STAG Industrial, Inc.
Form 10-Q
November 10, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2011

OR

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

For the transition period from to .

Commission file number 1-34907

STAG INDUSTRIAL, INC.

(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	**27-3099608** (IRS Employer Identification No.)
99 High Street, 28th Floor **Boston, Massachusetts** (Address of principal executive offices)	**02110** (Zip Code)

(617) 574-4777

(Registrant s telephone number, including area code)

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common and preferred shares as of the latest practicable date.

Class	**Outstanding at November 10 2011**
Common Stock ($0.01 par value)	15,901,560

Series A Cumulative Redeemable Preferred Stock ($0.01 par value)	2,760,000

STAG INDUSTRIAL, INC.

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PART I. Financial Information

Item 1. Financial Statements

STAG Industrial, Inc. and STAG Predecessor Group

Consolidated and Combined Balance Sheets

(unaudited, dollars in thousands, except share data)

	STAG Industrial, Inc. September 30, 2011	STAG Predecessor Group December 31, 2010
Assets		
Rental Property:		
Land	$ 67,404	$ 25,086
Buildings	371,813	173,456
Tenant improvements	22,359	8,197
Building improvements	9,547	3,447
Less: accumulated depreciation	(26,820)	(19,261)
Total rental property, net	444,303	190,925
Cash and cash equivalents	11,988	1,567
Restricted cash	7,311	2,571
Tenant accounts receivable, net	4,808	3,725
Prepaid expenses and other assets	1,817	458
Deferred financing fees, net	2,578	118
Leasing commissions, net	923	133
Goodwill	4,923	
Due from related parties	50	
Deferred leasing intangibles, net	102,245	11,507
Total assets	**$ 580,946**	**$ 211,004**
Liabilities and Equity		
Liabilities:		
Mortgage notes payable	$ 291,128	$ 203,166
Notes payable to related party		4,384
Credit facility	17,500	
Accounts payable, accrued expenses and other liabilities	6,003	2,680
Interest rate swaps	1,123	3,277
Tenant prepaid rent and security deposits	3,912	1,204
Dividends and distributions payable	6,159	
Deferred leasing intangibles, net	2,045	976
Due to related parties	55	3,653
Total liabilities	**$ 327,925**	**$ 219,340**
Predecessor s owners deficit		(8,336)
Common stock $0.01 par value, 100,000,000 shares authorized, 15,896,590 shares outstanding at September 30, 2011	159	
Additional paid-in capital	181,364	
Dividends in excess of earnings	(11,718)	
Total stockholders equity and owner s deficit	169,805	(8,336)
Noncontrolling interest	83,216	

Total equity (deficit)		253,021		(8,336)
Total liabilities and equity	**$**	**580,946**	**$**	**211,004**

The accompanying notes are an integral part of these financial statements.

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STAG Industrial, Inc. and STAG Predecessor Group

Consolidated and Combined Statements of Operations

(unaudited, dollars in thousands except per share data)

	STAG Industrial, Inc. Three months ended September 30 2011	STAG Predecessor Group Three months ended September 30 2010	STAG Industrial, Inc. Period from April 20, 2011 to September 30 2011	STAG Predecessor Group Period from January 1, 2011 to April 19 2011	STAG Predecessor Group Nine months ended September 30 2010
Revenue					
Rental income	$ 15,282	$ 5,969	$ 25,007	$ 7,027	$ 18,543
Tenant recoveries	1,438	719	2,511	1,218	3,164
Other income	321		588		
Total revenue	17,041	6,688	28,106	8,245	21,707
Expenses					
Property	1,350	831	2,159	1,236	2,576
General and administrative	2,453	62	4,513	318	293
Real estate taxes and insurance	1,314	778	2,232	909	2,347
Asset management fees		152		179	449
Property acquisition costs	368		695		
Depreciation and amortization	8,332	3,132	14,778	2,459	8,458
Total expenses	13,817	4,955	24,377	5,101	14,123
Other income (expense)					
Interest income	6	2	15	1	4
Interest expense	(4,433)	(3,613)	(7,618)	(4,136)	(10,547)
Gain (loss) on interest rate swaps	770	(94)	1,270	762	(1,029)
Formation transaction costs	(61)		(3,789)		
Offering costs	(78)		(78)		
Total other income (expense)	(3,796)	(3,705)	(10,200)	(3,373)	(11,572)
Net loss	$ (572)	$ (1,972)	$ (6,471)	$ (229)	$ (3,988)
Net loss attributable to noncontrolling interest	$ (188)		$ (2,155)		
Net loss attributable to the Company	**$ (384)**		**$ (4,316)**		
Weighted average common shares outstanding basic and diluted	15,815,282		15,524,807		
Loss per share basic and diluted	**$ (0.02)**		**$ (0.28)**		
Dividends declared per common share	$ 0.2600		0.4657		

The accompanying notes are an integral part of these financial statements.

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STAG Industrial, Inc. and STAG Predecessor Group

Consolidated and Combined Statements of Stockholders Equity

(unaudited, dollars in thousands)

	Common Shares Shares	Common Shares Amount	Additional Paid in Capital	Dividends in excess of Earnings	Predecessor Owner s Deficit	Total Stockholder s Equity	Noncontrolling Interest Unit holders in Operating Partnership	Total Equity
Period from January 1, 2011 to April 19, 2011 (STAG Predecessor Group)								
Balance, December 31, 2010		$	$	$	$ (8,336)	**$ (8,336)**	$	**$ (8,336)**
Contributions					4,420	**4,420**		**4,420**
Distributions					(9,900)	**(9,900)**		**(9,900)**
Net loss					(229)	**(229)**		**(229)**
Balance, April 19, 2011		**$**	**$**	**$**	$ (14,045)	**$ (14,045)**	$	**$ (14,045)**
Period from April 20, 2011 to September 30, 2011 (STAG Industrial Inc.)								
Balance, April 20, 2011	110		2		(14,045)	**(14,043)**		**(14,043)**
Proceeds from sale of common stock	15,812,500	158	205,405			**205,563**		**205,563**
Redemption of initial capitalization of STAG Industrial, Inc.	(110)		(2)			**(2)**		**(2)**
Issuance of units for acquisition of properties							95,670	**95,670**
Exchange of owners equity for units					14,045	**14,045**	(14,045)	
Offering costs			(17,042)			**(17,042)**		**(17,042)**
Issuance of restricted stock	80,809	1	(1)					
Issuance of common stock	3,281							
Dividends and distributions				(7,402)		**(7,402)**	(3,628)	**(11,030)**
Stock-based compensation			142			**142**	234	**376**
Rebalancing of noncontrolling interest			(7,140)			**(7,140)**	7,140	
Net loss				(4,316)		**(4,316)**	(2,155)	**(6,471)**
Balance, September 30, 2011	**15,896,590**	**$ 159**	**$ 181,364**	**$ (11,718)**	$	**$ 169,805**	$ 83,216	**$ 253,021**
Nine Months ended September 30, 2010 (STAG Predecessor Group)								
Balance, December 31, 2009		$	$	$	$ (1,521)	$ (1,521)	$	**$ (1,521)**
Distributions					(3,062)	(3,062)		**(3,062)**
Net loss					(3,988)	(3,988)		**(3,988)**
Balance, September 30, 2010		$	$	$	$ (8,571)	$ (8,571)	$	**$ (8,571)**

The accompanying notes are an integral part of these financial statements.

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STAG Industrial, Inc. and STAG Predecessor Group

Consolidated and Combined Statements of Cash Flows

(unaudited, dollars in thousands)

	Stag Industrial, Inc. (Period from April 20, 2011 to September 30, 2011)	STAG Predecessor Group (Period from January 1, 2011 to April 19, 2011)	STAG Predecessor Group (Nine months ended September 30, 2010)
Cash flows from operating activities:			
Net loss	**$ (6,471)**	**$ (229)**	**$ (3,988)**
Adjustment to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	14,778	2,459	8,458
Amortization of deferred financing costs	538	31	89
Intangible amortization in rental income	1,714	(2)	86
Tenant straight line receivable, net	(821)	(16)	
(Gain) loss on interest rate swaps	(1,270)	(762)	1,029
Stock-based compensation expense	376		
Change in assets and liabilities:			
Tenant accounts receivable, net	(126)	88	(346)
Leasing commissions, net	(819)	(24)	(134)
Restricted cash	(551)		
Prepaid expenses and other assets	(56)	(87)	39
Accounts payable, accrued expenses and other liabilities	1,902	106	(522)
Tenant prepaid rent and security deposits	1,217	169	(738)
Due to related parties	55	767	2,922
Due from related parties	91	(141)	28
Total adjustments	17,028	2,588	10,911
Net cash provided by operating activities	**10,557**	**2,359**	**6,923**
Cash flows from investing activities:			
Additions of land and building improvements	(49,340)	(39)	(1,258)
Restricted cash	(1,834)	(542)	(302)
Cash paid for contributed assets, net	(425)		
Cash paid for deal deposits, net	(2,159)		
Additions to lease intangibles	(18,266)		
Net cash used in investing activities	**(72,024)**	**(581)**	**(1,560)**
Cash flows from financing activities:			
Proceeds from issuance of common stock, net	205,563		
Offering costs related to issuance of common stock	(17,042)		
Redemption of initial capitalization of STAG Industrial, Inc. shares	(2)		
Proceeds from notes payable to related parties		789	
Repayment of notes payable to related parties	(10,366)		
Proceeds from secured corporate credit facility	28,500		
Repayment of secured corporate credit facility	(11,000)		
Proceeds from mortgage notes payable	40,438		(3,417)

Repayment of mortgage notes payable	(154,119)	(1,180)	
Termination of interest rate swap contracts	(894)		
Payment of deferred financing fees	(3,029)		
Dividends and distributions	(4,871)	(2,679)	(3,062)
Net cash provided by (used in) financing activities	**73,178**	**(3,070)**	**(6,479)**
Increase (decrease) in cash and cash equivalents	11,711	(1,292)	(1,116)
Cash and cash equivalents beginning of period	277	1,567	2,773
Cash and cash equivalents end of period	**$ 11,988**	**$ 275**	**$ 1,657**

The accompanying notes are an integral part of these financial statements.

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STAG Industrial, Inc. and STAG Predecessor Group

Notes to Consolidated and Combined Financial Statements

(unaudited)

1. Organization and Description of Business

STAG Industrial, Inc. (the Company) is a Maryland corporation formed on July 21, 2010 that did not have any operating activity until the consummation of its initial public offering of common stock (the Offering) and the related formation transactions (the Formation Transactions) on April 20, 2011. The Company is the majority owner of the STAG Industrial Operating Partnership, L.P. (the Operating Partnership), which was formed on December 21, 2009. STAG Industrial GP, LLC, which was formed as a Delaware limited liability company on December 21, 2009, is a wholly owned subsidiary of the Company and is the sole general partner of the Operating Partnership. As of September 30, 2011, the Company owned 67.11% of the Operating Partnership. The Company is engaged in the business of acquiring, owning, leasing and managing of real estate, consisting primarily of industrial properties located throughout the United States. As of September 30, 2011, the Company owned 99 properties in 26 states with approximately 15.9 million rentable square feet, consisting of 52 warehouse/distribution properties, 26 manufacturing properties and 21 flex/office properties. The Company s properties were 92.2% leased to 83 tenants as of September 30, 2011. As used herein, the Company refers to STAG Industrial, Inc. and its consolidated subsidiaries and partnerships except where context otherwise requires.

The Company s predecessor for accounting purposes is STAG Predecessor Group (or Predecessor), which is not a legal entity, but a collection of the real estate entities that were owned by STAG Investments III, LLC (a Participant, as hereafter defined) prior to the Offering. STAG Predecessor Group also was engaged in the business of owning, leasing and operating real estate consisting primarily of industrial properties located throughout the United States. The financial information contained in this report that relates to the time periods on or prior to April 19, 2011 is the Predecessor s financial information; the financial information contained in this report for any time period from April 20, 2011 through September 30, 2011 is the Company s financial information.

The Company filed a prospectus dated April 15, 2011 with the Securities and Exchange Commission (SEC) on April 18, 2011. On April 20, 2011, concurrent with the Offering of the common stock of the Company, the members of limited liability companies affiliated with the Company (collectively, the Participants) that held direct or indirect interests in their real estate properties elected to take limited partnership units in the Operating Partnership (common units) in exchange for the contribution of their properties to the Company. The Formation Transactions were designed to (i) continue the operations of Predecessor, (ii) enable the Company to raise the necessary capital to acquire certain other properties, repay mortgage debt relating thereto and pay other indebtedness, (iii) fund costs, capital expenditures and working capital, (iv) provide a vehicle for future acquisitions, (v) enable the Company to comply with requirements under the federal income tax laws and regulations relating to real estate investment trusts, and (vi) preserve tax advantages for certain Participants.

The operations of the Company are carried on primarily through the Operating Partnership. The Company intends to elect the status of and qualify as a real estate investment trust (REIT) under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the Code), commencing with the 2011 tax year. The Company is fully integrated, self-administered, and self-managed.

On April 20, 2011, in connection with the Offering, the following Formation Transactions were completed:

- The Company issued 13,750,000 shares of its common stock for $13.00 per share.

- The Company acquired certain assets and related debt of STAG Predecessor Group and of the Participants. In exchange for such assets and related debt, STAG Predecessor Group and the Participants were issued a total of 7,590,000 common units of the Operating Partnership, with an aggregate value of approximately $98.7 million.

- The Company closed a loan agreement for a secured corporate revolving credit facility (the credit facility) of up to $100 million with Bank of America, N.A. as administrative agent and Merrill Lynch,

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STAG Industrial, Inc. and STAG Predecessor Group

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(unaudited)

Pierce, Fenner & Smith Incorporated as lead arranger. The credit facility has an accordion feature that allows the Company to request an increase in the total commitments of up to $100 million to $200 million under certain circumstances.

- The net proceeds of the Offering, together with borrowings in the amount of approximately $11.0 million under the credit facility, repaid approximately $164.7 million in certain outstanding indebtedness (including $2.5 million of direct costs associated with the obtaining and retiring of indebtedness and the termination of interest rate swaps) and $0.3 million to pay transfer taxes and other fees.

The Company received net proceeds from the Offering of approximately $166.3 million, reflecting the gross proceeds of approximately $178.8 million, net of underwriting fees of approximately $12.5 million. The Company incurred formation transaction costs and offering costs of $6.4 million of which $3.8 million is expensed and the remaining $2.6 million was deducted from the gross proceeds of the Offering. In connection with the exercise of the underwriters   overallotment option, on May 13, 2011, the Company issued an additional 2,062,500 shares of common stock at $13.00 per share, generating an additional $26.8 million of gross proceeds and $25.0 million in net proceeds after the underwriters   discount and offering costs. All of the shares of common stock were sold by the Company and there were no selling stockholders in the Offering. On May 17, 2011, the Company used a portion of the proceeds from the exercise of the overallotment option to repay the $11.0 million outstanding under the credit facility and retained the balance for future acquisitions and other general corporate needs.

2. Summary of Significant Accounting Policies

Interim Financial Information

The accompanying interim financial statements have been presented in conformity with accounting principles generally accepted in the United States of America (GAAP) and with the instructions to Form 10-Q of Regulation S-X for interim financial information. Accordingly, these statements do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, the accompanying interim financial statements include all adjustments, consisting of normal recurring items, necessary for their fair presentation in conformity with GAAP. Interim results are not necessarily indicative of results for a full year. The year-end consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. The information included in this Form 10-Q should be read in conjunction with the audited financial statements as of December 31, 2010 of the STAG Predecessor Group and related notes thereto included in the Company s prospectus dated April 15, 2011, filed with the SEC on April 18, 2011 pursuant to Rule 424(b) under the Securities Act of 1933, as amended.

Basis of Presentation

The Company s consolidated financial statements include the accounts of the Company, the Operating Partnership and their subsidiaries. The equity interests of other limited partners in the Operating Partnership are reflected as noncontrolling interest. The combined financial statements of STAG Predecessor Group include the accounts of STAG Predecessor Group and all entities in which STAG Predecessor Group had a controlling interest. All significant intercompany balances and transactions have been eliminated in the combination of entities. The financial statements of the Company are presented on a consolidated basis, for all periods presented and comprise the consolidated historical financial statements of the transferred collection of real estate entities and holdings, upon the initial public offering. The combined financial information presented for periods on or prior to April 19, 2011 relate solely to the STAG Predecessor Group. The financial statements for the period from April 20, 2011 through September 30, 2011 include the financial information of the Company, the Operating Partnership and their subsidiaries. **Where the Company is referenced in comparisons of financial results for any date prior to and including April 19, 2011, the financial information for such period relates solely to the STAG Predecessor Group, notwithstanding Company being the reference.**

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Notes to Consolidated and Combined Financial Statements

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Consolidated and Combined Statements of Cash Flows - Supplemental Disclosures

The following table provides supplemental disclosures related to the Consolidated and Combined Statements of Cash Flows (in thousands):

	STAG Industrial, Inc. (Period from April 20, 2011 to September 30, 2011)		STAG Predecessor Group (Period from January 1, 2011 to April 19, 2011)		STAG Predecessor Group (Nine months ended September 30, 2010)	
Supplemental cash flow information						
Cash paid for interest	$	7,026	$	2,433	$	7,891
Supplemental schedule of noncash investing and financing activities						
Acquisition of tangible assets	$	(211,501)	$		$	
Acquisition of goodwill upon Formation Transactions	$	4,923	$		$	
Acquisition of intangible assets upon Formation Transactions	$	(83,442)	$		$	
Assumption of mortgage notes payable	$	(197,723)	$		$	
Fair market value adjustment to mortgage notes payable acquired	$	(350)	$		$	
Assumption of related party notes payable upon Formation Transactions	$	(4,466)	$		$	
Acquisition of intangible liabilities upon Formation Transactions	$	(1,066)	$		$	
Acquisition of interest rate swaps upon Formation Transactions	$	(420)	$		$	
Acquisition of other liabilities upon Formation Transactions	$	(171)	$		$	
Issuance of units for acquisition of net assets upon Formation Transactions	$	95,670	$		$	
Disposition of accrued lender fees upon Formation Transactions	$		$	4,420	$	
Assumption of bridge loan for Option Properties upon Formation Transactions	$		$	(4,750)	$	
Assumption of note payable to related party for Option Properties upon Formation Transactions	$		$	(727)	$	
Assumption of interest rate swaps to related party for Option Properties upon Formation Transactions	$		$	(352)	$	

Additions of land and building improvement included in accounts payable, accrued expenses, and other liabilities	$	420	$		$	
Dividends declared but not paid	$	6,159	$		$	
Accrued distribution upon Formation Transactions	$		$	(1,392)	$	

Estimates

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

Rental Property and Depreciation

The Company evaluates the carrying value of all tangible and intangible real estate assets held for use for possible impairment when an event or change in circumstance has occurred that indicates their carrying value may not be recoverable. The evaluation includes estimating and reviewing anticipated future undiscounted cash flows to be derived from the asset and the ultimate sale of the asset. If such cash flows are less than the asset s carrying value, an impairment charge is recognized to the extent by which the asset s carrying value exceeds the estimated fair value. Estimating future cash flows is highly subjective and such estimates could differ materially from actual results. For the periods presented, no impairment charges were recognized.

For properties considered held for sale, the Company ceases depreciating the properties and values the properties at the lower of depreciated cost or fair value, less costs to dispose. If circumstances arise that were previously considered unlikely, and, as a result, the Company decided not to sell a property previously classified as held for sale, the Company will reclassify such property as held and used. Such property is measured at the lower of

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its carrying amount (adjusted for any depreciation and amortization expense that would have been recognized had the property been continuously classified as held and used) or fair value at the date of the subsequent decision not to sell. The Company classifies properties as held for sale when all criteria within the Financial Accounting Standards Board s (the FASB) Accounting Standard Codification (ASC) 360 *Property, Plant and Equipment* (ASC 360) (formerly known as Statement of Financial Accounting Standard (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*) are met.

Depreciation expense is computed using the straight-line method based on the following useful lives:

Buildings	40 years
Building and land improvements	5-20 years
Tenant improvements	Shorter of useful life or terms of related lease

Expenditures for tenant improvements, leasehold improvements and leasing commissions are capitalized and amortized or depreciated over the shorter of their useful lives or the terms of each specific lease. Repairs and maintenance are charged to expense when incurred. Expenditures for improvements are capitalized.

The Company accounts for all acquisitions in accordance with ASC 805, *Business Combinations*, (formerly known as SFAS No. 141(R)). Upon acquisition of a property, the Company allocates the purchase price of the property based upon the fair value of the assets and liabilities acquired, which generally consist of land, buildings, tenant improvements and intangible assets including in-place leases, above market and below market leases and tenant relationships, as well as the fair value of debt assumed. The Company allocates the purchase price to the fair value of the tangible assets of an acquired property by valuing the property as if it were vacant. Acquired above and below market leases are valued based on the present value of the difference between prevailing market rates and the in-place rates measured over a period equal to the remaining term of the lease for above market leases and the initial term plus the term of any below market fixed rate renewal options for below market leases that are considered bargain renewal options. The above market lease values are amortized as a reduction of rental income over the remaining term of the respective leases, and the below market lease values are amortized as an increase to rental income over the remaining initial terms plus the terms of any below market fixed rate renewal options that are considered bargain renewal options of the respective leases.

The purchase price is further allocated to in-place lease values and tenant relationships based on the Company s evaluation of the specific characteristics of each tenant s lease and its overall relationship with the respective tenant. The value of in-place lease intangibles and tenant relationships, which are included as components of deferred leasing intangibles, are amortized over the remaining lease term (and expected renewal periods of the respective lease for tenant relationships) as adjustments to depreciation and amortization expense. If a tenant terminates its lease, the unamortized portion of leasing commissions, above and below market leases, the in-place lease value and tenant relationships are immediately written off.

In determining the fair value of the debt assumed, the Company discounts the spread between the future contractual interest payments and hypothetical future interest payments on mortgage debt based on a current market rate. The associated discount or premium is amortized through interest expense over the life of the debt.

Tenant Accounts Receivable, net

The Company provides an allowance for doubtful accounts against the portion of tenant accounts receivable which is estimated to be uncollectible. As of September 30, 2011 and December 31, 2010, the Company had an allowance for doubtful accounts of $0.1 million and $0.2 million, respectively.

The Company accrues rental revenue earned, but not yet receivable, in accordance with GAAP. As of September 30, 2011 and December 31, 2010, the Company had accrued rental revenue of $4.0 million and $3.3

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million, respectively, which is reflected in tenant accounts receivable, net on the accompanying balance sheets. The Company maintains an allowance for estimated losses that may result from those revenues. If a tenant fails to make contractual payments beyond any allowance, the Company may recognize additional bad debt expense in future periods equal to the amount of unpaid rent and accrued rental revenue. As of September 30, 2011 and December 31, 2010, the Company had an allowance on accrued rental revenue of $0.1 million and $0.3 million, respectively.

As of September 30, 2011 and December 31, 2010, the Company had a total of approximately $3.6 million and $2.2 million, respectively, of total lease security deposits available in existing letters of credit; and $1.4 million and $0.6 million, respectively, of lease security deposits available in cash.

Goodwill

The excess of the cost of an acquired business over the net of the amounts assigned to assets acquired (including identified intangible assets) and liabilities assumed is recorded as goodwill. Goodwill of the Company represents amounts allocated to the assembled workforce from the acquired management company. The Company s goodwill has an indeterminate life and is not amortized, but is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that the asset might be impaired.

In September 2011, the FASB issued Accounting Standards Update No. 2011-08, *Testing Goodwill for Impairment*, which allowed for companies to take a qualitative approach to considering whether an impairment of goodwill exists prior to quantitatively determining the fair value of the reporting unit in step one of the impairment test. While the new guidance is not effective until fiscal years beginning after December 15, 2011, companies were permitted to early adopt the provisions. The Company intends to early adopt the provisions and will take a qualitative approach on its impairment analysis at December 31, 2011 by analyzing changes in key performance metrics as compared to the initial purchase price allocation at the Formation Transactions. No impairment charge was recognized for periods presented.

Derivative Financial Instruments and Hedging Activities

The Company accounts for its interest rate swaps in accordance with ASC 815, *Derivatives and Hedging* (formerly known as SFAS No. 133). The Company has not designated the interest rate swaps as hedge instruments for accounting purposes. Accordingly, the Company recognizes the fair value of the interest rate swaps as an asset or liability on the consolidated balance sheets with the changes in fair value recognized in the consolidated statements of operations.

By using interest rate swaps, the Company exposes itself to market and credit risk. Market risk is the risk of an adverse effect on the value of a financial instrument that results from a change in interest rates. Credit risk is the risk of failure of the counterparty to perform under the terms of the contract. The Company minimizes the credit risk in an interest rate swap by entering into transactions with high-quality counterparties. The Company s exposure to credit risk at any point is generally limited to amounts recorded as assets or liabilities on the consolidated balance sheets.

Fair Value of Financial Instruments

Financial instruments include cash and cash equivalents, tenant accounts receivable, interest rate swaps, accounts payable, other accrued expenses and mortgage notes payable. The fair values of the cash and cash equivalents, tenant accounts receivable, accounts payable and other accrued expenses approximate their carrying or contract values because of the short term maturity of these instruments. See Note 5 for the fair values of the Company s debt. The carrying value of notes payable to related parties approximates fair value. See Note 6 for the fair values of the Company s interest rate swaps.

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Offering Costs

In connection with the Offering, certain Company affiliates incurred legal, accounting, and related costs, which were reimbursed by the Company upon the consummation of the Offering. Such costs were deducted from the gross proceeds of the Offering. Indirect costs associated with equity offerings are expensed as incurred.

Revenue Recognition

Rental revenue is recognized on a straight-line basis over the term of the lease when collectability is reasonably assured. Differences between rental revenue earned and amounts due under the lease are charged or credited, as applicable, to accrued rental revenue. Additional rents from expense reimbursements for insurance, real estate taxes and certain other expenses are recognized in the period in which the related expenses are incurred.

Early lease termination fees are recorded in rental income on a straight-line basis from the notification date of such termination to the then remaining (not the original) lease term, if any, or upon collection if collection is not assured. On July 8, 2011, the Company entered into a partial lease termination agreement with the tenant of two facilities, one located in Youngstown, OH and the other in Bardstown, KY. The agreement provided that the Youngstown lease terminated effective July 31, 2011 and required the tenant to pay a termination fee of $2.0 million. Of the termination fee paid, $0.2 million was a replenishment of a security deposit at the Bardstown, KY property, $45 thousand was applied to the outstanding accounts receivable, and the remaining amount of approximately $1.8 million was recognized as termination income and is included in rental income during the three months ended September 30, 2011.

The Company earns revenues from asset management fees, which are included in its statements of operations in other income. The Company recognizes revenues from asset management fees when the related fees are earned and are realized or realizable.

Certain tenants are obligated to pay directly their obligations under their leases for insurance, real estate taxes and certain other expenses and these costs, which have been assumed by the tenants under the terms of their respective leases, are not reflected in the Company s consolidated financial statements. To the extent any tenant responsible for these costs under their respective lease defaults on its lease or it is deemed probable that the tenant will fail to pay for such costs, the Company would record a liability for such obligation. The Company estimates that real estate taxes, which are the responsibility of these certain tenants, were approximately $0.5 million for the period January 1, 2011 to April 19, 2011, $2.4 million for the period April 20, 2011 to September 30, 2011 and $1.4 million for the three months ended September 30, 2011. The Company does not recognize recovery revenue related to leases where the tenant has assumed the cost for real estate taxes, insurance, and certain other expenses.

Incentive and Stock-Based Employee Compensation Plans

The Company grants stock-based compensation awards to its employees and directors typically in the form of restricted shares of common stock, long-term incentive plan units in the Operating Partnership (LTIP units) and other performance based plans. See Note 7 for further discussion of restricted shares of common stock. See Note 8 for further discussion of LTIP units. The Company accounts for its stock-based employee compensation in accordance with ASC 718, *Compensation Stock Compensation* (formerly known as FASB No. 123(R)). The Company measures stock-based compensation expense based on the fair value of the awards on the grant date and recognizes the expense ratably over the vesting period.

On September 20, 2011, the compensation committee of the Company s board of directors approved the 2011 Outperformance Program (the OPP) under the Company s 2011 Equity Incentive Plan (the 2011 Plan) to

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provide certain key employees of the Company or its affiliates with incentives to contribute to the growth and financial success of the Company. The OPP utilizes total stockholder return over a three-year measurement period as the performance measurement.

Recipients of awards under the OPP will share in an outperformance pool if the Company s total stockholder return, including both share appreciation and dividends, exceeds an absolute hurdle over a three-year measurement period from September 20, 2011 to September 20, 2014 (the measurement period), based on a beginning value of $12.50 per share of the Company s common stock as well as a relative hurdle based on the MSCI US REIT Index. The aggregate reward that all recipients collectively can earn, as measured by the outperformance pool, is capped at $10.0 million.

Provided the Company s increase in cumulative absolute total stockholder return over the three-year measurement period is equal to or greater than 25% (the threshold percentage), the outperformance pool will consist of 10% of the excess total stockholder return above a relative total stockholder return hurdle. The hurdle is equal to the total return of the MSCI US REIT Index plus five percentage points over the measurement period. No awards will be granted under the OPP if the Company s absolute total stockholder return is below the threshold percentage. If the Company s total stockholder return is equal to or in excess of the threshold percentage and greater than the relative total stockholder return hurdle, then the award recipients will be entitled to the payments described below.

Each participant s award under the OPP is designated as a specified percentage of the aggregate outperformance pool. Assuming the applicable absolute and relative total stockholder return thresholds are achieved at the end of the measurement period, the outperformance pool will be calculated and then allocated among the award recipients in accordance with each individual s percentage. The award will be paid in the form of fully vested shares of the Company s common stock, unless the compensation committee elects, with the award recipient s consent, to issue the award recipient other securities or to make a cash payment to the award recipient equal to the award recipient s share of the outperformance pool. The number of shares of common stock earned by each award recipient will be determined at the end of the measurement period by dividing the recipient s share of the outperformance pool by the closing price of the Company s common stock on the valuation date. On September 26, 2011, the compensation committee awarded 100% of the interests in the OPP to key employees of the Company.

The OPP awards were valued at approximately $1.2 million utilizing a Monte Carlo simulation to estimate the probability of the performance conditions being satisfied. The Monte Carlo simulation used a statistical formula underlying the Black-Scholes and binomial formulas and such simulation was run approximately 100,000 times. For each simulation, the payoff is calculated at the settlement date, which is then discounted to the award date at a risk-free interest rate. The average of the values over all simulations is the expected value of the award on the award date. Assumptions used in the valuations included (1) factors associated with the underlying performance of the Company s stock price and total stockholder return over the term of the performance awards including total stock return volatility and risk-free interest and (2) factors associated with the relative performance of the Company s stock price and total stockholder return when compared to the MSCI US REIT Index. The valuation was performed in a risk-neutral framework, so no assumption was made with respect to an equity risk premium. The fair value of the OPP awards was estimated on the date of grant using the following assumptions in the Monte-Carlo valuation: expected price volatility for the Company and the MSCI US REIT Index of 55% and 59.3%, respectively, and a risk free rate of 0.3423%. The expense associated with the value of the OPP awards will be amortized on a straight-line basis over the measurement period.

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Income Taxes

Prior to the Offering, the Predecessor was comprised primarily of limited partnerships and limited liability companies. Under applicable federal and state income tax rules, the allocated share of net income or loss from the limited partnerships and limited liability companies was reportable in the income tax returns of the respective partners and members.

The Company intends to elect to be taxed as a REIT under the Code commencing with the taxable year ending December 31, 2011. To qualify as a REIT, the Company is required to distribute at least 90% of its REIT taxable income to its stockholders and meet the various other requirements imposed by the Code relating to such matters as operating results, asset holdings, distribution levels and diversity of stock ownership. Provided the Company qualifies for taxation as a REIT, the Company is generally not subject to corporate level income tax on the earnings distributed currently to its stockholders that it derives from its REIT qualifying activities. If the Company fails to qualify as a REIT in any taxable year, and is unable to avail itself of certain savings provisions set forth in the Code, all of the Company s taxable income would be subject to federal income tax at regular corporate rates, including any applicable alternative minimum tax.

The Company will not be required to make distributions with respect to income derived from the activities conducted through subsidiaries that the Company elects to treat as taxable REIT subsidiaries (TRS) for federal income tax purposes. Certain activities that the Company undertakes must be conducted by a TRS, such as performing non-customary services for its tenants and holding assets that it cannot hold directly. A TRS is subject to federal and state income taxes.

The Company currently has no liabilities for uncertain tax positions.

Earnings Per Share

Basic earnings (loss) per share is computed by dividing net income (loss) available to common stockholders, as adjusted for unallocated earnings (if any) of certain securities issued by the Operating Partnership, by the weighted average number of shares of Common Stock outstanding during the year. Diluted earnings (loss) per share reflects the potential dilution that could occur from shares issuable in connection with awards under incentive and stock-based compensation plans and conversion of the noncontrolling interests in the Operating Partnership.

Segment Reporting

The Company manages its operations on a consolidated, single segment basis for purposes of assessing performance and making operating decisions and, accordingly, has only one reporting segment.

3. Acquisitions

As part of the Formation Transactions, STAG Investments IV, LLC and STAG GI Investments, LLC (which are certain of the Participants and are referred to as part of the STAG Contribution Group in the Company s prospectus and this report) contributed 100% of their real estate entities and operations in exchange for 7.3 million common units in the Operating Partnership valued at $13.00 per common unit. The members of STAG Capital Partners, LLC and STAG Capital Partners III, LLC (referred to in the aggregate as the Management Company in the Company s prospectus and this report), contributed 100% of those entities assets and liabilities in exchange for 38,621 common units in the Operating Partnership valued at $13.00 per common unit. The contribution of interests in these entities was accounted for as an acquisition under the acquisition method of accounting and recognized at the estimated fair value of acquired assets and assumed liabilities on the date of such contribution. STAG Predecessor Group, which includes the entity that is considered the Company s accounting

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acquirer, is part of the Company s predecessor business and therefore the assets and liabilities of STAG Predecessor Group were accounted for at carryover basis.

The fair values assigned to identifiable intangible assets acquired were based on estimates and assumptions determined by the Company s management. Using information available at the time the acquisition closed, the Company allocated the total consideration to tangible assets and liabilities, identified intangible assets and liabilities, and goodwill.

As part of the Offering and the Formation Transactions, the Company incurred $17 million of offering costs, which are included as a reduction of additional paid-in capital on the consolidated balance sheet. The Company also incurred $3.8 million of transaction costs associated with the Formation Transactions, which are included in formation transaction costs on the consolidated statements of operations.

On May 26, 2011, the Company acquired an approximately 231,000 square foot manufacturing and distribution facility located in Lansing, Michigan. The facility is 100% leased to JCIM, LLC (JCIM), a subsidiary of the publicly traded company, Johnson Controls, Inc. (NYSE: JCI). The purchase price of the JCIM acquisition was approximately $14.1 million, excluding closing costs of approximately $0.2 million, which are included in property acquisition costs on the consolidated statements of operations. The purchase was funded using cash on hand and approximately $9.1 million of debt under the Company s CIGNA-2 facility (as defined in Note 5).

On June 30, 2011, the Company acquired an approximately 101,500 square foot manufacturing and distribution facility located in Fort Worth, Texas. The facility is 100% leased to Ecolab, Inc. (Ecolab), a public company (NYSE: ECL) that engages in the development, manufacture, sale, and service of products that clean, sanitize, and promote food safety and infection prevention. The purchase price of the Ecolab acquisition was approximately $3.6 million, excluding closing costs of approximately $0.1 million, which are included in property acquisition costs on the consolidated statements of operations. The purchase was funded using cash on hand and approximately $2.4 million of debt under the Company s CIGNA-2 facility (as defined in Note 5).

On July 19, 2011, the Company acquired an approximately 420,690 square foot manufacturing and distribution facility located in Portland, Oregon. The facility is 52% leased to Unisource Worldwide, Inc., and 48% leased to Benson Industries, LLC (Unisource-Benson). The purchase price of the acquisition was approximately $14.3 million, excluding closing costs of approximately $0.1 million, which are included in property acquisition costs on the consolidated statements of operations. The purchase was funded using cash on hand and proceeds from the credit facility. Subsequent to the acquisition date, on July 26, 2011, the Company drew on the CIGNA-2 facility (as defined in Note 5) in the amount of $9.6 million.

On July 28, 2011, the Company acquired an approximately 305,550 square foot manufacturing and distribution facility located in Hazelwood, Missouri. The facility is 100% leased to Cott Beverages, Inc. (Cott Beverages). The purchase price of the acquisition was approximately $10.7 million, excluding closing costs of approximately $0.071 million, which are included in property acquisition costs on the consolidated statements of operations. The purchase was funded by assuming existing debt of approximately $7.2 million (see Note 5 for further details) and by using cash on hand.

On August 4, 2011, the Company acquired an approximately 200,000 square foot warehouse and distribution facility located in Norton, Massachusetts. The facility is 100% leased to Plantation Products LLC (Plantation Products). The purchase price of the acquisition was approximately $11.0 million, excluding closing costs of approximately $0.1 million, which are included in property acquisition costs on the consolidated statements of operations. The purchase was funded using cash on hand and approximately $6.2 million of debt (see Note 5 for further details).

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On September 2, 2011, the Company acquired an approximately 226,256 square foot warehouse and distribution facility located in Conyers, Georgia. The facility is 100% leased to Diversitech Corporation (Diversitech). The purchase price of the acquisition was approximately $6.4 million, excluding closing costs of approximately $0.1 million, which are included in property acquisition costs on the consolidated statements of operations. The purchase was funded using cash on hand and approximately $4.1 million of debt under the Company s CIGNA-2 facility (as defined in Note 5).

On September 22, 2011, the Company acquired two warehouse and distribution facilities located in Louisville, Kentucky, which together have a total of 497,820 square feet. The facilities are 100% leased to Exel, Inc. (Exel). The purchase price of the acquisition was approximately $14.7 million, excluding closing costs of approximately $0.1 million, which are included in property acquisition costs on the consolidated statements of operations. The purchase was funded using cash on hand and approximately $9.3 million of debt under the Company s CIGNA-3 facility (as defined in Note 5).

The fair values assigned to identifiable intangible assets acquired were based on estimates and assumptions determined by management. Using information available at the time the acquisition closed, the Company allocated the total consideration to tangible assets and liabilities and identified intangible assets and liabilities. The Company may adjust the preliminary purchase price allocation after obtaining more information about asset valuations and liabilities assumed.

As of September 30, 2011, the Company had approximately $4.9 million of goodwill. Goodwill of the Company represents amounts allocated to the assembled workforce from the acquired management company. The Company s goodwill has an indeterminate life and is not amortized, but is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that the asset might be impaired.

The following table summarizes the allocation of the consideration paid for the acquired assets and liabilities in connection with the Formation Transactions and the acquisitions of manufacturing and distribution facilities (in thousands) at the date of acquisition:

	Formation Transactions (1)	JCIM	Ecolab	Unisource-Berlin	Cott Beverages	Plantation Products	Diversitech	Exel	Total	Weighted Average Amortization Period (years) Lease Intangibles
Land	$ 33,506	$ 501	$ 389	$ 1,730	$ 1,382	$ 2,839	$ 969	$ 1,003	$ 42,319	N/A
Buildings and improvements	159,815	7,705	2,766	8,534	5,030	6,106	3,993	9,206	203,155	N/A

Tenant improvements	10,795	458	199	206	784	635	150	676	13,903	N/A
Cash and escrow for capital additions							80	1,320	1,400	N/A
Above market rents	22,881	2,543		625	1,624		82		27,755	7.7
Below market rents	(1,066)		(90)			(207)		(189)	(1,552)	7.6
In place lease intangibles	35,565	2,376	248	2,234	1,552	1,246	771	1,767	45,759	6.5
Customer relationships	24,996	521	88	971	512	381	340	867	28,676	8.1
Other liabilities	(171)								(171)	N/A
Interest rate swaps	(420)								(420)	N/A
Goodwill	4,923								4,923	N/A
Above/below market assumed debt adjustment	(141)				(209)				(350)	N/A
Total aggregate purchase price	290,683	14,104	3,600	14,300	10,675	11,000	6,385	14,650	365,397	
Less: Long-term liabilities assumed	(195,013)				(7,176)				(202,189)	
Net assets acquired	$ 95,670	$ 14,104	$ 3,600	$ 14,300	$ 3,499	$ 11,000	$ 6,385	$ 14,650	$ 163,208	

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(1) Net assets acquired represent a non-cash transaction, which is provided in detail above as supplemental cash flow information.

The Company has included the results of operations for each of these acquired properties in its consolidated statements of operations from the date of acquisition. For the period April 20, 2011 to September 30, 2011, the acquired entities contributed $13.8 million to total revenue and $2.1 million to net loss (including property acquisition costs of $0.6 million related to the JCIM, Ecolab, Unisource-Benson, Cott Beverages, Plantation Products, Diversitech, and Exel acquisitions).

The accompanying unaudited pro forma information for the nine months ended September 30, 2011 and 2010 is presented as if the Formation Transactions and the acquisitions of the properties had occurred at January 1, 2010. The pro forma amounts for the properties identified by footnote (1) within the table below reflect the results of operations had the properties been acquired as of the first day of the period presented through and including the date prior to the respective acquisition date. This pro forma information does not purport to represent what the actual results of operations of the Company would have been had the above occurred, nor do they purport to predict the results of operations of future periods.

	Nine Months Ended September 30, 2011 (in thousands, except share data)						
Pro Forma	**Company**	**JCIM (1)**	**Unisource-Benson (1)**	**Cott Beverages (1)**	**Exel (1)**	**Other (1) (2)**	**Total**
Total revenue	$ 45,483	$ 453	$ 1,006	$ 860	$ 1,092	$ 1,274	$ 50,168
Net income (loss)	(3,411)	65	14	148	212	296	(2,676)
Net income (loss) attributable to the Company	$ (2,275)	$ 43	$ 9	$ 99	$ 141	$ 197	$ (1,786)
Weighted average shares outstanding							15,524,807
Net loss per share attributable to the Company							$ (0.12)

	Nine Months Ended September 30, 2010 (in thousands, except share data)						
Pro Forma	**Company**	**JCIM**	**Unisource-Benson**	**Cott Beverages**	**Exel**	**Other (2)**	**Total**

Total revenue	$	44,970	$	1,052	$	1,388	$	960	$	1,117	$	1,600	$	51,087
Net income (loss)		(7,745)		331		23		50		212		392		(6,737)
Net income (loss) attributable to the Company	$	(5,166)	$	221	$	15	$	33	$	141	$	262	$	(4,494)
Weighted average shares outstanding														15,524,807
Net loss per share attributable to the Company													$	(0.29)

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(1) Pro forma amounts reflect the results of operations had JCIM, Ecolab, Unisource-Benson, Cott Beverages, Plantation Products, Diversitech, and Exel been acquired as of the first day of the period presented through and including the date prior to acquisition or May 25, 2011, June 29, 2011, July 18, 2011, July 27, 2011 August 3, 2011, September 1, 2011, and September 21, 2011, respectively. Actual results from and including the date of acquisition through September 30, 2011 are included within the pro forma results of STAG Industrial, Inc. within the table above.

(2) Amounts in this column reflect the results of operations for Ecolab, Plantation Products, and Diversitech. Each of these properties was considered individually insignificant and therefore presented combined.

4. Deferred Leasing Intangibles

Deferred leasing intangibles included in total assets consisted of the following (in thousands):

	September 30, 2011	December 31, 2010
In-place leases	$ 47,322	$ 11,594
Less: Accumulated amortization	(10,982)	(6,363)
In-place leases, net	36,340	5,231
Above market leases	30,461	2,705
Less: Accumulated amortization	(3,545)	(1,354)
Above market leases, net	26,916	1,351
Tenant relationships	31,721	3,285
Less: Accumulated amortization	(3,518)	(1,454)
Tenant relationships, net	28,203	1,831
Leasing commissions	14,182	5,492
Less: Accumulated amortization	(3,396)	(2,398)
Leasing commissions, net	10,786	3,094
Total deferred leasing intangibles, net	$ 102,245	$ 11,507

Deferred leasing intangibles included in total liabilities consisted of the following (in thousands):

	September 30, 2011	December 31, 2010
Below market leases	$ 3,954	$ 2,656

Less: Accumulated amortization		(1,909)		(1,680)
Total deferred leasing intangibles, net	$	2,045	$	976

Amortization expense related to in-place leases, lease commissions and tenant relationships of deferred leasing intangibles was $4.8 million for the three months ended September 30, 2011, $0.7 million for the period January 1, 2011 to April 19, 2011, and $8.5 million for the period April 20, 2011 to September 30, 2011, and $1.4 million and $3.6 million for the three and nine months ended September 30, 2010, respectively. Rental income increased (decreased) by ($0.8) million for the three months ended September 30, 2011, $2 thousand for the period January 1, 2011 to April 19, 2011, and $(1.7) million for the period April 20, 2011 to September 30, 2011, related to net amortization of above (below) market leases, respectively, and ($0.1) million and ($0.1) million for the three and nine months ended September 30, 2010, respectively.

Amortization related to deferred leasing intangibles over the next five years is as follows (in thousands):

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	Estimated Net Amortization of In-Place Leases and Tenant Relationships	Net Decrease (Increase) to Rental Revenue Related to Above and Below Market Leases
Remainder of 2011	$ 4,203	$ 996
2012	15,018	3,892
2013	12,050	3,786
2014	10,730	3,445
2015	8,767	3,238

5. Debt

Payments on mortgage notes are generally due in monthly installments of principal amortization and interest. A summary of the mortgage notes payable and credit facility as of September 30, 2011 and December 31, 2010 follows (dollars in thousands):

Loan	Interest Rate (1)	Principal outstanding as of September 30, 2011	Principal outstanding as of December 31, 2010	Current Maturity
Anglo Irish Master Loan - Variable Amount	N/A	$	$ 10,954	N/A
Anglo Irish Master Loan - Fixed Amount	5.165%	140,073	157,815	Oct-31-2013
Anglo Irish Bridge Loan	N/A		34,397	N/A
CIGNA-1 Facility	6.50%	60,543		Feb-1-2018
CIGNA-2 Facility	5.75%	59,377		Feb-1-2018
CIGNA-3 Facility	5.88%	9,250		Sept-22-2019
CIBC, Inc. (4)	7.05%	8,417		Aug-1-2027
Credit Facility	Libor + 3.00%	17,500		Apr-20-2014
Union Fidelity Life Insurance Co. (2)	5.81%	7,306		Apr-30-2017
Webster Bank National Association (3)	4.22%	6,162		Aug-4-2016
		$ 308,628	$ 203,166	

(1) Current interest rate as of September 30, 2011. At September 30, 2011 and December 31, 2010, the one-month LIBOR rate was 0.239% and 0.261%, respectively.

(2) This loan was assumed at the acquisition of the Cott Beverages property and the principal outstanding includes an unamortized fair market value premium of $200 thousand as of September 30, 2011.

(3) This loan was entered into at the acquisition of the Plantation Products property.

(4) Principal outstanding includes an unamortized fair market value premium of $97 thousand as of September 30, 2011.

The Company is party to a master loan agreement with Anglo Irish Bank Corporation Limited (Anglo Irish). As of September 30, 2011 and December 31, 2010, the outstanding balance under this loan agreement was $140.1 million and $168.8 million, respectively. As part of the Formation Transactions, the maturity date of the Anglo Irish master loan was extended from January 2012 to October 2013. The Company made a partial pay down of the Anglo Irish master loan in the amount of $26.4 million in connection with the Formation Transactions. The Company was also party to a bridge loan agreement with Anglo Irish. As of September 30, 2011 and December 31, 2010, the outstanding balance under this bridge loan agreement was $0 and $34.4 million, respectively. Upon the Formation Transactions, the bridge loan was paid off in its entirety including approximately $4.8 million of the bridge loan, which related to three vacant properties owned by STAG Investments III, LLC (Fund III) and not contributed to the Company (the Option Properties) and which was assumed and paid in full with Offering proceeds. Upon approval of the independent directors, the Company has the right to acquire any of the Option Properties individually at fair market value upon the satisfaction of certain lease up conditions.

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Upon consummation of the Formation Transactions, the Company assumed the following debt:

- the acquisition loan facility with Connecticut General Life Insurance Company (CIGNA) that was originally entered into in July 2010 (the CIGNA-1 facility) with an outstanding balance of approximately $60.7 million and an interest rate of 6.50% per annum, scheduled to mature on February 1, 2018 (which had no remaining borrowing capacity);

- the acquisition loan facility with CIGNA that was originally entered into in October 2010 (the CIGNA-2 facility) with an outstanding balance of approximately $34.6 million and an interest rate of 5.75% per annum, scheduled to mature on February 1, 2018 (which had approximately $30.4 million in borrowing capacity remaining upon consummation of the Formation Transactions); and

- a loan from CIBC, Inc. with an outstanding balance of approximately $8.5 million and an interest rate of 7.05% per annum, scheduled to mature on August 1, 2027. The interest rate increases to the greater of 9.05% and the treasury rate as of August 1, 2012 plus 2% beginning in August 2012 and continues through maturity but is prepayable at par from May 1, 2012 through and including August 1, 2012.

Concurrent with the Formation Transactions, borrowings in the amount of approximately $11.0 million were drawn under the credit facility and subsequently paid down during the period ended June 30, 2011.

Pursuant to the provisions of ASC 805, the assumed notes were recorded at fair value. The carrying values of all debt assumed concurrent with the Formation Transactions (for purposes of clarity, excluding Predecessor debt) approximated fair value with the exception of the note from CIBC, Inc. for which a fair value premium of approximately $0.1 million was recorded.

The credit facility is secured by, among other things, 19 mortgages granted by various indirect subsidiaries of the Operating Partnership. The credit facility has an accordion feature that allows the Company to request an increase in the total commitments of up to $100 million to $200 million. The interest rate on the credit facility varies depending upon the Company s consolidated debt to total asset value ratio. As of September 30, 2011 the interest rate for the credit facility was LIBOR plus 3.00%. Subsequent to September 30, 2011, the interest rate was reduced to LIBOR plus 2.50%. The Company currently pays an unused commitment fee equal to 0.50% of the unused portion of the credit facility. During the three months ended September 30, 2011 and the period April 20, 2011 to September 30, 2011, the Company incurred $0.1 million and $0.2 million in unused fees, respectively, which are included in interest expense on the consolidated statements of operations. The Company incurred $1.8 million of costs related to the credit facility, which is included in deferred financing fees, net on the consolidated balance sheet. At September 30, 2011 the outstanding balance on the credit facility was $17.5 million. The credit facility was utilized to fund the acquisitions of properties and general corporate purposes.

On May 26, 2011, June 30, 2011, July 26, 2011 and September 2, 2011 the Company borrowed against the CIGNA-2 facility in the amounts of $9.1 million, $2.4 million, $9.6 million and $4.1 million for the purchases of the JCIM, Ecolab, Unisource-Benson and Diversitech properties, respectively, discussed in Note 3, leaving a remaining borrowing capacity of approximately $5.6 million as of September 30, 2011.

On July 8, 2011, the Company entered into a $65.0 million acquisition loan facility with CIGNA (CIGNA-3 facility). The CIGNA-3 facility has an interest rate of 5.88% and is scheduled to mature in September 2019. The CIGNA-3 facility has a remaining borrowing capacity of approximately $55.7 million as of September 30, 2011.

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(unaudited)

On July 28, 2011, the Company assumed debt with Union Fidelity Life Insurance Co. in the amount of $7.2 million in connection with the acquisition of the Cott Beverages property. The debt matures on April 30, 2017 and bears interest at 5.81%. The debt is secured by the Cott Beverages property. Pursuant to the provisions of ASC 805, the assumed debt was recorded at fair value and a fair value premium of approximately $0.2 million was recorded.

On August 4, 2011 in connection with the acquisition of the Plantation Products property, the Company entered into a loan agreement with Webster Bank, National Association (Webster Bank) in the amount of $6.2 million with an interest rate of 4.22%, scheduled to mature on August 4, 2016. The loan is secured by the Plantation Products property.

The Anglo Irish master loan, Anglo Irish bridge loan, the CIGNA-1, CIGNA-2, and CIGNA-3 facilities, the CIBC loan, the credit facility, the Union Fidelity Life Insurance Co. loan and the Webster Bank loan are secured by the specific properties financed under the loans and a first priority collateral assignment of the specific leases and rents. The Anglo Irish master loan, CIGNA-1, CIGNA-2, and CIGNA-3 facilities, credit facility, and Webster Bank loan are subject to certain financial covenants. The Company was in compliance with all financial covenants as of September 30, 2011 and the Predecessor was in compliance with all financial covenants in all applicable loan facilities as of December 31, 2010.

The fair value of the Company s debt was determined by discounting the future cash flows using the current rates at which loans would be made to borrowers with similar credit ratings for loans with similar remaining maturities and similar loan-to-value ratios. The following table presents the aggregate carrying value of the Company s debt and the corresponding estimate of fair value as of September 30, 2011 and December 31, 2010 (in thousands):

September 30, 2011		December 31, 2010	
Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
$ 308,628	$ 310,332	$ 203,166	$ 200,866

6. Use of Derivative Financial Instruments

The Company s use of derivative instruments is limited to the utilization of interest rate swaps to manage interest rate risk exposures and not for speculative purposes. The principal objective of such arrangements is to minimize the risks and/or costs associated with the Company s operating and financial structure, as well as to hedge specific transactions.

STAG Predecessor Group entered into an interest rate swap with a notional amount of $141.0 million to hedge against interest rate risk on its variable rate loan with Anglo Irish (Anglo Irish Master Loan Swap), which was part of the debt contributed to the Company. The Anglo Irish Master Loan Swap will expire on January 31, 2012. In connection with the Formation Transactions, the Company assumed and terminated an interest rate swap with Citizens Bank, N.A. with a notional amount of $45.0 million at a cost of $0.3 million. The Company also assumed a swap with Bank of America, N.A. with a notional amount of $31.0 million and terms to receive LIBOR and pay 1.67%, which expired on August 1, 2011. This swap was secured under the credit facility. A summary of the fair value of the interest rate swap outstanding as of September 30, 2011 and December 31, 2010 is as follows (in thousands):

	Notional Amount September 30, 2011	Fair Value September 30, 2011	Fair Value December 31, 2010
Anglo Irish Master Loan Swap	$ 141,000	$ (1,123)	$ (3,277)

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STAG Industrial, Inc. and STAG Predecessor Group

Notes to Consolidated and Combined Financial Statements

(unaudited)