Campus Crest Communities, Inc.
Form 10-Q
October 30, 2013

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

FORM 10-Q

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

For the quarterly period ended September 30, 2013

OR

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

For the transition period from_________ to

Commission file number: 001-34872

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

Maryland (State or other jurisdiction of incorporation or organization)	**27-2481988** (I.R.S. Employer Identification No.)
2100 Rexford Road, Suite 414, Charlotte, NC (Address of principal executive offices)	**28211** (Zip Code)

(704) 496-2500
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

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 þ No ¨

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes þ No ¨

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

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

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

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

Class	Outstanding at October 30, 2013
Common Stock, $0.01 par value per share	64,510,382 shares

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FORM 10-Q
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CAMPUS CREST COMMUNITIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)
(Unaudited)

	September 30, 2013		December 31, 2012	
ASSETS				
Investment in real estate, net:				
Student housing properties	$	771,467	$	669,387
Accumulated depreciation		(115,817)		(97,820)
Development in process		69,023		50,781
Investment in real estate, net		724,673		622,348
Investment in unconsolidated entities		323,268		22,555
Cash and cash equivalents		22,835		5,970
Restricted cash		8,169		3,902
Student receivables, net of allowance for doubtful accounts of $1,827 and $121, respectively		3,625		2,193
Notes receivable		31,700		-
Cost and earnings in excess of construction billings		32,749		23,077
Other assets, net		37,733		16,275
Total assets	$	1,184,752	$	696,320
LIABILITIES AND EQUITY				
Liabilities:				
Mortgage and construction loans	$	240,571	$	218,337
Line of credit and other debt		247,188		75,375
Accounts payable and accrued expenses		57,297		45,634
Construction billings in excess of cost and earnings		1,799		49
Other liabilities		15,423		12,023
Total liabilities		562,278		351,418
Commitments and contingencies				
Equity:				
Preferred stock, $0.01 par value, 50,000,000 and 10,000,000 shares authorized:				
8.00% Series A Cumulative Redeemable Preferred Stock (liquidation preference $25.00 per share), 2,300,000 issued and outstanding at September 30, 2013 and December 31, 2012		23		23
Common stock, $0.01 par value, 500,000,000 and 90,000,000 shares authorized, 64,512,286 and 38,558,048 shares issued and outstanding at September 30,		645		386

2013 and December 31, 2012, respectively				
Additional common and preferred paid-in capital		678,505		377,180
Accumulated deficit and distributions		(61,510)		(37,047)
Accumulated other comprehensive income (loss)		88		(58)
Total Campus Crest Communities, Inc. stockholders' equity		617,751		340,484
Noncontrolling interests		4,723		4,418
Total equity		622,474		344,902
Total liabilities and equity	$	1,184,752	$	696,320

See accompanying notes to condensed consolidated financial statements.

CAMPUS CREST COMMUNITIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(In thousands, except per share data)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Revenues:				
Student housing rental	$ 24,496	$ 21,449	$ 70,960	$ 57,160
Student housing services	972	934	2,934	2,430
Development, construction and management services	14,778	12,103	40,573	43,162
Total revenues	40,246	34,486	114,467	102,752
Operating expenses:				
Student housing operations	11,381	10,123	33,438	27,631
Development, construction and management services	14,028	11,374	38,343	40,260
General and administrative	2,424	1,972	8,076	6,517
Transaction costs	247	-	835	-
Ground leases	54	54	162	163
Depreciation and amortization	6,126	5,799	19,224	17,528
Total operating expenses	34,260	29,322	100,078	92,099
Equity in earnings of unconsolidated entities	1,302	86	3,608	283
Operating income	7,288	5,250	17,997	10,936
Nonoperating income (expense):				
Interest expense, net	(3,091)	(2,623)	(8,764)	(8,395)
Change in fair value of interest rate derivatives	-	(57)	(73)	(160)
Other income (expense)	696	-	1,494	(75)
Gain on purchase of previously unconsolidated entities	-	6,554	-	6,554
Total nonoperating income (expense), net	(2,395)	3,874	(7,343)	(2,076)
Net income before income taxes	4,893	9,124	10,654	8,860
Income tax (expense) benefit	(40)	(74)	306	(330)
Net income	4,853	9,050	10,960	8,530
Net income attributable to noncontrolling interests	26	61	51	38
Dividends on preferred stock	1,150	1,150	3,450	2,964
Net income attributable to common stockholders	$ 3,677	$ 7,839	$ 7,459	$ 5,528
Net income per share attributable to common stockholders - basic and diluted:	$ 0.06	$ 0.20	$ 0.13	$ 0.16
Weighted-average common shares outstanding:				
Basic	64,518	38,479	58,461	33,514
Diluted	64,953	38,915	58,896	33,950
Distributions per common share	$ 0.165	$ 0.16	$ 0.495	$ 0.48

Condensed consolidated statements of comprehensive income :								
Net income	$	4,853	$	9,050	$	10,960	$	8,530
Foreign currency translation		88		-		88		-
Change in fair value of interest rate derivatives		-		100		59		221
Comprehensive income		4,941		9,150		11,107		8,751
Comprehensive income attributable to noncontrolling interests		26		61		51		40
Dividends on preferred stock		1,150		1,150		3,450		2,964
Comprehensive income attributable to common stockholders	$	3,765	$	7,939	$	7,606	$	5,747

See accompanying notes to condensed consolidated financial statements.

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CAMPUS CREST COMMUNITIES, INC.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (DEFICIT)
(In thousands)
(Unaudited)

	Campus Crest Communities, Inc. Stockholders' Equity							
	Series A Cumulative Redeemable Preferred Stock	Common Stock	Additional Common and Preferred Paid-in Capital	Accumulated Deficit and Distributions	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2012	$ 23	$ 386	$ 377,180	$ (37,047)	$ (58)	$ 340,484	$ 4,418	$ 344,902
Net proceeds of sale of common stock	-	255	299,446	-	-	299,701	-	299,701
Issuance of restricted stock	-	4	(4)	-	-	-	-	-
Amortization of restricted stock awards and operating partnership units	-	-	1,883	-	-	1,883	468	2,351
Dividends on preferred stock	-	-	-	(3,450)	-	(3,450)		(3,450)
Dividends on common stock	-	-	-	(31,922)	-	(31,922)	-	(31,922)
Dividends to noncontrolling interests	-	-	-	-	-	-	(215)	(215)
Change in fair value of interest rate derivatives	-	-	-	-	58	58	1	59
Foreign currency translation	-	-	-	-	88	88	-	88
Net income	-	-	-	10,909	-	10,909	51	10,960
Balance at September 30, 2013	$ 23	$ 645	$ 678,505	$ (61,510)	$ 88	$ 617,751	$ 4,723	$ 622,474

See accompanying notes to condensed consolidated financial statements.

CAMPUS CREST COMMUNITIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended September 30, 2013	September 30, 2012
Operating activities:		
Net income	$ 10,960	$ 8,530
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	19,224	17,528
Impairment of damaged assets	3,312	-
Amortization of deferred financing costs	1,089	2,341
Gain on purchase of previously unconsolidated entities	-	(6,554)
Loss on disposal of assets	-	149
Provision for bad debts	1,835	1,345
Equity in (earnings) loss of unconsolidated entities	(3,608)	135
Distributions of earnings from unconsolidated entities	305	237
Share-based compensation expense	2,352	762
Changes in operating assets and liabilities:		
Restricted cash	(723)	(1,876)
Student receivables	(3,270)	(1,966)
Construction billings	(7,922)	(6,429)
Accounts payable and accrued expenses and other liabilities	19,528	5,293
Other	(10,698)	3,447
Net cash provided by operating activities	32,384	22,942
Investing activities:		
Investments in development in process	(102,928)	(84,174)
Investments in student housing properties	(7,835)	(6,074)
Insurance proceeds received for damaged assets	1,000	-
Acquisitions of previously unconsolidated entities, net of cash acquired	-	(15,877)
Acquisitions of student housing properties, net of cash acquired	(13,801)	-
Investments in unconsolidated entities	(300,889)	(3,072)
Capital distributions from unconsolidated entities	4,098	2,994
Issuance of notes receivable	(31,700)	-
Other capital expenditures	(12,122)	(980)
Change in restricted cash	(3,544)	-
Net cash used in investing activities	(467,721)	(107,183)
Financing activities:		
Proceeds from mortgage and construction loans	35,730	79,121
Repayments of mortgage and construction loans	(13,496)	(76,722)
Proceeds from line of credit and other debt	189,376	43,900
Repayments of line of credit and other debt	(18,182)	(66,078)
Debt issuance costs	(863)	(1,028)
Dividends paid to common stockholders	(36,399)	(14,858)
Dividends paid to preferred stockholders	(3,450)	(2,006)
Dividends to noncontrolling interests	(215)	(211)

Proceeds from sale of preferred stock		-		57,500
Proceeds from sale of common stock		312,736		75,573
Payment of offering costs		(13,035)		(5,701)
Net cash provided by financing activities		452,202		89,490
Net change in cash and cash equivalents		16,865		5,249
Cash and cash equivalents at beginning of period		5,970		10,735
Cash and cash equivalents at end of period	$	22,835	$	15,984
Supplemental disclosure of cash flow information:				
Cash paid for interest, net of amounts capitalized	$	8,398	$	7,820
Cash paid for income taxes		145		571
Non-cash investing and financing activity:				
Common and preferred stock dividends declared but not paid	$	11,687	$	6,002
Assumption of mortgage debt related to purchase of previously unconsolidated entities		-		27,299
Change in payables related to dividends to common and preferred stockholders and noncontrolling interest		4,477		2,206
Change in payables related to capital expenditures		1,194		1,781
Change in payables related to investment in unconsolidated entities		6,588		2,893

See accompanying notes to condensed consolidated financial statements.

CAMPUS CREST COMMUNITIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Organization and Description of Business

Campus Crest Communities, Inc., together with its subsidiaries, referred to herein as the “Company,” “we,” “us,” “our,” and “Campus Crest,” is a self-managed, self-administered and vertically-integrated real estate investment trust (“REIT”) focused on developing, building, owning and managing a diversified portfolio of high-quality, residence life focused student housing properties. We currently own the sole general partner interest and own limited partner interests in Campus Crest Communities Operating Partnership, LP (the “Operating Partnership”). We hold substantially all of our assets, and conduct substantially all of our business, through the Operating Partnership.

We have made an election to qualify, and we believe we are operating so as to qualify, as a REIT under Sections 856 through 859 of the Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”). As a REIT, we generally will not be subject to U.S. federal income tax to the extent that we meet the organizational and operational requirements and our distributions equal or exceed 90.0% of REIT taxable income. For all periods subsequent to the REIT election, we have met the organizational and operational requirements and distributions have exceeded net taxable income.

We have made the election to treat Campus Crest TRS Holdings, Inc. (“TRS Holdings”), our wholly-owned subsidiary, as a taxable REIT subsidiary (“TRS”). TRS Holdings holds the development, construction and management companies that provide services to entities in which we do not own 100% of the equity interests. As a TRS, the operations of TRS Holdings and its subsidiaries are generally subject to federal, state and local income and franchise taxes.

As of September 30, 2013, we owned interests in 45 operating student housing Grove properties containing approximately 9,038 apartment units and 24,640 beds. Thirty-five of our Grove properties are wholly-owned and ten of our Grove properties are owned through joint ventures with Harrison Street Real Estate Capital ("HSRE") or HSRE and Brandywine Realty Trust ("Brandywine"). As of September 30, 2013, we also owned interests in 35 operating student housing Copper Beech (see Note 4) properties, containing approximately 6,242 units and 16,645 beds and one wholly owned redevelopment property containing approximately 382 units and 629 beds. Our portfolio consists of the following:

	Properties in Operation	Properties Under Construction [1]
Wholly owned Grove properties	35	3
Joint Venture Grove properties	10	4
Total Grove Properties	45	7
CB Portfolio[2]	35	1
Total Portfolio[3]	80	8

(1) For delivery in the 2014-2015 academic year, consolidated entities under construction include. The Grove at Slippery Rock, Pennsylvania, The Grove at Grand Forks, North Dakota and The Grove at Mt. Pleasant, Michigan. For delivery in the 2014-2015 academic year, joint venture Grove properties under construction include evo at Cira Centre South, Pennsylvania, The Grove at Louisville, Kentucky, The Grove at Greensboro, North Carolina, and evo à Square Victoria, Montreal.

(2) We amended our agreement with Copper Beech (defined in Note 4) to assume a 67% ownership in 28 properties instead of a 48% ownership in 35 properties subsequent quarter end. See Note 4.

(3) The re-development of our 100% owned property in Toledo, OH, which was acquired in March 2013, is excluded. We expect to announce more details on the redevelopment in 2014. See Note 4.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"), as well as instructions to Form 10-Q, and represent our financial position, results of operations and cash flows. Third party equity interests in the Operating Partnership are reflected as noncontrolling interests in our condensed consolidated financial statements. We also have interests in unconsolidated real estate ventures which have ownership in several property owning entities that are accounted for under the equity method. All significant intercompany balances and transactions have been eliminated. Certain prior period amounts have been reclassified to conform to current period presentation.

CAMPUS CREST COMMUNITIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The unaudited interim condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements and accompanying notes for the year ended December 31, 2012 included in our Annual Report on Form 10-K for the year ended December 31, 2012 filed with the Securities and Exchange Commission. The results of operations and cash flows for any interim period are not necessarily indicative of results for other interim periods or the full year.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant assumptions and estimates are used by management in recognizing construction and development revenue under the percentage of completion method, useful lives of student housing properties, valuation of investment in real estate, initial valuation and underlying allocation of purchase price to newly acquired student housing properties, determination of fair value for impairment assessments, and fair value of financial assets and liabilities, including derivatives and allowance for doubtful accounts. Actual results could differ from those estimates.

Property and Equipment and Depreciation

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

Land improvements	15 years
Buildings and leasehold improvements	10-40 years
Furniture, fixtures and equipment	2-15 years

The cost of buildings and improvements includes all pre-development, entitlement and project costs directly associated with the development and construction of a real estate project, which include interest, property taxes and the amortization of deferred financing costs recognized while the project is under construction, as well as certain internal costs related to the development and construction of our student housing properties. All costs are capitalized as development in process until the asset is ready for its intended use, which is typically at the completion of the project. Upon completion, costs are transferred into the applicable asset category and depreciation commences. Interest totaling approximately $0.8 million and $2.3 million was capitalized during the three and nine months ended September 30, 2013, respectively, and interest totaling approximately $0.6 million and $2.0 million was capitalized during the three and nine months ended September 30, 2012, respectively.

We capitalize costs during the development of assets beginning with the determination that development of a future asset is probable until the asset, or a portion of the asset, is delivered and is ready for its intended use. During development efforts we capitalize all direct costs and indirect costs that have been incurred as a result of the development. These costs include interest, related loan fees, and property taxes as well as other direct and indirect costs. We capitalize interest costs for debt incurred for project specific financing and for capital contributions to equity method investees who utilize such funds for construction-related activities. Indirect project costs, which include personnel and office and administrative costs that are clearly associated with our development and redevelopment efforts, are capitalized. Indirect costs not clearly related to acquisition, development, redevelopment and construction activity, including general and administrative expenses, are expensed in the period incurred. Capitalized indirect costs associated with our development activities were $2.1 million and $6.5 million for the three and nine months ended September 30, 2013, respectively, and $1.9 million and $5.1 million for the three and nine months ended September 30, 2012, respectively. All such costs are capitalized as development in process until the asset is delivered and ready for its intended use, which is typically at the completion of the project. Upon completion, costs are transferred into the applicable asset category and depreciation commences.

Pre-development costs are capitalized until such time that management believes it is no longer probable that a contract will be executed and/or construction will commence. Because we frequently incur these pre-development expenditures before a financing commitment and/or required permits and authorizations have been obtained, we bear the risk of loss of these pre-development expenditures if financing cannot ultimately be arranged on acceptable terms or if we are unable to successfully obtain the required permits and authorizations. As such, management evaluates the status of projects where we have not yet acquired the target property or where we have not yet commenced construction on a periodic basis and expenses any pre-development costs related to projects whose current status indicates the acquisition or commencement of construction is not probable. Such expenses are included within operating expenses in the accompanying condensed consolidated statements of operations and comprehensive income (loss). As of September 30, 2013 and December 31, 2012, we have deferred approximately $9.1 million and $8.1 million, respectively, in pre-development costs related to development projects for which construction has not commenced. In addition to the deferred pre-development costs, as of September 30, 2013 and December 31, 2012, there are costs associated with seven land parcels that could be used for the development of seven properties (within either our wholly-owned portfolio or as contributions to joint venture projects) with an aggregate bed count ranging from approximately 3,000 to 3,500. These costs are included in development in process on the accompanying condensed consolidated balance sheets.

CAMPUS CREST COMMUNITIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Management assesses whether there has been impairment in the value of our investment in real estate whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of investment in real estate is measured by a comparison of the carrying amount of a student housing property to the estimated future undiscounted cash flows expected to be generated by the property. Impairment is recognized when estimated future undiscounted cash flows, including proceeds from disposition, are less than the carrying value of the property. The estimation of future undiscounted cash flows is inherently uncertain and relies on assumptions regarding current and future economics and market conditions. If such conditions change, then an adjustment reducing the carrying value of our long-lived assets could occur in the future period in which conditions change. To the extent that a property is impaired, the excess of the carrying amount of the property over its estimated fair value is recorded as an impairment charge. Fair value is determined based upon the discounted cash flows of the property, quoted market prices or independent appraisals, as considered necessary. As of September 30, 2013, we recorded an impairment of approximately $3.3 million related to a fire at The Grove at Pullman, Washington (see Note 3) and damage at The Grove at Wichita, Kansas with a corresponding receivable which is presented in other assets in the accompanying condensed consolidated balance sheets.

Property Acquisitions

We allocate the purchase price of acquired properties to net tangible and identified intangible assets and liabilities based on relative fair values of these assets and liabilities. Fair value estimates are based on information obtained from independent appraisals, market data, information obtained during due diligence and information related to the marketing and leasing at the specific property. The value of in-place leases is based on the difference between (i) the property valued with existing in-place leases adjusted to market rental rates and (ii) the property valued “as-if” vacant. As lease terms are typically one year or less, rates on in-place leases generally approximate market rental rates. Factors considered in the valuation of in-place leases include an estimate of the carrying costs during the expected lease-up period considering current market conditions, nature of the tenancy and costs to execute similar leases. Carrying costs include estimates of lost rentals at market rates during the expected lease-up period, net of variable operating expenses. The value of in-place leases is amortized on a straight-line basis over the remaining initial term of the respective leases, generally less than one year. The purchase price of property acquisitions is not expected to be allocated to tenant relationships, considering the terms of the leases and the expected levels of renewals. Acquisition-related costs such as due diligence, legal, accounting and advisory fees are either expensed as incurred for acquisitions that are consolidated or capitalized for acquisitions accounted for under the equity method of accounting.

Deferred Financing Costs

We defer costs incurred in obtaining financing and amortize the costs using the straight-line method, which approximates the effective interest method, over the expected terms of the related loans. Upon repayment of the underlying debt agreement, any unamortized costs are charged to earnings. Deferred financing costs, net of accumulated amortization, are included in other assets, net in the accompanying condensed consolidated balance sheets.

Noncontrolling Interests

Noncontrolling interests represent the portion of equity in our consolidated subsidiaries which is not attributable to the stockholders. Accordingly, noncontrolling interests are reported as a component of equity, separate from stockholders’ equity, in the accompanying condensed consolidated balance sheets. On the condensed consolidated statements of operations and comprehensive income (loss), operating results are reported at their consolidated amounts, including both the amount attributable to us and to noncontrolling interests.

Real Estate Ventures

We hold interests in our properties, both under development and in operation, through interests in both consolidated and unconsolidated real estate ventures. We assess our investments in real estate ventures to determine if a venture is a Variable Interest Entity ("VIE"). We consolidate entities that are VIEs and for which we are determined to be the primary beneficiary. In instances where we are not the primary beneficiary, we do not consolidate the entity for financial reporting purposes. Entities that are not defined as VIEs are consolidated where we are the general partner (or the equivalent) and the limited partners (or the equivalent) in such investments do not have rights which would preclude control.

For entities where we are the general partner (or the equivalent), but do not control the real estate venture, as the other partners (or the equivalent) hold substantive participating rights, we use the equity method of accounting. For entities where we are a limited partner (or the equivalent), management considers factors such as ownership interest, voting control, authority to make decisions and contractual and substantive participating rights of the partners (or the equivalent) to determine if the presumption that the general partner controls the entity is overcome. In instances where these factors indicate we control the entity, we consolidate the entity; otherwise we record our investment using the equity method of accounting.

CAMPUS CREST COMMUNITIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Under the equity method, investments are initially recognized in the balance sheet at cost and are subsequently adjusted to reflect our proportionate share of net earnings or losses of the entity, distributions received, contributions and certain other adjustments, as appropriate. Any difference between the carrying amount of these investments on our balance sheet and the underlying equity in net assets is amortized as an adjustment to equity in earnings of unconsolidated entities. When circumstances indicate there may have been a loss in value of an equity method investment below its carrying value, and we determine the loss in value is other than temporary, we recognize an impairment charge to reflect the investment at fair value.

Segments

We have identified two reportable business segments: (i) student housing operations and (ii) development, construction and management services. We evaluate the performance of our operating segments based on operating income. All inter-segment sales pricing is based on current market conditions. Operating segments that do not individually meet the aggregation criteria may be combined with other operating segments that do not individually meet the aggregation criteria to form a separate reportable segment. Unallocated corporate amounts include general expenses associated with managing our two reportable operating segments.

Student Housing Revenue

Students are required to execute lease contracts with payment schedules that vary from annual to monthly payments. We recognize revenues on a straight-line basis over the term of the lease contracts. Generally, each executed contract is required to be accompanied by a signed parental guaranty. Amounts received in advance of the occupancy period or prior to the contractual due date are recorded as deferred revenues and included in other liabilities on the accompanying condensed consolidated balance sheets. Service revenue is recognized when earned.

Development, Construction and Management Services

Development and construction service revenue is recognized using the percentage of completion method, as determined by construction costs incurred relative to total estimated construction costs. Any changes in significant judgments and/or estimates used in determining construction and development revenue could significantly change the timing or amount of construction and development revenue recognized.

Development and construction service revenue is recognized for contracts with entities we do not consolidate. For projects where revenue is based on a fixed price, any cost overruns incurred during construction, as compared to the original budget, will reduce the net profit ultimately recognized on those projects. Profit derived from these projects is eliminated to the extent of our interest in the unconsolidated entity. Any incentive fees, net of the impact of our ownership interest if the entity is unconsolidated, are recognized when the project is complete and performance has been agreed upon by all parties, or when performance has been verified by an independent third party. When total development or construction costs at completion exceed the fixed price set forth within the related contract, such cost overruns are recorded as additional investment in the unconsolidated entity. Entitlement fees, where applicable, are recognized when earned based on the terms of the related contracts.

Management fees, net of elimination to the extent of our ownership in an unconsolidated entity, are recognized when earned in accordance with each management contract. Incentive management fees are recognized when the incentive criteria are met.

Allowance for Doubtful Accounts

Allowances for student receivables are maintained to reduce our receivables to the amount that management estimates to be collectible, which approximates fair value. The allowance is estimated based on past due balances not received on contractual terms, as well as historical collections experience and current economic and business conditions. When management has determined that receivables are uncollectible, they are written off against the allowance for doubtful accounts. Recoveries of accounts previously written off are recorded when received.

Derivative Instruments and Hedging Activities

We enter into interest rate cap and interest rate swap agreements to manage floating interest rate exposure with respect to amounts borrowed, or forecasted to be borrowed, under credit facilities. These contracts effectively exchange existing or forecasted obligations to pay interest based on floating rates for obligations to pay interest based on fixed rates.

CAMPUS CREST COMMUNITIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

All derivative instruments are recognized as either assets or liabilities on the condensed consolidated balance sheets at their respective fair values. Changes in fair value are recognized either in earnings or as other comprehensive income (loss), depending on whether the derivative has been designated as a cash flow hedge and whether it qualifies as part of a hedging relationship, the nature of the exposure being hedged and how effective the derivative is at offsetting movements in underlying exposure. We discontinue hedge accounting when: (i) we determine that the derivative is no longer effective in offsetting changes in the cash flows of a hedged item; (ii) the derivative expires or is sold, terminated or exercised; (iii) it is no longer probable that the forecasted transaction will occur; or (iv) management determines that designating the derivative as a hedging instrument is no longer appropriate. In situations in which hedge accounting is not initially designated, or is discontinued and a derivative remains outstanding, gains and losses related to changes in the fair value of the derivative instrument are recorded in current period earnings as a component of the change in fair value of interest rate derivatives line item on the accompanying condensed consolidated statements of operations and comprehensive income (loss). Also included within this line item are any required monthly settlements on the swaps as well as any cash settlements paid.

Fair Value of Financial Instruments

Financial instruments consist primarily of cash, cash equivalents, restricted cash, student receivables, notes receivable, interest rate caps, interest rate swaps, accounts payable, mortgages, construction loans and the line of credit and other debt. The carrying value of cash, cash equivalents, restricted cash, student receivables, and accounts payable are representative of their respective fair values due to the short-term nature of these instruments. The carrying value of our notes receivable are representative of their fair value due to the recent date of origination. The estimated fair value of the line of credit approximates the outstanding balance due to the frequent market based re-pricing of the underlying variable rate index. The estimated fair values of mortgages and construction loans and other debt are determined by comparing current borrowing rates and risk spreads offered in the market to the stated interest rates and spreads on our current mortgages and construction loans or comparable instruments. The fair values of mortgage and construction loans and other debt are disclosed in Note 6.

The fair value of the interest rate caps and swaps are determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of the derivative. This analysis reflects the contractual terms of the derivative, including the period to maturity, and uses observable market-based inputs, including interest rate curves, implied volatilities and counterparty creditworthiness. The fair values of derivative instruments are discussed in Note 7.

Fair value guidance for financial assets and liabilities that are recognized and disclosed in the condensed consolidated financial statements on a recurring basis and nonfinancial assets on a nonrecurring basis establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 Observable inputs, such as quoted prices in active markets at the measurement date, for identical, unrestricted assets or liabilities.

Level 2 Other inputs that are observable directly or indirectly, such as quoted prices in markets that are not active or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 Unobservable inputs for which there is little or no market data and which we make our own assumptions about how market participants would price the asset or liability.

Fair value is defined as the price that would be received when selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). In instances where inputs used to measure fair value fall into different levels of the fair value hierarchy, the level in the fair value hierarchy within which the fair value measurement in its entirety has been determined is based on the lowest level input significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

Income Taxes

We have made an election to qualify, and believe we are operating so as to qualify, as a REIT under Sections 856 through 859 of the Internal Revenue Code. Our qualification as a REIT depends upon our ability to meet on a continuing basis, through actual investment and operating results, various complex requirements under the Internal Revenue Code relating to, among other things, the sources of our gross income, the composition and values of our assets, our distribution levels and the diversity of ownership of our stock. We believe that we are organized in conformity with the requirements for qualification and taxation as a REIT under the Internal Revenue Code and that our intended manner of operation will enable us to meet the requirements for qualification and taxation as a REIT.

As a REIT, we generally will not be subject to U.S. federal and state income tax on taxable income that we distribute currently to our stockholders. If we fail to qualify as a REIT in any taxable year and do not qualify for certain statutory relief provisions, we will be subject to U.S. federal income tax at regular corporate rates and generally will be precluded from qualifying as a REIT for the subsequent four taxable years following the year during which we lost our REIT qualification. Accordingly, our failure to qualify as a REIT could materially and adversely affect us, including our ability to make distributions to our stockholders in the future.

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We have made the election to treat TRS Holdings, our subsidiary which holds our development, construction and management companies that provide services to entities in which we do not own 100% of the equity interests, as a TRS. As a TRS, the operations of TRS Holdings and its subsidiaries are generally subject to federal, state and local income and franchise taxes. Our TRS accounts for its income taxes in accordance with U.S. GAAP, which includes an estimate of the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in our financial statements or tax returns. Deferred tax assets and liabilities of the TRS entities are recognized based on the difference between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates in effect in the years in which those temporary differences are expected to reverse.

We follow a two-step approach for evaluating uncertain tax positions. Recognition (step one) occurs when we conclude that a tax position, based solely on its technical merits, is more-likely-than-not (a likelihood of more than 50 percent) to be sustained upon examination. Measurement (step two) determines the amount of benefit that more-likely-than-not will be realized upon settlement. Derecognition of a tax position that was previously recognized would occur when we subsequently determined that a tax position no longer met the more-likely-than-not threshold of being sustained. The use of a valuation allowance as a substitute for derecognition of tax positions is prohibited.

Comprehensive Income (Loss)

Comprehensive income (loss) includes net income (loss) and other comprehensive income (loss), which consists of unrealized gains (losses) on derivative instruments and foreign currency translation adjustments. Comprehensive income (loss) is presented in the accompanying condensed consolidated statements of operations and comprehensive income (loss), and accumulated other comprehensive income (loss) is displayed as a separate component of stockholders’ equity.

Restricted Cash

As of September 30, 2013, we held approximately $3.5 million in escrow in accordance with an agreement made by us and certain sellers of the CB Portfolio (defined in Note 4). These funds are to be used to consummate our remaining ownership interests in our acquisition of 48.0% of the CB Portfolio. See Note 4.

Restricted cash also includes $4.6 million of escrow accounts held by lenders, for the purpose of paying taxes, insurance and funding capital improvements. These funds are held in interest bearing accounts.

Stock-Based Compensation

We grant restricted stock and restricted OP Unit awards that typically vest over either a three or five year period. A restricted stock or OP Unit award is an award of shares of our common stock or OP Units that are subject to restrictions on transferability and other restrictions determined by our compensation committee at the date of grant. A grant date is established for a restricted stock award or restricted OP Unit award upon approval from our compensation committee and Board of Directors. The restrictions may lapse over a specified period of employment or the satisfaction of pre-established criteria as our compensation committee may determine. Except to the extent restricted under the award agreement, a participant awarded restricted stock or OP Units has all the rights of a stockholder or OP Unit holder as to these shares or units, including the right to vote and the right to receive dividends or distributions on the shares or units. The fair value of the award is determined based on the market value of our common stock on the grant date and is recognized on a straight-line basis over the applicable vesting period for the entire award with cost recognized at the end of any period being at least equal to the shares that were then vested.

Foreign Currency

Transactions denominated in foreign currencies are recorded in local currency at actual exchange rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet dates are reported at the rates of exchange prevailing at those dates. Any gains or losses arising on monetary assets and liabilities from a change in exchange rates subsequent to the date of the transaction have been included in costs and expenses in the accompanying condensed consolidated statements of operations. As of September 30, 2013, we were exposed to only one foreign currency, the Canadian Dollar. The aggregate transaction gains and losses included in the accompanying condensed consolidated statements of operations for the three and nine months ended September 30, 2013 were not significant.

The financial statements of certain equity method investees and certain foreign subsidiaries are translated from their respective local currencies into U.S. dollars using current and historical exchange rates. Translation adjustments resulting from this process are reported separately and accumulated as a component of accumulated other comprehensive income (loss) in stockholders' equity (deficit) in the accompanying condensed consolidated balance sheets. Upon sale or liquidation of our investments, the translation adjustment would be reported as part of the gain or loss on sale or liquidation.

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Insurance Recoveries

Insurance recoveries are amounts due or received under our applicable insurance policies for asset damage and business interruption relating to the fire at The Grove at Pullman, Washington (see Note 3) or from damage at The Grove at Wichita, Kansas. We have recorded a receivable in connection with asset damage of approximately $3.3 million based on preliminary estimates which is included in other assets within the condensed consolidated balance sheets, fully offsetting the recognized $3.3 million impairment. Business interruption recovery is recorded when realized and included as a reduction within student housing operations expenses within the condensed consolidated statements of operations. For the nine months ended September 30, 2013, we recognized $0.9 million of business interruption recovery.

3. Student Housing Properties

The following is a summary of our student housing properties, net for the periods presented (in thousands):

	September 30, 2013	December 31, 2012
Land	$ 64,302	$53,984
Buildings and improvements	641,796	552,984
Furniture, fixtures and equipment	65,369	62,419
	771,467	669,387
Less: accumulated depreciation	(115,817)	(97,820)
	$ 655,650	$571,567

In March 2013, we acquired a 100% ownership in Campus Crest at Toledo, Ohio resulting in an increase to our student housing properties (see Note 4).

In July 2013, we experienced a fire at The Grove at Pullman, Washington, a property under construction, which resulted in a partial loss of the property. While no assurances can be given, after taking into account our existing insurance coverage, we believe that the damages sustained as a result of this fire will not have a material adverse effect on our financial position or results of operations.

4. Business Acquisitions

Copper Beech Acquisition

In February 2013, we entered into purchase and sale agreements to acquire a 48.0% interest in a portfolio of 35 student housing properties, one undeveloped land parcel and corporate office building held by the members of Copper Beech Townhome Communities, LLC ("CBTC") and Copper Beech Townhome Communities (PA), LLC ("CBTC PA", together with CBTC, "Copper Beech" or the "Sellers") (the “CB Portfolio”), and a fully integrated platform and brand with management, development and construction teams, for an initial purchase price of approximately $230.2 million, including the repayment of $106.7 million of debt, with the remaining 52.0% interest in the CB Portfolio to be held by certain of the current members of CBTC and CBTC PA, (the “CB Investors”). Pursuant to our 48.0% interest in the CB Portfolio, we have entered into a purchase and sale agreement (the “Purchase Agreement”), and related transactions, with the members of CBTC and CBTC PA, to acquire in steps a 36.3% interest in the CB Portfolio. We have also entered into a purchase and sale agreement with certain investors in the CB Portfolio who are not members of Copper Beech (the “Non-Member Investors”) to acquire the interests in the CB Portfolio held by such Non-Member Investors (the “Non-Member Purchase Agreement”). Pursuant to the Non-Member Purchase Agreement, we agreed to acquire approximately an 11.7% interest in the CB Portfolio from the Non-Member Investors. We refer to this transaction as the “CB Portfolio Acquisition.”

The CB Portfolio consists of 35 student housing properties and Copper Beech’s corporate office building in State College, Pennsylvania. The CB Portfolio consists primarily of townhouse units located in eighteen geographic markets in the United States across thirteen states, with 30 of the 35 student housing properties having been developed by Copper Beech. As of September 30, 2013, the CB Portfolio comprised approximately 6,242 rentable units with approximately 16,645 rentable beds. The student housing properties have an average age of approximately 7.2 years. For the year ended December 31, 2012, the average monthly total revenue per occupied bed was approximately $470.

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Our investment in the CB Portfolio entitles us to a preferred payment of $13.0 million for the first year of our investment and 48% of remaining operating cash flows. In connection with the CB Portfolio Acquisition, we loaned approximately $31.7 million to the CB Investors. The loan has an interest rate of 8.5% per annum and a term of three years, and was secured by the CB Investors' interests in six unencumbered properties in the CB Portfolio (see Amendment to Copper Beech Purchase Agreement below for further discussion).

We recognized approximately $1.5 million and $3.6 million in equity in earnings of Copper Beech as well as approximately $0.7 million and $1.4 million in interest income from the loan to the CB Investors for the three and nine months ended September 30, 2013, respectively. Additionally, we recognized approximately $0.7 million of transaction expenses related to the CB Portfolio Acquisition and incurred $16.8 million of costs which were included in our investment basis in Copper Beech for the nine months ended September 30, 2013.

The following summary of selected unaudited pro forma results of operations presents information as if both our 48.0% ownership interest and issuance of 25.5 million shares of common stock required to execute the acquisition had occurred at the beginning of each period presented. The unaudited pro forma information is provided for informational purposes only and is not indicative of results that would have occurred or which may occur in the future (in thousands, except per share amounts):

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Revenues	$ 40,246	$ 34,486	$ 114,467	$ 102,752
Net income	4,690	10,113	10,858	11,230
Net income attributable to common stockholders	3,514	8,902	7,357	8,228
Net income per share attributable to common stockholders - basic and diluted:	$ 0.05	$ 0.14	$ 0.11	$ 0.14
Weighted-average common shares outstanding:				
Basic	64,518	64,009	64,446	59,044
Diluted	64,953	64,445	64,881	59,480

Amendment to Copper Beech Purchase Agreement

On September 30, 2013 and effective subject to the receipt of required third party consents, we entered into an Amendment (the "Amendment") to the Purchase Agreement. As consideration for entering into the Amendment, we have agreed to pay to the CB Investors $4.0 million.

Pursuant to the terms of the Amendment, following receipt of required third party consents, we will transfer our 48.0% interest in five properties in the Copper Beech Portfolio (Copper Beech Auburn, Copper Beech Kalamazoo Phase 1, Copper Beech Kalamazoo Phase 2, Copper Beech Oak Hill and Copper Beech Statesboro Phase 1) back to the CB Investors and defer the acquisition of the two Phase II development properties (Cooper Beech Mt. Pleasant Phase 2 and Cooper Beech Statesboro Phase 2) until August 18, 2014 as consideration for an additional 19.0% interest in each of the remaining 30 properties in the Copper Beech Portfolio (the "Initial Copper Beech Properties"). Following the transfer of such properties, we will hold a 67.0% interest in each of 30 properties in the Copper Beech Portfolio, with the CB Investors holding the remaining 33.0% interest. In addition, under the terms of the Amendment, we have the option, exercisable from March 18, 2014 through August 18, 2014, to acquire an 18.0% interest in each of the seven properties whose acquisition is being deferred (collectively, the "Deferred Copper Beech Properties"), which will entitle us to 33.0% of the operating cash flows of such Deferred Copper Beech Properties. The purchase price for the exercise of this option is approximately $16.9 million. In order to exercise this option, we must also exercise the option to acquire an additional 18.0% interest in the Initial Copper Beech Properties, which is described below.

Both we and the CB Investors hold joint approval rights for major decisions, including those regarding property acquisition and disposition as well as property operation. As such, we hold a noncontrolling interest in the CB Portfolio and accordingly apply the equity method of accounting.

The Amendment also amends our options, but not obligations, to acquire additional interests in the Copper Beech Portfolio as follows:

Beginning March 18, 2014 through August 18, 2014, we have the option to acquire an additional 18.0% interest in the Initial Copper Beech Properties, increasing our aggregate interest in such properties to 85.0%, which will entitle us to 100% of the operating cash flows of the Initial Copper Beech Properties. The aggregate purchase price for the exercise of this purchase option is approximately $93.5 million plus debt repayment of approximately $21.0 million.

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Through May 2015, we have the option to acquire an additional 3.9% interest in the Initial Copper Beech Properties and an additional 70.9% interest in the Deferred Copper Beech Properties, increasing our aggregate interest in all 37 properties in the Copper Beech Portfolio to 88.9%, which will entitle us to 100% of the operating cash flows of the Initial Copper Beech Properties and the Deferred Copper Beech Properties. The aggregate purchase price for the exercise of this purchase option is approximately $100.7 million plus debt repayment of approximately $19.0 million.

Through May 2016, we have the option to acquire an additional 11.1% interest in the Copper Beech Portfolio, increasing our aggregate interest to 100%. The aggregate purchase price for the exercise of this purchase option is approximately $53.4 million.

As previously disclosed, if we elect to exercise any of the purchase options, we are not obligated to exercise any subsequent purchase options. In the event we do not elect to exercise a purchase option, we will lose the right to exercise future purchase options. If the first purchase option is not exercised, we will be entitled to a 48.0% interest in all 37 properties in the CB Portfolio and will be entitled to 48.0% of operating cash flows and 45.0% of the proceeds of any sale of any portion of the CB Portfolio. If the first purchase option is exercised but the second purchase option is not exercised, we will be entitled to a 75.0% interest in all 37 properties in the CB Portfolio and will be entitled to 75.0% of operating cash flows and 70.0% of the proceeds of any sale of any portion of the CB Portfolio. If the second purchase option is exercised but the third purchase option is not exercised, we will retain our 88.9% interest in the CB Portfolio and will be entitled to 88.9% of both operating cash flows and the proceeds of any sale of any portion of the CB Portfolio.

In connection with the Amendment, in October 2013, the Sellers repaid the entire principal balance of $31.7 million outstanding under the loans previously provided by us.

Toledo, Ohio Acquisition

In March 2013, we acquired the ownership interests in Campus Crest at Toledo, Ohio, a 382 unit and 629 bed property on the campus of the University of Toledo for approximately $13.8 million. The following table is a preliminary allocation of the purchase price and is subject to the completion of our allocation analysis and appraisals (in thousands):

Land	$2,772
Buildings and improvements	10,232
Furniture and fixtures	561
Other	236
	$13,801

Montreal, Quebec Acquisition

In July 2013, we entered into a joint venture, DCV Holdings, LP ("DCV Holdings") with Beaumont Partners SA ("Beaumont") to acquire a 711 room, 33-story hotel in downtown Montreal, Quebec, Canada, for approximately $60.0 million. The joint venture intends to convert the property into an upscale student housing tower featuring a mix of single and double units serving McGillUniversity, Concordia University and L'Ecole de Technologie.

5. Investment in Unconsolidated Entities

We have investments in real estate ventures with HSRE, Copper Beech, and Beaumont that we do not consolidate. These joint ventures are engaged primarily in developing, constructing, owning and managing student housing properties. Both we and our joint venture partners hold joint approval rights for major decisions, including those regarding property acquisition and disposition as well as property operation. As such, we hold noncontrolling interests in these joint ventures and account for them under the equity method of accounting.

We act as the operating member and day-to-day manager for these joint ventures and as such are entitled to receive fees for providing development and construction services (as applicable) and management services.

In March 2013, we entered into a joint venture agreement with HSRE, HSRE-Campus Crest X, LLC ("HSRE X"), to develop and operate additional purpose-built student housing properties. HSRE X is currently building two new student housing properties with completion targeted for the 2014-2015 academic year. The properties, located in Louisville, Kentucky and Greensboro, North Carolina are expected to have approximately 1,200 beds and have an estimated cost of $65.6 million. We own a 30% interest in this venture and affiliates of HSRE own the balance.

We are the guarantor of the construction and mortgage debt of our joint ventures with HSRE. Details of our unconsolidated investments at September 30, 2013 are presented in the following table (dollars in thousands):

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Unconsolidated Entities	Our Ownership		Year Founded	Number of Properties In Operations	Under Development	Our Total Investment	Debt Amount Outstanding	Weighted Average Interest Rate		Maturity Dat
HSRE-Campus Crest I, LLC	49.9	%	2009	3	-	$10,751	$32,980	2.68	% (1)	11/09/2013
HSRE-Campus Crest IV, LLC	20.0	%	2011	1	-	2,271	16,893	5.75	% (2)	12/1/2013
HSRE-Campus Crest V, LLC	10.0	%	2011	3	-	3,297	45,670	2.90	% (1)	12/20/2014 01/05/2015
HSRE-Campus Crest VI, LLC	20.0	%	2012	3	-	7,226	32,994	2.55	% (1)	5/08/2015
HSRE-Campus Crest IX, LLC	30.0	%	2013	-	1	12,427	-	n/a		n/a
HSRE-Campus Crest X, LLC	30.0	%	2013	-	2	7,420	-	n/a		n/a
CB Portfolio	47.2	% (3)	2013	35	1	241,821	478,474	5.57	% (4)	10/01/2013 10/01/2020
DCV Holdings, LP	20.0	%	2013	-	1	38,055	-	n/a		n/a
Total Unconsolidated Entities				45	5	$323,268	$607,011	5.05	%	

(1) Variable interest rates.
(2) Comprised of one fixed rate loan.
(3) At September 30, 2013, our effective interest in the CB Portfolio was 47.2%. As of October 1, 2013, our interest in the Copper Beech portfolio was amended as noted below in the Amendment to Copper Beech Purchase Agreement.
(4) Comprised of fixed rate debt with the exception of the construction loan borrowings related to the 2013 phase II deliveries

The following is a summary of the combined financial position of our unconsolidated entities with HSRE and DCV Holdings in their entirety, not only our interest in the entities, including provisional fair value balances that are subject to our allocation analyses and appraisals, for the periods presented (amounts in thousands):

	September 30, 2013	December 31, 2012
Assets		
Student housing properties, net	$ 326,956	$ 143,108
Other assets	17,883	40,154
Total assets	$ 344,839	$ 183,262

Liabilities and Equity				
Mortgage and construction loans	$	128,537	$	92,456
Other liabilities		42,337		30,402
Owners' equity		173,965		60,404
Total liabilities and owners' equity	$	344,839	$	183,262
Company's share of historical owners' equity	$	33,163	$	14,078
Preferred investment[1]		49,521		11,828
Net difference in carrying value of investment versus net book value of underlying net assets[2]		(1,237)		(3,351)
Carrying value of investment in unconsolidated entities	$	81,447	$	22,555

[1] As of September 30, 2013, we held aggregate Class B interests in The Grove at Greensboro, The Grove at Louisville, Kentucky, The Grove at San Angelo, Texas, The Grove at Indiana, Pennsylvania, and The Grove at Conway, Arkansas of approximately $16.5 million, entitling us to a 9.0% return on our investment, as well as a Class A interest in DCV Holdings of $33.0 million, entitling us to a 5.22% return on our investment. As of December 31, 2012, we held aggregate Class B interests in The Grove at San Angelo, Texas, The Grove at Indiana, Pennsylvania, and The Grove at Conway, Arkansas of approximately $11.8 million. These preferred interests entitle us to a return on our investment but otherwise do not change our effective ownership interest in these properties.

[2] This amount represents the aggregate difference between our historical cost basis and the basis reflected at the entity level, which is typically amortized over the life of the related asset. The basis differential occurs primarily due to the difference between the allocated value to acquired entity interests and the venture’s basis in those interests, the capitalization of additional investment in the unconsolidated entity and the elimination of service related revenue to the extent of our percentage ownership.

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The following is a summary of the financial position of our unconsolidated entity with Copper Beech in its entirety, not only our interest in the entity, including provisional fair value balances that are subject to our allocation analyses and appraisals, for the periods presented (amounts in thousands):

	September 30, 2013	
Assets		
Student housing properties, net	$	953,835
Intangible assets		7,230
Other assets		9,557
Total assets	$	970,622
Liabilities and Equity		
Mortgage and construction loans	$	515,859
Other liabilities		20,073
Owners' equity		434,690
Total liabilities and owners' equity	$	970,622
Company's share of historical owners' equity	$	225,181
Net difference in carrying value of investment versus net book value of underlying net assets[1]		16,640
Carrying value of investment in unconsolidated entity	$	241,821

(1) This amount represents the aggregate difference between our historical cost basis and the basis reflected at the entity level, which is typically amortized over the life of the related asset. The basis differential occurs primarily due to the capitalization of additional investment in the unconsolidated entity.

The following is a summary of the combined operating results for our unconsolidated entities with HSRE and DCV Holdings in their entirety, not only our interest in the entities, including results based on the provisional fair value adjustments that are subject to our allocation analyses and appraisals, for the periods presented (in thousands):

	Three months ended				Nine months ended			
	September 30, 2013		September 30, 2012		September 30, 2013		September 30, 2012	
Revenues	$	6,341	$	4,162	$	15,922	$	13,337
Expenses:								
Operating expenses		3,070		2,159		8,327		7,242
Interest expense		1,260		1,091		3,553		3,790
Depreciation and amortization		1,592		1,134		4,298		3,555
Other expenses		4,571		-		4,588		-
Total expenses		10,493		4,384		20,766		14,587
Net loss	$	(4,152)	$	(222)	$	(4,844)	$	(1,250)
Company’s share of net income (loss)[1]	$	(650)	$	(20)	$	(658)	$	(135)
Income on preferred investments		479		106		684		418

Equity in earnings of unconsolidated entities	$ (171)	$ 86	$ 26	$ 283

(1) Amount differs from net loss multiplied by our ownership percentage due to the amortization of the aggregate difference between our historical cost basis and our basis reflected at the entity level and elimination of management fees.

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The following is a summary of the combined operating results for our unconsolidated entity, Copper Beech, in its entirety, not only our interest in the entity, including results based on the provisional fair value adjustments that are subject to our allocation analyses and appraisals, for the periods presented (in thousands):

	Three months ended September 30, 2013		Nine months ended September 30, 2013	
Revenues	$	22,899	$	49,400
Expenses:				
Operating expenses		10,023		19,841
Interest expense		6,943		15,352
Depreciation and amortization		9,304		22,363
Other expenses		818		1,848
Total expenses		27,088		59,404
Net loss	$	(4,189)	$	(10,004)
Company’s share of net income (loss) [1]	$	1,473	$	3,582

(1) Amount differs from net loss multiplied by our ownership percentage due to the amortization of the aggregate difference between our historical cost basis and our basis reflected at the entity level and our preferred payment.

6. Debt

The following is a summary of our mortgage and construction notes payable, the Credit Facility (defined below) and other debt for the periods presented (amounts in thousands):

	September 30, 2013		December 31, 2012	
Fixed-rate mortgage loans	$	165,846	$	166,706
Variable-rate mortgage loans		-		12,635
Construction loans		74,725		38,996
Line of credit		210,500		72,000
Other debt		36,688		3,375
	$	487,759	$	293,712

The estimated fair value of our fixed and variable rate mortgage loans, construction loans and other debt at September 30, 2013 and December 31, 2012 was approximately $277.1 million and $227.3 million, respectively (Level 2). These estimated fair values were determined by comparing current borrowing rates and risk spreads to the stated interest rates and risk spreads. The weighted average interest rate for all borrowings was 3.35% and 3.99% at September 30, 2013 and December 31, 2012, respectively.

Mortgage and Construction Loans

Mortgage and construction loans are collateralized by properties and their related revenue streams. Mortgage loans are not cross-defaulted or cross-collateralized with any other indebtedness. Our mortgage loans generally may not be prepaid prior to maturity; however, in certain cases, prepayment is allowed subject to certain prepayment penalties. Our construction loan agreements contain representations, warranties, covenants (including financial covenants upon commencement of operations) and other terms that are customary for construction financing. Construction loans are generally secured by a first deed of trust or mortgage on each property, primary UCC filings, and an assignment of rents, leases and profits from the respective property. Mortgage and construction loans for the periods presented consisted of the following (in thousands):

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	Face Amount	Principal Outstanding at 9/30/2013	Principal Outstanding at 12/31/2012	Stated Interest Rate	Interest Rate at 9/30/2013		Maturity Date [1]	Amortization	
Construction loans									
The Grove at Orono	$ 15,206	$ 14,243	$ 10,506	LIBOR + 250 bps	2.68	%	6/30/2014	Interest only	
The Grove at Auburn	16,294	13,157	13,157	LIBOR + 295 bps	3.13	%	7/22/2014	Interest only	
The Grove at Flagstaff	19,842	19,330	15,331	Prime + 25 bps / LIBOR + 250 bps	2.68	%	12/9/2014	Interest only	
The Grove at Muncie	14,567	11,252	1	LIBOR + 225 bps	2.43	%	7/3/2015	Interest only	(2)
The Grove at Slippery Rock	17,961	-	-	Base Rate + 115 bps / LIBOR + 215 bps	2.33	%	6/21/2016	Interest only	
The Grove at Fort Collins	19,073	16,744	1	LIBOR + 225 bps	2.43	%	7/13/2015	Interest Only	
The Grove at Pullman	16,016	-	-	LIBOR + 220 bps	2.38	%	9/5/2015	Interest Only	
Mortgage loans									
The Grove at Huntsville	-	-	12,635	LIBOR + 250 bps	N/A			Interest only	
The Grove at Milledgeville	16,250	15,897	16,041	6.12%	6.12	%	10/1/2016	30 years	(3)
The Grove at Carrollton and The Grove at Las Cruces	29,790	29,144	29,408	6.13%	6.13	%	10/11/2016	30 years	
The Grove at Asheville	14,800	14,548	14,684	5.77%	5.77	%	4/11/2017	30 years	(3)
The Grove at Ellensburg	16,125	16,125	16,125	5.10%	5.10	%	9/1/2018	30 years	(3)
The Grove at Nacogdoches	17,160	17,160	17,160	5.01%	5.01	%	9/1/2018	30 years	(3)
The Grove at Greeley	15,233	15,233	15,233	4.29%	4.29	%	10/1/2018	30 years	(4)
The Grove at Clarksville	16,350	16,350	16,350	4.03%	4.03	%	7/1/2022	30 years	(4) (5)
The Grove at Columbia	23,775	23,288	23,605	3.83%	3.83	%	7/1/2022	30 years	(6)
	18,100	18,100	18,100	4.01%	4.01	%	1/1/2023	30 years	(3)

The Grove at Statesboro		
	$ 240,571	$ 218,337

(1) For the construction loans, the maturity date is the stated maturity date in the respective loan agreements, which can be extended for an additional one to two years, subject to the satisfaction of certain conditions, depending on the loan.

(2) The project was funded from our Revolving Credit Facility (defined below) through September 30, 2013.

(3) Loans require interest only payments, plus certain reserves and escrows, that are payable monthly for a period of five years. Monthly payments of principal and interest, plus certain reserve and escrow amounts, are due thereafter until maturity when all principal is due.

(4) Interest only for the first two years, followed by 30 year amortization.

(5) Loan requires interest only payments, plus certain reserves and escrows payable monthly through August 2014, thereafter, principal and interest, plus certain reserves and escrows that are payable monthly until maturity.

(6) Loan requires monthly payments of principal and interest, plus certain reserve and escrows, until maturity when all principal is due.

Line of Credit

In January 2013, we entered into the Second Amended and Restated Credit Agreement with Citibank, N.A. and certain other lenders. The Second Amended and Restated Credit Agreement provides for a senior unsecured credit facility (the "Revolving Credit Facility") of up to $250.0 million, with sub-limits of $30.0 million for swing line loans and $15.0 million for letters of credit. The Second Amended and Restated Credit Agreement also provides for a term loan of $50.0 million (the "Term Loan" and, together with the Revolving Credit Facility, the "Amended Credit Facility").

Additionally, the Amended Credit Facility has an accordion feature that allows us to request an increase in the total commitments from $300.0 million to $600.0 million, subject to certain conditions. Amounts outstanding under the Amended Credit Facility bear interest at a floating rate equal to, at our election, the Eurodollar Rate or the Base Rate (each as defined in the Second Amended and Restated Credit Agreement) plus a spread that depends upon our leverage ratio. The spread for borrowings under the Revolving Credit Facility ranges from 1.75% to 2.50% for Eurodollar Rate based borrowings and from 0.75% to 1.50% for Base Rate based borrowings, and the spread for the Term Loan ranges from 1.70% to 2.45% for Eurodollar Rate based borrowings and from 0.70% to 1.45% for Base Rate based borrowings.

Our ability to borrow under the Amended Credit Facility is subject to our ongoing compliance with a number of customary financial covenants, including:

- a maximum leverage ratio of not greater than 0.60:1.00;

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a minimum fixed charge coverage ratio of not less than 1.50:1.00;
a minimum ratio of fixed rate debt and debt subject to hedge agreements to total debt of not less than 66.67%;
a maximum secured recourse debt ratio of not greater than 20%;
a minimum tangible net worth of not less than the sum of $330,788,250plus an amount equal to 75% of the net proceeds of any additional equity issuances; and
a maximum secured debt ratio of not greater than 50% through February 17, 2013 and not greater than 45% on any date thereafter.

Pursuant to the terms of the Amended Credit Facility, we may not pay distributions that exceed the greater of (i) 95.0% of our funds from operations, or (ii) the minimum amount required for us to qualify and maintain our status as a REIT. If a default or event of default occurs and is continuing, we also may be precluded from making certain distributions (other than those required to allow us to qualify and maintain our status as a REIT). In April 2013, as a result of the CB Portfolio Acquisition, we received a waiver from our lender group allowing for distributions up to, and not to exceed, 110.0% of our funds from operations for the remainder of 2013.

In February 2013, we amended the Amended Credit Facility to provide for certain exclusions related to our investments in joint ventures as well as the treatment of certain other investments within the compliance calculation of our secured debt ratio and certain negative covenants.

In June 2013, in connection with our investment in a joint venture with Beaumont Partners SA to acquire a property in Montreal, Quebec, Canada (see Note 14), we received a waiver from our lender group allowing us to guarantee debt incurred by our subsidiary, Campus Crest at Montreal I, LLC, to fund such investment.

We and certain of our subsidiaries guarantee the obligations under the Amended Credit Facility and we and certain of our subsidiaries have provided a negative pledge against specified assets (including real property), stock and other interests.

As of September 30, 2013, we had approximately $160.5 million outstanding under our Revolving Credit Facility and $50.0 million outstanding under the Term Loan. The amounts outstanding under our Revolving Credit Facility and Term Loan, as well as outstanding letters of credit, will reduce the amount that we may be able to borrow under this facility for other purposes. As of September 30, 2013, we had approximately $27.5 million in borrowing capacity under our Revolving Credit Facility, and amounts borrowed under the facility will be due at its maturity on January 8, 2017, subject to a one-year extension, which we may exercise at our option, pursuant to certain terms and conditions, including the payment of an extension fee. The amount available for us to borrow under the Amended Credit Facility is based on the sum of (a) the lesser of (i) 60.0% of the "as-is" appraised value of our properties that form the borrowing base of the Amended Credit Facility and (ii) the amount that would create a debt service coverage ratio of not less than 1.5, and (b) 50% of the aggregate of the lesser of (i) the book value of each of our development assets (as such term is defined in the Second Amended and Restated Credit Agreement) and (ii) the "as-is" appraised value of each of our development assets, subject to certain limitations in the Second Amended and Restated Credit Agreement.

As of September 30, 2013, we were in compliance with the above financial covenants with respect to our Amended Credit Facility.

Other Debt

In June 2013, we entered into a $33.4 million (Canadian dollar $35.0 million) unsecured note payable in connection with our acquisition of a hotel in Montreal, Quebec, Canada. The note payable provides for interest-only payments at a variable interest rate equal to the Canadian Dealer Offered Rate (“CDOR”), which was 1.22% at September 30, 2013, plus a spread of 1.70% through its maturity date on December 27, 2013. This facility has two, three-month extension options, subject to lender approval, and is included in line of credit and other debt in the accompanying condensed consolidated balance sheets.

In October 2013, we closed a private offering of $100.0 million of unsecured 4.75% exchangeable senior notes ("Exchangeable Senior Notes") due October 15, 2018. See Note 14.

7. Derivative Instruments and Hedging Activities

We use variable rate debt to finance our construction of student housing properties. These debt obligations expose us to variability in cash flows due to fluctuations in interest rates. We use derivative instruments to limit variability for a portion of our interest payments and to manage exposure to interest rate risk.

As of September 30, 2013 and December 31, 2012, the fair value of derivative contracts is recorded within other assets and other liabilities in the accompanying condensed consolidated balance sheets. The effective portion of changes in fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income (loss) and is subsequently reclassified to earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of changes in fair value of derivatives designated and that qualify as cash flow hedges is recorded in earnings. If a derivative is either not designated as a hedge or if hedge accounting is discontinued, all changes in fair value of the derivative are recorded in earnings.

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The following is a summary of the derivative instruments we entered into for the periods presented (in thousands):

	As of September 30, 2013				September 30, 2013		December 31, 2012	
Derivative Agreement	Notional Amount	Receive Rate	Pay or Strike Rate	Maturity Date	Asset	Liability	Asset	Liability
Interest rate cap	$100,000	1 Month LIBOR	2.50 %	January 2014	$ -	$ -	$ -	$ -
Interest rate cap	50,000	1 Month LIBOR	2.50 %	January 2014	-	-	-	-
Interest rate cap	50,000	1 Month LIBOR	2.50 %	January 2014	-	-	-	-
Interest rate cap	18,762	1 Month LIBOR	1.25 %	April 2013	-	-	-	-
Interest rate swap	18,762	1 Month LIBOR	1.39 %	April 2013	-	-	-	(73)
					$ -	$ -	$ -	$ (73)

The table below details the location in the financial statements of the gain or loss recognized on interest rate derivatives designated as cash flow hedges for the three and nine months ended September 30, 2013 and 2012, respectively (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Amount of gain (loss) recognized in accumulated other comprehensive income on interest rate derivatives (effective portion)	$ -	$ (7)	$ -	$ (55)
Amount of gain (loss) reclassified from accumulated other comprehensive income into income as interest expense (effective portion)	$ -	$ (107)	$ (58)	$ (176)
Amount of gain (loss) recognized in income on derivatives (ineffective portion, reclassifications of missed forecasted transactions and amounts excluded from effectiveness testing)	$ -	$ (2)	$ -	$ (3)

Derivatives not designated as hedges are not speculative and are used to manage our exposure to interest rate movements and other identified risks but do not meet the strict hedge accounting requirements. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings. The table below details the gain or loss recognized in earnings for the three and nine months ended September 30, 2013 and 2012, respectively (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Losses on derivative instruments	$ (2)	$ (3)	$ (5)	$ (3)

The fair value of interest rate swaps is determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. We incorporate credit valuation adjustments to appropriately reflect our own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of derivative contracts for the effect of nonperformance risk, we consider the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds and guarantees.

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Interest rate caps and interest rate swaps measured at fair value for the periods presented are as follows (in thousands):

	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at end of Period
September 30, 2013				
Other assets - Interest rate caps	$ -	$ -	$ -	$ -
December 31, 2012				
Other liabilities - Interest rate swaps	-	(73)	-	(73)

8. Earnings per Share

Basic earnings per share is computed by dividing net income (loss) attributable to common stockholders by the weighted average number of shares of our common stock outstanding during the period. All unvested stock-based payment awards are included in the computation of basic earnings per share. The computation of diluted earnings per share includes common stock issuable upon the conversion of OP Units and restricted OP Units and other potentially dilutive securities in the weighted average shares. The effect of the inclusion of all potentially dilutive securities for any period in which we report a net loss would be anti-dilutive when computing diluted earnings per share and are therefore omitted. Net income attributable to these noncontrolling interests is added back to net income (loss) available to common stockholders in the computation of diluted earnings per share.

Computations of basic and diluted income (loss) per share for the periods presented are as follows (amounts in thousands, except per share data):

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Basic earnings:				
Net income attributable to common stockholders	$ 3,677	$ 7,839	$ 7,459	$ 5,528
Diluted earnings:				
Net income attributable to common stockholders	$ 3,677	$ 7,839	$ 7,459	$ 5,528
Add: net income attributable to noncontrolling interests	26	61	51	38
Net income attributable to common stockholders and participating securities	$ 3,703	$ 7,900	$ 7,510	$ 5,566
Weighted average common shares outstanding:				

Basic		64,518		38,479		58,461		33,514
Incremental shares from assumed conversion OP units		435		436		435		436
Diluted		64,953		38,915		58,896		33,950
Basic net income per share	$	0.06	$	0.20	$	0.13	$	0.16
Diluted net income per share	$	0.06	$	0.20	$	0.13	$	0.16

9. Equity

Preferred Stock

Our 8.0% Series A Cumulative Redeemable Preferred Stock ("Series A Preferred Stock") ranks senior to our common stock with respect to dividend rights and rights upon the voluntary or involuntary liquidation, dissolution or winding up of our affairs. We pay cumulative dividends on the Series A Preferred Stock from the date of original issue at a rate of 8.00% per annum of the $25.00 liquidation preference per share (equivalent to the fixed annual rate of $2.00 per share). Dividends on the Series A Preferred Stock are payable quarterly in arrears on or about the 15th day of January, April, July and October of each year. In October 2013, we reopened our Series A Preferred Stock in an underwritten public offering of 3,800,000 shares (see Note 14).

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We may not redeem the Series A Preferred Stock prior to February 9, 2017, except in limited circumstances relating to our ability to qualify as a REIT. On or after February 9, 2017, we may, at our option, redeem the Series A Preferred Stock, in whole or in part, at any time or from time to time, for cash at a redemption price of $25.00 per share, plus all accrued and unpaid dividends on such Series A Preferred Stock to, but not including, the date of redemption. The Series A Preferred Stock has no maturity date and is not subject to mandatory redemption or any sinking fund. Holders of shares of the Series A Preferred Stock will generally have no voting rights except for limited voting rights if we fail to pay dividends for six or more quarterly periods (whether or not consecutive) and in certain other circumstances.

Common Shares and OP Units

An OP Unit and a share of our common stock have essentially the same economic characteristics as they share equally in the net income (loss) and distributions of the Operating Partnership. An OP Unit may be tendered for redemption for cash or share of common stock; however, we have sole discretion and must have a sufficient amount of authorized common stock to exchange OP Units for shares of common stock on a one-for-one basis.

In March 2013, we completed an underwritten public offering of approximately 25.5 million shares of common stock, including approximately 3.3 million shares issued and sold pursuant to the full exercise of the underwriters' option to purchase additional shares, resulting in net proceeds of approximately $299.7 million. The net proceeds were used: (1) to fund our investment in the CB Portfolio and related transactional costs, including investment banking advisory fees (see Note 4); and (2) for general corporate purposes, including the repayment of debt.

In April 2013, the Board of Directors of the Company approved Articles of Amendment to the Company's Articles of Amendment and Restatement to increase the number of authorized shares of the Company to 550,000,000 shares of stock, consisting of 500,000,000 shares of common stock, $0.01 par value per share, and 50,000,000 shares of preferred stock, $0.01 par value per share.

In June 2013, we implemented an At-The-Market offering program under which we may sell at market price up to $100.0 million in shares of the Company's common stock over the term of the program. At September 30, 2013, we have not issued and sold any shares under this program.

As of September 30, 2013, there were approximately 64.9 million OP Units outstanding, of which approximately 64.5 million, or 99.3%, were owned by us and approximately 0.4 million, or 0.7%, were owned by other partners, including certain of our executive officers. As of September 30, 2013, the fair market value of the OP Units not owned by us was $4.7 million, based on a market value of $10.80 per unit, which was the closing stock price of shares of our common stock on the NYSE on September 30, 2013.

The following is a summary of changes in the shares of our common stock for the periods shown (in thousands):

	For the Nine Months Ended	
	September 30, 2013	September 30, 2012
Common shares at beginning of period	38,558	30,710
Issuance of common shares	25,530	7,475
Issuance of restricted shares	496	376
Forfeiture of restricted shares	(72)	(1)

Common shares at end of period	64,512	38,560

The following is a summary of changes in the number of OP Units for the periods shown (in thousands):

	For the Nine Months Ended	
	September 30, 2013	September 30, 2012
OP Units at beginning of period	436	436
Redemption of OP Units	(1)	-
OP Units at end of period	435	436

Dividends and Distributions

For the three months ended September 30, 2013 and 2012, we declared dividends of $0.165 and $0.16 per share, respectively, totaling approximately $10.7 million and $6.2 million, respectively.

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On July 23, 2013, our Board of Directors declared a third quarter 2013 dividend of $0.165 per share of common stock and OP Unit. The dividends were paid on October 9, 2013, to stockholders of record on September 25, 2013. At September 30, 2013, we accrued approximately $10.7 million related to our common stock dividend in accounts payable and accrued expenses in the accompanying condensed consolidated balance sheets.

On July 23, 2013, our Board of Directors also declared a cash dividend of $0.50 per share of Series A Preferred Stock for the third quarter of 2013. The preferred stock dividend was paid on October 15, 2013, to stockholders of record on September 25, 2013. At September 30, 2013, we accrued approximately $1.0 million related to our preferred stock dividend in accounts payable and accrued expenses in the accompanying condensed consolidated balance sheets.

10. Incentive Plans

We have adopted the 2010 Equity Incentive Compensation Plan (the “Incentive Plan”) which permits the grant of incentive awards to executive officers, employees, consultants and non-employee directors. The aggregate number of awards approved under the Incentive Plan is 2.5 million. As of September 30, 2013, and December 31, 2012, approximately 0.3 million and 1.2 million shares, respectively, were available for issuance under the Incentive Plan.

Restricted Stock Awards

Awards to executive officers and employees vest over a three year period and are subject to restriction based upon employment in good standing with the Company. Awards to non-employee directors vest over a three or five year period and are subject to restriction based upon continued service on our Board of Directors.

At September 30, 2013, total unrecognized compensation cost related to restricted stock awards was approximately $7.4 million and is expected to be recognized over a remaining weighted average period of 1.4 years. During the three and nine months ended September 30, 2013 we recognized stock compensation expense of approximately $0.8 million and $2.3 million, respectively, net of vesting forfeitures of approximately $0.1 million and $0.4 million, respectively. During the three and nine months ended September 30, 2012 we recognized stock compensation expense of approximately $0.4 million and $1.2 million, respectively, net of vesting forfeitures of zero and $0.3 million, respectively. During the three and nine months ended September 30, 2013 we capitalized stock compensation expense of approximately $0.1 million and $0.7 million, respectively, and during the three and nine months ended September 30, 2012, we capitalized stock compensation expense of approximately $0.1 million and $0.2 million, respectively, in the accompanying condensed consolidated financial statements.

Restricted OP Units

At September 30, 2013, total unrecognized compensation cost related to restricted OP Units was approximately $26,000 and is expected to be recognized over a remaining weighted average period of 0.1 years. During the three and nine months ended September 30, 2013 we recognized stock compensation expense related to the vesting of restricted OP Units of approximately $0.2 million and $0.5 million, respectively and during the three and nine months ended September 30, 2012, we recognized stock compensation expense related to the vesting of restricted OP Units of approximately $0.2 million and $0.5 million, respectively, in the accompanying condensed consolidated financial statements. During the three and nine months ended September 30, 2013 we capitalized stock compensation expense related to restricted OP Units of approximately $0.1 million and $0.3 million, respectively and during the three and nine months ended September 30, 2012, we capitalized stock compensation expense related to restricted OP Units of approximately $0.1 million and $0.3 million, respectively, in the accompanying condensed consolidated financial statements.

The following is a summary of our plan activity for the period shown (in thousands, except weighted average grant price):

	Restricted Common Stock	Restricted OP Units	Total	Weighted Average Grant Price
Unvested balances at December 31, 2012	438	50	488	$11.07
Granted	497	-	497	12.65
Vested	(143)	-	(143)	12.41
Forfeited	(72)	-	(72)	12.79
Unvested balances at September 30, 2013	720	50	770	$11.68

11. Related Party Transactions

We lease aircraft from entities in which two of our executive officers have an ownership interest. For the three and nine months ended September 30, 2013 we incurred travel costs to these entities of $0.1 million and $0.2 million, respectively. For the three and nine months ended September 30, 2012 we incurred travel costs to these entities of $0.1 million and $0.2 million, respectively.

During the first quarter of 2013 we entered into a services agreement with a related party to provide insurance products to residents at our properties.

In conjunction with the Copper Beech transaction, we entered into a management agreement with Copper Beech, where Copper Beech will provide management services for Campus Crest at Toledo. For the three and nine months ended September 30, 2013, we incurred an immaterial amount of fees related to this agreement.

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12. Segments

The operating segments in which management assesses performance and allocates resources are student housing operations and development, construction and management services. Our segments reflect management's resource allocation and performance assessment in making decisions regarding the Company. Our student housing rental and student housing services revenues are aggregated within the student housing operations segment and our third-party services of development, construction and management are aggregated within the development, construction and management services segment.

The following tables set forth our segment information for the periods presented (in thousands):

	Three Months Ended September 30, 2013	2012	Nine Months Ended September 30, 2013	2012
Student Housing Operations:				
Revenues from external customers	$ 25,468	$ 22,383	$ 73,894	$ 59,590
Operating expenses	17,508	15,921	52,446	45,306
Operating income	7,960	6,462	21,448	14,284
Nonoperating expenses	(2,636)	(2,466)	(7,716)	(7,595)
Net income	5,324	3,996	13,732	6,689
Net income attributable to noncontrolling interest	36	38	116	64
Net income attributable to common stockholders	$ 5,288	$ 3,958	$ 13,616	$ 6,625
Depreciation and amortization	$ 5,887	$ 5,727	$ 18,593	$ 17,319
Total segment assets at end of period	$ 1,114,089	$ 636,911	$ 1,114,089	$ 636,911
Development, Construction and Management Services:				
Revenues from external customers	$ 14,778	$ 12,103	$ 40,573	$ 43,162
Intersegment revenues	27,670	19,844	80,243	65,368
Total revenues	42,448	31,947	120,816	108,530
Operating expenses	41,335	32,015	116,131	105,361
Operating income	1,113	(68)	4,685	3,169
Nonoperating (income) expenses	-	(10)	-	(10)
Net income	1,113	(78)	4,685	3,159
Net income (loss) attributable to noncontrolling interest	7	(1)	38	30
Net income attributable to common stockholders	$ 1,106	$ (77)	$ 4,647	$ 3,129
Depreciation and amortization	$ 1	$ 22	$ 110	$ 67
Total segment assets at end of period	$ 41,363	$ 36,525	$ 41,363	$ 36,525
Reconciliations:				
Total segment revenues	$ 67,916	$ 54,330	$ 194,710	$ 168,120

Elimination of intersegment revenues		(27,670)		(19,844)		(80,243)		(65,368)
Total consolidated revenues	$	40,246	$	34,486	$	114,467	$	102,752
Segment operating income	$	9,073	$	6,394	$	26,133	$	17,453
Interest expense		(3,091)		(2,623)		(8,764)		(8,395)
Change in fair value of interest rate derivatives		-		(57)		(73)		(160)
Net unallocated expenses and eliminations		(3,087)		(1,230)		(11,744)		(6,800)
Equity in earnings of unconsolidated entities		1,302		86		3,608		283
Other income (expense)		696		6,554		1,494		6,479
Income tax (expense) / benefit		(40)		(74)		306		(330)
Net income (loss)	$	4,853	$	9,050	$	10,960	$	8,530
Total segment assets	$	1,155,452	$	673,436	$	1,155,452	$	673,436
Unallocated corporate assets and eliminations		29,300		5,782		29,300		5,782
Total assets at end of period	$	1,184,752	$	679,218	$	1,184,752	$	679,218

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13. Commitments and Contingencies

Commitments

In the normal course of business, we enter into various development and construction related purchase commitments with parties that provide development and construction related goods and services. In the event we were to terminate development or construction services prior to the completion of projects, we could potentially be committed to satisfy outstanding or uncompleted purchase orders with such parties. At September 30, 2013, management does not anticipate any material deviations from schedule and does not anticipate having to terminate services for the development projects currently in progress.

In the ordinary course of business, certain liens related to the construction of the student housing real estate property may be attached to our assets by contractors or suppliers. Campus Crest Construction, LLC is responsible as the general contractor for resolving these liens. There can be no assurance that we will not be required to pay amounts greater than currently recorded liabilities to settle these claims.

We have properties that are subject to long-term ground leases. Typically, these properties are located on the campuses of colleges or universities. We have the right to encumber our leasehold interests with specific property mortgages for the purposes of constructing, remodeling or making improvements on or to these properties. Title to all improvements paid for and constructed on the land remains with us until the earlier of termination or expiration of the lease, at which time the title of any buildings constructed on the land will revert to the landlord. Should we decide to sell our leasehold interests during the initial term or any renewal terms, the landlord has a right of first refusal to purchase the interests for the same purchase price under the same terms and conditions as contained in our offer to sell our leasehold interests.

We guarantee certain mortgage notes related to our unconsolidated joint ventures (See Note 5).

Contingencies

In the normal course of business, we are subject to claims, lawsuits and legal proceedings. In addition to the matter described below, we are involved in various routine legal proceedings arising in the ordinary course of business. Although the outcomes of such routine legal proceedings cannot be predicted with certainty, in the opinion of management, the ultimate resolution of such routine matters will not have a material adverse effect on our financial position or results of operations.

On July 3, 2012, we and certain of our subsidiaries along with the architect, the structural engineer and certain of our subcontractors were named as defendants in a lawsuit filed with the 250th Judicial District Court of Travis County in Austin, Texas. The lawsuit arose from an accident at The Grove at Denton, located in Denton, Texas, in which a balcony of one of the units broke and three people were seriously injured. The plaintiffs allege, among other things, negligence on the part of the defendants in the design, construction, planning, operation and management of The Grove at Denton and seek actual and exemplary damages. The plaintiffs' initial complaint did not specify the amount of damages; however, on April 2, 2013, we received a demand from the plaintiffs for damages in the amount of $30 million. The parties attended mediation on August 27, 2013, but no resolution was reached. The trial is currently scheduled to begin February 10, 2014. Due to the pendency of our defense, it is not possible to determine or predict the outcome of the lawsuit. We intend to defend the lawsuit vigorously and, while no assurances can be given, after taking into account our existing insurance coverage, we do not believe that the lawsuit, if adversely determined, would have a material adverse effect on our financial position or results of operations. No amounts have been accrued at September 30, 2013.

We are not aware of any environmental liability with respect to the properties that could have a material adverse effect on our business, assets or results of operations. However, there can be no assurance that such a material environmental liability does not exist. The existence of any such material environmental liability could have an adverse effect on our results of operations and cash flows.

14. Subsequent Events

In October 2013, we reopened our Series A Preferred Stock in an underwritten public offering of 3,800,000 shares, including 400,000 shares issued and sold pursuant to the partial exercise of the underwriters' option to purchase additional shares of the Series A Preferred Stock. The shares of Series A Preferred Stock were issued at a public offering price of $25.0611 per share, resulting in net proceeds of approximately $91.7 million, after deducting the underwriting discount and other estimated offering expenses of approximately $3.5 million.

CAMPUS CREST COMMUNITIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

In October 2013, the Operating Partnership completed a private offering of $100.0 million of Exchangeable Senior Notes due October 15, 2018. Interest on the Exchangeable Senior Notes is payable semi-annually on April 15 and October 15, beginning April 15, 2014. Upon exchange of the Exchangeable Senior Notes, the Operating Partnership will deliver cash, shares of Campus Crest common stock, or a combination of both at an initial exchange rate of 79.6020 shares per $1,000 principal amount of Exchangeable Senior Notes (equivalent to an initial exchange price of approximately $12.56 per share of Campus Crest common stock). The Exchangeable Senior Notes may not be redeemed prior to the maturity date. At any time prior to July 15, 2018, the Operating Partnership may irrevocably elect, in its sole discretion without the consent of the holders of the Exchangeable Senior Notes, to settle all of its future exchange obligation entirely in shares of Campus Crest common stock. The Exchangeable Senior Notes rank equally in right of payment to all other unsecured debt and are subordinated in right of payment to all secured debt, liabilities, and preferred equity of our subsidiaries.

We used the net proceeds from these offerings for the repayment of debt, development funding and working capital purposes.

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

As used herein, references to "we," "us," "our," the "Company" and "Campus Crest" refer to Campus C Communities, Inc. and our consolidated subsidiaries, including Campus Crest Communities Operating Partnership, LP (the "Operating Partnership"), except where the context otherwise requires.

Forward-looking Statements

This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and include this statement for the purpose of complying with these safe harbor provisions. Forward-looking statements are generally identifiable by use of forward-looking terminology such as "may," "will," "should," "potential," "intend," "expect," " "anticipate," "estimate," "approximately," "believe," "could," "project," "predict," "continue," "plan" or other simila expressions. Forward-looking statements are based on certain assumptions, discuss future expectations, describe future plans and strategies, contain financial and operating projections or state other forward-looking information. Our ability to predict results or the actual effect of future events, actions, plans or strategies is inherently uncertain. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, our actual results and performance could differ materially from those set forth in, or implied by, the forward-looking statements. Factors that may cause our actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements include, but are not limited to, the following:

- the factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2012, including those set forth under the headings "Business," "Risk Factors" and "Management's Discussion of Financial Condition and Results of Operations," the factors discussed in our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2013 and June 30, 2013, set forth under "Item 1A. Risk Factors";

- the performance of the student housing industry in general;

- decreased occupancy or rental rates at our properties resulting from competition or other factors;

- the operating performance of our properties;

- the availability of attractive development and/or acquisition opportunities in properties that satisfy our investment criteria and the success of our acquisition, development and construction activities, including satisfaction of conditions to closing for pending acquisitions and, in some cases, the negotiation and execution of definitive documents and satisfaction of the conditions therein;

- changes in the admissions or housing policies of the colleges and universities from which we draw student-tenants;

- changes in our business and growth strategies and in our ability to consummate acquisitions or dispositions or additional joint venture transactions;

- our ability to manage effectively our growth and expansion into new markets or to integrate acquisitions successfully;

- our capitalization and leverage level;
- our capital expenditures;
- the degree and nature of our competition, in terms of developing properties, consummating acquisitions and in obtaining student-tenants to fill our properties;
- volatility in the real estate industry, interest rates and spreads, the debt or equity markets, the economy generally or the local markets in which our properties are located, whether the result of market events or otherwise;

- events or circumstances which undermine confidence in the financial markets or otherwise have a broad impact on financial markets, such as the sudden instability or collapse of large financial institutions or other significant corporations, terrorist attacks, natural or man-made disasters or threatened or actual armed conflicts;

- the availability and terms of short-term and long-term financing, including financing for development and construction activities;

- the credit quality and ability and willingness to pay amounts owed of our student-tenants and parental guarantors;

- changes in personnel, including the departure of key members of our senior management, and lack of availability of, or our inability to attract and retain, qualified personnel;

- unanticipated increases in financing and other costs, including a rise in interest rates;

- estimates relating to our ability to make distributions to our stockholders in the future and our expectations as to the form of any such distributions;

- development and construction costs and timing;

- environmental costs, uncertainties and risks, especially those related to natural disasters;

- changes in governmental regulations, accounting treatment, tax rates and similar matters;

- legislative and regulatory changes (including changes to laws governing the taxation of real estate investments trusts ("REIT")); and

- limitations imposed on our business and our ability to satisfy complex rules in order for us to qualify as a REIT for U.S. federal income tax purposes and the ability of certain of our subsidiaries to qualify as taxable REIT subsidiaries for U.S. federal income tax purposes, and our ability and the ability of our subsidiaries to operate effectively within the limitations imposed by these rules.

When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this report. Readers are cautioned not to place undue reliance on any of these forward-looking statements, which reflect our views as of the date of this report. The matters summarized in this report and the factors listed above could cause our actual results and performance to differ materially from those set forth in, or implied by, our forward-looking statements. Accordingly, we cannot guarantee future results or performance. Furthermore, except as required by law, we are under no duty to, and we do not intend to, update any of our forward-looking statements after the date of this report, whether as a result of new information, future events or otherwise.

Overview

We are a self-managed, self-administered and vertically-integrated REIT focused on developing, building, owning and managing a diversified portfolio of high-quality, residence life focused student housing properties. We operate our business through the Operating Partnership and our subsidiaries. We derive substantially all of our revenue from student housing rental, student housing services, construction, development services and management services. As of September 30, 2013, we owned the sole general partnership interest, 99.3% of the outstanding common units of limited partnership interest in the Operating Partnership ("OP Units"), and all of the outstanding preferred units of limited partnership interest in the Operating Partnership.

We believe that we are one of the largest vertically-integrated developers, builders, owners and managers of high-quality, residence life focused student housing properties in the United States, based on beds owned and under management. As of September 30, 2013, we owned interests in 45 operating student housing Grove properties containing approximately 9,038 apartment units and 24,640 beds. Thirty-five of our operating Grove properties are wholly-owned and ten of our Grove properties are owned through joint ventures with Harrison Street Real Estate Capital ("HSRE"). As of September 30, 2013, we also owned interests in Copper Beech (see "CB Portfolio Acquisition" section below) and one wholly-owned redevelopment property. As of September 30, 2013, our portfolio consisted of the following:

	Properties in Operation	Ownership		Number of Units	Number of Beds
Wholly owned Grove properties	35	100.0	%	6,952	18,908
Joint venture Grove properties:					
HSRE I	3	49.9	%	544	1,508
HSRE IV	1	20.0	%	216	584
HSRE V	3	10.0	%	662	1,856
HSRE VI	3	20.0	%	664	1,784
Total Grove properties	45			9,038	24,640
CB Portfolio	35	47.2	% (1)	6,242	16,645
Total Portfolio(2)	80			15,280	41,285

(1) At September 30, 2013, our effective interest in the CB Portfolio (defined below) was 47.2%. As of October 1, 2013, our interest in the Copper Beech portfolio was amended as noted below in the Amendment to Copper Beech Purchase Agreement.

(2) The re-development of our 100% owned property in Toledo, OH is excluded. We expect to announce more details on the redevelopment in 2014.

As of September 30, 2013, the average occupancy for our 45 Grove properties was approximately 89.3% and the average monthly total revenue for the three months ended September 30, 2013 per occupied bed was approximately $511. Our operating Grove properties are located in 18 states, contain modern apartment units with many resort-style amenities, and have an average age of approximately 3.6 years as of September 30, 2013. Our properties are primarily located in medium-sized college and university markets, which we define as markets located outside of major U.S. cities that have nearby schools generally with overall enrollment of approximately 5,000 to 20,000 students. We believe such markets are underserved and are generally experiencing enrollment growth.

We have developed, built and managed substantially all of our wholly-owned properties and several of our unconsolidated, joint venture properties, which are based upon a common prototypical residential building design. We believe that our use of this prototypical building design, which we have built approximately 675 times at 45 of our student housing properties (approximately 15 of such residential buildings comprise one student housing property), allows us to efficiently deliver a uniform and proven student housing product in multiple markets. All of our operating properties (other than those in the CB portfolio as defined below and Toledo) operate under The Grove® brand, and we believe that our brand and the associated lifestyle are effective differentiators that create higher visibility and appeal for our properties within their markets both with the student as well as the universities we serve.

In addition to our existing properties, we actively seek organic growth opportunities. We commenced building eight new student housing properties in 2013, one of which is owned by a joint venture with HSRE and Brandywine in which we own a 30% interest and act as the co-developer, one of which is owned by a joint venture with Beaumont in which we own a 20% interest, two of which are owned by a joint venture with HSRE in which we own a 30% interest, one of which is being built by Copper Beech in which our interest is commensurate with the remainder of the Copper Beech portfolio, and three of which are wholly-owned by us. We commenced construction on The Grove at Slippery Rock, Pennsylvania, The Grove at Grand Forks, North Dakota, and The Grove at Mt. Pleasant, Michigan during the third quarter of 2013. The following is a summary of these developments:

Project	Location	Primary University Served	Ownership		Units	Beds	Estimated Project Cost [1]	Scheduled Opening for Occupancy
Wholly Owned:								
The Grove at Slippery Rock	Slippery Rock, PA	Slippery Rock University	100.0	%	201	603	29.9	August 2014
The Grove at Grand Forks	Grand Forks, ND	University of North Dakota	100.0	%	224	600	28.2	August 2014
The Grove at Mt. Pleasant, MI	Mt. Pleasant, MI	Central Michigan University	100.0	%	216	584	24.1	August 2014
Joint Venture:								
The Grove at Greensboro	Greensboro, NC	University of North Carolina at Greensboro	30.0	%	216	584	27.3	August 2014
The Grove at Louisville	Louisville, KY	University of Louisville	30.0	%	252	654	38.3	August 2014
evo at Cira Centre South	Philadelphia, PA	University of Pennsylvania/ Drexel University	30.0	%	344	850	158.5	August 2014
Copper Beech at Ames	Ames, IA	Iowa State University	47.2	% (2)	214	636	30.2	August 2014
evo à Square Victoria	Montreal, Quebec	McGill University/ Concordia University/ L'Ecole de Technologie	20.0	%	711	1,200	90.0	August 2014
					2,378	5,711	$426.5	

(1) Estimated project cost amounts are in millions.

(2) As of September 30, 2013, our interest in the Copper Beech portfolio is 47.2%. As of October 1, 2013, our interest in the Copper Beech portfolio was amended as noted below in the Amendment to Copper Beech Purchase Agreement. Ownership in Copper Beech at Ames will be consistent with the amendment.

For each of these projects, we conducted significant pre-development activities and obtained necessary zoning and site plan approvals. In total, we have identified over 250 markets and more than 100 specific sites within these markets as potential future development opportunities.

CB Portfolio Acquisition

In February 2013, we entered into purchase and sale agreements to acquire an approximate 48.0% interest in a portfolio of 35 student housing properties, one undeveloped land parcel and corporate office building held by the members of Copper Beech Townhome Communities, LLC ("CBTC") and Copper Beech Townhome Communities (PA), LLC ("CBTC PA", together with CBTC, "Copper Beech" or the "Sellers") (the “CB Portfolio”), and a fully integrated platform and brand with management, development and construction teams, for an initial purchase price of approximately $230.2 million, including the repayment of $106.7 million of debt. The remaining 52.0% interest in the CB Portfolio will be held by certain of the current members of CBTC and CBTC PA, (the “CB Investors”). Pursuant to our 48.0% interest in the CB Portfolio, we entered into a purchase and sale agreement (the “Purchase Agreement”), and related transactions, with the members of CBTC and CBTC PA, to acquire in steps a 36.3% interest in the CB Portfolio. We have also entered into a purchase and sale agreement with certain investors in the CB Portfolio who are not members of Copper Beech (the “Non-Member Investors”) to acquire the interests in the CB Portfolio held by such Non-Member Investors (the “Non-Member Purchase Agreement”). Pursuant to the Non-Member Purchase Agreement, we have agreed to acquire approximately an 11.7% interest in the CB Portfolio from the Non-Member Investors. We refer to this transaction as the “CB Portfolio Acquisition.”

The CB Portfolio consists of 35 student housing properties, one undeveloped land parcel in Charlotte, North Carolina, and Copper Beech’s corporate office building in State College, Pennsylvania. The CB Portfolio consists primarily of townhouse units located in eighteen geographic markets in the United States across thirteen states, with 30 of the 35 student housing properties having been developed by Copper Beech. As of September 30, 2013, the CB Portfolio comprised approximately 6,242 rentable units with approximately 16,645 rentable beds. The student housing properties have an average age of approximately 7.2 years. As of September 30, 2013, the average occupancy for the student housing properties was approximately 96.1%. For the year ended December 31, 2012, the average monthly total revenue per occupied bed was approximately $470. The following table presents certain summary information about the properties in the CB Portfolio:

Property	Primary University	Units	Beds
Copper Beech I State College	Penn State University	59	177
Copper Beech II State College	Penn State University	87	257
Oakwood State College	Penn State University	48	144
Oak Hill State College[1]	Penn State University	106	318
Northbrook Greens State College	Penn State University	166	250
Parkway Plaza State College	Penn State University	429	633
IUP Phase I Indiana	Indiana University of Pennsylvania	95	239
IUP Phase II Indiana	Indiana University of Pennsylvania	72	172
IUP Buy Indiana	Indiana University of Pennsylvania	43	74
Radford, VA	Radford University	222	500
Klondike Purdue	Purdue University	219	486
Baywater Purdue	Purdue University	137	488
Bloomington, IN	Indiana University	107	297
CMU Phase I Mount Pleasant, MI	Central Michigan University	204	632
CMU Phase II Mount Pleasant, MI[1]	Central Michigan University	119	256
Fresno, CA	California State University at Fresno	178	506
Bowling Green Phase I	Bowling Green University	128	400
Bowling Green Phase II	Bowling Green University	72	216
Allendale Phase I	Grand Valley State University	206	614
Allendale Phase II	Grand Valley State University	82	290
Columbia, MO	University of Missouri	214	654
Statesboro, GA Phase I[1]	Georgia Southern University	246	754
Statesboro, GA Phase II[1]	Georgia Southern University	82	262
Colonial Crest Bloomington, IN	Indiana University	206	402
Kalamazoo Phase I[1]	Western Michigan University	256	784
Kalamazoo Phase II[1]	Western Michigan University	115	340
Columbia, SC Phase I	University of South Carolina	278	824
Columbia, SC Phase II	University of South Carolina	72	178
Morgantown, WV	West Virginia University	335	920
Harrisonburg, VA	James Madison University	414	1,218
Grand Duke	James Madison University	120	124
Greenville, NC	East Carolina University	439	1,232
Auburn, AL[1]	Auburn University	271	754
San Marcos, TX Phase I	Texas State University	273	840
San Marcos, TX Phase II	Texas State University	142	410
Total - CB Portfolio		6,242	16,645

(1) As of September 30, 2013, our effective ownership in these properties was reduced to 0.0%. See section below **Amendment to Copper Beech Purchase Agreement** for additional discussion.

Our $230.2 million investment in the CB Portfolio entitles us to a preferred payment of $13.0 million for the first year of our investment and 48.0% of remaining operating cash flows. In connection with the CB Portfolio Acquisition we loaned approximately $31.7 million to the CB Investors. The loan has an interest rate of 8.5% per annum and a term of three years, and is secured by the CB Investors' interests in six unencumbered properties in the CB Portfolio. The principal amount of the loan is expected to be repaid by the CB Investors by reducing the price of future purchase options. If any of the purchase options are not exercised, the CB Investors may, at their option, repay the note through (1) cash payments either in accordance with the repayment schedule in the note or in the form of a one-time prepayment for the outstanding principal amount plus accrued and unpaid interest or (2) payments in kind consisting of a portion of their interests in the CB Portfolio. If the CB Investors elect to repay the note in kind, our interest in the

CB Portfolio will be increased by an amount corresponding to the CB Investors’ percentage interest used to repay the note in kind.

In connection with the CB Portfolio Acquisition, we have agreed to work with the CB Investors to identify and agree upon student housing property development projects. For each of the first three years following the closing of our initial acquisition of a 48.0% interest, we have agreed to contribute up to $20.0 million annually to Copper Beech to fund the development of new student housing properties to the extent any such property developments are agreed upon by us and the CB Investors.

As discussed above, on March 18, 2013, we invested approximately $121.4 million, consisting of approximately $47.1 million for the acquisition of equity interests and approximately $74.3 million for the repayment of debt, in six properties in the CB Portfolio. We recognized approximately $1.6 million and $3.7 million in equity in earnings of Copper Beech as well as approximately $0.7 million and $1.5 million in interest income from the loan to the CB Investors for the three and nine months ended September 30, 2013, respectively. Additionally, for the nine months ended September 30, 2013, we recognized approximately $0.7 million of transaction expenses related to the CB Portfolio Acquisition and incurred $16.8 million of costs which were included in our investment basis in Copper Beech.

Amendment to Copper Beech Purchase Agreement

On September 30, 2013 and effective subject to the receipt of required third party consents, we entered into an Amendment (the “Amendment”) to the Purchase Agreement. As consideration for entering into the Amendment, we have agreed to pay to the CB Investors $4.0 million.

Pursuant to the terms of the Amendment, following receipt of required third party consents, we will transfer our 48.0% interest in five properties in the Copper Beech Portfolio (Copper Beech Auburn, Copper Beech Kalamazoo Phase 1, Copper Beech Kalamazoo Phase 2, Copper Beech Oak Hill and Copper Beech Statesboro Phase 1) back to the CB Investors and defer the acquisition of the two Phase II development properties (Cooper Beech Mt. Pleasant Phase 2 and Cooper Beech Statesboro Phase 2) until August 18, 2014 as consideration for an additional 19.0% interest in each of the remaining 30 properties in the Copper Beech Portfolio (the “Initial Copper Beech Properties”). Following the transfer of such properties, we will hold a 67.0% interest in each of 30 properties in the Copper Beech Portfolio, with the CB Investors holding the remaining 33.0% interest. In addition, under the terms of the Amendment, we have the option, exercisable from March 18, 2014 through August 18, 2014, to acquire an 18.0% interest in each of the seven properties whose acquisition is being deferred (collectively, the “Deferred Copper Beech Properties”), which will entitle us to 33.0% of the operating cash flows of such Deferred Copper Beech Properties. The purchase price for the exercise of this option is approximately $16.9 million. In order to exercise this option, we must also exercise the option to acquire an additional 18.0% interest in the Initial Copper Beech Properties, which is described below.

Both we and the CB Investors hold joint approval rights for major decisions, including those regarding property acquisition and disposition as well as property operation. As such, we hold a noncontrolling interest in the CB Portfolio and accordingly apply the equity method of accounting.

The Amendment also amends our options, but not obligations, to acquire additional interests in the Copper Beech Portfolio as follows:

· Beginning March 18, 2014 through August 18, 2014, we have the option to acquire an additional 18.0% interest in the Initial Copper Beech Properties, increasing our aggregate interest in such properties to 85.0%, which will entitle us to 100% of the operating cash flows of the Initial Copper Beech Properties. The aggregate purchase price for the exercise of this purchase option is approximately $93.5 million plus debt repayment of approximately $21.0 million.

· Through May 2015, we have the option to acquire an additional 3.9% interest in the Initial Copper Beech Properties and an additional 70.9% interest in the Deferred Copper Beech Properties, increasing our aggregate interest in all 37 properties in the Copper Beech Portfolio to 88.9%, which will entitle us to 100% of the operating cash flows of the Initial Copper Beech Properties and the Deferred Copper Beech Properties. The aggregate purchase price for the exercise of this purchase option is approximately $100.7 million plus debt repayment of approximately$19.0 million.

· Through May 2016, we have the option to acquire an additional 11.1% interest in the Copper Beech Portfolio, increasing our aggregate interest to 100%. The aggregate purchase price for the exercise of this purchase option is approximately $53.4 million.

As previously disclosed, if we elect to exercise any of the purchase options, we are not obligated to exercise any subsequent purchase options. In the event we do not elect to exercise a purchase option, we will lose the right to exercise future purchase options. If the first purchase option is not exercised, we will be entitled to a 48.0% interest in all 37 properties in the CB Portfolio and will be entitled to 48.0% of operating cash flows and 45.0% of the proceeds of any sale of any portion of the CB Portfolio. If the first purchase option is exercised but the second purchase option is not exercised, we will be entitled to a 75.0% interest in all 37 properties in the CB Portfolio and will be entitled to 75.0% of operating cash flows and 70.0% of the proceeds of any sale of any portion of the CB Portfolio. If the second purchase option is exercised but the third purchase option is not exercised, we will retain our 88.9% interest in the CB Portfolio and will be entitled to 88.9% of both operating cash flows and the proceeds of any sale of any portion of the CB Portfolio.

In connection with the Amendment, the Sellers repaid the entire principal balance of $31.7 million outstanding under the loans previously provided by us.

Our Business Segments

Management evaluates operating performance through the analysis of results of operations of two distinct business segments: (i) student housing operations and (ii) development, construction and management services. Management evaluates each segment’s performance by net operating income, which we define as operating income before depreciation and amortization. The accounting policies of our reportable business segments are described in more detail in the summary of significant accounting policies footnote (Note 2) to our condensed consolidated financial statements. Intercompany fees are reflected at the contractually stipulated amounts, as adjusted to reflect our proportionate ownership of unconsolidated entities.

Student Housing Operations

Our student housing operations are comprised of rental and other service revenues, such as application fees, pet fees and late payment fees. We opened our first student housing property in Asheville, North Carolina in 2005 for the 2005-2006 academic year. We subsequently opened three additional properties in 2006 for the 2006-2007 academic year, six additional properties in 2007 for the 2007-2008 academic year and nine additional properties in 2008 for the 2008-2009 academic year. In 2009, we opened one additional property that was consolidated by our predecessor and four additional properties that are owned by a real estate venture in which we have a noncontrolling interest. In August 2010, we opened three additional properties for the 2010-2011 academic year that are owned by a real estate venture in which we have a noncontrolling interest. Concurrent with our initial public offering and related formation transactions in October 2010, we purchased the noncontrolling interest in one of the properties owned by this real estate venture. In December 2011, we purchased the controlling interest in two properties that were opened in August 2010. In August 2011, we opened four wholly owned properties and an additional two properties that are owned in real estate ventures in which we have a noncontrolling interest. In July 2012, we purchased the controlling interest in two properties that were opened in August 2010 and August 2011. In August 2012 and September 2012, we opened three wholly-owned properties and an additional three properties that are owned in real estate ventures in which we have a noncontrolling interest. In March 2013, we acquired one wholly-owned property not built by us. Due to the continuous growth of new properties in consecutive years and annual lease terms that do not coincide with our reported fiscal (calendar) years, the comparison of our consolidated financial results from period to period may not provide a meaningful measure of our operating performance. For this reason, we divide the results of operations in our student housing operations segment between new property operations and "same-store" operations, which we believe provides a more meaningful indicator of comparative historical performance.

"Same store" properties are our wholly-owned operating properties acquired or placed in-service prior to the beginning of the earliest period presented and owned by us and remaining in service through the end of the latest period presented or period being analyzed. "New properties" are our wholly-owned operating properties that we acquired or placed in service after the beginning of the earliest period presented or period being analyzed.

We monitor net operating income ("NOI") of our student housing properties, which is a non-GAAP financial measure. In general terms, we define NOI as student housing rental revenue less student housing operating expenses including real estate taxes related to our properties. We believe this measure provides an operating perspective not immediately apparent from GAAP operating income (loss) or net income (loss). We use NOI to evaluate performance on a community-by-community basis because it allows management to evaluate the impact that factors such as lease structure, lease rates and tenant base, which vary by locality, have on our financial performance. To help make comparisons of NOI between periods more meaningful, we distinguish NOI from our properties that are wholly-owned and that were in service throughout each period presented (that is, our "same store" properties) from NOI from our other wholly-owned properties.

We specifically calculate NOI by adding back to (or subtracting from) net income (loss) attributable to common stockholders (computed in accordance with GAAP) the following expenses or charges: income tax expense, other expense, interest expense, transaction costs, equity in loss of unconsolidated entities, depreciation and amortization, ground lease expense, general and administrative expense, development, construction and management services expenses and other non-recurring costs or expenses. The following income or gains are then deducted from net income (loss) attributable to common stockholders, adjusted for add backs of expenses or charges: other income, equity in earnings of unconsolidated entities, change in fair value of interest rate derivatives, development, construction and management services revenues and non-recurring income or gains.

NOI excludes multiple components of net income (loss) attributable to common stockholders (computed in accordance with GAAP) and captures neither the changes in the value of our properties that result from use or market conditions nor the level of capital expenditures necessary to maintain the operating performance of our properties, all of which have real economic effects and could materially and adversely impact our results of operations. Therefore, the utility of NOI as a measure of our performance is limited. Additionally, other companies, including other equity REITs, may use different methodologies for calculating NOI and, accordingly, NOI as disclosed by such other companies may not be comparable to NOI published herein. We believe that in order to facilitate a clear understanding of our historical operating results, NOI should be examined in conjunction with net income (loss) as presented in the condensed consolidated financial statements accompanying this report. NOI should not be considered as an alternative to net income (loss) attributable to common stockholders as an indicator of our properties' financial performance or to cash flow from operating activities (computed in accordance with GAAP) as an indicator of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to pay dividends or make distribution.

Development, Construction and Management Services

Development and Construction Services. In addition to our wholly owned properties, all of which were developed and built by us, we also provide development and construction services to unconsolidated joint ventures in which we have an ownership interest. We act as a general contractor on all of our construction projects. When building properties for our own account (*i.e.*, for entities that are consolidated in our financial statements), construction revenues and expenses are eliminated for accounting purposes and construction costs are ultimately reflected as capital additions. Thus, building properties for our own account does not generate any revenues or expenses in our development, construction and management services segment on a consolidated basis. Alternatively, when performing these services for unconsolidated joint ventures, we recognize construction revenues based on the costs that have been contractually agreed to with the joint venture for the construction of the property and expenses based on the actual costs incurred. Construction revenues are recognized using the percentage of completion method, as determined by construction costs incurred relative to total estimated construction costs, as adjusted to eliminate our proportionate ownership of each entity. Actual construction costs are expensed as incurred and are likewise adjusted to eliminate our proportionate ownership of each entity. Operating income generated by our development and construction activities generally reflects the development fee and construction fee income that is realized by providing these services to unconsolidated joint ventures (*i.e.*, the "spread" between the contractual cost of construction and the actual cost of construction).

Management Services. In addition to our wholly owned properties, all of which are managed by us (other than our property in Toledo, Ohio) we also provide management services to unconsolidated joint ventures in which we have an ownership interest. We recognize management fees from these entities as earned in accordance with the property management agreement with these entities, as adjusted to eliminate our proportionate ownership of each entity.

Our Relationship With HSRE

We are a party to active joint venture arrangements with Harrison Street Real Estate Capital ("HSRE"), a real estate private equity firm founded in 2005 that has significant real estate asset holdings, including student housing properties, senior housing/assisted living units, self-storage units, boat storage facilities and medical office space. As of September 30, 2013, we have developed 15 properties and are in the process of developing three additional properties in partnership with HSRE, including one joint venture project where we are partners with both HSRE and Brandywine Realty Trust.

HSRE I. Our first joint venture with HSRE, HSRE-Campus Crest I, LLC ("HSRE I"), indirectly owned 100% of the interests in the following three properties at September 30, 2013: The Grove at Conway, Arkansas, The Grove at Lawrence, Kansas and The Grove at San Angelo, Texas. On July 5, 2012, we completed the purchase of HSRE's 50.1% interest in The Grove at Moscow, Idaho which was included in HSRE I prior to that date. On December 29, 2011, we completed the purchase of HSRE's 50.1% interests in The Grove at Huntsville, Texas and The Grove at Statesboro, Georgia which were included in HSRE I prior to that date. At September 30, 2013 we owned a 49.9% interest in HSRE I and HSRE owned the remaining 50.1%. Prior to the Offering and the Formation Transactions, on October 19, 2010, HSRE I indirectly owned a 100% interest in a seventh property, The Grove at San Marcos, Texas. Prior to March 26, 2010, we owned a 10% interest in HSRE I and HSRE owned the remaining 90%.

In general, we are responsible for the day-to-day management of HSRE I’s business and affairs, provided that major decisions must be approved by us and HSRE. In addition to distributions to which we are entitled as an investor in HSRE I, we receive or have in the past received fees for providing services to the properties held by HSRE I pursuant to development and construction agreements and property management agreements. We granted to an entity related to HSRE I a right of first opportunity with respect to certain development or acquisition opportunities identified by us. This right of first opportunity was to terminate at such time as HSRE had provided at least $40 million of equity funding to HSRE I and/or certain related ventures. This right of first opportunity was amended in conjunction with the formation of HSRE IV as discussed below. HSRE I will dissolve upon the disposition of substantially all of its assets or the occurrence of certain events specified in the agreement between us and HSRE.

HSRE IV. In January 2011, we entered into a joint venture with HSRE, HSRE-Campus Crest IV, LLC ("HSRE IV"), to develop and operate additional purpose-built student housing properties. HSRE IV completed two new student housing properties in August 2011 for the 2011-2012 academic year. The properties, located in Denton, Texas, and Valdosta, Georgia, contain an aggregate of approximately 1,168 beds and cost approximately $45.7 million. We own a 20% interest in this joint venture and affiliates of HSRE own the balance. On July 5, 2012, we completed the purchase of HSRE's 80% interest in The Grove at Valdosta, which was included in HSRE IV prior to that date.

HSRE V. In October 2011, we entered into a joint venture with HSRE, HSRE-Campus Crest V, LLC ("HSRE V"), to develop and operate additional purpose-built student housing properties. HSRE V completed three new student housing properties in August 2012 for the 2012-2013 academic year. The properties, located in Fayetteville, Arkansas, Laramie, Wyoming, and Stillwater, Oklahoma, contain an aggregate of approximately 1,856 beds and cost approximately $72.1 million. We own a 10% interest in this joint venture and affiliates of HSRE own the balance.

HSRE VI. In March 2012, we entered into a joint venture with HSRE, HSRE-Campus Crest VI, LLC ("HSRE VI"), to develop and operate additional purpose-built student housing properties. HSRE VI completed three new student housing properties in August 2013 for the 2013-2014 academic year. The properties, located in Norman, Oklahoma, State College, Pennsylvania and Indiana, Pennsylvania, contain an aggregate of approximately 1,784 beds and have an estimated cost of approximately $83.2 million. We own a 20% interest in this joint venture and affiliates of HSRE own the balance.

In general, we are responsible for the day-to-day management of HSRE IV’s, HSRE V’s and HSRE VI's business and affairs, provided that major decisions (including deciding to pursue a particular development opportunity) must be approved by us and HSRE. In addition to distributions to which we are entitled as an investor in HSRE IV, HSRE V and HSRE VI, we receive fees for providing services to HSRE IV, HSRE V and HSRE VI pursuant to development and construction agreements and property management agreements. In general, we will earn development fees equal to approximately 4% of the total cost of each property developed by HSRE IV, HSRE V and HSRE VI (excluding the cost of land and financing costs), construction fees equal to approximately 5% of the construction costs of each property developed by HSRE IV, HSRE V and HSRE VI and management fees equal to approximately 3% of the gross revenues and 3% of the net operating income of operating properties held by HSRE IV, HSRE V and HSRE VI. In addition, we will receive reimbursement of a portion of our overhead relating to each development project at a negotiated rate. Under certain circumstances, we will be responsible for funding the amount by which actual development costs for a project pursued by HSRE IV, HSRE V or HSRE VI exceed the budgeted development costs of such project (without any increase in our interest in the project), which could materially and adversely affect the fee income realized from any such project.

HSRE IX. In January 2013, we entered into a joint venture with HSRE and Brandywine, HSRE-Campus Crest IX, LLC ("HSRE IX"), to develop and operate additional purpose-built student housing properties. HSRE IX is currently building one new student housing property, evo at Cira Centre South, with completion targeted for the 2014-2015 academic year. The property, located in the University City submarket of Philadelphia, Pennsylvania, will contain approximately 850 beds and has an estimated cost of approximately $158.5 million. We own a 30% interest in this joint venture, Brandywine owns 30% and affiliates of HSRE own the balance.

In general, we, along with Brandywine, are responsible for the day-to-day management of HSRE IX’s business and affairs, provided that major decisions (including deciding to pursue a particular development opportunity) must be approved by us, HSRE, and Brandywine. In addition to distributions to which we are entitled as an investor in HSRE IX, we, along with Brandywine, will receive fees for providing services to HSRE IX pursuant to a development agreement and property management agreement. In general, we, along with Brandywine, will earn development fees equal to approximately 4% of the total cost of each property developed by HSRE IX (excluding the cost of land and financing costs) and we will earn management fees equal to approximately 3% of the gross revenues and 2% of the net operating income of operating properties held by HSRE IX. In addition, we, along with Brandywine, will receive reimbursement of a portion of our overhead relating to each development project at a negotiated rate. Under certain circumstances, we, along with Brandywine, will be responsible for funding the amount by which actual development costs for a project pursued by HSRE IX exceed the budgeted development costs of such project (without any increase in our interest in the project), which could materially and adversely affect the fee income realized from any such project.

HSRE X. In March 2013, we entered into a joint venture agreement with HSRE, HSRE-Campus Crest X, LLC ("HSRE X"), to develop and operate additional purpose-built student housing properties. HSRE X is developing two new student housing properties with completion targeted for the 2014-2015 academic year. The properties, located in Louisville, Kentucky and Greensboro, North Carolina will contain an aggregate of approximately 1,238 beds and have an estimated cost of approximately $65.6 million. We own a 30% interest in this joint venture and affiliates of HSRE own the balance.

We amended HSRE's right of first opportunity, originally granted with respect to HSRE I, to develop all future student housing development opportunities identified by us that are funded in part with equity investments by parties unaffiliated with us, until such time as affiliates of HSRE have invested an aggregate $50 million in HSRE IV, HSRE V, HSRE VI, HSRE IX and HSRE X or caused HSRE IV, HSRE V, HSRE VI, HSRE IX and HSRE X to decline three development opportunities in any calendar year. As of September 30, 2013, HSRE had funded approximately $50 million of the $50 million right of first opportunity. The terms of this joint venture do not prohibit us from developing a wholly owned student housing property for our own account.

Our Relationship With Beaumont

In July 2013, we entered into a joint venture, DCV Holdings, LP ("DCV Holdings") with Beaumont Partners SA ("Beaumont") to acquire a 711 room, 33-story hotel in downtown Montreal, Quebec, Canada, for approximately Canadian dollar $60.0 million. The joint venture intends to convert the property into an upscale student housing tower featuring a mix of single and double units serving McGill University, Concordia University and L'Ecole de Technologie.

Factors That Affect Our Operating Results

Unique Leasing Characteristics

Student housing properties are typically leased by the bed on an individual lease liability basis, unlike multi-family housing where leasing is by the unit. Individual lease liability limits each student-tenant's liability to his or her own rent without liability for a roommate's rent. A parent or guardian is required to execute each lease as a guarantor unless the student-tenant provides adequate proof of income. The number of lease contracts that we administer is therefore equivalent to the number of beds occupied rather than the number of units.

Due to our predominantly private bedroom accommodations, the high level of student-oriented amenities offered at our properties and the individual lease liability for our student-tenants and their parents, we believe that we typically command higher per-unit and per-square foot rental rates than many multi-family properties located in the markets in which we operate. We are also typically able to charge higher rental rates than on-campus student housing, which generally offers fewer amenities.

Unlike traditional multi-family housing, most of our leases commence on the same date. In the case of our typical 11.5-month leases (which provide for 12 equal monthly payments), this date coincides with the commencement of the fall academic term and typically terminates at the completion of the last summer school session. As such, we must re-lease each property in its entirety each year, resulting in significant turnover in our tenant population from year to year. As a result, we are highly dependent upon the effectiveness of our marketing and leasing efforts during the annual leasing season, which typically begins each October and ends in September of the following year. For the 2013-2014 and 2012-2013 academic years, we had approximately 41.7% and 41.9%, respectively, of our current tenants renew their previous lease for the upcoming term.

Development, Construction and Management Services

The amount and timing of revenues from development, construction and management services will typically be contingent upon the number and size of development projects that we are able to successfully structure and finance in our current and future unconsolidated joint ventures. In particular, we entered into joint ventures HSRE IX and HSRE X (described above) that are currently building three student housing properties with completion targeted for the 2014-2015 academic year. We will receive fees for providing development and construction services to HSRE X and receive management fees for managing properties once they are placed in service. We will share in the receipt of fees for providing development services to HSRE IX and share in the receipt of management fees for managing the property owned by HSRE IX once it is placed in service. No assurance can be given that HSRE IX or HSRE X will be successful in developing student housing properties as currently contemplated or those currently under construction.

Changes in Financial Condition

In January 2013, we entered into the second amended and restated credit agreement (the "Second Amended and Restated Credit Agreement") with Citibank, N.A. and certain other lenders (see Note 6 to the accompanying condensed consolidated financial statements). The Second Amended and Restated Credit Agreement provides for a senior unsecured revolving credit facility (the "Revolving Credit Facility") of up to $250.0 million, with sub-limits of $30.0 million for swing line loans and $15.0 million for letters of credit. The Second Amended and Restated Credit Agreement also provides for a term loan of $50.0 million (the "Term Loan," and together with the Revolving Credit Facility, the "Amended Credit Facility"). Unless otherwise terminated pursuant to the terms of the Second Amended and Restated Credit Agreement, the Amended Credit Facility will mature on January 8, 2017, subject to a one-year extension which we may exercise at our option, pursuant to certain terms and conditions, including the payment of an extension fee. For additional information regarding the Credit Facility, please refer to " Liquidity and Capital Resources Principal Capital Resources" below.

In March 2013, we completed an underwritten public offering of approximately 25.5 million shares of common stock, including approximately 3.3 million shares issued and sold pursuant to the full exercise of the underwriters' option to purchase additional shares, resulting in net proceeds of approximately $299.7 million. The net proceeds were used: (1) to fund an investment in the CB Portfolio and related transactional costs, including investment banking advisory fees (see Note 4 to the accompanying condensed consolidated financial statements); and (2) for general corporate purposes, including the repayment of debt.

In June 2013, we implemented an At-The-Market offering program under which we may sell at market price up to $100.0 million in shares of the Company's common stock over the term of the program. At September 30, 2013, we have not issued and sold any shares under this program.

In October 2013, we reopened our Series A Preferred Stock in an underwritten public offering of 3,800,000 shares, including 400,000 shares issued and sold pursuant to the partial exercise of the underwriters' option to purchase additional shares of the Series A Preferred Stock. The shares of Series A Preferred Stock were issued at a public offering price of $25.0611 per share, for net proceeds of approximately $91.7 million, after deducting the underwriting discount and other estimated offering expenses of approximately $3.5 million.

In October 2013, the Operating Partnership completed a private offering of $100.0 million of unsecured 4.75% exchangeable senior notes (the "Exchangeable Senior Notes") due October 15, 2018. Interest on the Exchangeable Senior Notes is payable semi-annually on April 15 and October 15, beginning April 15, 2014. Upon exchange of the notes, the Operating Partnership will deliver cash, shares of Campus Crest common stock, or a combination of both at an initial exchange rate of 79.6020 shares per $1,000 principal amount of Exchangeable Senior Notes (equivalent to an initial exchange price of approximately $12.56 per share of Campus Crest common stock). The Exchangeable Senior Notes may not be redeemed prior to the maturity date. At any time prior to July 15, 2018, the operating partnership may irrevocably elect, in its sole discretion without the consent of the holders of the notes, to settle all of its future exchange obligation entirely in shares of Campus Crest common stock. The Exchangeable Senior Notes rank equally in right of payment to all other unsecured debt and are subordinated in right of payment to all secured debt, liabilities, and preferred equity of our subsidiaries.

We used the net proceeds from these offerings for the repayment of debt, development funding and working capital purposes.

Results of Operations

Comparison of the three and nine months ended September 30, 2013 and 2012

The following table presents our results of operations for the three months ended September 30, 2013 and 2012, including the amount and percentage change in these results between the periods:

	Three Months Ended September 30, 2013	September 30, 2012	Change ($)	Change (%)
Revenues:				
Student housing rental	$ 24,496	$ 21,449	$ 3,047	14 %
Student housing services	972	934	38	4 %
Development, construction and management services	14,778	12,103	2,675	22 %
Total revenues	40,246	34,486	5,760	17 %
Operating expenses:				
Student housing operations	11,381	10,123	1,258	12 %
Development, construction and management services	14,028	11,374	2,654	23 %
General and administrative	2,424	1,972	452	23 %
Transaction costs	247	-	247	N/A
Ground leases	54	54	-	0 %
Depreciation and amortization	6,126	5,799	327	6 %
Total operating expenses	34,260	29,322	4,938	17 %
Equity in earnings of unconsolidated entities	1,302	86	1,216	1414 %
Operating income	7,288	5,250	2,038	39 %
Nonoperating income (expense):				
Interest expense, net	(3,091)	(2,623)	(468)	18 %
Change in fair value of interest rate derivatives	-	(57)	57	N/A
Gain on purchase of previously unconsolidated entities	-	6,554	(6,554)	N/A
Other income	696	-	696	N/A
Total nonoperating expense, net	(2,395)	3,874	(6,269)	-162 %
Net income before income taxes	4,893	9,124	(4,231)	-46 %
Income tax expense	(40)	(74)	34	-46 %
Net income	4,853	9,050	(4,197)	-46 %
Net income (loss) attributable to noncontrolling interests	26	61	(35)	-57 %

Dividends on preferred stock		1,150		1,150		-	0	%
Net income (loss) attributable to common stockholders	$	3,677	$	7,839	$	(4,162)	-53	%

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The following table presents our results of operations for the nine months ended September 30, 2013 and 2012, including the amount and percentage change in these results between the periods:

	Nine Months Ended September 30, 2013	September 30, 2012	Change ($)	Change (%)
Revenues:				
Student housing rental	$ 70,960	$ 57,160	$ 13,800	24 %
Student housing services	2,934	2,430	504	21 %
Development, construction and management services	40,573	43,162	(2,589)	-6 %
Total revenues	114,467	102,752	11,715	11 %
Operating expenses:				
Student housing operations	33,438	27,631	5,807	21 %
Development, construction and management services	38,343	40,260	(1,917)	-5 %
General and administrative	8,076	6,517	1,559	24 %
Transaction costs	835	-	835	N/A
Ground leases	162	163	(1)	-1 %
Depreciation and amortization	19,224	17,528	1,696	10 %