Campus Crest Communities, Inc.
Form 10-Q
April 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 March 31, 2013

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from__________to

Commission file number: 001-34872

CAMPUS CREST COMMUNITIES, INC.

(Exact name of registrant as specified in its charter)

Maryland	**27-2481988**
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification No.)
k2100 Rexford Road, Suite 414, Charlotte, NC	**28211**
(Address of principal executive offices)	(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 o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes þ No o

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

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

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

Yes o No 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 April 30, 2013
Common Stock, $0.01 par value per share	64,552,648 shares

CAMPUS CREST COMMUNITIES, INC.

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)

	March 31, 2013	December 31, 2012
ASSETS		
Investment in real estate, net:		
Student housing properties	$684,929	$669,387
Accumulated depreciation	(104,019)	(97,820)
Development in process	74,499	50,781
Investment in real estate, net	655,409	622,348
Investment in unconsolidated entities	165,688	22,555
Cash and cash equivalents	11,723	5,970
Restricted cash	112,559	3,902
Student receivables, net of allowance for doubtful accounts of $464 and $121, respectively	1,895	2,193
Notes receivable	36,245	-
Cost and earnings in excess of construction billings	27,206	23,077
Other assets, net	21,800	16,275
Total assets	$1,032,525	$696,320
LIABILITIES AND EQUITY		
Liabilities:		
Mortgage and construction loans	$213,138	$218,337
Line of credit and other debt	115,575	75,375
Accounts payable and accrued expenses	53,886	45,634
Construction billings in excess of cost and earnings	1,249	49
Other liabilities	13,116	12,023
Total liabilities	396,964	351,418
Commitments and contingencies		
Equity:		
Preferred stock, $0.01 par value, 10,000,000 shares authorized:		

8.00% Series A Cumulative Redeemable Preferred Stock, liquidation preference $25.00 per share, 2,300,000 shares issued and outstanding at March 31, 2013 and December 31, 2012	23	23
Common stock, $0.01 par value, 90,000,000 shares authorized, 64,429,542 and 38,558,048 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively	644	386
Additional common and preferred paid-in capital	677,049	377,180
Accumulated deficit and distributions	(46,669)	(37,047)
Accumulated other comprehensive loss	-	(58)
Total Campus Crest Communities, Inc. stockholders' equity	631,047	340,484
Noncontrolling interests	4,514	4,418
Total equity	635,561	344,902
Total liabilities and equity	$1,032,525	$696,320

See accompanying notes to condensed consolidated financial statements.

CAMPUS CREST COMMUNITIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(In thousands, except per share data)
(Unaudited)

	Three Months Ended March 31, 2013	March 31, 2012
Revenues:		
Student housing rental	$22,982	$17,858
Student housing services	910	763
Development, construction and management services	11,427	14,256
Total revenues	35,319	32,877
Operating expenses:		
Student housing operations	10,931	8,578
Development, construction and management services	10,658	13,458
General and administrative	2,699	2,326
Transaction costs	385	-
Ground leases	54	52
Depreciation and amortization	6,439	5,856
Total operating expenses	31,166	30,270
Equity in earnings of unconsolidated entities	410	96
Operating income	4,563	2,703
Nonoperating income (expense):		
Interest expense, net	(2,884)	(3,573)
Change in fair value of interest rate derivatives	(54)	(49)
Other income	90	2
Total nonoperating expense, net	(2,848)	(3,620)
Net income (loss) before income tax benefit (expense)	1,715	(917)
Income tax benefit (expense)	452	(63)
Net income (loss)	2,167	(980)
Net income (loss) attributable to noncontrolling interests	11	(9)
Dividends on preferred stock	1,150	664
Net income (loss) attributable to common stockholders	$1,006	$(1,635)
Net income (loss) per share attributable to common stockholders - basic and diluted:	$0.02	$(0.05)
Weighted-average common shares outstanding:		
Basic	46,156	30,923

Diluted	46,591	30,923
Distributions per common share	$0.165	$0.160
Consolidated statements of comprehensive income (loss):		
Net income (loss)	$2,167	$(980)
Change in fair value of interest rate derivatives	59	21
Comprehensive income (loss)	2,226	(959)
Comprehensive income (loss) attributable to noncontrolling interests	12	(9)
Dividends on preferred stock	1,150	664
Comprehensive income (loss) attributable to common stockholders	$1,064	$(1,614)

See accompanying notes to condensed consolidated financial statements.

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CAMPUS CREST COMMUNITIES, INC.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(In thousands)

(Unaudited)

	Campus Crest Communities, Inc. Stockholders							
	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' and Owner's 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	299,452	-	-	299,707	-	299,707
Issuance of restricted stock	-	3	(3)	-	-	-	-	-
Amortization of restricted stock awards and operating partnership units	-	-	420	-	-	420	156	576
Dividends on preferred stock	-	-	-	(1,150)	-	(1,150)	-	(1,150)
Dividends on common stock	-	-	-	(10,628)	-	(10,628)	-	(10,628)
Dividends to noncontrolling interests	-	-	-	-	-	-	(72)	(72)
Change in fair value of interest rate derivatives	-	-	-	-	58	58	1	59
Net income	-	-	-	2,156	-	2,156	11	2,167
Balance at March 31, 2013	$23	$ 644	$677,049	$ (46,669)	$ -	$ 631,047	$ 4,514	$635,561

See accompanying notes to condensed consolidated financial statements.

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CAMPUS CREST COMMUNITIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended March 31, 2013	March 31, 2012
Operating activities:		
Net income (loss)	$2,167	$(980)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	6,439	5,856
Amortization of deferred financing costs	358	1,441
Provision for bad debts	343	397
Equity in (earnings) loss of unconsolidated entities	(410)	60
Distributions of earnings from unconsolidated entities	85	-
Share-based compensation expense	576	108
Changes in operating assets and liabilities:		
Restricted cash	452	(258)
Student receivables	(48)	(190)
Construction billings	(2,929)	(9,486)
Accounts payable and accrued expenses	514	5,858
Other	(4,080)	3,477
Net cash provided by operating activities	3,467	6,283
Investing activities:		
Investments in development in process	(23,718)	(22,228)
Investments in student housing properties	(1,977)	(1,890)
Acquisitions of student housing properties, net of cash acquired	(13,801)	-
Investments in unconsolidated entities	(139,051)	(1,368)
Capital distributions from unconsolidated entities	389	-
Issuance of notes receivable	(36,245)	-
Purchase of corporate fixed assets	(1,265)	(118)
Change in restricted cash	(109,109)	-
Net cash used in investing activities	(324,777)	(25,604)
Financing activities:		
Proceeds from mortgage and construction loans	7,736	-
Repayments of mortgage and construction loans	(12,935)	(49,040)
Proceeds from line of credit and other debt	58,000	14,500
Repayments of line of credit and other debt	(17,800)	-
Debt issuance costs	(256)	(19)
Dividends paid to common stockholders	(6,167)	(4,913)

Dividends paid to preferred stockholders	(1,150)	-
Dividends to noncontrolling interests	(72)	(70)
Proceeds from sale of preferred stock	-	57,500
Proceeds from sale of common stock	312,743	-
Payment of offering costs	(13,036)	(2,221)
Net cash provided by financing activities	327,063	15,737
Net change in cash and cash equivalents	5,753	(3,584)
Cash and cash equivalents at beginning of period	5,970	10,735
Cash and cash equivalents at end of period	$11,723	$7,151
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of amounts capitalized	$1,909	$2,655
Cash paid for income taxes	93	286
Non-cash investing and financing activity:		
Common and preferred stock dividends declared but not paid	$11,850	$5,899
Change in payables related to dividends to common and preferred stockholders and noncontrolling interest	4,461	724
Change in payables related to capital expenditures	(2,040)	4,659
Change in payables related to investment in unconsolidated entities	4,146	-

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 March 31, 2013, we owned interests in 39 operating student housing Grove properties containing approximately 7,670 apartment units and 20,884 beds. Thirty-two of our Grove properties are wholly-owned and seven 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 March 31, 2013, we also owned interests in Copper Beech (see Note 4), containing approximately 6,041 units and 16,129 beds and one wholly owned redevelopment property in Toledo, Ohio containing approximately 382 units and 629 beds. Our portfolio consists of the following:

	Properties in	Properties Under

	Operation	Redevelopment		Construction (1)
Wholly owned Grove properties	32	1	(2)	3
Joint Venture Grove properties	7	-		4
Total Grove Properties	39	1		7
CB Portfolio	33	-		2
Total Portfolio	72	1		9

(1) For delivery in the 2013-2014 academic year, consolidated entities under construction include The Grove at Fort Collins, Colorado, The Grove at Muncie, Indiana and The Grove at Pullman, Washington, and unconsolidated entities under construction include The Grove at Norman, Oklahoma, The Grove at State College, Pennsylvania, and The Grove at Indiana, Pennsylvania. For delivery in the 2014-2015 academic year, we had three unconsolidated entities under construction The Grove at Cira Centre South, Pennsylvania, The Grove at Louisville, Kentucky, and The Grove at Greensboro, North Carolina.

(2) Consists of Campus Crest at Toledo, Ohio, which was acquired in March 2013. Upon completion of its redevelopment, we expect this property to be marketed as a Grove property. 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.

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.

CAMPUS CREST COMMUNITIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Investment in Real Estate

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	2-10 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 $0.6 million and $0.6 million was capitalized during the three months ended March 31, 2013 and 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 and related loan fees, 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 the 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 $1.6 million, respectively, for the three months ended March 31, 2013 and 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 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 write-off any pre-development costs related to projects whose current status indicates the acquisition or commencement of construction is not probable. Such write-offs are included within operating expenses in the accompanying condensed consolidated statements of operations and comprehensive income (loss). As of March 31, 2013 and December 31, 2012, we have deferred approximately $9.6 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, there are six land parcels that could be used for the development of six properties (within either our wholly-owned portfolio or as contributions into joint venture projects) with an aggregate bed count ranging from approximately 2,700 to 3,000. These costs are included in development in process on the accompanying condensed consolidated balance sheets.

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. There was no impairment of long-lived assets for any period presented in the condensed consolidated balance sheets.

CAMPUS CREST COMMUNITIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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 expensed as incurred and not applied in determining the fair value of an acquired property.

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 defined as 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.

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 (loss) of unconsolidated entities. When circumstances indicate there may have been a loss in value of an equity method investment, 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 (loss). All inter-segment sales pricing is based on current market conditions. Operating segments that do not individually meet the aggregation criteria described in the accounting guidance 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.

CAMPUS CREST COMMUNITIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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 to the extent that these costs are realizable. 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 established when management determines that collections of such receivables are doubtful. Balances are considered past due when payment is not received on the contractual due date. When management has determined that receivables are uncollectible, they are written off against the allowance for doubtful accounts.

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.

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 and other debt 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 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. The fair values of mortgage and construction loans 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:

CAMPUS CREST COMMUNITIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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.

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. 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

We hold approximately $109.1 million in escrow in accordance with an agreement made by us and certain sellers of the CB Portfolio (defined below). 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.

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.

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3. Student Housing Properties

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

	March 31, 2013	December 31, 2012
Land	$56,756	$53,984
Buildings and improvements	564,322	552,984
Furniture, fixtures and equipment	63,851	62,419
	684,929	669,387
Less: accumulated depreciation	(104,019)	(97,820)
	$580,910	$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).

4. Property Acquisitions

Business 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. 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.”

We intend to consummate the acquisition of our initial 48.0% interest in the CB Portfolio in steps. On March 18, 2013, we acquired a 48.0% interest in six properties that did not require lender consent prior to sale and on April 15, 2013, we acquired a 48% interest in an additional property. We will close on our 48.0% interest in each remaining property at such time as we obtain the requisite lender consent relating thereto. We expect to obtain all such consents and close on our 48.0% interest in all properties comprising the CB Portfolio by the end of the third quarter of 2013.

The CB Portfolio consists of 35 student housing properties, including two Phase II development properties scheduled to open in fall 2013, plus 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 March 31, 2013, the CB Portfolio comprised approximately 6,242 rentable units with approximately 16,647 rentable beds, including the units and beds expected to become available at the two development properties. The student housing properties have an average age of approximately seven years. As of March 31, 2013, the average occupancy for the student housing properties was approximately 98.5%. For the year ended December 31, 2012, the average monthly total revenue per occupied bed was approximately $470.

Our $230.2 million investment in the CB Portfolio entitles us to a preferred payment of $13.0 million and 48% of remaining operating cash flows. In connection with the CB Portfolio Acquisition, we have 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 by the Company, 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.

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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 $0.3 million in equity in earnings of Copper Beech as well as approximately $0.1 million in interest income from the loan to the CB Investors for the quarter ended March 31, 2013. Additionally, we recognized approximately $0.3 million of transaction expenses related to the CB Portfolio Acquisition and incurred $9.4 million of costs which were included in our investment basis in Copper Beech.

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 the first 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	
	March 31, 2013	March 31, 2012
Revenues	$35,319	$32,877
Net income	2,993	150
Net income (loss) attributable to common stockholders	1,832	(505)
Net income (loss) per share attributable to common stockholders - basic and diluted:	$0.03	$(0.01)
Weighted-average common shares outstanding:		
Basic	64,296	56,453
Diluted	64,732	56,453

Operating Property Acquisition

In March 2013, we acquired the ownership interests in Campus Crest at Toledo, Ohio, a 382 unit and 629 bed property near 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 (in thousands):

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

5. Investment in Unconsolidated Entities

We have investments in real estate ventures with Harrison Street Real Estate Capital ("HSRE") 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. We recognized revenues of approximately $11.4 million and $14.3 million for the three months ended March 31, 2013 and 2012, respectively, for services provided to the joint ventures, which are reflected in Development, Construction and Management Services in the accompanying condensed consolidated statements of operations.

CAMPUS CREST COMMUNITIES, INC.

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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 ventures with HSRE. Details of our unconsolidated investments at March 31, 2013 are presented in the following table (in thousands):

				Number of Properties			**Debt**			
Unconsolidated Entities	Our Ownership		Year Founded	In Operations	Under Development	Our Total Investment	Amount Outstanding	Weighted Average Interest Rate		Maturity / Range
HSRE-Campus Crest I, LLC	49.9	%	2009	3	-	$10,823	$33,532	2.70	%[1]	11/09/20 1/09/201
HSRE-Campus Crest IV, LLC	20.0	%	2011	1	-	2,285	16,979	5.75	%[2]	12/1/201
HSRE-Campus Crest V, LLC	10.0	%	2011	3	-	3,296	45,670	2.96	%[1]	12/20/20 01/05/20
HSRE-Campus Crest VI, LLC	20.0	%	2012	-	3	6,872	693	2.85	%[1]	5/08/201 12/19/20
HSRE-Campus Crest IX, LLC	30.0	%	2013	-	1	5,443	-	n/a		n/a
HSRE-Campus Crest X, LLC	30.0	%	2013	-	2	6,378	-	n/a		n/a
Total Unconsolidated Grove Entities				7	6	$35,097	$96,874	3.36	%	
CB Portfolio	25.3	%	2013	33	2	130,591	515,200	5.65	%[3]	6/01/201 10/01/20
Total Unconsolidated Entities				40	8	$165,688	$612,074	5.27	%	

(1) Variable interest rates.

(2) Comprised of one fixed rate loan.

(3) At March 31, 2013, our effective interest in the CB Portfolio was 25.3%. We will continue to close on our 48.0% interest, anticipating completion by the third quarter of 2013, in each remaining property at such time as we obtain the requisite lender consent relating thereto.

We recorded equity in earnings from these ventures for the three months ended March 31, 2013 and 2012 of approximately $0.4 million and $0.1 million, respectively.

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

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CAMPUS CREST COMMUNITIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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	March 31, 2013	December 31, 2012
Assets		
Student housing properties, net	$1,140,638	$143,108
Other assets	78,156	40,154
Total assets	$1,218,794	$183,262
Liabilities and Equity		
Mortgage and construction loans	$612,074	$92,456
Other liabilities	35,263	30,402
Owner’s equity	571,457	60,404
Total liabilities and owner’s equity	$1,218,794	$183,262
Company's share of owner’s equity	$152,655	$14,078
Preferred investment(1)	16,469	11,828
Net difference in carrying value of investment versus net book value of underlying net assets(2)	(3,436)	(3,351)
Carrying value of investment in unconsolidated entities	$165,688	$22,555

(1) As of March 31, 2013, we held aggregate Class B interests in The Grove at Greensboro, The Grove at Louisville, The Grove at San Angelo, The Grove at Indiana and The Grove at Conway of approximately $16.5 million. As of December 31, 2012, we held aggregate Class B interests in The Grove at San Angelo, The Grove at Indiana and The Grove at Conway of approximately $11.8 million. These preferred interests entitle us to a 9.0% 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.

The following is a summary of the operating results for our unconsolidated entities in their entirety, not only our interest in the entities, including results for the CB Portfolio based on the provisional fair value adjustments, for the periods presented (in thousands):

	Three months ended March 31, 2013	March 31, 2012
Revenues	$8,353	$ 4,614
Expenses:		
Operating expenses	3,901	2,556
Interest expense	2,381	1,337
Depreciation and amortization	3,083	1,207
Other expense	122	-
Total expenses	9,487	5,100
Net loss	$(1,134)	$ (486)
Company's share of net income (loss)[1]	$308	$ (60)
Income on preferred investments	102	156
Equity in earnings of unconsolidated entities	$410	$ 96

(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, elimination of management fees, and income on preferred investments.

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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):

	March 31, 2013	December 31, 2012
Fixed-rate mortgage loans	$ 166,407	$ 166,706
Variable-rate mortgage loans	-	12,635
Construction loans	46,731	38,996
Line of credit	112,500	72,000
Other debt	3,075	3,375
	$ 328,713	$ 293,712

The estimated fair value of our fixed and variable rate mortgage loans, construction loans and other debt at March 31, 2013 and December 31, 2012 was approximately $222.6 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 3.62% and 3.99% at March 31, 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):

	Face Amount	Principal Outstanding at 3/31/2013	Principal Outstanding at 12/31/2012	Stated Interest Rate		Interest Rate at 3/31/2013		Maturity Date(1)	Amortization	
Construction loans										
The Grove at Orono	$ 15,206	$ 14,243	$ 10,506	LIBOR + 275 bps		2.95	%	6/30/2014	Interest only	
The Grove at Auburn	16,294	13,157	13,157	LIBOR + 295 bps		3.15	%	7/22/2014	Interest only	
The Grove at Flagstaff	19,842	19,330	15,331	Prime + 25 bps / LIBOR + 250 bps		2.78	%	12/9/2014	Interest only	
The Grove at Muncie	14,567	1	1	LIBOR + 225 bps		2.45	%	7/3/2015	Interest only	
The Grove at Fort Collins	19,073	1	1	LIBOR + 225 bps		2.45	%	7/13/2015	Interest only	
The Grove at Pullman	16,016	-	-	LIBOR + 220 bps		2.40	%	9/5/2015	Interest only	
Mortgage loans										
The Grove at Carrollton and The Grove at Las Cruces	29,790	29,315	29,408	6.13	%	6.13	%	10/11/2016	30 years	(2)
The Grove at Huntsville	12,635	-	12,635	LIBOR + 250 bps		n/a		1/9/2013	Interest only	
The Grove at Stateboro	18,100	18,100	18,100	4.01	%	4.01	%	1/1/2023	30 years	(2)
The Grove at Asheville	14,800	14,636	14,684	5.77	%	5.77	%	4/11/2017	30 years	(2)
The Grove at Milledgeville	16,250	15,991	16,041	6.12	%	6.12	%	10/1/2016	30 years	(2)
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	(3)
The Grove at Clarksville	16,350	16,350	16,350	4.03	%	4.03	%	7/1/2022	30 years	(3)(4)
The Grove at Columbia	23,775	23,496	23,605	3.83	%	3.83	%	7/1/2022	30 years	(5)
		$ 213,138	$ 218,337							

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(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 certain conditions, depending on the loan.
(2) 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.
(3) Interest only for the first two years, followed by 30 year amortization.
(4) 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.
(5) Loan requires monthly payments of principal and interest, plus certain reserve and escrows, are due thereafter 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;
- 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 $330,788,250 plus 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.

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 March 31, 2013, we had approximately $62.5 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 March 31, 2013, we had approximately $98.5 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.

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As of March 31, 2013, after receiving the above mentioned waiver, we were in compliance with the above financial covenants with respect to our Amended Credit Facility.

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 March 31, 2013 and December 31, 2012, the fair value of derivative contracts is recorded within other assets and other liabilities in the accompanying 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.

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.

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

As of March 31, 2013

Derivative Agreement	Notional Amount	Receive Rate	Pay or Strike Rate	Maturity Date	March 31, 2013 Asset	March 31, 2013 Liability	December 31, 2012 Asset	December 31, 2012 Liability
Interest rate cap	$ 100,000	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)

Derivatives Designated as Cash Flow Hedges	Amount of Income (Loss) Recognized on OCI Derivatives (Effective Portion) Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Caps	$ -	$ (4)
Swaps (receive float/pay fixed)	73	11
Total effect of derivative instruments on other comprehensive income	$ 73	$ 7

The table below reflects the amount reclassified from accumulated other comprehensive income (loss) to income related to an interest rate swap for the periods presented (in thousands):

Amount of Income (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) to Income (Loss) Three Months Ended March 31,	Three Months Ended March 31,

	2013	2012
Swap	$ (14)	$ (14)

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The table below reflects the amount reclassified from accumulated other comprehensive income (loss) to income related to an interest rate swap for the periods presented (in thousands):

Interest rate swaps (receive float/pay fixed):	Location of Gain (Loss) Recognized on Statements of Operations	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Monthly net settlements - cash settled	Change in fair value of interest rate derivatives	$ (54)	$ (49)
Mark to market adjustments - non cash	Change in fair value of interest rate derivatives	-	-
Total effect of derivative instruments on the condensed consolidated statements of operations		$ (54)	$ (49)

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
March 31, 2013				
Other assets - Interest rate caps	$ -	$ -	$ -	$ -
Other liabilities - Interest rate swaps	-	-	-	-
December 31, 2012				
Other assets - Interest rate caps	-	-	-	-
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.

CAMPUS CREST COMMUNITIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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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 March 31, 2013	March 31, 2012
Basic earnings:		
Net income (loss) attributable to common stockholders	$1,006	$(1,635)
Diluted earnings:		
Net income (loss) attributable to common stockholders	$1,006	$(1,635)
Add: net income (loss) attributable to noncontrolling interests	11	(9)
Net income (loss) attributable to common stockholders and participating securities	$1,017	$(1,644)
Weighted average common shares outstanding:		
Basic	46,156	30,923
Incremental shares from assumed conversion — unrestricted and restricted OP units	435	-
Diluted	46,591	30,923
Basic income (loss) per share	$0.02	$(0.05)
Diluted income (loss) per share	$0.02	$(0.05)

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.

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; 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. No OP Units have been exchanged or redeemed since our initial public offering.

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.

As of March 31, 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 March 31, 2013, the fair market value of the OP Units not owned by us was $6.1 million, based on a market value of $13.90 per unit, which was the closing stock price of shares of our common stock on the New York Stock Exchange ("NYSE") on March 28, 2013.

CAMPUS CREST COMMUNITIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	For the Three Months Ended	
	March 31, 2013	March 31, 2012
Common stock at beginning of period	38,558	30,710
Issuance of common stock	25,530	-
Issuance of restricted stock	357	371
Forfeiture of restricted stock	(15)	-
Common stock at end of period	64,430	31,081

Dividends and Distributions

For the three months ended March 31, 2013 and 2012, we declared dividends of \$0.165 and \$0.16 per share, respectively, totaling approximately \$10.6 million and \$5.0 million, respectively.

On January 29, 2013, our Board of Directors declared a first quarter 2013 dividend of \$0.165 per common share and OP Unit. The dividend was paid on April 10, 2013, to stockholders of record on March 27, 2013. At March 31, 2013, we accrued approximately \$10.6 million related to our common dividend in accounts payable and accrued expenses in the accompanying condensed consolidated balance sheets.

On January 29, 2013, our Board of Directors also declared a cash dividend of \$0.50 per share of Series A Preferred Stock for the first quarter of 2013. The preferred share dividend was paid on April 15, 2013, to stockholders of record on March 27, 2013. At March 31, 2013, we accrued approximately \$1.0 million related to our preferred 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. Each grant of restricted stock awarded under this plan reduces the remaining available pool by two shares. As of March 31, 2013 and December 31, 2012, approximately 0.5 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 March 31, 2013, total unrecognized compensation cost was approximately $7.0 million and is expected to be recognized over a remaining weighted average period of 2.5 years. During the three months ended March 31, 2013 and 2012, we recognized stock compensation expense of approximately $0.4 million and $0.1 million, respectively, in the accompanying condensed consolidated financial statements, and capitalized $0.1 million and $0.1 million, respectively.

Restricted OP Units

At March 31, 2013, total unrecognized compensation cost was approximately $0.3 million and is expected to be recognized over a remaining weighted average period of 0.6 years. During the three months ended March 31, 2013 and 2012, we recognized stock compensation expense related to the vesting of restricted OP Units of approximately $0.2 million and immaterial amount, respectively, in the accompanying condensed consolidated financial statements, and capitalized $0.1 million and $0.1 million, respectively.

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

	Restricted Common Stock	Restricted Restricted OP Units	Total	Weighted Average Grant Price
Unvested balances at December 31, 2012	438	50	488	$ 11.07

Granted	357	-	357	12.21
Vested	(98)	-	(98)	12.20
Forfeited	(15)	-	(15)	12.59
Unvested balances at March 31, 2013	682	50	732	$ 12.19

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CAMPUS CREST COMMUNITIES, INC.

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11. Related Party Transactions

We lease aircraft from entities in which two of our executive officers have an ownership interest. For the three months ended March 31, 2013 and 2012, we incurred travel costs to these entities of an immaterial amount.

During the three months ended March 31, 2013 we entered into an amendment to an existing 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 they will provide management services for Campus Crest at Toledo. For the three months ended March 31, 2013, we incurred an immaterial amount of fees related to this agreement.

CAMPUS CREST COMMUNITIES, INC.

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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 March 31,	
	2013	2012
Student Housing Operations:		
Revenues from external customers	$23,892	$18,621
Operating expenses	17,338	14,508
Operating income	6,554	4,113
Nonoperating expenses	(2,563)	(3,250)
Net income	3,991	863
Net income attributable to noncontrolling interest	38	8
Net income attributable to common stockholders	$3,953	$855
Depreciation and amortization	$6,297	$5,789
Total segment assets at end of period	$969,272	$533,862
Development, Construction and Management Services:		
Revenues from external customers	$11,427	$14,256
Intersegment revenues	19,193	19,310
Total revenues	30,620	33,566
Operating expenses	29,486	31,984
Operating income	1,134	1,582
Nonoperating expenses	-	-
Net income	1,134	1,582

Net income attributable to noncontrolling interest	11	15
Net income attributable to common stockholders	$1,123	$1,567
Depreciation and amortization	$50	$22
Total segment assets at end of period	$57,072	$31,552
Reconciliations:		
Total segment revenues	$54,512	$52,187
Elimination of intersegment revenues	(19,193)	(19,310)
Total consolidated revenues	$35,319	$32,877
Segment operating income	$7,688	$5,695
Interest expense, net	(2,884)	(3,573)
Change in fair value of interest rate derivatives	(54)	(49)
Net unallocated expenses and eliminations	(3,535)	(3,088)
Equity in earnings of unconsolidated entities	410	96
Other income	90	2
Income tax benefit (expense)	452	(63)
Net income (loss)	$2,167	$(980)
Total segment assets	$1,026,344	$565,414
Unallocated corporate assets and eliminations	6,181	1,258
Total assets at end of period	$1,032,525	$566,672

CAMPUS CREST COMMUNITIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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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 March 31, 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 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. Mediation of this matter is tentatively scheduled for early June 2013, with the trial scheduled for September 23, 2013. 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 March 31, 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

On April 22, 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. The Articles of Amendment were filed with the Maryland State Department of Assessments and Taxation on April 25, 2013 and became effective on that date.

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 Crest 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," "seek," "anticipate," "estimate," "approximately," "believe," "could," "project," "predict," "continue," "plan" or other similar words or 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 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 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, 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 and development services and management services. As of March 31, 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 March 31, 2013, we owned interests in 39 operating student housing Grove properties containing approximately 7,670 apartment units and 20,884 beds. Thirty-two of our Grove properties are wholly-owned and seven 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 March 31, 2013, we also owned interests in Copper Beech (see "CB Portfolio Acquisition" section below) and one wholly owned redevelopment property. As of March 31, 2013, our portfolio consisted of the following:

	Properties in	Number	Number

	Operation	Ownership		of Units	of Beds
Wholly owned Grove properties	32	100.0	%	6,248	16,936
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
Total Grove Properties	39			7,670	20,884
Toledo - Redevelopment	1	100.0	%	382	629
CB Portfolio	33	25.3	%[1]	6,041	16,129
Total Portfolio	73			14,093	37,642

(1) At March 31, 2013, our effective interest in the CB Portfolio (defined below) was 25.3%. We will continue to close on our 48.0% interest, anticipating completion by the third quarter of 2013, in each remaining property at such time as we obtain the requisite lender consent relating thereto.

As of March 31, 2013, the average occupancy for our 39 Grove properties was approximately 89.7% and the average monthly total revenue per occupied bed was approximately $503. 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 March 31, 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.

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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 570 times at 38 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 properties (other than those in the CB portfolio 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 new organic growth opportunities. We commenced building six new student housing properties in 2012, three of which are wholly owned by us and three of which are owned by a joint venture with HSRE in which we own a 20% interest. We also commenced building three 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 and two of which are owned by a joint venture with HSRE in which we own a 30% interest. The following is a summary of these developments:

Project	Location	Primary University Served	Ownership		Units	Beds	Estimated Project Cost [1]	Scheduled Opening for Occupancy
The Grove at Ft. Collins	Ft. Collins, CO	Colorado State University	100.0	%	218	612	$ 32.9	August 2013
The Grove at Muncie	Muncie, IN	Ball State University	100.0	%	216	584	25.3	August 2013
The Grove at Pullman	Pullman, WA	Washington State University	100.0	%	216	584	30.4	August 2013
The Grove at Indiana	Indiana, PA	Indiana University of Pennslyvania	20.0	%	224	600	27.6	August 2013
The Grove at Norman	Norman, OK	University of Oklahoma	20.0	%	224	600	27.0	August 2013
The Grove at State College	State College, PA	Penn State University	20.0	%	216	584	28.6	August 2013
The Grove at Cira Centre South	Philadelphia, PA	University of Pennsvylvania/ Drexel University	30.0	%	344	850	158.5	August 2014
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
					2,126	5,652	$ 395.9	

(1) Estimated project cost amounts are in millions.

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 approximately 80 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 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. 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.”

We intend to consummate the acquisition of our initial 48.0% interest in the CB Portfolio in steps. On March 18, 2013, we acquired a 48.0% interest in six properties that did not require lender consent prior to sale and on April 15, 2013, we acquired a 48.0% interest in an additional property. We will close on our 48.0% interest in each remaining property at such time as we obtain the requisite lender consent relating thereto. We expect to obtain all such consents and close on our 48.0% interest in all properties comprising the CB Portfolio by the end of the third quarter of 2013.

The CB Portfolio consists of 35 student housing properties, including two Phase II development properties scheduled to open in fall 2013, plus 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 March 31, 2013, the CB Portfolio comprised approximately 6,242 rentable units with approximately 16,647 rentable beds, including the units and beds expected to become available at the two development properties. The student housing properties have an average age of approximately seven years. As of March 31, 2013, the average occupancy for the student housing properties was approximately 98.5%. 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