jun-2027	32,200	32,200	—	—	—	—	—	32,200
Avalon San Bruno II	3.85%	Apr-2021	28,999	28,719	284	591	27,844	—	—	—
Avalon Westbury	4.88%	Nov-2036 (3)	15,095	14,390	725	1,495	1,575	1,655	1,740	7,200
Avalon San Bruno III	3.18%	Jun-2020	52,090	51,460	635	50,825	—	—	—	—
Avalon Natick	3.15%	Apr-2019 (6)	13,482	—	—	—	—	—	—	—
Avalon Hoboken	3.55%	Dec-2020	67,904	67,904	—	67,904	—	—	—	—
Avalon Columbia Pike	3.24%	Nov-2019	67,085	66,285	66,285	—	—	—	—	—
			5,833,454	6,267,557	67,929	520,815	279,419	451,655	601,740	4,345,999

Community	All-In interest rate (1)	Principal maturity date	Balance Outstanding (2)		Scheduled Maturities						
			12/31/2018	6/30/2019	2019	2020	2021	2022	2023	Thereafter	
<i>Variable rate</i>											
Avalon Natick	4.80%	Apr-2019 (6)	34,155	—	—	—	—	—	—	—	—
Archstone Lexington	4.13%	Oct-2020 (7)	21,700	21,700	—	21,700	—	—	—	—	—
Term Loan - \$100 million	3.52%	Feb-2022	100,000	100,000	—	—	—	100,000	—	—	—
Term Loan - \$150 million	3.44%	Feb-2024	150,000	150,000	—	—	—	—	—	—	150,000
\$300 million unsecured notes	3.21%	Jan-2021	300,000	300,000	—	—	300,000	—	—	—	—
			605,855	571,700	—	21,700	300,000	100,000	—	—	150,000
Total indebtedness - excluding Credit Facility			\$ 7,102,355	\$ 7,414,889	\$ 68,216	\$ 549,211	\$ 587,148	\$ 559,918	\$ 610,739	\$	5,039,657

- (1) Rates are given as of June 30, 2019 and include credit enhancement fees, facility fees, trustees' fees, the impact of interest rate hedges, offering costs, mark to market amortization and other fees.
- (2) Balances outstanding represent total amounts due at maturity, and exclude deferred financing costs and debt discount for the unsecured notes of \$44,868 and \$44,007 as of June 30, 2019 and December 31, 2018, respectively, and deferred financing costs and debt discount associated with secured notes of \$17,804 and \$18,085 as of June 30, 2019 and December 31, 2018, respectively, as reflected on our Condensed Consolidated Balance Sheets included elsewhere in this report.
- (3) Maturity date reflects the contractual maturity of the underlying bond. There is also an associated earlier credit enhancement maturity date.
- (4) Financed by variable rate debt, but interest rate is capped through an interest rate protection agreement.
- (5) During 2019, we repaid this borrowing at par in advance of its scheduled maturity date.
- (6) During 2019, we repaid this borrowing at par on its scheduled maturity date.
- (7) In August 2019, we repaid this borrowing at par in advance of its scheduled maturity date in conjunction with the disposition of the community.

Future Financing and Capital Needs — Portfolio and Capital Markets Activity

During the remainder of 2019, we expect to meet our liquidity needs from one or more of a variety of internal and external sources, which may include (i) real estate dispositions, (ii) cash balances on hand as well as cash generated from our operating activities, (iii) borrowing capacity under our Credit Facility and (iv) secured and unsecured debt financings. Additional sources of liquidity in 2019 may include the issuance of common and preferred equity. Our ability to obtain additional financing will depend on a variety of factors, such as market conditions, the general availability of credit, the overall availability of credit to the real estate industry, our credit ratings and credit capacity, as well as the perception of lenders regarding our long or short-term financial prospects.

Before beginning new construction or reconstruction activity, including activity related to communities owned by unconsolidated joint ventures, we intend to plan adequate financing to complete these undertakings, although we cannot assure you that we will be able to obtain such financing. In the event that financing cannot be obtained, we may have to abandon Development Rights, write-off associated pre-development costs that were capitalized and/or forego reconstruction activity. In such instances, we will not realize the increased revenues and earnings that we expected from such Development Rights or reconstruction activity and significant losses could be incurred.

From time to time we use joint ventures to hold or develop individual real estate assets. We generally employ joint ventures primarily to mitigate asset concentration or market risk and secondarily as a source of liquidity. We may also use joint ventures related to mixed-use land development opportunities and new markets where our partners bring development and operational expertise and/or experience to the venture. Each joint venture or partnership agreement has been individually negotiated, and our ability to operate and/or dispose of a community in our sole discretion may be limited to varying degrees depending on the terms of the joint venture or partnership agreement. We cannot assure you that we will achieve our objectives through joint ventures.

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In evaluating our allocation of capital within our markets, we sell assets that do not meet our long-term investment criteria or when capital and real estate markets allow us to realize a portion of the value created over our ownership periods and redeploy the proceeds from those sales to develop and redevelop communities. Because the proceeds from the sale of communities may not be immediately redeployed into revenue generating assets that we develop, redevelop or acquire, the immediate effect of a sale of a community for a gain is to increase net income, but reduce future total revenues, total expenses and NOI until such time as the proceeds have been redeployed into revenue generating assets. We believe that the temporary absence of future cash flows from communities sold will not have a material impact on our ability to fund future liquidity and capital resource needs.

Unconsolidated Real Estate Investments and Off-Balance Sheet Arrangements

Unconsolidated Investments

As of June 30, 2019, we had investments in unconsolidated real estate accounted for under the equity method of accounting shown in the following table, excluding joint ventures formed with Equity Residential as part of the Archstone acquisition. Refer to Note 5, "Investments in Real Estate Entities," of the Condensed Consolidated Financial Statements included elsewhere in this report, which includes information on the aggregate assets, liabilities and equity, as well as operating results, and our proportionate share of their operating results. For ventures holding operating apartment communities as of June 30, 2019, detail of the real estate and associated indebtedness underlying our unconsolidated investments is presented in the following table (dollars in thousands).

Unconsolidated Real Estate Investments	Company ownership percentage	# of Apartment homes	Total capitalized cost (1)	Debt (2)			
				Amount	Type	Interest rate (3)	Maturity date
NYC Joint Venture							
1. Avalon Bowery Place I - New York, NY		206	\$ 208,242	\$ 93,800	Fixed	4.01%	Jan 2029
2. Avalon Bowery Place II - New York, NY		90	87,411	39,639	Fixed	4.01%	Jan 2029
3. Avalon Morningside - New York, NY (4)		295	210,649	112,500	Fixed	3.55%	Jan 2029/May 2046
4. Avalon West Chelsea - New York, NY (5)		305	127,537	66,000	Fixed	4.01%	Jan 2029
5. AVA High Line - New York, NY (5)		405	121,182	84,000	Fixed	4.01%	Jan 2029
Total NYC Joint Venture	20.0%	1,301	755,021	395,939		3.88%	
Archstone Multifamily Partners AC LP (the "U.S. Fund")							
1. Avalon Studio 4121 - Studio City, CA		149	57,159	27,976	Fixed	3.34%	Nov 2022
2. Avalon Marina Bay - Marina del Rey, CA (6)		205	77,191	50,400	Fixed	1.56%	Dec 2020
3. Avalon Venice on Rose - Venice, CA		70	57,426	28,000	Fixed	3.28%	Jun 2020
4. Avalon Station 250 - Dedham, MA		285	97,736	54,510	Fixed	3.73%	Sep 2022
5. Avalon Grosvenor Tower - Bethesda, MD		237	80,337	42,253	Fixed	3.74%	Sep 2022
Total U.S. Fund	28.6%	946	369,849	203,139		3.08%	
Multifamily Partners AC JV LP (the "AC JV")							
1. Avalon North Point - Cambridge, MA (7)		426	189,503	111,653	Fixed	6.00%	Aug 2021
2. Avalon North Point Lofts - Cambridge, MA		103	26,865	—	N/A	N/A	N/A
Total AC JV	20.0%	529	216,368	111,653		6.00%	
North Point II JV, LP							
1. AVA North Point - Cambridge, MA		265	106,855	—	N/A	N/A	N/A
Total North Point II JV, LP	55.0%	265	106,855	—		N/A	
Other Operating Joint Ventures							
1. MVP I, LLC	25.0%	313	125,494	103,000	Fixed	3.24%	Jul 2025
2. Brandywine Apartments of Maryland, LLC	28.7%	305	19,383	21,905	Fixed	3.40%	Jun 2028
Total Other Joint Ventures		618	144,877	124,905		3.27%	
Total Unconsolidated Investments		3,659	\$ 1,592,970	\$ 835,636		3.88%	

- (1) Represents total capitalized cost as of June 30, 2019.
- (2) We have not guaranteed the debt of unconsolidated investees and bear no responsibility for the repayment.
- (3) Represents weighted average rate on outstanding debt as of June 30, 2019.
- (4) Borrowing on this community is comprised of two mortgage loans.
- (5) Borrowing on this dual-branded community is comprised of a single mortgage loan.
- (6) Borrowing on this community is a variable rate loan which has been converted to a fixed rate borrowing with an interest rate swap.
- (7) Borrowing is comprised of loans made by the equity investors in the venture in proportion to their equity interests.

Off-Balance Sheet Arrangements

In addition to our investment interests in consolidated and unconsolidated real estate entities, we have certain off-balance sheet arrangements with the entities in which we invest. Additional discussion of these entities can be found in Note 5, "Investments in Real Estate Entities," of our Condensed Consolidated Financial Statements included elsewhere in this report.

We have not guaranteed the debt of our unconsolidated real estate entities, as referenced in the table above, nor do we have any obligation to fund this debt should the unconsolidated real estate entities be unable to do so. In the future, in the event the unconsolidated real estate entities were unable to meet their obligations under a loan, we cannot predict at this time whether we would provide any voluntary support, or take any other action, as any such action would depend on a variety of factors, including the amount of support required and the possibility that such support could enhance the return of the unconsolidated real estate entities and/or our returns by providing time for performance to improve.

There are no other material lines of credit, side agreements, financial guarantees or any other derivative financial instruments related to or between our unconsolidated real estate entities and us. In evaluating our capital structure and overall leverage, management takes into consideration our proportionate share of the indebtedness of unconsolidated entities in which we have an interest.

Contractual Obligations

We currently have contractual obligations consisting primarily of long-term debt obligations and lease obligations for certain land parcels and regional and administrative office space. We adopted ASU 2016-02, Leases, as of January 1, 2019, and the prospective adoption of this standard did not have a material impact on our contractual lease obligations. Disclosures detailing the adoption and the associated contractual obligations can be found in Note 1, "Organization, Basis of Presentation and Significant Accounting Policies," and Note 7, "Commitments and Contingencies," of our Condensed Consolidated Financial Statements included elsewhere in this report. As of June 30, 2019, other than as discussed in this Form 10-Q, there have been no other material changes in our scheduled contractual obligations as disclosed in our Form 10-K.

Development Communities

As of June 30, 2019, we owned or held a direct or indirect interest in 21 Development Communities under construction. We expect these Development Communities, when completed, to add a total of 7,023 apartment homes and 94,000 square feet of retail space to our portfolio for a total capitalized cost, including land acquisition costs, of approximately \$2,578,000,000. Additionally, we are pursuing a potential for-sale strategy of individual condominium units for the residential portion of the 15 West 61st Street development, which is currently under construction and contains 172 residential units and 67,000 square feet of retail space for a projected total capitalized cost of \$624,000,000. We currently intend to own and operate the retail portion of the development. We cannot assure you that we will meet our schedule for construction completion or that we will meet our budgeted costs, either individually or in the aggregate. You should carefully review Item 1A. "Risk Factors" of our Form 10-K for a discussion of the risks associated with development activity.

The following table presents a summary of the Development Communities. We hold a fee simple ownership interest in these communities (directly or through a wholly-owned subsidiary) unless otherwise noted in the table.

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		Number of apartment homes	Projected total capitalized cost (1) (\$ millions)	Construction start	Initial projected occupancy (2)	Estimated completion	Estimated stabilized operations (3)
1.	Avalon Boonton <i>Boonton, NJ</i>	350	\$ 92	Q3 2016	Q1 2019	Q1 2020	Q3 2020
2.	Avalon Belltown Towers (4) <i>Seattle, WA</i>	274	147	Q4 2016	Q2 2019	Q4 2019	Q2 2020
3.	Avalon Public Market <i>Emeryville, CA</i>	289	163	Q4 2016	Q3 2019	Q1 2020	Q3 2020
4.	Avalon Teaneck <i>Teaneck, NJ</i>	248	73	Q4 2016	Q2 2019	Q1 2020	Q3 2020
5.	AVA Hollywood (4) <i>Hollywood, CA</i>	695	365	Q4 2016	Q3 2019	Q3 2020	Q1 2021
6.	AVA Esterra Park <i>Redmond, WA</i>	323	91	Q2 2017	Q4 2018	Q3 2019	Q1 2020
7.	Avalon Towson <i>Towson, MD</i>	371	114	Q4 2017	Q1 2020	Q4 2020	Q2 2021
8.	Avalon Yonkers <i>Yonkers, NY</i>	590	188	Q4 2017	Q3 2019	Q1 2021	Q2 2021
9.	Avalon Walnut Creek II <i>Walnut Creek, CA</i>	200	109	Q4 2017	Q4 2019	Q2 2020	Q4 2020
10.	Avalon North Creek <i>Bothell, WA</i>	316	84	Q4 2017	Q2 2019	Q1 2020	Q3 2020
11.	Avalon Saugus (4) <i>Saugus, MA</i>	280	93	Q2 2018	Q2 2019	Q1 2020	Q3 2020
12.	Avalon Doral <i>Doral, FL</i>	350	113	Q2 2018	Q2 2020	Q1 2021	Q3 2021
13.	Avalon Norwood <i>Norwood, MA</i>	198	61	Q2 2018	Q3 2019	Q1 2020	Q3 2020
14.	Avalon East Harbor <i>Baltimore, MD</i>	400	139	Q3 2018	Q4 2020	Q3 2021	Q1 2022
15.	Avalon Old Bridge <i>Old Bridge, NJ</i>	252	66	Q3 2018	Q1 2020	Q4 2020	Q1 2021
16.	Avalon Newcastle Commons II <i>Newcastle, WA</i>	293	106	Q4 2018	Q3 2020	Q1 2021	Q3 2021
17.	Twinbrook Station <i>Rockville, MD</i>	238	66	Q4 2018	Q3 2020	Q1 2021	Q3 2021
18.	Avalon Harrison (4) <i>Harrison, NY</i>	143	76	Q4 2018	Q4 2020	Q4 2021	Q1 2022
19.	Avalon Brea Place <i>Brea, CA</i>	653	290	Q2 2019	Q1 2021	Q2 2022	Q3 2022
20.	Avalon Foundry Row <i>Owings Mills, MD</i>	437	100	Q2 2019	Q1 2021	Q1 2022	Q3 2022
21.	Avalon Marlborough II <i>Marlborough, MA</i>	123	42	Q2 2019	Q2 2020	Q4 2020	Q2 2021
	Total	<u>7,023</u>	<u>\$ 2,578</u>				

(1) Projected total capitalized cost includes all capitalized costs projected to be or actually incurred to develop the respective Development Community, determined in accordance with GAAP, including land acquisition costs, construction costs, real estate taxes, capitalized interest and loan fees, permits, professional fees, allocated development overhead and other regulatory fees, as well as costs incurred for first generation retail tenants such as tenant improvements and leasing commissions. Projected total capitalized cost for communities identified as having joint venture ownership, either during construction or upon construction completion, represents the total projected joint venture contribution amount unless otherwise noted.

(2) Initial projected occupancy dates are estimates. There can be no assurance that we will pursue to completion any or all of these proposed developments.

(3) Stabilized operations is defined as the earlier of (i) attainment of 95% or greater physical occupancy or (ii) the one-year anniversary of completion of development.

(4) Development Communities containing at least 10,000 square feet of retail space include Avalon Belltown Towers (11,000 square feet), AVA Hollywood (19,000 square feet), Avalon Saugus (23,000 square feet) and Avalon Harrison (27,000 square feet).

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During the three months ended June 30, 2019, we completed the development of the following communities:

		Number of apartment homes	Total capitalized cost (1) (\$ millions)	Approximate rentable area (sq. ft.)	Total capitalized cost per sq. ft.
1.	Avalon Piscataway <i>Piscataway, NJ</i>	360	\$ 91	399,492	\$ 228

(1) Total capitalized cost is as of June 30, 2019. We generally anticipate incurring additional costs associated with Development Communities that are customary for new developments.

We anticipate commencing the construction of six apartment communities during the balance of 2019, which, if completed as expected, will contain 1,200 apartment homes and be constructed for a total capitalized cost of \$416,000,000.

Redevelopment Communities

As of June 30, 2019, there were seven communities under active redevelopment. We expect the total capitalized cost to redevelop these communities to be \$135,000,000, excluding costs incurred prior to redevelopment. We have found that the cost to redevelop an existing apartment community is more difficult to budget and estimate than the cost to develop a new community. Accordingly, we expect that actual costs may vary from our budget by a wider range than for a new Development Community. We cannot assure you that we will meet our schedule for reconstruction completion or for attaining restabilized operations, or that we will meet our budgeted costs, either individually or in the aggregate. You should carefully review Item 1A. "Risk Factors" of our Form 10-K for a discussion of the risks associated with redevelopment activity.

The following presents a summary of these Redevelopment Communities:

		Number of apartment homes	Projected total capitalized cost (\$ millions) (1)	Reconstruction start	Estimated reconstruction completion (2)	Estimated restabilized operations (3)
1.	AVA Ballston Square <i>Arlington, VA</i>	714	\$ 25	Q4 2017	Q3 2019	Q1 2020
2.	Eaves Seal Beach <i>Seal Beach, CA</i>	549	32	Q1 2018	Q4 2019	Q2 2020
3.	Eaves Redmond Campus <i>Redmond, WA</i>	422	24	Q1 2018	Q3 2019	Q1 2020
4.	Eaves Fairfax Towers <i>Falls Church, VA</i>	415	14	Q1 2018	Q4 2019	Q2 2020
5.	Avalon Prudential Center I <i>Boston, MA</i>	243	18	Q1 2018	Q1 2020	Q3 2020
6.	Avalon Melville <i>Melville, NY</i>	494	15	Q1 2018	Q3 2019	Q1 2020
7.	Avalon Darien <i>Darien, CT</i>	189	7	Q1 2019	Q4 2019	Q2 2020
	Total	<u>3,026</u>	<u>\$ 135</u>			

(1) Projected total capitalized cost does not include capitalized costs incurred prior to redevelopment and represents the aggregate of any multiple phase redevelopments.

(2) Estimated reconstruction completion dates reflect all planned phases.

(3) Estimated restabilized operations is defined as the earlier of (i) attainment of 95% or greater physical occupancy or (ii) the one-year anniversary of completion of redevelopment.

Development Rights

At June 30, 2019, we had \$18,606,000 in acquisition and related capitalized costs for direct interests in land parcels we own, and \$60,217,000 in capitalized costs (including legal fees, design fees and related overhead costs) related to Development Rights for which we control the land parcel, typically through a conditional agreement or option to purchase or lease the land. Collectively, the land held for development and associated costs for deferred development rights relate to 28 Development Rights for which we expect to develop new apartment communities in the future. The cumulative capitalized costs for land held for development as of June 30, 2019 includes \$16,842,000 in original land acquisition costs, net of any impairment loss recognized. The Development Rights range from those beginning design and architectural planning to those that have completed site plans and drawings and can begin construction almost immediately. We estimate that the successful completion of all of these communities would ultimately add approximately 9,004 apartment homes to our portfolio. Substantially all of these apartment homes will offer features like those offered by the communities we currently own.

For 21 Development Rights, we control the land through a conditional agreement or option to purchase or lease the parcel. While we generally prefer to hold Development Rights through conditional agreements or options to acquire land, for one Development Right we currently own the land on which a community would be built if we proceeded with development. In addition, six Development Rights are additional development phases of existing stabilized operating communities we own, and will be constructed on land currently adjacent to or directly associated with those operating communities. During the next 12 months we expect to commence construction of an apartment community on the Development Right for which we currently own the land, with a carrying basis of \$16,150,000.

The properties comprising the Development Rights are in different stages of the due diligence and regulatory approval process. The decisions as to which of the Development Rights to invest in, if any, or to continue to pursue once an investment in a Development Right is made, are business judgments that we make after we perform financial, demographic and other analyses. In the event that we do not proceed with a Development Right, we generally would not recover any of the capitalized costs incurred in the pursuit of those communities, unless we were to recover amounts in connection with the sale of land; however, we cannot guarantee a recovery. Pre-development costs incurred in the pursuit of Development Rights for which future development is not yet considered probable are expensed as incurred. In addition, if the status of a Development Right changes, making future development no longer probable, any capitalized pre-development costs are charged to expense. During the six months ended June 30, 2019, we incurred a charge of \$2,388,000 for expensed transaction, development and other pursuit costs, net of recoveries, which include development pursuits that were not yet probable of future development at the time incurred, and pursuits that we determined were no longer probable of being developed.

You should carefully review Item 1A. "Risk Factors" of our Form 10-K for a discussion of the risks associated with Development Rights.

The following presents a summary of the Development Rights as of June 30, 2019:

Market	Number of rights	Estimated number of homes	Projected total capitalized cost (\$ millions) (1)
New England	6	1,135	\$ 420
Metro NY/NJ	10	4,364	1,861
Mid-Atlantic	—	—	—
Pacific Northwest	2	542	170
Northern California	4	1,254	736
Southern California	3	791	368
Denver	3	918	287
Total	28	9,004	\$ 3,842

- (1) Projected total capitalized cost includes all capitalized costs incurred to date (if any) and projected to be incurred to develop the respective community, determined in accordance with GAAP, including land acquisition costs, construction costs, real estate taxes, capitalized interest and loan fees, permits, professional fees, allocated development overhead and other regulatory fees, as well as costs incurred for first generation retail tenants such as tenant improvements and leasing commissions.

Insurance and Risk of Uninsured Losses

We maintain commercial general liability insurance and property insurance with respect to all of our communities. These policies, along with other insurance policies we maintain, have policy specifications, insured and self-insured limits, exclusions and deductibles that we consider commercially reasonable. There are, however, certain types of losses (including, but not limited to, losses arising from nuclear liability or acts of war) that are not insured, in full or in part, because they are either uninsurable or the cost of insurance makes it, in management's view, economically impractical. You should carefully review the discussion under Item 1A. "Risk Factors" of our Form 10-K for a discussion of risks associated with an uninsured property or casualty loss.

Many of our West Coast communities are located in the general vicinity of active earthquake faults. Many of our communities are near, and thus susceptible to, the major fault lines in California, including the San Andreas Fault, the Hayward Fault or other geological faults that are known or unknown. We cannot assure you that an earthquake would not cause damage or losses greater than our current insured levels. We procure property damage and resulting business interruption insurance coverage with a loss limit of \$175,000,000 for any single occurrence and in the annual aggregate for losses resulting from earthquakes. However, for any losses resulting from earthquakes at communities located in California or Washington, the loss limit is \$200,000,000 for any single occurrence and in the annual aggregate. The deductible applicable to losses resulting from earthquakes occurring in California is five percent of the insured value of each damaged building subject to a minimum of \$100,000 and a maximum of \$25,000,000 per loss. Limits, deductibles, self-insured retentions and coverages may increase or decrease annually during the insurance renewal process which occurs on different dates throughout the calendar year.

Our communities are insured for certain property damage and business interruption losses through a combination of community specific insurance policies and/or a master property insurance program which covers the majority of our communities. This master property program provides a \$400,000,000 limit for any single occurrence, subject to certain sublimits and exclusions. Under the master property program, we are subject to a \$100,000 deductible per occurrence, as well as additional self-insured retention for the next \$350,000 of loss, per occurrence, until the aggregate incurred self-insured retention exceeds \$1,500,000 for the policy year.

Our communities are insured for third-party liability losses through a combination of community specific insurance policies and/or coverage provided under a master commercial general liability and umbrella/excess insurance program. The master commercial general liability and umbrella/excess insurance policies cover the majority of our communities and are subject to certain coverage limitations and exclusions, and they require a self-insured retention of \$500,000 per occurrence.

We also maintain certain casualty policies (general liability, umbrella/excess and workers compensation) for construction related risks which have various exclusions and deductibles that, in management's view, are commercially reasonable. Certain projects are insured through our master insurance policies while others are insured through project-specific insurance policies. The limits vary by project and may be subject to deductibles up to \$1,500,000 per occurrence.

We utilize a wholly-owned captive insurance company to insure certain types and amounts of risks, which includes property damage and resulting business interruption losses, general liability insurance and other construction related liability risks. In addition to our potential liability for the various policy self-insured retentions and deductibles, our captive insurance company is directly responsible for (i) 50% of the first \$25,000,000 of losses (per occurrence) and 10% of the first \$50,000,000 of loss (per occurrence) incurred by the master property insurance policy and (ii) covered liability claims arising out of our primary commercial general liability policy, subject to a \$2,000,000 per occurrence loss limit. The captive is utilized to insure other limited levels of risk, which may be in part reinsured by third party insurance.

Just as with office buildings, transportation systems and government buildings, there have been reports that apartment communities could become targets of terrorism. Our communities are insured for terrorism related losses through the Terrorism Risk Insurance Program Reauthorization Act ("TRIPRA") program. This coverage extends to most of our casualty exposures (subject to deductibles and insured limits) and certain property insurance policies. We have also purchased private-market insurance for property damage due to terrorism with limits of \$600,000,000 per occurrence and in the annual aggregate that includes certain coverages (not covered under TRIPRA) such as domestic-based terrorism. This insurance, often referred to as "non-certified" terrorism insurance, is subject to deductibles, limits and exclusions.

Inflation and Deflation

Substantially all of our apartment leases are for a term of one year or less. In an inflationary environment, this may allow us to realize increased rents upon renewal of existing leases or the beginning of new leases. Short-term leases generally minimize our risk from the adverse effects of inflation, although these leases generally permit residents to leave at the end of the lease term and therefore expose us to the effect of a decline in market rents. Similarly, in a deflationary rent environment, we may be exposed to declining rents more quickly under these shorter-term leases.

Forward-Looking Statements

This Form 10-Q contains "forward-looking statements" as that term is defined under the Private Securities Litigation Reform Act of 1995. You can identify forward-looking statements by our use of the words "believe," "expect," "anticipate," "intend," "estimate," "assume," "project," "plan," "may," "shall," "will" and other similar expressions in this Form 10-Q, that predict or indicate future events and trends and that do not report historical matters. These statements include, among other things, statements regarding our intent, belief or expectations with respect to:

- our potential development, redevelopment, acquisition or disposition of communities;
- the timing and cost of completion of apartment communities under construction, reconstruction, development or redevelopment;
- the timing of lease-up, occupancy and stabilization of apartment communities;
- the pursuit of land on which we are considering future development;
- the anticipated operating performance of our communities;
- cost, yield, revenue, NOI and earnings estimates;
- our declaration or payment of dividends;
- our joint venture and discretionary fund activities;
- our policies regarding investments, indebtedness, acquisitions, dispositions, financings and other matters;
- our qualification as a REIT under the Internal Revenue Code;
- the real estate markets in Northern and Southern California, Denver, Colorado, and Southeast Florida, and markets in selected states in the Mid-Atlantic, New England, Metro New York/New Jersey and Pacific Northwest regions of the United States and in general;
- the availability of debt and equity financing;
- interest rates;
- general economic conditions including the potential impacts from current economic conditions;
- trends affecting our financial condition or results of operations; and
- the impact of outstanding legal proceedings.

We cannot assure the future results or outcome of the matters described in these statements; rather, these statements merely reflect our current expectations of the approximate outcomes of the matters discussed. We do not undertake a duty to update these forward-looking statements, and therefore they may not represent our estimates and assumptions after the date of this report. You should not rely on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, some of which are beyond our control. These risks, uncertainties and other factors may cause our actual results, performance or achievements to differ materially from the anticipated future results, performance or achievements expressed or implied by these forward-looking statements. You should carefully review the discussion under Item 1A. "Risk Factors" in this report, for further discussion of risks associated with forward-looking statements.

Some of the factors that could cause our actual results, performance or achievements to differ materially from those expressed or implied by these forward-looking statements include, but are not limited to, the following:

- we may fail to secure development opportunities due to an inability to reach agreements with third-parties to obtain land at attractive prices or to obtain desired zoning and other local approvals;
- we may abandon or defer development opportunities for a number of reasons, including changes in local market conditions which make development less desirable, increases in costs of development, increases in the cost of capital or lack of capital availability, resulting in losses;
- construction costs of a community may exceed our original estimates;
- we may not complete construction and lease-up of communities under development or redevelopment on schedule, resulting in increased interest costs and construction costs and a decrease in our expected rental revenues;
- occupancy rates and market rents may be adversely affected by competition and local economic and market conditions which are beyond our control;
- financing may not be available on favorable terms or at all, and our cash flows from operations and access to cost effective capital may be insufficient for the development of our pipeline which could limit our pursuit of opportunities;
- our cash flows may be insufficient to meet required payments of principal and interest, and we may be unable to refinance existing indebtedness or the terms of such refinancing may not be as favorable as the terms of existing indebtedness;
- we may be unsuccessful in our management of the U.S. Fund, the AC JV or the REIT vehicles that are used with each respective joint venture;
- we may be unsuccessful in managing changes in our portfolio composition;
- laws and regulations implementing rent control or rent stabilization, or otherwise limiting our ability to increase rents, charge fees or evict tenants, may impact our revenue or increase our costs; and
- our expectations, estimates and assumptions as of the date of this filing regarding outstanding legal proceedings are subject to change.

Critical Accounting Policies

The preparation of financial statements in conformity with GAAP requires management to use judgment in the application of accounting policies, including making estimates and assumptions. If our judgment or interpretation of the facts and circumstances relating to various transactions had been different, or different assumptions were made, it is possible that different accounting policies would have been applied, resulting in different financial results or a different presentation of our financial statements. We have reassessed our critical accounting policies previously disclosed in Management's Discussion and Analysis and Results of Operations in our Form 10-K, and have determined that certain policies described in our Form 10-K no longer require complex or significant judgment in their application. As a result, we have updated our critical accounting policies to consist of the following: (i) cost capitalization and (ii) abandoned pursuit costs and asset impairment, as included in the discussion of our significant accounting policies found in Management's Discussion and Analysis and Results of Operations in our Form 10-K.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes to our exposures to market risk since December 31, 2018.

ITEM 4. CONTROL AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

The Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of June 30, 2019. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms.

We continue to review and document our disclosure controls and procedures, including our internal controls and procedures for financial reporting, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that our systems evolve with our business.

(b) Changes in internal controls over financial reporting.

As of January 1, 2019, the Company adopted ASU 2016-02, Leases. The Company implemented internal controls related to the lease accounting process, but there were no significant changes to the internal control over financial reporting due to the adoption of this new standard.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Following the filing of a petition by Local 30 of the International Union of Operating Engineers ("Local 30"), on April 23, 2019 an election was held among our non-management, on-site maintenance associates at our Westchester County, New York operating communities, and the associates elected to be represented by Local 30 in collective bargaining. The Company has filed an objection with the National Labor Relations Board contesting the election on various grounds. Following the Westchester County election, Local 30 filed a petition to represent our non-management, on-site maintenance associates at our Connecticut operating communities, and the associates elected to not be represented by Local 30 in collective bargaining. The Company does not believe that these matters pertaining to Local 30 and their possible representation of our maintenance associates in Westchester County will have a material adverse effect on the Company's financial condition or its results of operations.

The Company is involved in various other claims and/or administrative proceedings that arise in the ordinary course of our business. While no assurances can be given, the Company does not believe that any of these outstanding litigation matters, individually or in the aggregate, will have a material adverse effect on its financial condition or its results of operations.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the risk factors which could materially affect our business, financial condition or future results discussed in our Form 10-K in Part I, Item 1A. "Risk Factors." The risks described in our Form 10-K are not the only risks that could affect the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially adversely affect our business, financial condition and/or operating results in the future. There have been no material changes to our risk factors since December 31, 2018.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased (1)	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Dollar Amount that May Yet be Purchased Under the Plans or Programs (in thousands) (2)
April 1 - April 30, 2019	—	\$ —	—	\$ 200,000
May 1 - May 31, 2019	—	\$ —	—	\$ 200,000
June 1 - June 30, 2019	—	\$ —	—	\$ 200,000

(1) Reflects shares surrendered to the Company in connection with exercise of stock options as payment of exercise price, as well as for taxes associated with the vesting of restricted share grants.

(2) As disclosed in our Form 10-Q for the quarter ended March 31, 2008, represents amounts outstanding under the Company's \$500,000,000 Stock Repurchase Program. There is no scheduled expiration date to this program.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

<u>Exhibit No.</u>	<u>Description</u>
3(i).1	— Articles of Amendment and Restatement of Articles of Incorporation of the Company, dated as of June 4, 1998. (Incorporated by reference to Exhibit 3(i).1 to Form 10-K of the Company filed March 1, 2007.)
3(i).2	— Articles of Amendment, dated as of October 2, 1998. (Incorporated by reference to Exhibit 3(i).2 to Form 10-K of the Company filed March 1, 2007.)
3(i).3	— Articles of Amendment, dated as of May 22, 2013. (Incorporated by reference to Exhibit 3(i).3 to Form 8-K of the Company filed May 22, 2013.)
3(ii).1	— Amended and Restated Bylaws of the Company, as adopted by the Board of Directors on November 12, 2015, and as further amended on February 16, 2017, November 13, 2017, and May 6, 2019. (Filed herewith.)
10.1+	— Retirement Agreement by and between AvalonBay Communities, Inc. and Stephen W. Wilson, dated June 27, 2019. (Incorporated by reference to Exhibit 1.1 to Form 8-K of the Company filed July 1, 2019.)
31.1	— Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer). (Filed herewith.)
31.2	— Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer). (Filed herewith.)
32	— Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer and Chief Financial Officer). (Furnished herewith.)
101.SCH	— Inline XBRL Taxonomy Extension Schema Document. (Filed herewith.)
101.CAL	— Inline XBRL Taxonomy Extension Calculation Linkbase Document. (Filed herewith.)
101.DEF	— Inline XBRL Taxonomy Extension Definition Linkbase Document. (Filed herewith.)
101.LAB	— Inline XBRL Taxonomy Extension Label Linkbase Document. (Filed herewith.)
101.PRE	— Inline XBRL Taxonomy Extension Presentation Linkbase Document. (Filed herewith.)
104	— Cover Page Interactive Data File (formatted as inline XBRL with applicable taxonomy extension information contained in Exhibits 101.) (Filed herewith.)

+ Management contract or compensatory plan or arrangement required to be filed or incorporated by reference as an exhibit to this Form 10-Q.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AVALONBAY COMMUNITIES, INC.

Date: August 6, 2019

/s/ Timothy J. Naughton

Timothy J. Naughton
Chairman, Chief Executive Officer and President
(Principal Executive Officer)

Date: August 6, 2019

/s/ Kevin P. O'Shea

Kevin P. O'Shea
Chief Financial Officer
(Principal Financial Officer)

AVALONBAY COMMUNITIES, INC.

Secretary's Certificate

Amendment to Bylaws

I, Catherine T. White, being the duly appointed, qualified and acting Assistant Secretary of AvalonBay Communities, Inc., a Maryland corporation (the "Corporation"), hereby certify as follows:

1. I am the Assistant Secretary of the Corporation and as such, I am authorized to execute this Certificate on behalf of the Corporation.
2. On November 12, 2015, at a duly called and held meeting of the Board of Directors of the Corporation, the Board adopted the Amended and Restated Bylaws of the Corporation attached hereto as Exhibit A.
3. On February 16, 2017, at a duly called and held meeting of the Board of Directors of the Corporation, the Board adopted an amendment to the Corporation's Amended and Restated Bylaws dated November 12, 2015, attached hereto as Exhibit B.
4. On November 9, 2017, at a duly called and held meeting of the Board of Directors of the Corporation, the Board adopted a second amendment to the Corporation's Amended and Restated Bylaws dated November 12, 2015, attached hereto as Exhibit C.
5. On May 6, 2019, by unanimous written consent of the Board of Directors of the Corporation, the Board adopted a third amendment to the Corporation's Amended and Restated Bylaws dated November 12, 2015, attached hereto as Exhibit D.

IN WITNESS WHEREOF, the undersigned has signed this certificate as of May 6, 2019.

AVALONBAY COMMUNITIES, INC.

/s/ Catherine T. White
Name: Catherine T. White
Title: Assistant Secretary

Amended and Restated Bylaws of the Company dated November 12, 2015

[see attached]

AMENDED AND RESTATED BYLAWS
OF
AVALONBAY COMMUNITIES, INC.

November 12, 2015

AMENDED AND RESTATED BYLAWS
OF
AVALONBAY COMMUNITIES, INC.
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ARTICLE I

MEETINGS OF STOCKHOLDERS

1.01 **PLACE**. All meetings of the holders (the “Stockholders”) of the issued and outstanding common stock and preferred stock of AvalonBay Communities, Inc. (the “Corporation”) shall be held at the principal executive office of the Corporation or at such other place as shall be set in accordance with these Bylaws and stated in the notice of the meeting.

1.02 **ANNUAL MEETINGS**. An annual meeting of the Stockholders for the election of directors of the Corporation (“Directors”) and the transaction of such other business as may be properly brought before the meeting shall be held on the date and at the time and place set by the Board of Directors. Failure to hold an annual meeting shall not invalidate the Corporation’s existence or affect any otherwise valid acts of the Corporation.

1.03 **MATTERS TO BE CONSIDERED AT ANNUAL MEETING**.

(a) A proposal of business to be considered by the Stockholders may be made at an annual meeting of Stockholders (i) pursuant to the Corporation’s notice of meeting, (ii) by or at the direction of the Board of Directors or (iii) by any Stockholder who was a Stockholder of record of a class of stock of the Corporation (“Stock”) entitled to vote on the matter being proposed (A) at the time of giving of notice provided for in this Section 1.03, (B) as of the record date for the annual meeting in question and (C) at the time of such annual meeting (and any postponement or adjournment thereof), and who complied with this Section 1.03. For a proposal of business to be properly brought before an annual meeting by a Stockholder, the Stockholder must have given timely notice thereof in writing to the Secretary of the Corporation, such business must be a proper matter for action by the Stockholders and such Stockholder must be present in person or by proxy at the annual meeting (and any postponement or adjournment thereof).

To be timely, a Stockholder’s notice shall set forth all information required under this Section 1.03 and be delivered to the Secretary at the principal executive office of the Corporation not earlier than the 150th day nor later than 5:00 p.m., Eastern Time, on the 120th day prior to the first anniversary of the date of the proxy statement for the preceding year’s annual meeting (the “Notice Anniversary Date”); provided, however, that in the event that the date of the annual meeting is advanced or delayed by more than thirty (30) days from the first anniversary of the date of the preceding year’s annual meeting, in order for notice by the Stockholder to be timely, such notice must be so delivered not earlier than the 150th day prior to the date of such annual meeting and not later than 5:00 p.m., Eastern Time, on the later of the 120th day prior to the date of such annual meeting, as originally convened, or the tenth (10th) day following the day on which public announcement of the date of such annual meeting is first made. The public announcement of a postponement or an adjournment of an annual meeting shall not commence a new time period for the giving of a stockholder’s notice as described above.

For purposes of these Bylaws, (i) “the date of the proxy statement” shall have the same meaning as “the date of the company’s proxy statement released to shareholders” as used in Rule 14a-8(3) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as interpreted by the Securities and Exchange Commission from time to time, and (ii) “public announcement” shall mean disclosure in a (A) press release reported by the Dow Jones News Service, Associated Press, Business Wire, PR Newswire or other widely circulated news or wire service, (B) document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to the Exchange Act or (C) letter or report sent to Stockholders of record of the Corporation entitled to vote at the meeting.

(b) A Stockholder’s notice to the Secretary shall set forth:

(i) as to any business that the Stockholder proposes to bring before the annual meeting, a description of such business, the Stockholder’s reasons for proposing such business at the annual meeting and any material interest in such business of such Stockholder or any Stockholder Associated Person (as defined below), individually or in the aggregate, including any anticipated benefit to the Stockholder or any Stockholder Associated Person therefrom;

(ii) as to the Stockholder giving the notice and any Stockholder Associated Person,

(A) the class, series and number of all shares of Stock or other securities of the Corporation or any affiliate thereof (collectively, the “Company Securities”), if any, which are owned (beneficially or of record) by such stockholder or Stockholder Associated Person, the date on which each such Company Security was acquired and the investment intent of such acquisition, and any short interest (including any opportunity to profit or share in any benefit from any decrease in the price of such stock or other security) in any Company Securities of any such person,

(B) the nominee holder for, and number of, any Company Securities owned beneficially but not of record by such Stockholder or Stockholder Associated Person,

(C) whether and the extent to which such Stockholder or Stockholder Associated Person, directly or indirectly (through brokers, nominees or otherwise), is subject to or during the last six months has engaged in any hedging, derivative or other transaction or series of transactions or entered into any other agreement, arrangement or understanding (including any short interest, any borrowing or lending of securities or any proxy or voting agreement), the effect or intent of which is to (I) manage risk or benefit of changes in the price of (x) Company Securities or (y) any security of any entity that was listed in the Peer Group in the Stock Performance Graph in the most recent annual report to security holders of the Corporation (a “Peer Group Company”) for such stockholder or Stockholder Associated Person or (II) increase or decrease the voting power of such stockholder or Stockholder Associated Person in the Corporation or any affiliate thereof (or, as applicable, in any Peer Group Company) disproportionately to such person’s economic interest in the Company Securities (or, as applicable, in any Peer Group Company); and

(D) any substantial interest, direct or indirect (including, without limitation, any existing or prospective commercial, business or contractual relationship with the Corporation), by security holdings or otherwise, of such Stockholder or Stockholder Associated Person, in the Corporation or any affiliate thereof, other than an interest arising from the ownership of Company Securities where such Stockholder or Stockholder Associated Person receives no extra or special benefit not shared on a *pro rata* basis by all other holders of the same class or series;

(iii) as to the Stockholder giving the notice and any Stockholder Associated Person with an interest or ownership referred to in clause (i) or (ii) of this paragraph (b) of this Section 1.03,

(A) the name and address of such Stockholder, as they appear on the Corporation's stock ledger, and the current name and business address, if different, of each such Stockholder Associated Person and

(B) the investment strategy or objective, if any, of such Stockholder and each such Stockholder Associated Person who is not an individual and a copy of the prospectus, offering memorandum or similar document, if any, provided to investors or potential investors in such Stockholder and each such Stockholder Associated Person;

(iv) the name and address of any person who contacted or was contacted by the Stockholder giving the notice or any Stockholder Associated Person about the Stockholder's business proposal; and

(v) to the extent known by the Stockholder giving the notice, the name and address of any other Stockholder supporting the proposal for business.

For purposes of these Bylaws, "Stockholder Associated Person" of any Stockholder shall mean (i) any person acting in concert with such Stockholder, (ii) any beneficial owner of shares of stock of the Corporation owned of record or beneficially by such Stockholder (other than a stockholder that is a depository) and (iii) any person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such Stockholder or such Stockholder Associated Person.

(c) If information submitted pursuant to this Section 1.03 by any Stockholder proposing business at an annual meeting of Stockholders shall be inaccurate in any material respect, such information may be deemed not to have been provided in accordance with this Section 1.03. Any such Stockholder shall notify the Corporation of any inaccuracy or change (within two Business Days (as defined below) of becoming aware of such inaccuracy or change) in any such information. Upon written request by the Secretary or the Board of Directors, any such Stockholder shall provide, within five (5) Business Days of delivery of such request (or such other period as may be specified in such request), (i) written verification, satisfactory, in the discretion of the Board of Directors or any authorized officer of the Corporation, to demonstrate the accuracy of any information submitted by the Stockholder pursuant to this Section 1.03, and (ii) a written update of any information (including, if requested by the Corporation, written confirmation by such Stockholder that it continues to intend to bring such business proposal

before the meeting) submitted by the Stockholder pursuant to this Section 1.03 as of an earlier date. If a Stockholder fails to provide such written verification or written update within such period, the information as to which written verification or a written update was requested may be deemed not to have been provided in accordance with this Section 1.03.

(d) Only such business shall be conducted at an annual meeting of Stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section 1.03. The Presiding Officer (as defined in Section 1.10 hereof) of the meeting shall have the power to determine whether any business proposed to be brought before the meeting was proposed in accordance with this Section 1.03.

(e) Notwithstanding the foregoing provisions of this Section 1.03, a Stockholder shall also comply with all applicable requirements of state law and of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 1.03. Nothing in this Section 1.03 shall be deemed to affect any right of a Stockholder to request inclusion of a proposal in, or the right of the Corporation to omit a proposal from, any proxy statement filed by the Corporation with the Securities and Exchange Commission pursuant to Rule 14a-8 (or any successor provision) under the Exchange Act.

(f) This Section 1.03 shall not prevent the consideration and approval or disapproval at the annual meeting of reports of officers, Directors and committees of the Board of Directors, but in connection with such reports, no new business shall be acted upon at such annual meeting except in accordance with the provisions of this Section 1.03.

1.04 SPECIAL MEETINGS.

(a) The Chairman of the Board of Directors, the Chief Executive Officer, the President or the Board of Directors may call a special meeting of the Stockholders. Except as provided in paragraph (4) of subsection (b) of this Section 1.04, a special meeting of the Stockholders shall be held on the date and at the time and place set by the Chairman of the Board of Directors, the Chief Executive Officer, the President or the Board of Directors, whoever has called the meeting. In addition, subject to subsection (b) of this Section 1.04, the Secretary of the Corporation shall call a special meeting of the Stockholders to act on any matter that may properly be considered at a meeting of the Stockholders upon the written request of Stockholders entitled to cast a majority of all the votes entitled to be cast on such matter at such meeting.

(b) (1) Any Stockholder of record seeking to have Stockholders request a special meeting shall, by sending written notice to the Secretary (the "Record Date Request Notice") by registered mail, return receipt requested, request the Board of Directors to fix a record date to determine the Stockholders entitled to request a special meeting (the "Request Record Date"). The Record Date Request Notice shall set forth the purpose of the meeting and the matters proposed to be acted on at such meeting, shall be signed by one or more Stockholders of record as of the date of signature (or their agents duly authorized in a writing accompanying the Record Date Request Notice), shall bear the date of signature of each such Stockholder (or such agent) and shall set forth all information relating to each such Stockholder, each individual whom the Stockholder proposes to nominate for election or re-election as a Director and each matter proposed to be acted on at the meeting that would be required to be disclosed in

connection with the solicitation of proxies for the election of Directors or the election of each such individual, as applicable, in an election contest (even if an election contest is not involved), or would otherwise be required in connection with such a solicitation, in each case pursuant to Regulation 14A (or any successor provision) under the Exchange Act. Upon receiving the Record Date Request Notice, the Board of Directors may fix a Request Record Date. The Request Record Date shall not precede and shall not be more than ten (10) days after the close of business on the date on which the resolution fixing the Request Record Date is adopted by the Board of Directors. If the Board of Directors, within fifteen (15) days after the date on which a valid Record Date Request Notice is received, fails to adopt a resolution fixing the Request Record Date, the Request Record Date shall be the close of business on the fifteenth (15th) day after the first date on which the Record Date Request Notice is received by the Secretary.

(2) In order for any Stockholder to request a special meeting to act on any matter that may properly be considered at a meeting of stockholders, one or more written requests for a special meeting (collectively, the "Special Meeting Request") signed by Stockholders of record (or their agents duly authorized in a writing accompanying the request) as of the Request Record Date entitled to cast not less than a majority of all of the votes entitled to be cast on such matter at such meeting (the "Special Meeting Percentage") shall be delivered to the Secretary. In addition, the Special Meeting Request shall (i) set forth the purpose of the meeting and the matters proposed to be acted on at such meeting (which shall be limited to those lawful matters set forth in the Record Date Request Notice received by the Secretary), (ii) bear the date of signature of each such Stockholder (or other agent) signing the Special Meeting Request, (iii) set forth (A) the name and address, as they appear in the Corporation's books, of each Stockholder signing such request (or on whose behalf the Special Meeting Request is signed), (B) the class, series and number of all shares of Stock of the Corporation which are owned (beneficially or of record) by such Stockholder and (C) the nominee holder for, and number of, shares of Stock of the Corporation owned beneficially but not of record by such Stockholder, (iv) be sent to the Secretary by registered mail, return receipt requested and (v) be received by the Secretary within sixty (60) days after the Request Record Date. Any requesting Stockholder (or agent duly authorized in a writing accompanying the revocation of the Special Meeting Request) may revoke his, her or its request for a special meeting at any time by written revocation delivered to the Secretary.

(3) The Secretary shall inform the requesting Stockholders of the reasonably estimated cost of preparing and mailing or delivering the notice of the meeting (including the Corporation's proxy materials). The Secretary shall not be required to call a special meeting upon Stockholder request and such meeting shall not be held unless, in addition to the documents required by paragraph (2) of this Section 1.04(b), the Secretary receives payment of such reasonably estimated cost prior to the preparation and mailing or delivery of such notice of the meeting.

(4) In the case of any special meeting called by the Secretary upon the request of Stockholders (a "Stockholder-Requested Meeting"), such meeting shall be held at such place, date and time as may be designated by the Board of Directors; provided, however, that the date of any Stockholder-Requested Meeting shall be not more than ninety (90) days after the record date for such meeting (the "Meeting Record Date"); and provided further that if the Board of Directors fails to designate, within fifteen (15) days after the date that a valid Special

Meeting Request is actually received by the Secretary (the "Delivery Date"), a date and time for a Stockholder-Requested Meeting, then such meeting shall be held at 2:00 p.m. local time on the ninetieth (90th) day after the Meeting Record Date or, if such ninetieth (90th) day is not a Business Day, on the first preceding Business Day; and provided further that in the event that the Board of Directors fails to designate a place for a Stockholder Requested Meeting within fifteen (15) days after the Delivery Date, then such meeting shall be held at the principal executive office of the Corporation. In fixing a date for a Stockholder-Requested Meeting, the Board of Directors may consider such factors as it deems relevant, including, without limitation, the nature of the matters to be considered, the facts and circumstances surrounding any request for the meeting and any plan of the Board of Directors to call an annual meeting or a special meeting. In the case of any Stockholder-Requested Meeting, if the Board of Directors fails to fix a Meeting Record Date that is a date within thirty (30) days after the Delivery Date, then the close of business on the thirtieth (30th) day after the Delivery Date shall be the Meeting Record Date. The Board of Directors may revoke the notice for any Stockholder-Requested Meeting in the event that the requesting stockholders fail to comply with the provisions of paragraph (3) of this Section 1.04(b).

(5) If written revocations of the Special Meeting Request have been delivered to the Secretary and the result is that Stockholders of record (or their agents duly authorized in writing), as of the Request Record Date, entitled to cast less than the Special Meeting Percentage have delivered, and not revoked, requests for a special meeting on the matter to the Secretary: (i) if the notice of the meeting has not already been delivered, the Secretary shall refrain from delivering the notice of the meeting and send to all requesting Stockholders who have not revoked such requests written notice of any revocation of a request for a special meeting on the matter, or (ii) if the notice of meeting has been delivered and if the Secretary first sends to all requesting Stockholders who have not revoked requests for a special meeting on the matter written notice of any revocation of a request for the special meeting and written notice of the Corporation's intention to revoke the notice of the meeting or for the Presiding Officer to adjourn the meeting without action on the matter, (A) the Secretary may revoke the notice of the meeting at any time before ten days before the commencement of the meeting or (B) the Presiding Officer may call the meeting to order and adjourn the meeting without acting on the matter. Any request for a special meeting received after a revocation by the Secretary of a notice of a meeting shall be considered a request for a new special meeting.

(6) The Chairman of the Board of Directors, the President, the Chief Executive Officer or the Board of Directors may appoint regionally or nationally recognized independent inspectors of elections to act as the agent of the Corporation for the purpose of promptly performing a ministerial review of the validity of any purported Special Meeting Request received by the Secretary. For the purpose of permitting the inspectors to perform such review, no such purported Special Meeting Request shall be deemed to have been received by the Secretary until the earlier of (i) five (5) Business Days after actual receipt by the Secretary of such purported request and (ii) such date as the independent inspectors certify to the Corporation that the valid requests received by the Secretary represent, as of the Request Record Date, Stockholders of record entitled to cast not less than the Special Meeting Percentage. Nothing contained in this paragraph (6) shall in any way be construed to suggest or imply that the Corporation or any Stockholder shall not be entitled to contest the validity of any request, whether during or after such five (5) Business Day period, or to take any other action (including,

without limitation, the commencement, prosecution or defense of any litigation with respect thereto, and the seeking of injunctive relief in such litigation).

(7) For purposes of these Bylaws, "Business Day" shall mean any day other than a Saturday, a Sunday or a day on which banking institutions in the State of New York are authorized or obligated by law or executive order to close.

1.05 NOTICE. Not fewer than ten (10) nor more than ninety (90) days before the date of each meeting of Stockholders, the Secretary shall give to each Stockholder entitled to vote at such meeting and to each Stockholder not entitled to vote who is entitled to notice of the meeting notice in writing or by electronic transmission, stating the time and place of the meeting and, in the case of a special meeting or as otherwise may be required by any statute, the purpose for which the meeting is called. The Corporation may give a single notice to all Stockholders who share an address, which single notice shall be effective as to any Stockholder at such address, unless such Stockholder objects in writing to receiving such single notice or revokes in writing a prior consent to receiving such single notice. Failure to give notice of any meeting to one or more Stockholders, or any irregularity in such notice, shall not affect the validity of any meeting fixed in accordance with these Bylaws, or the validity of any proceedings at any such meeting. The Corporation may postpone or cancel a meeting of Stockholders by making a public announcement of such postponement or cancellation prior to the meeting. Notice of the date to which the meeting is postponed shall be given not less than ten (10) days prior to such date and otherwise in the manner set forth in this section.

1.06 SCOPE OF NOTICE. No business shall be transacted at a special meeting of Stockholders except such business that is specifically designated in the notice of the meeting. Subject to the provisions of Section 1.03, any business of the Corporation may be transacted at the annual meeting without being specifically designated in the notice, except such business as is required by any statute to be stated in such notice.

1.07 QUORUM. At any meeting of Stockholders, the presence in person or by proxy of Stockholders entitled to cast a majority of all the votes entitled to be cast at such meeting on any matter shall constitute a quorum; but this Section 1.07 shall not affect any requirement under any statute or the charter of the Corporation, as amended from time to time (the "Charter"), for the vote necessary for the approval of any matter. If, however, such quorum is not established at any meeting of Stockholders, the Presiding Officer may adjourn the meeting *sine die* or from time to time to a date not more than 120 days after the original record date without notice other than announcement at the meeting. At such adjourned meeting at which a quorum shall be present, any business may be transacted which might have been transacted at the meeting as originally notified. The Stockholders present either in person or by proxy, at a meeting which has been duly called and at which a quorum has been established, may continue to transact business until adjournment, notwithstanding the withdrawal from the meeting of enough Stockholders to leave fewer than required to establish a quorum.

1.08 VOTING.

(a) A majority of the votes cast at a meeting of Stockholders duly called and at which a quorum is present shall be sufficient to take or authorize action upon any matter

which may properly come before the meeting, unless more than a majority of the votes cast is specifically required by statute, the Charter or these Bylaws. Unless otherwise provided by statute or by the Charter, each outstanding share (a "Share") of Stock of the Corporation, regardless of class, shall be entitled to one vote on each matter submitted to a vote at a meeting of Stockholders. Any holder of shares entitled to vote on any matter may vote part of the shares in favor of the proposal and refrain from voting the remaining shares or, other than elections to office, vote them against the proposal but, if the Stockholder fails to specify the number of shares such Stockholder is voting affirmatively, it shall be conclusively presumed that the Stockholder's approving vote is with respect to all votes said Stockholder is entitled to cast. Shares of its own Stock directly or indirectly owned by the Corporation shall not be voted at any meeting and shall not be counted in determining the total number of outstanding Shares entitled to vote at any given time, but Shares of its own voting Stock held by it in a fiduciary capacity may be voted and shall be counted in determining the total number of outstanding Shares at any given time. Notwithstanding anything else contained in these Bylaws, the rights of any class of "Excess Stock" (as such term is defined in the Charter) and the rights of holders of any class of Excess Stock shall be limited to the rights with respect thereto provided in the Charter. Notwithstanding the foregoing, a nominee for Director shall be elected as a Director only if such nominee receives the affirmative vote of a majority of the total votes cast for and affirmatively withheld as to such nominee at a meeting of Stockholders duly called and at which a quorum is present. However, Directors shall be elected by a plurality of votes cast at a meeting of Stockholders duly called and at which a quorum is present for which (i) the Secretary of the Corporation receives notice that a Stockholder has nominated an individual for election as a Director in compliance with the requirements of advance notice of Stockholder nominees for Director set forth in Section 1.03, and (ii) such nomination has not been withdrawn by such Stockholder on or before the close of business on the tenth day before the date of filing of the definitive proxy statement of the Corporation with the Securities and Exchange Commission, and, as a result of which, the number of nominees is greater than the number of Directors to be elected at the meeting. Each Share may be voted for as many individuals as there are Directors to be elected and for whose election the Share is entitled to be voted.

(b) If an incumbent Director fails to receive the required vote for re-election in accordance with paragraph (a) of this Section 1.08 in an election where the number of nominees is not greater than the number of Directors to be elected at the meeting, he or she shall offer to resign from the Board of Directors and the Nominating and Corporate Governance Committee of the Board of Directors will consider such offer to resign, will act on an expedited basis to determine whether to accept such Director's resignation and will submit such recommendation for prompt consideration by the Board of Directors. The Director whose resignation is under consideration shall not participate in any deliberation or vote of the Nominating and Corporate Governance Committee or the Board of Directors regarding that resignation but may participate in the deliberation or vote on any other business transacted by the Board of Directors or any committee thereof. Notwithstanding the foregoing, in the event that no nominee for Director receives the vote required in paragraph (a) of this Section 1.08, the Nominating and Corporate Governance Committee shall make a final determination as to whether to recommend to the Board of Directors whether to accept any or all resignations, including those resignations from members of the Nominating and Corporate Governance Committee, and any and all Directors may participate in the deliberation and vote of the Board of Directors on such recommendation. The Nominating and Corporate Governance Committee and

the Board of Directors may consider any factors they deem relevant in deciding whether to accept a Director's resignation. Within 90 days after the date of certification of the election results, the Board of Directors will promptly disclose its decision and basis for whether to accept the resignation (or the reasons for not accepting the resignation, if applicable) in a press release, in a filing with the Securities and Exchange Commission or by other public announcement (including a posting on the Corporation's website). If such incumbent Director's resignation is not accepted by the Board of Directors, such Director will continue to serve until his or her successor is elected and qualifies, or his or her death, resignation, retirement or removal, whichever event shall occur first. If a Director's resignation is accepted by the Board of Directors, or if a nominee for Director is not elected and the nominee is not an incumbent Director, then the Board of Directors, in its sole discretion, may fill any resulting vacancy pursuant to the Charter or decrease the size of the Board of Directors pursuant to Section 2.03.

1.09 PROXIES. A holder of record of Shares may cast votes in person or by proxy executed by the Stockholder or by the Stockholder's duly authorized agent in any manner permitted by law. Such proxy or evidence of authorization of such proxy shall be filed with the Secretary of the Corporation before or at the meeting. No proxy shall be valid more than eleven (11) months after its date unless otherwise provided in the proxy.

1.10 CONDUCT OF MEETINGS.

(a) Every meeting of Stockholders shall be conducted by an individual appointed by the Board of Directors to be chairman of the meeting or, in the absence of such appointment or appointed individual, by the Chairman or, in the case of a vacancy in the office or absence of the Chairman, by one of the following officers present at the meeting in the following order: the Chief Executive Officer, the President, the Vice Presidents in their order of rank and, within each rank, in their order of seniority, the Secretary or, in the absence of all of the foregoing officers, a chairman chosen by the Stockholders by the vote of a majority of the votes cast by Stockholders present in person or by proxy. The Secretary of the Corporation or, in the case of a vacancy in the office or absence of the Secretary, an Assistant Secretary or, in the case of a vacancy in the office of Assistant Secretary or the absence of both the Secretary and all Assistant Secretaries, an individual appointed by the chairman of the meeting (the "Presiding Officer") shall act as secretary of such meeting. Unless otherwise approved by the Presiding Officer, attendance at a meeting of Stockholders is restricted to Stockholders of record, persons authorized in accordance with Section 1.09 to act by proxy, and officers of the Corporation.

(b) The order of business and all other matters of procedure at any meeting of Stockholders shall be determined by the Presiding Officer. The Presiding Officer may prescribe such rules, regulations and procedures and take such action as, in the discretion of the Presiding Officer and without any action by the Stockholders, are appropriate for the proper conduct of the meeting, including, without limitation, (i) restricting admission to the time set for the commencement of the meeting; (ii) limiting attendance at the meeting to Stockholders of record of the Corporation, their duly authorized proxies and such other individuals as the Presiding Officer may determine; (iii) limiting participation at the meeting on any matter to Stockholders of record of the Corporation entitled to vote on such matter, their duly authorized proxies and other such individuals as the Presiding Officer may determine; (iv) limiting the time allotted to questions or comments; (v) determining when and for how long the polls should be opened and

when the polls should be closed; (vi) maintaining order and security at the meeting; (vii) removing any Stockholder or any other individual who refuses to comply with meeting procedures, rules or guidelines as set forth by the Presiding Officer; (viii) concluding a meeting or recessing or adjourning the meeting to a later date and time and at a place announced at the meeting; and (ix) complying with any state and local laws and regulations concerning safety and security. Unless otherwise determined by the Presiding Officer, meetings of Stockholders shall not be required to be held in accordance with the rules of parliamentary procedure.

1.11 TABULATION OF VOTES. Before or at any annual or special meeting of Stockholders, the Board of Directors or the Presiding Officer may appoint one or more persons as tellers (the “Teller” or “Tellers”) or inspectors (the “Inspector” or “Inspectors”) for such meeting. A Teller may, but need not, be an officer or employee of the Corporation. An Inspector may not be an officer or employee of, or otherwise affiliated with, the Corporation. Except as otherwise provided by the Presiding Officer, the Teller or Inspector, if any, shall be responsible for (i) determining the number of shares of stock represented at the meeting, in person or by proxy, and the validity and effect of proxies, (ii) receiving and tabulating all votes, ballots or consents, (iii) reporting such tabulation to the Presiding Officer and (iv) doing such acts as are proper to fairly conduct the election or vote. In tabulating votes, a Teller or Inspector shall be entitled to rely in whole or in part on tabulations and analyses made by personnel of the Corporation, its counsel, its transfer agent, its registrar or such other organizations that are customarily employed to provide such services. The Teller, if any, may be authorized by the Presiding Officer to determine on a preliminary basis the legality and sufficiency of all votes cast and proxies delivered under the Corporation’s Charter, Bylaws and applicable law. The Presiding Officer may review all preliminary determinations made by the Teller hereunder, and in doing so, the Presiding Officer shall be entitled to exercise his or her sole judgment and discretion and he or she shall not be bound by any preliminary determinations made by the Teller. The Inspector, if any, shall hear and determine all challenges and questions arising in connection with the right to vote. Each report of a Teller or Inspector shall be in writing and signed by him or her or by a majority of them if there is more than one. The report of the majority shall be the report of the Tellers or Inspectors. The report of the Inspector or Inspectors on the number of shares represented at the meeting and the results of the voting shall be *prima facie* evidence thereof.

1.12 VOTING OF STOCK BY CERTAIN HOLDERS. Stock of the Corporation registered in the name of a corporation, limited liability company, partnership, joint venture, trust or other entity, if entitled to be voted, may be voted by the president or a vice president, managing member, manager, general partner or trustee thereof, as the case may be, or a proxy appointed by any of the foregoing individuals, unless some other person who has been appointed to vote such stock pursuant to a bylaw or a resolution of the governing body of such corporation or other entity or agreement of the partners of a partnership presents a certified copy of such bylaw, resolution or agreement, in which case such person may vote such stock. Any trustee or fiduciary, in such capacity, may vote stock registered in such trustee’s or fiduciary’s name, either in person or by proxy.

The Board of Directors may adopt by resolution a procedure by which a Stockholder may certify in writing to the Corporation that any shares of stock registered in the name of the Stockholder are held for the account of a specified person other than the

Stockholder. The resolution shall set forth the class of Stockholders who may make the certification, the purpose for which the certification may be made, the form of certification and the information to be contained in it; if the certification is with respect to a record date, the time after the record date within which the certification must be received by the Corporation; and any other provisions with respect to the procedure which the Board of Directors considers necessary or desirable. On receipt by the Secretary of the Corporation of such certification, the person specified in the certification shall be regarded as, for the purposes set forth in the certification, the Stockholder of record of the specified stock in place of the Stockholder who makes the certification.

1.13 INFORMAL ACTION BY STOCKHOLDERS. Any action required or permitted to be taken at a meeting of Stockholders may be taken without a meeting if a unanimous consent setting forth such action is given in writing or by electronic transmission by each Stockholder entitled to vote on the matter and filed with the minutes of proceedings of the Stockholders. Such written consents may be signed by different Stockholders on separate counterparts.

1.14 VOTING BY BALLOT. Voting on any question or in any election may be *viva voce* unless the Presiding Officer shall order that voting be by ballot.

1.15 PROXY ACCESS.

(a) Notwithstanding anything to the contrary in these Bylaws, whenever the Board of Directors solicits proxies with respect to the election of Directors at an annual meeting of Stockholders, subject to the provisions of this Section 1.15, the Corporation shall include in its proxy statement and other applicable filings pursuant to Section 14(a) of the Exchange Act (the "Company Proxy Materials"), in addition to any individuals nominated for election by or at the direction of the Board of Directors, the name, together with the Required Information (as defined below), of any individual nominated for election to the Board of Directors (each such individual being hereinafter referred to as a "Stockholder Nominee") by a Stockholder or group of no more than twenty (20) Stockholders that satisfies the requirements of this Section 1.15 (such individual or group, including as the context requires each member thereof, being hereinafter referred to as the "Eligible Stockholder"). For purposes of this Section 1.15, the "Required Information" that the Corporation shall include in the Company Proxy Materials is (A) the information provided to the Secretary of the Corporation concerning the Stockholder Nominee and the Eligible Stockholder that is required to be disclosed in the Company Proxy Materials by the rules and regulations promulgated under the Exchange Act and (B) if the Eligible Stockholder so elects, a written statement in support of the Stockholder Nominee's candidacy, not to exceed 500 words, delivered to the Secretary of the Corporation at the time the Notice of Proxy Access Nomination (as defined below) required by this Section 1.15 is provided (the "Statement"). Notwithstanding anything to the contrary contained in this Section 1.15, the Corporation may omit from the Company Proxy Materials any information or Statement (or portion thereof) that the Board of Directors, in its sole discretion, determines is materially false or misleading, omits to state any material fact necessary in order to make such information or Statement, in light of the circumstances under which it was provided or made, not misleading, or would violate any applicable law or regulation.

(b) To be eligible to require the Company to include a Stockholder Nominee in the Company Proxy Materials pursuant to this Section 1.15, an Eligible Stockholder must have Owned (as defined below) at least three percent (3%) or more of the shares of common stock, par value \$.01 per share (the "Common Stock") of the Corporation outstanding from time to time (the "Required Shares") continuously for at least three (3) years (the "Minimum Holding Period") as of both the date the Notice of Proxy Access Nomination is delivered or mailed to and received by the Secretary of the Corporation in accordance with this Section 1.15 and the close of business on the record date for determining the stockholders entitled to vote at the annual meeting of Stockholders, and must continuously Own the Required Shares through the date of such annual meeting (and any postponement or adjournment thereof). For purposes of this Section 1.15, an Eligible Stockholder shall be deemed to "Own" only those outstanding shares of Common Stock as to which the Eligible Stockholder possesses both (i) the full voting and investment rights pertaining to the shares and (ii) the full economic interest in (including the opportunity for profit from and risk of loss on) such shares; provided that the number of shares calculated in accordance with clauses (i) and (ii) shall not include any shares (A) sold by such Eligible Stockholder or any of its Affiliates (as defined below) in any transaction that has not been settled or closed, including short sales, (B) borrowed by such Eligible Stockholder or any of its Affiliates for any purpose or purchased by such Eligible Stockholder or any of its Affiliates pursuant to an agreement to resell, (C) that are subject to any option, warrant, forward contract, swap, contract of sale, other derivative or similar instrument, agreement, arrangement or understanding entered into by such Stockholder or any of its Affiliates, whether any such instrument, agreement, arrangement or understanding is to be settled with shares or with cash based on the notional amount or value of shares of outstanding Common Stock, in any such case which instrument, agreement, arrangement or understanding has, or is intended to have, the purpose or effect of (1) reducing in any manner, to any extent or at any time in the future, such Stockholder's or its Affiliate's full right to vote or direct the voting of any such shares and/or (2) hedging, offsetting or altering to any degree any gain or loss arising from the full economic ownership of such shares by such Stockholder or its Affiliate or (D) for which the Stockholder has transferred the right to vote the shares other than by means of a proxy, power of attorney or other instrument or arrangement that is unconditionally revocable at any time by the Stockholder and that expressly directs the proxy holder to vote at the direction of the Stockholder. In addition, an Eligible Stockholder shall be deemed to "Own" shares of Common Stock held in the name of a nominee or other intermediary so long as the Stockholder retains the full right to instruct how the shares are voted with respect to the election of Directors and possesses the full economic interest in the shares of Common Stock. An Eligible Stockholder's Ownership of shares of Common Stock shall be deemed to continue during any period in which the Stockholder has loaned such shares provided that the Eligible Stockholder has the power to recall such loaned shares on three Business Days' notice and has in fact recalled such loaned shares as of the time the Notice of Proxy Access Nomination is provided and through the date of the annual meeting of Stockholders. For purposes of this Section 1.15, the terms "Owned," "Owning" and other variations of the word "Own" shall have correlative meanings. Whether outstanding shares of Common Stock are "Owned" for these purposes shall be determined by the Board of Directors, in its sole discretion. In addition, the term "Affiliate" or "Affiliates" shall have the meaning ascribed thereto under the Exchange Act.

(c) To be eligible to require the Company to include a Stockholder Nominee in the Company Proxy Materials pursuant to this Section 1.15, an Eligible Stockholder must

provide to the Secretary of the Corporation, in proper form and within the times specified below, (i) a written notice expressly electing to have such Stockholder Nominee included in the Company Proxy Materials pursuant to this Section 1.15 (a “Notice of Proxy Access Nomination”) and (ii) any updates or supplements to such Notice of Proxy Access Nomination. To be timely, the Notice of Proxy Access Nomination must be delivered or mailed to and received by the Secretary of the Corporation at the principal executive office of the Corporation not earlier than the 150th day nor later than 5:00 p.m., Eastern Time, on the 120th day prior to the Notice Anniversary Date; provided, however, that in the event that the date of the annual meeting of Stockholders is advanced or delayed by more than thirty (30) days from the first anniversary of the date of the preceding year’s annual meeting, the Notice of Proxy Access Nomination to be timely must be so delivered or mailed to and received by the Secretary not earlier than the 150th day prior to the date of such annual meeting and not later than 5:00 p.m., Eastern Time, on the later of the 120th day prior to the date of such annual meeting, as originally convened, or the tenth (10th) day following the day on which public announcement of the date of such annual meeting is first made. The public announcement of a postponement or an adjournment of an annual meeting shall not commence a new time for the giving of a Notice of Proxy Access Nomination as described above.

(d) To be in proper form for purposes of this Section 1.15, the Notice of Proxy Access Nomination delivered or mailed to and received by the Secretary shall include the following information:

(i) one or more written statements from the record holder of the Required Shares (or from each intermediary through which the Required Shares are or have been held during the Minimum Holding Period and, if applicable, each participant in the Depository Trust Company (“DTC”) or affiliate of a DTC participant through which the Required Shares are or have been held by such intermediary during the Minimum Holding Period if the intermediary is not a DTC participant or affiliate of a DTC participant) verifying that, as of a date within seven (7) Business Days prior to the date the Notice of Proxy Access Nomination is delivered to or mailed to and received by the Secretary of the Corporation, the Eligible Stockholder Owns, and has Owned continuously for the Minimum Holding Period, the Required Shares, and the Eligible Stockholder’s agreement to provide (A) within five (5) Business Days after the record date for the annual meeting of Stockholders, written statements from the record holder or intermediaries between the record holder and the Eligible Stockholder verifying the Eligible Stockholder’s continuous Ownership of the Required Shares through the close of business on the record date, together with a written statement by the Eligible Stockholder that such Eligible Stockholder will continue to Own the Required Shares through the date of such annual meeting (and any postponement or adjournment thereof), and (B) the updates and supplements to the Notice of Proxy Access Nomination at the times and in the forms required by this Section 1.15;

(ii) a copy of the Schedule 14N filed or to be filed with the Securities and Exchange Commission as required by Rule 14a-18 under the Exchange Act;

(iii) information that is the same as would be required to be set forth in a stockholder’s notice of nomination pursuant to Section 2.04(c) of Article II of these Bylaws, including the written consent of the Stockholder Nominee to being named in the Company Proxy Materials as a nominee and to serving as a Director if elected;

(iv) the undertaking and questionnaire required by Section 2.04(d) of Article II of these Bylaws;

(v) the written agreement of the Stockholder Nominee, upon such Stockholder Nominee's election, to make such acknowledgments, enter into such agreements and provide such information as the Board of Directors requires of all Directors at such time, including, without limitation, agreeing to be bound by the Corporation's code of conduct, insider trading policy and other similar policies and procedures;

(vi) a representation that the Eligible Stockholder (A) acquired the Required Shares in the ordinary course of business and not with the intent to change or influence control of the Corporation, and that neither the Eligible Stockholder nor any Stockholder Nominee being nominated thereby presently has such intent, (B) has not nominated and will not nominate for election to the Board of Directors at the annual meeting of Stockholders (or any postponement or adjournment thereof) any individual other than the Stockholder Nominee(s) included in the Company Proxy Materials pursuant to this Section 1.15, (C) has not engaged and will not engage in, and has not been and will not be a "participant" in another person's, "solicitation," each within the meaning of Rule 14a-1(l) under the Exchange Act, in support of the election of any individual as a Director at the annual meeting (or any postponement or adjournment thereof) other than such Stockholder Nominee(s) or a nominee of the Board of Directors, (D) has complied, and will comply, with all applicable laws and regulations applicable to solicitations and the use, if any, of soliciting material in connection with the annual meeting, including, without limitation, Rule 14a-9 under the Exchange Act, (E) will not distribute to any Stockholder any form of proxy for the annual meeting other than the form distributed by the Corporation and (F) has not provided and will not provide facts, statements or information in its communications with the Corporation and the Stockholders that were not or will not be true, correct and complete in all material respects or which omitted or will omit to state a material fact necessary in order to make such facts, statements or information, in light of the circumstances under which they were or will be provided, not misleading;

(vii) a written undertaking that the Eligible Stockholder (A) assumes all liability stemming from any legal or regulatory violation arising out of communications with the Stockholders by the Eligible Stockholder, its Affiliates and associates or their respective agents or representatives, either before or after providing a Notice of Proxy Access Nomination pursuant to this Section 1.15, or out of the facts, statements or information that the Eligible Stockholder or its Stockholder Nominee(s) provided to the Corporation pursuant to this Section 1.15 or otherwise in connection with the inclusion of such Stockholder Nominee(s) in the Company Proxy Materials pursuant to this Section 1.15, and (B) indemnifies and holds harmless the Corporation and each of its Directors, officers and employees against any liability, loss or damages in connection with any threatened or pending action, suit or proceeding, whether legal, administrative or investigative, against the Corporation or any of its Directors, officers or employees arising out of any nomination of a Stockholder Nominee or inclusion of such Stockholder Nominee in the Company Proxy Materials pursuant to this Section 1.15;

(viii) a written description of any compensatory, payment or other agreement, arrangement or understanding with any person or entity other than the Corporation under which the Stockholder Nominee is receiving or will receive compensation or payments

directly related to service on the Board of Directors, together with a copy of any such agreement, arrangement or understanding if written; and

(ix) in the case of the nomination by a group, the designation by all group members of one group member that is authorized to act on behalf of all group members with respect to matters relating to the nomination, including withdrawal of the nomination.

The Corporation may also require each Stockholder Nominee and the Eligible Stockholder to furnish such other information (A) as may reasonably be required by the Corporation to determine the eligibility of such Stockholder Nominee to serve as an Independent Director (as defined in Section 2.08 of Article II of these Bylaws), (B) that could be material to a Stockholder's understanding of the independence or lack of independence of such Stockholder Nominee or (C) as may reasonably be required by the Corporation to determine that the Eligible Stockholder meets the criteria for qualification as an Eligible Stockholder.

(e) To be eligible to require the Company to include a Stockholder Nominee in the Company Proxy Materials pursuant to this Section 1.15, an Eligible Stockholder must further update and supplement the Notice of Proxy Access Nomination, if necessary, so that the information provided or required to be provided in such Notice of Proxy Access Information pursuant to this Section 1.15 shall be true and correct as of the record date for the annual meeting of Stockholders and as of the date that is ten (10) Business Days prior to such annual meeting or any postponement or adjournment thereof, and such update and supplement (or a written notice stating that there is no such update or supplement) shall be delivered or mailed to and received by the Secretary at the principal executive office of the Corporation not later than 5:00 p.m., Eastern Time, on the fifth (5th) Business Day after the record date for the meeting (in the case of the update and supplement required to be made as of the record date) and not later than 5:00 p.m., Eastern Time, on the eighth (8th) Business Day prior to the date of the meeting, if practicable, or, if not practicable, on the first practicable date prior to the meeting or any postponement or adjournment thereof (in the case of the update and supplement required to be made as of ten (10) Business Days prior to the meeting or any postponement or adjournment thereof).

(f) In the event that any facts, statements or information provided by the Eligible Stockholder or a Stockholder Nominee to the Corporation or the Stockholders ceases to be true, correct and complete in all material respects or omits a material fact necessary to make such facts, statements or information, in light of the circumstances under which they were provided, not misleading, the Eligible Stockholder or Stockholder Nominee, as the case may be, shall promptly notify the Secretary of the Corporation of any defect in such previously provided facts, statements or information and of the facts, statements or information required to correct any such defect.

(g) Whenever an Eligible Stockholder consists of a group of more than one Stockholder, each provision in this Section 1.15 that requires the Eligible Stockholder to provide any written statements, representations, undertakings, agreements or other instruments or to comply with any other conditions shall be deemed to require each Stockholder that is a member of such group to provide such statements, representations, undertakings, agreements or other instruments and to meet such other conditions (which, if applicable, shall apply with respect to

the portion of the Required Shares Owned by such Stockholder). When an Eligible Stockholder is comprised of a group, a violation of any provision of these Bylaws by any member of the group shall be deemed a violation by the entire group. No person may be a member of more than one group of persons constituting an Eligible Stockholder with respect to any annual meeting of Stockholders. In determining the aggregate number of Stockholders in a group, two or more funds that are part of the same family of funds under common management and investment control (a "Qualifying Fund Family") shall be treated as one Stockholder. Not later than the deadline for delivery of the Notice of Proxy Access Nomination pursuant to this Section 1.15, a Qualifying Fund Family whose stock Ownership is counted for purposes of determining whether a Stockholder or group of Stockholders qualifies as an Eligible Stockholder shall provide to the Secretary of the Corporation such documentation as is reasonably satisfactory to the Board of Directors, in its sole discretion, that demonstrates that the funds comprising the Qualifying Fund Family satisfy the definition thereof.

(h) The maximum number of Stockholder Nominees nominated by all Eligible Stockholders and entitled to be included in the Company Proxy Materials with respect to an annual meeting of Stockholders shall be the greater of (i) 20% of the number of Directors up for election as of the last day on which a Notice of Proxy Access Nomination may be timely delivered pursuant to and in accordance with this Section 1.15 (the "Final Proxy Access Nomination Date") or, if such percentage is not a whole number, the closest whole number below such percentage or (ii) two (2); provided that the maximum number of Stockholder Nominees entitled to be included in the Company Proxy Materials with respect to a forthcoming annual meeting of Stockholders shall be reduced by the number of individuals who were elected as Directors at the immediately preceding or second preceding annual meeting of Stockholders after inclusion in the Company Proxy Materials pursuant to this Section 1.15 and whom the Board of Directors nominates for re-election at such forthcoming annual meeting of Stockholders. In the event that one or more vacancies for any reason occur on the Board of Directors after the Final Proxy Access Nomination Date but before the date of the annual meeting of Stockholders and the Board of Directors elects to reduce the size of the Board of Directors in connection therewith, the maximum number of Stockholder Nominees eligible for inclusion in the Company Proxy Materials pursuant to this Section 1.15 shall be calculated based on the number of Directors serving as so reduced. Any individual nominated by an Eligible Stockholder for inclusion in the Company Proxy Materials pursuant to this Section 1.15 whose nomination is subsequently withdrawn or whom the Board of Directors decides to nominate for election to the Board of Directors shall be counted as one of the Stockholder Nominees for purposes of determining when the maximum number of Stockholder Nominees eligible for inclusion in the Company Proxy Materials pursuant to this Section 1.15 has been reached. Any Eligible Stockholder submitting more than one Stockholder Nominee for inclusion in the Company Proxy Materials pursuant to this Section 1.15 shall rank such Stockholder Nominees based on the order that the Eligible Stockholder desires such Stockholder Nominees be selected for inclusion in the Company Proxy Materials in the event that the total number of Stockholder Nominees submitted by Eligible Stockholders pursuant to this Section 1.15 exceeds the maximum number of Stockholder Nominees eligible for inclusion in the Company Proxy Materials pursuant to this Section 1.15(h). In the event the number of Stockholder Nominees submitted by Eligible Stockholders pursuant to this Section 1.15 exceeds the maximum number of nominees eligible for inclusion in the Company Proxy Materials pursuant to this Section 1.15(h), the highest-ranking Stockholder Nominee from each Eligible Stockholder pursuant to

the preceding sentence shall be selected for inclusion in the Company Proxy Materials until the maximum number is reached, proceeding in order of the number of shares of Common Stock (largest to smallest) disclosed as Owned by each Eligible Stockholder in the Notice of Proxy Access Nomination submitted to the Secretary of the Corporation. If the maximum number is not reached after the highest-ranking Stockholder Nominee from each Eligible Stockholder has been selected, this selection process shall continue as many times as necessary, following the same order each time, until the maximum number is reached. The Stockholder Nominees so selected in accordance with this Section 1.15(h) shall be the only Stockholder Nominees entitled to be included in the Company Proxy Materials and, following such selection, if the Stockholder Nominees so selected are not included in the Company Proxy Materials or are not submitted for election for any reason (other than the failure of the Corporation to comply with this Section 1.15), no other Stockholder Nominees shall be included in the Company Proxy Materials pursuant to this Section 1.15.

(i) The Corporation shall not be required to include, pursuant to this Section 1.15, a Stockholder Nominee in the Company Proxy Materials for any annual meeting of Stockholders (i) for which meeting the Secretary of the Corporation receives a notice that the Eligible Stockholder or any other Stockholder has nominated one or more individuals for election to the Board of Directors pursuant to the advance notice requirements for stockholder nominees for Director set forth in Section 2.04 of Article II of these Bylaws, (ii) if the Eligible Stockholder who has nominated such Stockholder Nominee has engaged in or is currently engaged in, or has been or is a “participant” in another person’s, “solicitation,” each within the meaning of Rule 14a-1(l) under the Exchange Act, in support of the election of any individual as a Director at the annual meeting other than its Stockholder Nominee(s) or a nominee of the Board of Directors, (iii) if such Stockholder Nominee would not qualify as an Independent Director, (iv) if such Stockholder Nominee is or becomes a party to any agreement by which the Stockholder Nominee agrees or commits to vote a certain way on certain matters, (v) if the election of such Stockholder Nominee as a Director would cause the Corporation to fail to comply with these Bylaws, the Charter, the rules and listing standards of any national securities exchange on which any securities of the Corporation are listed or over-the-counter market on which any securities of the Corporation are traded, or any applicable state or federal law, rule or regulation, (vi) if such Stockholder Nominee is or has been, within the past three (3) years, an officer or director of a competitor, as defined in Section 8 of the Clayton Antitrust Act of 1914, (vii) if such Stockholder Nominee is a defendant in or named subject of a pending criminal proceeding (excluding traffic violations and other minor offenses) or has been convicted or has pleaded *nolo contendere* in such a criminal proceeding within the past ten (10) years, (viii) if such Stockholder Nominee is subject to any order of the type specified in Rule 506(d) of Regulation D promulgated under the Securities Act of 1933, as amended, (ix) if the Eligible Stockholder who has nominated such Stockholder Nominee or such Stockholder Nominee provides any facts, statements or information to the Corporation or the Stockholders required or requested pursuant to this Section 1.15 that is not true, correct and complete in all material respects or that omits a material fact necessary to make such facts, statements or information, in light of the circumstances in which they were provided, not misleading, or that otherwise contravenes any of the agreements, representations or undertakings made by such Eligible Stockholder or Stockholder Nominee pursuant to this Section 1.15 or (x) if the Eligible Stockholder who has nominated such Stockholder Nominee or such Stockholder Nominee fails

to comply with any of its obligations pursuant to this Section 1.15, in each instance as determined by the Board of Directors, in its sole discretion.

(j) Notwithstanding anything to the contrary set forth herein, the Board of Directors or the Presiding Officer shall declare a nomination by an Eligible Stockholder to be invalid, and such nomination shall be disregarded notwithstanding that proxies in respect of such vote may have been received by the Corporation, if (i) the Stockholder Nominee(s) and/or the applicable Eligible Stockholder shall have failed to comply with its or their obligations under this Section 1.15, as determined by the Board of Directors or the Presiding Officer, or (ii) the Eligible Stockholder, or a qualified representative thereof, does not appear at the annual meeting of Stockholders to present the nomination of the Stockholder Nominee(s) included in the Company Proxy Materials pursuant to this Section 1.15. For purposes of this Section 1.15(j), to be considered a qualified representative of a Stockholder, a person must be a duly authorized officer, manager or partner of such Stockholder or must be authorized by a writing executed by such Stockholder or an electronic transmission delivered by such Stockholder to act for such Stockholder as its proxy at the annual meeting of Stockholders and such person must produce such writing or electronic transmission, or a reliable reproduction thereof, at such annual meeting.

(k) Any Stockholder Nominee who is included in the Company Proxy Materials for an annual meeting of Stockholders but withdraws from or becomes ineligible or unavailable for election to the Board of Directors at such annual meeting will be ineligible for inclusion in the Company Proxy Materials as a Stockholder Nominee pursuant to this Section 1.15 for the next two annual meetings of Stockholders. For the avoidance of doubt, this Section 1.15(k) shall not prevent any Stockholder from nominating any individual to the Board of Directors pursuant to and in accordance with Section 2.04 of Article II of these Bylaws.

(l) This Section 1.15 provides the exclusive method for a Stockholder to require the Corporation to include nominee(s) for election to the Board of Directors in the Company Proxy Materials.

ARTICLE II

DIRECTORS

2.01 **GENERAL POWERS.** The business and affairs of the Corporation shall be managed under the direction of its Board of Directors. All powers of the Corporation may be exercised by or under the authority of the Board of Directors, except as conferred on or reserved to the Stockholders by statute, the Charter or these Bylaws.

2.02 **OUTSIDE ACTIVITIES.** The Board of Directors and its members are required to spend only such time managing the business and affairs of the Corporation as is necessary to carry out their duties in accordance with Section 2-405.1 of the Maryland General Corporation Law, as amended from time to time (the "MGCL"). Except as set forth in the Charter or by separate agreement, arrangement or policy of the Corporation, the Board of Directors, each Director, and the agents, officers and employees of the Corporation or of the Board of Directors or of any Director may engage with or for others in business activities of the types conducted by

the Corporation. Except as set forth in the Charter or by separate agreement, arrangement or policy of the Corporation, none of such individuals has an obligation to notify or present to the Corporation or each other any investment opportunity that may come to such person's attention even though such investment might be within the scope of the Corporation's purposes or various investment objectives. Any interest that a Director has in any investment opportunity presented to the Corporation must be disclosed by such Director to the Board of Directors (and, if voting thereon, to the Stockholders or to any committee of the Board of Directors) within ten (10) days after the later of the date upon which such Director becomes aware of such interest or the date upon which such Director becomes aware that the Corporation is considering such investment opportunity. If such interest comes to the interested Director's attention after a vote to take such investment opportunity, the voting body shall be notified of such interest and shall reconsider such investment opportunity if not already consummated or implemented.

2.03 NUMBER AND TENURE. The number of Directors of the Corporation shall be that number set forth in the Charter or such other number as may be designated from time to time by resolution of a majority of the entire Board of Directors; provided, however, that the number of Directors shall be not less than five (5) nor greater than fifteen (15) and further provided that the tenure of office of a Director shall not be affected by any decrease in the number of Directors. The minimum or maximum number of Directors provided in this Section 2.03 may be changed only by amendment to these Bylaws or by amendment to the Charter, provided that any such amendment shall be both duly adopted by the affirmative vote of a majority of the outstanding Shares entitled to vote and deemed advisable or approved by the Board of Directors. Each Director shall serve for the term set forth in the Charter and until his or her successor is elected and qualifies.

2.04 NOMINATION OF DIRECTORS.

(a) Nominations of individuals for election to the Board of Directors may be made at an annual meeting of Stockholders: (i) pursuant to the Corporation's notice of meeting, (ii) by or at the direction of the Board of Directors or (iii) by any Stockholder who was a Stockholder of record of a class of Stock entitled to vote at the meeting in the election of each individual so nominated (A) at the time of giving of notice provided for in this Section 2.04, (B) as of the record date for the annual meeting in question and (C) at the time of such annual meeting (and any postponement or adjournment thereof), and who complied with this Section 2.04. Any Stockholder who seeks to make such a nomination must be present in person or by proxy at the annual meeting (and any postponement or adjournment thereof). Only individuals nominated in accordance with the procedures set forth in this Section 2.04 shall be eligible for election as Directors at an annual meeting of Stockholders.

(b) For any nomination to be properly brought before an annual meeting by a Stockholder pursuant to clause (iii) of paragraph (a) of this Section 2.04, the Stockholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a Stockholder's notice shall set forth all information required under this Section 2.04 and be delivered to the Secretary at the principal executive office of the Corporation not earlier than the 150th day nor later than 5:00 p.m., Eastern Time, on the 120th day prior to the Notice Anniversary Date; provided, however, that in the event that the date of the annual meeting is advanced or delayed by more than thirty (30) days from the first anniversary of the date of the preceding

year's annual meeting, notice by the Stockholder to be timely must be so delivered not earlier than the 150th day prior to the date of such annual meeting and not later than 5:00 p.m., Eastern Time, on the later of the 120th day prior to the date of such annual meeting or the tenth (10th) day following the day on which public announcement of the date of such annual meeting is first made. The public announcement of a postponement or an adjournment of an annual meeting shall not commence a new time period for the giving of a Stockholder's notice as described above.

(c) A Stockholder's notice to the Secretary shall set forth:

(i) as to each individual whom the Stockholder proposes to nominate for election or reelection as a Director (each, a "Proposed Nominee"), all information relating to the Proposed Nominee that would be required to be disclosed in connection with the solicitation of proxies for the election of the Proposed Nominee as a Director in an election contest (even if an election contest is not involved), or would otherwise be required in connection with such solicitation, in each case pursuant to Regulation 14A (or any successor provision) under the Exchange Act and the rules thereunder (including the Proposed Nominee's written consent to being named in the proxy statement as a nominee and to serving as a Director if elected);

(ii) as to the Stockholder giving the notice, any Proposed Nominee and any Stockholder Associated Person,

(A) the class, series and number of Company Securities, if any, which are owned (beneficially or of record) by such Stockholder, Proposed Nominee or Stockholder Associated Person, the date on which each such Company Security was acquired and the investment intent of such acquisition, and any short interest (including any opportunity to profit or share in any benefit from any decrease in the price of such stock or other security) in any Company Securities of any such person,

(B) the nominee holder for, and number of, any Company Securities owned beneficially but not of record by such Stockholder, Proposed Nominee or Stockholder Associated Person,

(C) whether and the extent to which such Stockholder, Proposed Nominee or Stockholder Associated Person, directly or indirectly (through brokers, nominees or otherwise), is subject to or during the last six months has engaged in any hedging, derivative or other transaction or series of transactions or entered into any other agreement, arrangement or understanding (including any short interest, any borrowing or lending of securities or any proxy or voting agreement), the effect or intent of which is to (I) manage risk or benefit of changes in the price of (x) Company Securities or (y) any security of any entity that was a Peer Group Company for such stockholder, Proposed Nominee or Stockholder Associated Person or (II) increase or decrease the voting power of such Stockholder, Proposed Nominee or Stockholder Associated Person in the Corporation or any affiliate thereof (or, as applicable, in any Peer Group Company) disproportionately to such person's economic interest in the Company Securities (or, as applicable, in any Peer Group Company); and

(D) any substantial interest, direct or indirect (including, without limitation, any existing or prospective commercial, business or contractual relationship with the Corporation), by security holdings or otherwise, of such Stockholder, Proposed Nominee or Stockholder Associated Person, in the Corporation or any affiliate thereof, other than an interest arising from the ownership of Company Securities where such stockholder, Proposed Nominee or Stockholder Associated Person receives no extra or special benefit not shared on a *pro rata* basis by all other holders of the same class or series;

(iii) as to the Stockholder giving the notice, any Stockholder Associated Person with an interest or ownership referred to in clause (ii) of this paragraph (c) of this Section 2.04 and any Proposed Nominee,

(A) the name and address of such Stockholder, as they appear on the Corporation's stock ledger, and the current name and business address, if different, of each such Stockholder Associated Person and any Proposed Nominee and

(B) the investment strategy or objective, if any, of such Stockholder and each such Stockholder Associated Person who is not an individual and a copy of the prospectus, offering memorandum or similar document, if any, provided to investors or potential investors in such stockholder and each such Stockholder Associated Person;

(iv) the name and address of any person who contacted or was contacted by the Stockholder giving the notice or any Stockholder Associated Person about the Proposed Nominee; and

(v) to the extent known by the Stockholder giving the notice, the name and address of any other Stockholder supporting the nominee for election or reelection as a Director.

(d) Such Stockholder's notice shall, with respect to any Proposed Nominee, be accompanied by a written undertaking executed by the Proposed Nominee (i) that such Proposed Nominee (a) is not, and will not become, a party to any agreement, arrangement or understanding with any person or entity other than the Corporation in connection with service or action as a Director, including, without limitation, voting on any matter, that has not been disclosed to the Corporation and (b) will serve as a Director if elected; and (ii) attaching a completed Proposed Nominee questionnaire (which questionnaire shall be provided by the Corporation, upon request, to the Stockholder providing the notice and shall include all information relating to the Proposed Nominee that would be required to be disclosed in connection with the solicitation of proxies for the election of the Proposed Nominee as a Director in an election contest (even if an election contest is not involved), or would otherwise be required in connection with such solicitation, in each case pursuant to Regulation 14A (or any successor provision) under the Exchange Act and the rules thereunder, or would be required pursuant to the rules of any national securities exchange on which any securities of the Corporation are listed or over-the-counter market on which any securities of the Corporation are traded).

(e) Notwithstanding anything in this Section 2.04 to the contrary, in the event that the number of Directors to be elected to the Board of Directors is increased, and there is no public announcement of such action at least 130 days prior to the Notice Anniversary Date, a Stockholder's notice required by this Section 2.04 shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive office of the Corporation not later than 5:00 p.m., Eastern Time, on the tenth (10th) day following the day on which such public announcement is first made by the Corporation.

(f) Nominations of individuals for election to the Board of Directors may be made at a special meeting of Stockholders at which Directors are to be elected only (i) by or at the direction of the Board of Directors, (ii) by a Stockholder that has requested that a special meeting be called for the purpose of electing Directors in compliance with Section 1.04 of these Bylaws and that has supplied the information required by Section 1.04 about each individual whom the Stockholder proposes to nominate for election as a Director or (iii) provided that the special meeting has been called by the Chairman of the Board of Directors, the Chief Executive Officer, the President or the Board of Directors in accordance with Section 1.04 of these Bylaws for the purpose of electing Directors, by any Stockholder of the Corporation who is a Stockholder of record of a class of Stock entitled to vote in the election of Directors (A) at the time of giving of notice provided for in this Section 2.04, (B) as of the record date for the special meeting in question and (C) at the time of such special meeting (and any postponement or adjournment thereof), and who complied with this Section 2.04. Any Stockholder who seeks to make such a nomination must be present in person or by proxy at the special meeting. In the event the Corporation calls a special meeting of Stockholders for the purpose of electing one or more individuals to the Board of Directors, any such Stockholder may nominate an individual or individuals (as the case may be) for election as a Director as specified in the Corporation's notice of meeting, if the Stockholder's notice containing the information required by paragraphs (b) and (c) of this Section 2.04 shall be delivered to the Secretary at the principal executive office of the Corporation not earlier than the 120th day prior to such special meeting and not later than 5:00 p.m., Eastern Time, on the later of the 90th day prior to such special meeting or the tenth (10th) day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting. The public announcement of a postponement or adjournment of a special meeting shall not commence a new time period for the giving of a Stockholder's notice as described above.

(g) If information submitted pursuant to this Section 2.04 by any Stockholder proposing a nominee for election as a Director at a meeting of Stockholders shall be inaccurate in any material respect, such information may be deemed not to have been provided in accordance with this Section 2.04. Any such Stockholder shall notify the Corporation of any inaccuracy or change (within two Business Days of becoming aware of such inaccuracy or change) in any such information. Upon written request by the Secretary or the Board of Directors, any such Stockholder shall provide, within five (5) Business Days after delivery of such request (or such other period as may be specified in such request), (i) written verification, satisfactory, in the discretion of the Board of Directors or any authorized officer of the Corporation, to demonstrate the accuracy of any information submitted by the Stockholder pursuant to this Section 2.04, and (ii) a written update of any information (including, if requested by the Corporation, written confirmation by such Stockholder that it continues to intend to bring such nomination before the

meeting) submitted by the Stockholder pursuant to this Section 2.04 as of an earlier date. If a Stockholder fails to provide such written verification or written update within such period, the information as to which written verification or a written update was requested may be deemed not to have been provided in accordance with this Section 2.04.

(h) Only such individuals who are nominated in accordance with this Section 2.04 shall be eligible for election by Stockholders as Directors. The Presiding Officer of the meeting shall have the power to determine whether a nomination was made in accordance with this Section 2.04.

(i) Notwithstanding the foregoing provisions of this Section 2.04, a Stockholder shall also comply with all applicable requirements of state law and of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 2.04. Nothing in this Section 2.04 shall be deemed to affect any right of a Stockholder to request inclusion of a proposal in, nor the right of the Corporation to omit a proposal from, any proxy statement filed by the Corporation with the Securities and Exchange Commission pursuant to Rule 14a-8 (or any successor provision) under the Exchange Act. Nothing in this Section 2.04 shall require disclosure of revocable proxies received by the Stockholder or Stockholder Associated Person pursuant to a solicitation of proxies after the filing of an effective Schedule 14A by such Stockholder or Stockholder Associated Person under Section 14(a) of the Exchange Act.

2.05 ANNUAL AND REGULAR MEETINGS. An annual meeting of the Board of Directors shall be held immediately after and at the same place as the annual meeting of Stockholders and no notice other than this Bylaw shall be necessary for the calling of such meeting. In the event such meeting is not so held, the meeting may be held at such time and place as shall be specified in a notice given as hereinafter provided for special meetings of the Board of Directors. The Board of Directors may provide, by resolution, the time and place of regular meetings of the Board of Directors without other notice than such resolution.

2.06 SPECIAL MEETINGS. Special meetings of the Board of Directors may be called by or at the request of the Chairman, the Chief Executive Officer, the President or a majority of the Directors then in office. The person or persons authorized to call special meetings of the Board of Directors may fix the time and place of any special meeting of the Board of Directors called by them. The Board of Directors may provide, by resolution, the time and place of special meetings of the Board of Directors without other notice than such resolution.

2.07 NOTICE. Notice of any special meeting of the Board of Directors shall be delivered personally or by telephone, electronic mail, facsimile transmission, United States mail or courier to each Director at his or her business or residence address. Notice by personal delivery, telephone, electronic mail or facsimile transmission shall be given at least one (1) Business Day (or, if given on a day other than a Business Day, at least twenty-four (24) hours) prior to the meeting. Notice by United States mail shall be given at least three (3) days prior to the meeting. Notice by courier shall be given at least two (2) days prior to the meeting. Telephone notice shall be deemed to be given when the Director or his or her agent is personally given such notice in a telephone call to which the Director or his or her agent is a party. Electronic mail notice shall be deemed to be given upon transmission of the message to the

electronic mail address given to the Corporation by the Director. Facsimile transmission notice shall be deemed to be given upon completion of the transmission of the message to the number given to the Corporation by the Director and receipt of a completed answer-back indicating receipt. Notice by United States mail shall be deemed to be given when deposited in the United States mail properly addressed, with postage thereon prepaid. Notice by courier shall be deemed to be given when deposited with or delivered to a courier properly addressed. Neither the business to be transacted at, nor the purpose of, any annual, regular or special meeting of the Board of Directors need be stated in the notice, unless specifically required by statute or these Bylaws.

2.08 QUORUM. A majority of the Directors then in office shall constitute a quorum for the transaction of business at any meeting of the Board of Directors, provided, however, that a quorum for the transaction of business with respect to any matter in which any Director (or affiliate of such Director) who is not an Independent Director (as defined by the rules of the New York Stock Exchange (the “NYSE”), as such rules shall be amended from time to time) has any interest shall consist of a majority of the Directors that includes a majority of the Independent Directors then in office; and provided further that if, pursuant to applicable law, the Charter or these Bylaws, the vote of a majority or other percentage of a specified group of Directors is required for action, a quorum must also include a majority or such other percentage of such group. If less than a majority of such Directors is present at such meeting, a majority of the Directors present may adjourn the meeting from time to time without further notice.

The Directors present at a meeting which has been duly called and at which a quorum has been established may continue to transact business until adjournment, notwithstanding the withdrawal from the meeting of enough Directors to leave fewer than required to establish a quorum.

2.09 VOTING. The action of a majority of the Directors present at a meeting at which a quorum is present shall be the action of the Board of Directors, unless the concurrence of a greater proportion is required for such action by applicable law, the Charter or these Bylaws; provided, however, that no act relating to any matter in which a Director (or affiliate of such Director) who is not an Independent Director has any interest shall be the act of the Board of Directors unless such act has been approved by a majority of the Board of Directors that includes a majority of the Independent Directors. If enough Directors have withdrawn from a meeting to leave fewer than required to establish a quorum, but the meeting is not adjourned, the action of the majority of that number of Directors necessary to constitute a quorum at such meeting shall be the action of the Board of Directors, unless the concurrence of a greater proportion is required for such action by applicable law, the Charter or these Bylaws.

2.10 CONDUCT OF MEETINGS. At each meeting of the Board of Directors, the Chairman or, in the absence of the Chairman, a Director who has previously been designated as Lead Independent Director or, in the absence of the Chairman and such Director, a Director chosen by a majority of the Directors present, shall act as chairman of the meeting. The Secretary of the Corporation or, in his or her absence, an Assistant Secretary of the Corporation shall act as Secretary of the meeting or, in the absence of the Secretary and all Assistant Secretaries, the chairman of the meeting shall designate any individual to act as secretary of the meeting. Directors may participate in a meeting by conference telephone or other

communications equipment if all persons participating in the meeting can hear each other at the same time. Participation in a meeting by these means constitute presence in person at such meeting for all purposes of these Bylaws.

2.11 RESIGNATIONS. Any Director may resign from the Board of Directors or any committee thereof in the manner provided in the Charter.

2.12 REMOVAL OF DIRECTORS. Any Director may be removed in the manner provided in the Charter.

2.13 VACANCIES. Vacancies on the Board of Directors shall be filled in the manner provided in the Charter.

2.14 CONSENT BY DIRECTORS WITHOUT A MEETING. Any action required or permitted to be taken at any meeting of the Board of Directors may be taken without a meeting, if a consent in writing or by electronic transmission to such action is given by each Director and is filed with the minutes of proceedings of the Board of Directors. Written consents may be signed by different Directors on separate counterparts.

2.15 COMPENSATION. Directors shall not receive any stated salary for their services as directors but, by resolution of the Board of Directors, may receive compensation per year and/or per meeting and/or per visit to real property or other facilities owned or leased by the Corporation and for any service or activity they performed or engaged in as Directors. Directors may be reimbursed for expenses of attendance, if any, at each annual, regular or special meeting of the Board of Directors or of any committee thereof and for their expenses, if any, in connection with each property visit and any other service or activity they perform or engage in as Directors; but nothing herein contained shall be construed to preclude any Directors from serving the Corporation in any other capacity and receiving compensation therefor.

2.16 LEAD INDEPENDENT DIRECTOR. From time to time the Independent Directors then serving on the Board of Directors may appoint from among them one member to serve as "Lead Independent Director," which position shall have such description as the Independent Directors shall in their discretion determine, but only to the extent not inconsistent with the Charter or these Bylaws.

2.17 RELIANCE. Each Director and officer of the Corporation shall, in the performance of his or her duties with respect to the Corporation, be entitled to rely on any information, opinion, report or statement, including any financial statement or other financial data, prepared or presented by an officer or employee of the Corporation whom the Director or officer reasonably believes to be reliable and competent in the matters presented, by a lawyer, certified public accountant or other person, as to a matter which the Director or officer reasonably believes to be within the person's professional or expert competence, or, with respect to a director, by a committee of the Board of Directors on which the Director does not serve, as to a matter within its designated authority, if the Director reasonably believes the committee to merit confidence.

2.18 RATIFICATION. The Board of Directors or the Stockholders may ratify any action or inaction by the Corporation or its officers to the extent that the Board of Directors or

the Stockholders could have originally authorized the matter and, if so ratified, such action or inaction shall have the same force and effect as if originally duly authorized, and such ratification shall be binding upon the Corporation and its Stockholders. Moreover, any action or inaction questioned in any proceeding on the ground of lack of authority, defective or irregular execution, adverse interest of a Director, officer or Stockholder, non-disclosure, miscomputation, the application of improper principles or practices of accounting, or otherwise, may be ratified, before or after judgment, by the Board of Directors or by the Stockholders, and such ratification shall constitute a bar to any claim or execution of any judgment in respect of such questioned action or inaction.

2.19 EMERGENCY PROVISIONS. Notwithstanding any other provision in the Charter or these Bylaws, this Section 2.19 shall apply during the existence of any catastrophe, or other similar emergency condition, as a result of which a quorum of the Board of Directors under Article II of these Bylaws cannot readily be obtained (an "Emergency"). During any Emergency, unless otherwise provided by the Board of Directors, (i) a meeting of the Board of Directors or a committee thereof may be called by any Director or officer by any means feasible under the circumstances; (ii) notice of any meeting of the Board of Directors during such an Emergency may be given less than twenty-four (24) hours prior to the meeting to as many Directors and by such means as may be feasible at the time, including publication, television or radio, and (iii) the number of Directors necessary to constitute a quorum shall be one-third of the entire Board of Directors.

ARTICLE III

COMMITTEES

3.01 NUMBER, TENURE AND QUALIFICATION. The Board of Directors may appoint from among its members certain committees as described below. The term of office of any committee member shall be as provided in the resolution of the Board of Directors designating such member but shall not exceed such member's tenure as Director. Any member of a committee may be removed at any time by resolution of the Board of Directors. A committee may not take or authorize any act as to any matter in which any Director (or affiliate of such Director) who is not an Independent Director has or is reasonably likely to have any interest unless a majority of the members of such committee shall be Independent Directors.

(a) Executive Committee. The Board of Directors may, by resolution adopted by a majority of the Directors, appoint an Executive Committee consisting of one or more Directors. The Board may designate one or more Directors as an alternate member of the Executive Committee, who may replace any absent member at any meeting of the Executive Committee.

(b) Audit Committee. The Board of Directors shall, by resolution adopted by a majority of the Directors, appoint an Audit Committee consisting of three or more Directors whose membership on the Audit Committee shall satisfy the requirements set forth in the applicable rules, if any, of the NYSE, as amended from time to time. The Board may designate one or more Directors as an alternate member of the Audit Committee, who may replace any absent member at any meeting of the Audit Committee.

(c) Compensation Committee. The Board of Directors shall, by resolution adopted by a majority of the Directors, appoint a Compensation Committee consisting of two or more Directors whose membership on the Compensation Committee shall satisfy the requirements set forth in the applicable rules, if any, of the NYSE, as amended from time to time. The Board may designate one or more Directors as an alternate member of the Compensation Committee, who may replace any absent member at any meeting of the Compensation Committee.

(d) Other Committees. The Board of Directors may, by resolution adopted by a majority of the Directors, appoint such other standing or special committees, each consisting of one or more Directors, as it may from time to time deem advisable to perform such general or special duties as may from time to time be delegated to any such committee by the Board of Directors, subject to the limitations contained in the MGCL or imposed by the Charter or these Bylaws. The Board may designate one or more Directors as an alternate member of any committee designated pursuant to this Section 3.01(d), who may replace any absent member at any meeting of such committee.

3.02 DELEGATION OF POWER. The Board of Directors may, by resolution or adoption of a committee charter, delegate to committees appointed under Section 3.01 any of the powers of the Board of Directors, except those powers which the Board of Directors is specifically prohibited from delegating pursuant to Section 2-411 of the MGCL, and may prescribe rules governing the conduct and proceedings of these committees.

3.03 QUORUM AND VOTING. Subject to such terms as may appear in the delegation of authority to such committee (which may be contained in the charter for such committee), a majority of the members of any committee shall constitute a quorum for the transaction of business by such committee, and the act of a majority of the committee members present at a meeting shall constitute the act of the committee. Notwithstanding the foregoing, no act relating to any matter in which any Director (or affiliate of such Director) who is not an Independent Director has any interest shall be the act of any committee unless a majority of the Independent Directors on the committee vote for such act.

3.04 CONDUCT OF MEETINGS. Subject to such terms as may appear in the delegation of authority to such committee (which may be contained in the charter for such committee), the Board of Directors shall designate for each committee a chairman, and if such chairman is not present at a particular meeting, the committee shall select a presiding officer for such meeting. Subject in each case to any provisions to the contrary in any effective resolution of the Board of Directors relating to the appointment or authority of a committee of the Board of Directors (including any committee charter adopted by such resolution), each committee shall (i) adopt its own rules governing the time and place of holding and the method of calling its meetings and the conduct of its proceedings and (ii) meet at the call of the chairman of such committee or the Chairman of the Board of Directors. Members of any committee shall be entitled to participate in meetings of such committee by conference telephone or other communications equipment if all persons participating in the meeting can hear each other at the same time. Participation in a meeting by these means shall constitute presence in person at the meeting. Each committee shall keep minutes of its meetings and report the results of any proceedings to the Board of Directors.

3.05 CONSENT BY COMMITTEES WITHOUT A MEETING. Any action required or permitted to be taken at any meeting of a committee of the Board of Directors may be taken without a meeting, if a consent in writing or by electronic transmission to such action is given by each member of the committee and is filed with the minutes of proceedings of such committee. Written consents may be signed by different members on separate counterparts.

3.06 VACANCIES. Subject to the provisions hereof, the Board of Directors shall have the power at any time to change the membership of any committee, to appoint the chair of any committee, to fill any vacancy, to designate an alternate member to replace any absent or disqualified member or to dissolve any such committee.

ARTICLE IV

OFFICERS

4.01 TITLES AND ELECTION. The Corporation shall have a Chairman of the Board, a Chief Executive Officer, a President, a Chief Operating Officer, a Chief Financial Officer, one or more Vice Presidents (including Vice Presidents of varying degrees, such as Executive, Regional or Senior Vice Presidents), a Secretary, a Treasurer and such Assistant Secretaries and Assistant Treasurers and such other officers as the Board of Directors, or any committee or officer appointed by the Board of Directors for such purpose, may from time to time elect. The Chief Executive Officer may from time to time appoint one or more Vice Presidents, Assistant Secretaries and Assistant Treasurers or other officers. Notwithstanding the foregoing, the Chairman of the Board, the Chief Executive Officer, the President, the Chief Operating Officer, the Chief Financial Officer, the Secretary and the Treasurer shall be elected by a majority of the Directors at the time in office. The officers of the Corporation elected by the Board of Directors shall be elected annually at the first meeting of the Board of Directors following each annual meeting of Stockholders. If the election of such officers shall not take place at such meeting, such election shall be held as soon thereafter as may be convenient. Each officer shall hold office until the first meeting of the Board of Directors following the next annual meeting of Stockholders and until his or her successor is duly elected and qualifies or until his or her death, or his or her resignation or removal in the manner hereinafter provided. Any two or more offices, except President and Vice President, may be held by the same person. Election of an officer or agent shall not of itself create contract rights between the Corporation and such officer or agent. No officer need be a Stockholder or a Director of the Corporation.

4.02 REMOVAL AND RESIGNATION. Any officer or agent of the Corporation may be removed, either with or without cause, by a majority of the Directors at the time in office, at any regular or special meeting of the Board of Directors, or, except in the case of an officer elected by the Board of Directors, by a committee or an officer upon whom such power of removal may be conferred by the Board of Directors, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Any officer of the Corporation may resign at any time by delivering his or her resignation to the Board of Directors, the Chairman of the Board, the Chief Executive Officer, the President or the Secretary. Any resignation shall take effect immediately upon its receipt or at such later time specified in the resignation. The acceptance of a resignation shall not be necessary to make it effective unless otherwise stated in

the resignation. Such resignation shall be without prejudice to the contract rights, if any, of the Corporation.

4.03 OUTSIDE ACTIVITIES. The officers and agents of the Corporation are required to spend only such time managing the business and affairs of the Corporation as is necessary to carry out their duties in accordance with applicable law and these Bylaws. Except as set forth in the Charter or by the terms of any separate agreement, arrangement or policy of the Corporation, the officers and agents of the Corporation may engage with or for others in business activities of the types conducted by the Corporation. Except as set forth in the Charter or by the terms of any separate agreement, arrangement or policy of the Corporation, the officers and agents of the Corporation (other than those serving who are also Directors) do not have an obligation to notify or present to the Corporation or each other any investment opportunity that may come to such person's attention even though such investment might be within the scope of the Corporation's purposes or various investment objectives. Any interest that an officer or an agent has in any investment opportunity presented to the Corporation must be disclosed by such officer or agent to the Board of Directors (and, if voting thereon, to the Stockholders or to any committee of the Board of Directors) within ten (10) days after the later of the date upon which such officer or agent becomes aware of such interest or that the Corporation is considering such investment opportunity. If such interest comes to the attention of the interested officer or agent after a vote to take such investment opportunity, the voting body shall reconsider such investment opportunity if not already consummated or implemented.

4.04 VACANCIES. A vacancy in any office may be filled by the Board of Directors, or any committee or officer authorized by these Bylaws or the Board of Directors for such purpose, for the balance of the term. A vacancy in any office previously appointed by the Chief Executive Officer may be filled by the Chief Executive Officer for the balance of the term.

4.05 CHAIRMAN OF THE BOARD. The Chairman of the Board shall, if present, preside at all meetings of the Board of Directors, and shall exercise and perform such other powers and duties as may from time to time be assigned to him by the Board of Directors or prescribed by these Bylaws.

4.06 CHIEF EXECUTIVE OFFICER. Unless otherwise determined by the Board of Directors and subject to such supervisory powers, if any, as may be given by the Board of Directors to the Chairman, the Chief Executive Officer shall, subject to the control of the Board of Directors, have general supervision, direction, and control of the business of the Corporation and shall exercise and perform such other powers and duties as may from time to time be assigned to him by the Board of Directors or prescribed by these Bylaws.

4.07 PRESIDENT. The President shall exercise and perform such duties as may from time to time be assigned to him by the Board of Directors or the Chief Executive Officer or prescribed by these Bylaws.

4.08 VICE PRESIDENTS. In the absence of the President or in the event of a vacancy in such office, the Vice Presidents in order of their rank and, within each rank, in their order of seniority as fixed by the Board of Directors, or if not ranked, the Vice President designated by the Board of Directors, shall perform the duties of the President, and when so acting shall have

all the powers of and be subject to all the restrictions upon the President. The Vice President shall have such other powers and perform such other duties as from time to time may be assigned to them by the Board of Directors or the Chief Executive Officer or prescribed by these Bylaws.

4.09 CHIEF FINANCIAL OFFICER. The Chief Financial Officer shall have all the powers of the Treasurer and shall have such other responsibilities and duties as determined by the Board of Directors or the Chief Executive Officer. For purposes of Section 4.08 of these Bylaws, the Chief Financial Officer shall be considered to have the rank of Executive Vice President.

4.10 CHIEF OPERATING OFFICER. The Chief Operating Officer shall have the responsibilities and duties as determined by the Board of Directors or the Chief Executive Officer. For purposes of Section 4.08 of these Bylaws, the Chief Operating Officer shall be considered to have the rank of Executive Vice President.

4.11 SECRETARY.

(a) The Secretary shall keep, or cause to be kept, minutes of the proceedings of the Board of Directors, committees of the Board of Directors and Stockholders. Such minutes shall include all waivers of notice, consents to the holding of meetings, and approvals of the minutes of meetings executed pursuant to these Bylaws or the MGCL. The Secretary shall keep, or cause to be kept at the principal executive office or at the office of the Corporation's transfer agent or registrar, a record of its Stockholders, giving the names and addresses of all Stockholders and the number and class of shares held by each.

(b) The Secretary shall give, or cause to be given, notice of all meetings of the Stockholders and may give, or cause to be given, notice of all meetings of the Board of Directors required by these Bylaws or by law to be given, and shall keep the seal of the Corporation in safe custody, and shall have such other powers and perform such other duties as may be from time to time assigned to him by the Board of Directors or prescribed by these Bylaws.

4.12 TREASURER.

(a) The Treasurer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of account in written form or any other form capable of being converted into written form.

(b) The Treasurer shall deposit all monies and other valuables in the name and to the credit of the Corporation with such depositories as may be designated by the Board of Directors. The Treasurer shall disburse the funds of the Corporation as may be ordered by the Board of Directors, taking proper vouchers for such disbursements, and shall render to the Chairman, Chief Executive Officer, President and Board of Directors, whenever any of them requests it, an account of all of his transactions as Treasurer and of the financial condition of the Corporation, and shall have such other powers and perform such other duties as may be from time to time assigned to him by the Board of Directors or prescribed by these Bylaws.

4.13 ASSISTANT SECRETARIES AND ASSISTANT TREASURERS. The Board of Directors, or any committee or officer appointed by the Board of Directors for such purpose,

may appoint one or more Assistant Secretaries or Assistant Treasurers. The Assistant Secretaries and Assistant Treasurers (i) shall have the power to perform and shall perform all the duties of the Secretary and the Treasurer, respectively, in such respective officer's absence and (ii) shall perform such duties as shall be assigned to them by the Secretary or Treasurer, respectively, or by the Chairman, Chief Executive Officer, President or Board of Directors, or any such designated committee or officer.

4.14 SUBORDINATE OFFICERS. The Corporation shall have such subordinate officers as the Board of Directors, or any committee or officer appointed by the Board of Directors for such purpose, may from time to time elect. Each such officer shall hold office for such period and perform such duties as the Board of Directors, the Chairman, the Chief Executive Officer, the President or any designated committee or officer may prescribe.

4.15 COMPENSATION. The compensation of the officers shall be fixed from time to time by or under the authority of the Board of Directors and no officer shall be prevented from receiving such compensation by reason of the fact that he is also a Director.

ARTICLE V

SHARES OF STOCK

5.01 FORM OF CERTIFICATES. The Corporation may issue some or all of the shares of any or all classes or series of Stock with or without certificates as determined by the Board of Directors or the Chairman of the Board. In the event that the Corporation issues shares of Stock represented by certificates, such certificates shall be in such form as prescribed by the Board of Directors or a duly authorized officer, shall contain the statements and information required by the MGCL and shall be signed by the officers of the Corporation in any manner permitted by the MGCL. In the event that the Corporation issues shares of Stock without certificates, to the extent then required by the MGCL, the Corporation shall provide to the record holders of such shares a written statement of the information required by the MGCL to be included on stock certificates. There shall be no differences in the rights and obligations of stockholders based on whether or not their shares are represented by certificates.

5.02 TRANSFER OF SHARES. All transfers of shares of Stock by the holder of the shares, in person or by his attorney, shall be made on the books of the Corporation in such manner as the Board of Directors or any officer of the Corporation may prescribe and, if such shares are certificated, upon surrender of certificates duly endorsed. The issuance of a new certificate upon the transfer of certificated shares is subject to the determination of the Board of Directors or an officer of the Corporation that such shares shall no longer be represented by certificates. Upon the transfer of any uncertificated shares, the Corporation shall provide to the record holders of such shares, to the extent then required by the MGCL, a written statement of the information required by the MGCL to be included on stock certificates.

Notwithstanding the foregoing, transfers of shares of any class or series of Stock will be subject in all respects to the Charter and all of the terms and conditions contained therein.

5.03 STOCK LEDGER. The Corporation shall maintain at its principal executive office or at the office of its counsel, accountants or transfer agent or at such other place designated by the Board of Directors, an original or duplicate stock ledger containing the name and address of each Stockholder and the number of shares of each class of Stock held by each Stockholder. The stock ledger shall be maintained pursuant to a system that the Corporation shall adopt allowing for the issuance, recordation and transfer of its Stock by electronic or other means that can be readily converted into written form for visual inspection and not involving any issuance of certificates. Such system shall include provisions for notice to acquirers of Stock (whether upon issuance or transfer of Stock) in accordance with Sections 2-210 and 2-211 of the MGCL and Section 8-204 of the Commercial Law Article of the State of Maryland. The Corporation shall be entitled to treat the holder of record of any share or shares of Stock as the holder in fact thereof and, accordingly, shall not be bound to recognize any equitable or other claim to or interest in such share on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of the State of Maryland. Until a transfer is duly effected on the stock ledger, the Corporation shall not be affected by any notice of such transfer, either actual or constructive. Nothing herein shall impose upon the Corporation, the Board of Directors or officers or their agents and representatives a duty or limit their rights to inquire as to the actual ownership of Shares.

5.04 LOST CERTIFICATE. Any officer of the Corporation may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost, destroyed, stolen or mutilated, upon the making of an affidavit of that fact by the person claiming the certificate to be lost, destroyed, stolen or mutilated; provided, however, if such shares have ceased to be certificated, no new certificate shall be issued unless requested in writing by such Stockholder and the Board of Directors or an officer of the Corporation has determined that such certificates may be issued. Unless otherwise determined by an officer of the Corporation, the owner of such lost, destroyed, stolen or mutilated certificate or certificates, or his or her legal representative, shall be required, as a condition precedent to the issuance of a new certificate or certificates, to give the Corporation a bond in such sums as it may direct as indemnity against any claim that may be made against the Corporation.

5.05 EMPLOYEE STOCK PURCHASE PLANS. The Board of Directors shall have the authority, in its discretion, to adopt one or more employee stock purchase plans or agreements, containing such terms and conditions as the Board may prescribe, for the issue and sale of unissued shares of Stock, or of its issued shares acquired or to be acquired, to the employees of the Corporation or to the employees of its subsidiary corporations or to a trustee on their behalf, and for the payment of such shares in installments or at one time, and for such consideration as may be fixed by the Board or any committee thereof, and may provide for aiding any such employees in paying for such shares by compensation for services rendered, promissory notes or otherwise. The Board of Directors, or any committee thereof, may carry out and administer any such plan or delegate part or all of the administration of any such plan to any other entity or person.

5.06 FIXING OF RECORD DATE.

(a) The Board of Directors may set, in advance, a record date for the purpose of determining Stockholders entitled to receive notice of, or to vote at, any meeting of Stockholders, or Stockholders entitled to receive payment of any dividend or the allotment of any rights, or in order to make a determination of Stockholders for any other proper purpose. Such date, in any case, shall not be prior to the close of business on the day the record date is fixed and shall be not more than ninety (90) days, and in case of a meeting of Stockholders not less than ten (10) days, prior to the date on which the meeting or particular action requiring such determination of Stockholders is to be held or taken.

(b) When a record date for the determination of Stockholders entitled to notice of and vote at any meeting of Stockholders has been set as provided in this section, such record date shall continue to apply to the meeting if postponed or adjourned, except if the meeting is postponed or adjourned to a date more than 120 days after the record date originally fixed for the meeting, in which case a new record date for such meeting may be determined as set forth herein.

5.07 FRACTIONAL STOCK; ISSUANCE OF UNITS. The Board of Directors may authorize the Corporation to issue fractional shares of Stock or authorize the issuance of scrip, all on such terms and under such conditions as it may determine. Notwithstanding any other provision of the Charter or these Bylaws, the Board of Directors may authorize the issuance of units consisting of different securities of the Corporation. Any security issued in a unit shall have the same characteristics as any identical securities issued by the Corporation, except that the Board of Directors may provide that for a specified period securities of the Corporation issued in such unit may be transferred on the books of the Corporation only in such unit.

ARTICLE VI

DIVIDENDS AND DISTRIBUTIONS

6.01 AUTHORIZATION. Dividends and other distributions upon the Stock may be authorized by the Board of Directors, subject to the provisions of law and the Charter. Dividends and other distributions may be paid in cash, property or Stock of the Corporation, subject to the provisions of law and of the Charter.

6.02 CONTINGENCIES. Before payment of any dividend or other distribution, there may be set aside out of any assets of the Corporation available for dividends or other distributions such sum or sums as the Board of Directors may from time to time, in its absolute discretion, think proper as a reserve fund for contingencies, for equalizing dividends, for repairing or maintaining any property of the Corporation or for such other purpose as the Board of Directors shall determine, and the Board of Directors may modify or abolish any such reserve.

ARTICLE VII

INDEMNIFICATION AND ADVANCE OF EXPENSES

7.01 **INDEMNIFICATION TO THE EXTENT PERMITTED BY LAW**. The Corporation shall indemnify, to the full extent authorized or permitted by Maryland statutory or decisional law or any other applicable law, any person made, or threatened to be made, a party to any action or proceeding (whether civil or criminal or otherwise) by reason of the fact he, his testator or intestate is or was a Director or officer of the Corporation or any predecessor of the Corporation, or is or was serving at the request of the Corporation or any predecessor of the Corporation as a director or officer of, or in any other capacity with respect to, any other corporation, partnership, joint venture, trust, employee benefit plan, or other enterprise (an "Indemnified Person"), including the advancement of expenses under procedures provided under such law; provided, however, that no indemnification shall be provided for expenses relating to any willful or grossly negligent failure to make disclosures required by the next to last sentence of Sections 2.02 or 4.03 hereof as applied to Directors and officers respectively. The Corporation shall indemnify any Indemnified Person's spouse (whether by statute or at common law and without regard to the location of the governing jurisdiction) and children to the same extent and subject to the same limitations applicable to any Indemnified Person hereunder for claims arising out of the status of such person as a spouse or child of such Indemnified Person, including claims seeking damages from marital property (including community property) or property held by such Indemnified Person and such spouse or property transferred to such spouse or child, but such indemnity shall not otherwise extend to protect the spouse or child against liabilities caused by the spouse's or child's own acts. The provisions of this Section 7.01 shall constitute a contract with each Indemnified Person who serves at any time while these provisions are in effect and may be modified adversely only with the consent of affected Indemnified Persons and each such Indemnified Person shall be deemed to be serving as such in reliance on these provisions.

7.02 **INDEMNIFICATION OF EMPLOYEES AND AGENTS OF THE CORPORATION**. The Corporation may, to the extent authorized from time to time by the Board of Directors, grant rights to indemnification and to the advancement of expenses to any employee or agent of the Corporation to the fullest extent of the provisions of this Article VII with respect to the indemnification of and advancement of expenses to Directors and officers of the Corporation.

7.03 **INSURANCE**. The Corporation shall have the power to purchase and maintain insurance to protect itself and any Indemnified Person or employee or agent of the Corporation against any liability, whether or not the Corporation would have the power to indemnify him or her against such liability.

7.04 **NON-EXCLUSIVE RIGHTS TO INDEMNITY; HEIRS AND PERSONAL REPRESENTATIVES**. The rights to indemnification set forth in this Article VII are in addition to all rights which any Indemnified Person may be entitled to as a matter of law or by contract, and shall inure to the benefit of the heirs and personal representatives of each Indemnified Person.

7.05 NO LIMITATION. In addition to any indemnification permitted by these Bylaws, the Board of Directors shall, in its sole discretion, have the power to grant such indemnification to such persons as it deems in the interest of the Corporation to the full extent permitted by law. The indemnification and payment or reimbursement of expenses provided in these Bylaws shall not be deemed exclusive of or limit in any way other rights to which any person seeking indemnification or payments or reimbursement of expenses may be or may become entitled under any bylaw, regulation, insurance, agreement or otherwise. This Article shall not limit the Corporation's power to indemnify against liabilities other than those arising from a person's serving the Corporation as a Director or officer.

7.06 AMENDMENT, REPEAL OR MODIFICATION. Any amendment, repeal or modification of any provision of this Article VII by the Stockholders or the Directors of the Corporation is effective on a prospective basis only and neither repeal nor modification of such provisions shall adversely affect any right or protection of a Director or officer of the Corporation under this Article VII existing at the time of such amendment, repeal or modification.

7.07 RIGHT OF CLAIMANT TO BRING SUIT. If a claim under Section 7.01 of this Article VII is not paid in full by the Corporation within ninety (90) days after a written claim has been received by the Corporation, the claimant may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall be entitled to be paid also the expense of prosecuting such claim. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition where the required undertaking, if any, has been tendered to the Corporation) that the claimant has not met the standards of conduct which make it permissible under the MGCL for the Corporation to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the Corporation. Neither the failure of the Corporation (including its Board of Directors, independent legal counsel or Stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he or she has met the applicable standard of conduct set forth in the MGCL, nor an actual determination by the Corporation (including its Board of Directors, independent legal counsel or Stockholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that claimant has not met the applicable standard of conduct.

7.08 VESTING. The rights to indemnification and advance of expenses provided by the Charter and these Bylaws shall vest immediately upon election or appointment of a Director or officer.

ARTICLE VIII

NOTICES

8.01 NOTICES. Unless otherwise provided in these Bylaws, whenever notice is required to be given pursuant to these Bylaws, it shall be construed to mean either written notice personally delivered against written receipt, or notice in writing transmitted by mail, by

depositing the same in a post office or letter box, in a post-paid sealed wrapper, addressed, if to the Corporation, to 671 N. Glebe Road, Suite 800, Arlington, Virginia 22203 (or any subsequent address selected by the Board of Directors), attention Chief Executive Officer, or if to a Stockholder, Director or officer, at the address of such person as it appears on the records of the Corporation. In addition, whenever notice is required to be given to a Stockholder, such requirement shall be satisfied when written notice is left at such Stockholder's residence or usual place of business or is delivered to such Stockholder by any other means permitted by Maryland law. If transmitted electronically, notice to a Stockholder shall be deemed to be given when transmitted to the Stockholder by an electronic transmission to any address or number of the Stockholder at which the Stockholder receives electronic transmissions. Unless otherwise specified, notice sent by mail shall be deemed to be given at the time mailed.

8.02 SECRETARY TO GIVE NOTICE. All notices required by law or these Bylaws to be given by the Corporation shall be given by the Secretary or any other officer of the Corporation designated by the Chairman or the Chief Executive Officer. If the Secretary and Assistant Secretary are absent or refuse or neglect to act, the notice may be given by, or by any person directed to do so by, the Chairman or the Chief Executive Officer or, with respect to any meeting called pursuant to these Bylaws upon the request of any Stockholders or Directors, by any person directed to do so by the Stockholders or Directors upon whose request the meeting is called.

8.03 WAIVER OF NOTICE. Whenever any notice of a meeting is required to be given pursuant to the Charter or these Bylaws or pursuant to applicable law, a waiver thereof in writing or by electronic transmission, given by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice. A waiver of notice of a Stockholders meeting shall be filed with the records of such meeting. Neither the business to be transacted at nor the purpose of any meeting need be set forth in the waiver of notice of such meeting, unless specifically required by statute. The attendance of any person at any meeting shall constitute a waiver of notice of such meeting, except where such person attends a meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting has not been lawfully called or convened.

ARTICLE IX

MISCELLANEOUS

9.01 EXEMPTION FROM MARYLAND CONTROL SHARE ACQUISITION ACT. Notwithstanding any other provision of the Charter or these Bylaws, the provisions of the Maryland Control Share Acquisition Act (Sections 3-701 to 3-710 of the MGCL) shall not apply to any share of Stock of the Corporation now or hereafter held by any current or future Stockholders. All shares of Stock currently outstanding or issued in the future are exempted from the Maryland Control Share Acquisition Act to the fullest extent permitted by Maryland law. This section may be repealed, in whole or in part, at any time, whether before or after an acquisition of control shares and, upon such repeal, may, to the extent provided by any successor bylaw, apply to any prior or subsequent control share acquisition.

9.02 OFFICES OF THE CORPORATION. The principal executive office for the transaction of the business of the Corporation is hereby fixed and located at 671 N. Glebe Road, Suite 800, Arlington Virginia 22203. The Board of Directors is hereby granted full power and authority to change said principal office from one location to another. Branch and subordinated offices may at any time be established by the Board of Directors. The principal office of the corporation in the State of Maryland shall be located at such place as the Board of Directors may designate.

9.03 BOOKS AND RECORDS. The Corporation shall keep correct and complete books and records of its accounts and transactions and minutes of the proceedings of its Stockholders and Board of Directors meetings and of its executive or other committees when exercising any of the powers or authority of the Board of Directors. The books and records of the Corporation may be in written form or in any other form that can be converted within a reasonable time into written form for visual inspection. Minutes shall be recorded in written form but may be maintained in the form of a reproduction.

9.04 INSPECTION OF BYLAWS AND CORPORATE RECORDS. These Bylaws, the minutes of proceedings of the Stockholders, annual statements of affairs and any voting trust agreements on record shall be open to inspection upon written demand delivered to the Corporation by any Stockholder or holder of a voting trust certificate at any reasonable time during usual business hours, for a purpose reasonably related to such holder's interests as a Stockholder or as the holder of such voting trust certificate, in each case as set forth in the MGCL. Other documents, such as the Corporation's books of account, stock ledger and Stockholder lists, may be made available for inspection by any Stockholder or holder of a voting trust certificate to the extent required by the MGCL.

9.05 CONTRACTS. The Board of Directors may authorize any Director(s), officer(s) or agent(s) to enter into any contract or to execute and deliver any instrument in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances. Any agreement, deed, mortgage, lease or other document shall be valid and binding upon the Corporation when duly authorized or ratified by action of the Board of Directors and executed by an authorized person.

9.06 CHECKS, DRAFTS, ETC. All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Corporation shall be signed by such officers or agents of the Corporation in such manner as shall from time to time be determined by the Board of Directors.

9.07 LOANS.

(a) Such officers or agents of the Corporation as from time to time have been designated by the Board of Directors shall have authority (i) to effect loans, advances, or other forms of credit at any time or times for the Corporation, from such banks, trust companies, institutions, corporations, firms, or persons, in such amounts and subject to such terms and conditions, as the Board of Directors from time to time has designated; (ii) as security for the repayment of any loans, advances, or other forms of credit so authorized, to assign, transfer, endorse, and deliver, either originally or in addition or substitution, any or all personal property,

real property, stocks, bonds, deposits, accounts, documents, bills, accounts receivable, and other commercial paper and evidences of debt or other securities, or any rights or interests at any time held by the Corporation; (iii) in connection with any loans, advances, or other forms of credit so authorized, to make, execute, and deliver one or more notes, mortgages, deeds of trust, financing statements, security agreements, acceptances, or written obligations of the Corporation, on such terms and with such provisions as to the security or sale or disposition of them as those officers or agents deem proper; and (iv) to sell to, or discount or rediscount with, the banks, trust companies, institutions, corporations, firms or persons making those loans, advances, or other forms of credit, any and all commercial paper, bills, accounts receivable, acceptances, and other instruments and evidences of debt at any time held by the Corporation, and, to that end, to endorse, transfer, and deliver the same.

(b) From time to time the Corporation shall certify to each bank, trust company, institution, corporation, firm or person so designated, the signatures of the officers or agents so authorized. Each bank, trust company, institution, corporation, firm or person so designated is authorized to rely upon such certification until it has received written notice that the Board of Directors has revoked the authority of those officers or agents.

9.08 FISCAL YEAR. The Board of Directors shall have the power, from time to time, to fix the fiscal year of the Corporation by a duly adopted resolution, and, in the absence of such resolution, the fiscal year shall be the year ending December 31.

9.09 ANNUAL REPORT. Each fiscal year, the Board of Directors of the Corporation shall cause to be sent to the Stockholders an Annual Report in such form as may be deemed appropriate by the Board of Directors. The Annual Report shall include audited financial statements and shall be accompanied by the report thereon of an independent certified public accountant.

9.10 INTERIM REPORTS. The Corporation may send interim reports to the Stockholders having such form and content as the Board of Directors deems proper.

9.11 BYLAWS SEVERABLE. The provisions of these Bylaws are severable, and if any provision shall be held invalid or unenforceable, that invalidity or unenforceability shall attach only to that provision and shall not in any manner affect or render invalid or unenforceable any other provision of these Bylaws, and these Bylaws shall be carried out as if the invalid or unenforceable provision were not contained herein.

ARTICLE X

AMENDMENT OF BYLAWS

10.01 BY DIRECTORS. The Board of Directors shall have the power, at any annual or regular meeting, or at any special meeting if notice thereof is included in the notice of such special meeting, to alter or repeal any Bylaws of the Corporation and to make new Bylaws, except that the Board of Directors shall not alter or repeal (i) Section 2.03 to change the minimum or maximum number of Directors without the vote of the Stockholders required therein, (ii) Section 7.01 without a vote of the Stockholders and the consent of any Indemnified

Persons whose rights to indemnification, based on conduct prior to such amendment, would be adversely affected by such proposed alteration or repeal; (iii) this Section 10.01; or (iv) Section 10.02.

10.02 BY STOCKHOLDERS. With the approval of the Board of Directors, the Stockholders shall have the power, by affirmative vote of a majority of the outstanding shares of common stock of the Corporation, at any annual meeting (subject to the requirements of Section 1.03), or at any special meeting if notice thereof is included in the notice of such special meeting, to alter or repeal any Bylaws of the Corporation and to make new Bylaws, except that the Stockholders shall not alter or repeal Section 7.01 without the consent of any Indemnified Persons adversely affected by such proposed alteration or repeal, and except that a vote of two-thirds of the outstanding shares of common stock of the Corporation is required to amend Sections 1.03, 2.04 and 2.13.

ARTICLE XI

EXCLUSIVE FORUM FOR CERTAIN LITIGATION

Unless the Corporation consents in writing to the selection of an alternative forum, the Circuit Court for Baltimore City, Maryland, or, if that Court does not have jurisdiction, the United States District Court for the District of Maryland, Baltimore Division, shall be the sole and exclusive forum for (a) any derivative action or proceeding brought on behalf of the Corporation, (b) any action asserting a claim of breach of any duty owed by any Director or officer or other employee of the Corporation to the Corporation or to the Stockholders, (c) any action asserting a claim against the Corporation or any Director or officer or other employee of the Corporation arising pursuant to any provision of the MGCL, the Charter or these Bylaws or (d) any action asserting a claim against the Corporation or any Director or officer or other employee of the Corporation that is governed by the internal affairs doctrine.

**Amendment Adopted on February 16, 2017 to
Amended and Restated Bylaws of the Company dated November 12, 2015**

The Company's Amended and Restated Bylaws dated November 12, 2015, are hereby amended as follows (new language is **bold and underlined** and deleted language is ~~struckthrough~~):

The third sentence of Section 1.08(a) is amended to read as follows:

Any holder of shares entitled to vote on any matter may vote part of the shares in favor of the proposal and refrain from voting the remaining shares or, ~~other than elections to office,~~ vote them against the proposal but, if the Stockholder fails to specify the number of shares such Stockholder is voting affirmatively, it shall be conclusively presumed that the Stockholder's approving vote is with respect to all votes said Stockholder is entitled to cast.

The sixth sentence of Section 1.08(a) is amended to read as follows:

Notwithstanding the foregoing, a nominee for Director shall be elected as a Director only if such nominee receives the affirmative vote of a majority of the total votes cast for and ~~affirmatively withheld as to~~ **against** such nominee at a meeting of Stockholders duly called and at which a quorum is present.

**Second Amendment Adopted on November 9, 2017 to
Amended and Restated Bylaws of the Company dated November 12, 2015**

1. The Amended and Restated Bylaws dated November 12, 2015, as heretofore amended (the "Bylaws"), of AvalonBay Communities, Inc., a Maryland corporation, are hereby amended by adding a new Section 10.03 to Article X as follows:

10.03 ~~BY HOLDERS OF ONE PERCENT OF COMMON STOCK FOR ONE YEAR~~. Pursuant to a binding proposal that is submitted to the Stockholders for approval at a duly called annual meeting or special meeting of Stockholders by:

(i) the Board of Directors or

(ii) a Stockholder or group of no more than five (5) Stockholders that

(A) provides to the Secretary of the Corporation a timely notice of such proposal which satisfies the notice procedures and all other relevant provisions of Section 1.03 or 1.04, as the case may be (the "Notice of Bylaw Amendment Proposal"),

(B) Owned at least one percent (1%) or more of the shares of Common Stock outstanding from time to time continuously for at least one (1) year as of both the date the Notice of Bylaw Amendment Proposal is delivered or mailed to and received by the Secretary of the Corporation in accordance with Section 1.03 or 1.04, as the case may be, and the close of business on the record date for determining the Stockholders entitled to vote at the annual meeting or special meeting of Stockholders and

(C) continuously Owns such shares of Common Stock through the date of the annual meeting or special meeting of Stockholders (and any postponement or adjournment thereof),

the Stockholders shall have the power, by the affirmative vote of the holders of a majority of the outstanding shares of Common Stock, to alter or repeal any Bylaws of the Corporation and to make new Bylaws, except that the Stockholders shall not alter or repeal (x) Section 7.01 without the consent of any Indemnified Persons adversely affected by such proposed alteration or repeal or (y) this Article X without the approval of the Board of Directors.

As used in this Section 10.03, the term "Owned" has the meaning given thereto in Section 1.15(b), except that any references to an "Eligible Stockholder" or to the "Notice of Proxy Access Nomination" in the definition of "Owned" shall be deemed to be references to the Stockholder or group of no more than five (5) Stockholders or to the Notice of Bylaw Amendment Proposal referred to in this Section 10.03.

2. Except as set forth herein, the Bylaws shall remain in full force and effect.

**Third Amendment Adopted on May 6, 2019 to
Amended and Restated Bylaws of the Company dated November 12, 2015**

1. The Amended and Restated Bylaws dated November 12, 2015, as heretofore amended (the "Bylaws"), of AvalonBay Communities, Inc., a Maryland corporation, are hereby amended by deleting therefrom Section 10.03 of Article X in its entirety and inserting in lieu thereof a new Section 10.03 of Article X as follows:

10.03 BY STOCKHOLDERS WITHOUT ACTION OF THE BOARD OF DIRECTORS. At any annual meeting (subject to the requirements of Section 1.03) or any special meeting (subject to the requirements of Section 1.04), the Stockholders shall have the power, by the affirmative vote of the holders of a majority of the outstanding shares of Common Stock, to alter or repeal any Bylaws of the Corporation and to make new Bylaws, except that the Stockholders shall not alter or repeal (x) Section 7.01 without the consent of any Indemnified Persons adversely affected by such proposed alteration or repeal or (y) this Article X without the approval of the Board of Directors.

2. Except as set forth herein, the Bylaws shall remain in full force and effect.

CERTIFICATION

I, Timothy J. Naughton, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AvalonBay Communities, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2019

/s/ Timothy J. Naughton

Timothy J. Naughton

Chairman, Chief Executive Officer and President

(Principal Executive Officer)

CERTIFICATION

I, Kevin P. O'Shea, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AvalonBay Communities, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2019

/s/ Kevin P. O'Shea

Kevin P. O'Shea
Chief Financial Officer
(Principal Financial Officer)

CERTIFICATION

The undersigned officers of AvalonBay Communities, Inc. (the "Company") hereby certify that the Company's quarterly report on Form 10-Q to which this certification is attached (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 6, 2019

/s/ Timothy J. Naughton

Timothy J. Naughton

Chairman, Chief Executive Officer and President

(Principal Executive Officer)

/s/ Kevin P. O'Shea

Kevin P. O'Shea

Chief Financial Officer

(Principal Financial Officer)

This certification is being furnished and not filed, and shall not be incorporated into any document for any purpose, under the Securities Exchange Act of 1934 or the Securities Act of 1933.