Campus Crest Communities, Inc.
Form 10-Q/A
June 20, 2014

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

**FORM 10-Q/A**

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

**For the quarterly period ended September 30, 2013**

**OR**

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

**For the transition period from_________to**

**Commission file number: 001-34872**

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

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

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

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

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

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

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

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

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

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

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

**Explanatory Note**

This Amendment No. 1 to the Quarterly Report on Form 10-Q/A (“Amendment No. 1”) of Campus Crest Communities, Inc. (the “Company”) is being filed to amend the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2013, which was originally filed with the Securities and Exchange Commission (the “SEC”) on October 30, 2013 (the “Original Filing”) in order to disclose additional information regarding the Company’s investment in the Copper Beech Portfolio (the “CB Portfolio”). The additional disclosure relating to the Company’s investment in the CB Portfolio is included in “Part I, Item 1. Financial Statements,” and “Part I, Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.” In addition, as required by Rule 12b-15 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), this Amendment No. 1 contains new certifications by our current principal executive officer and principal financial officer, filed as exhibits hereto under Part II, Item 6 hereof.

No other information included in the Original Filing has been amended. This Amendment No. 1 on Form 10-Q/A continues to describe conditions as of the date of the Original Filing and the disclosures contained herein have not been updated to reflect events that occurred at a later date.

For the convenience of the reader, this Amendment No. 1 restates in its entirety the Original Filing, although the Company is only providing additional disclosure relating to its investment in the CB Portfolio in Item 1 and Item 2.

**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)**

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

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

See accompanying notes to condensed consolidated financial statements.

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

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

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

See accompanying notes to condensed consolidated financial statements.

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

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

See accompanying notes to condensed consolidated financial statements.

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

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

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

See accompanying notes to condensed consolidated financial statements.

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

**1. Organization and Description of Business**

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

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

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

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

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

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

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

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

**2. Summary of Significant Accounting Policies**

***Basis of Presentation***

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

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

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

***Use of Estimates***

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

***Property and Equipment and Depreciation***

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

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

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

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

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

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

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

***Property Acquisitions***

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

***Deferred Financing Costs***

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

***Noncontrolling Interests***

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

***Real Estate Ventures***

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

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

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

***Segments***

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

***Student Housing Revenue***

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

***Development, Construction and Management Services***

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

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

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

***Allowance for Doubtful Accounts***

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

***Derivative Instruments and Hedging Activities***

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

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

***Fair Value of Financial Instruments***

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

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

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

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

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

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

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

***Income Taxes***

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

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

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

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

***Comprehensive Income (Loss)***

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

***Restricted Cash***

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

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

***Stock-Based Compensation***

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

***Foreign Currency***

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

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

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***Insurance Recoveries***

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

**3. Student Housing Properties**

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

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

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

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

**4. Business Acquisitions**

***Copper Beech Acquisition***

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

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

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The Company acquired its initial 48.0% interest in six properties in the CB Portfolio that did not require lender consent prior to sale on March 18, 2013. The Company subsequently closed on its initial 48.0% interest in each remaining property in the CB Portfolio at such time as it obtained the requisite lender consent relating thereto. The table below sets forth the date of the Company's acquisition of its initial 48.0% interest in the properties in the CB Portfolio.

| Number of Properties[1] | Date of Closing |
|---|---|
| 6 | March 18, 2013 |
| 1 | April 5, 2013 |
| 1 | May 1, 2013 |
| 1 | July 1, 2013 |
| 1 | July 11, 2013 |
| 2 | July 17, 2013 |
| 1 | July 18, 2013 |
| 3 | July 19, 2013 |
| 2 | August 2, 2013 |
| 2 | August 6, 2013 |
| 2 | August 8, 2013 |
| 1 | August 12, 2013 |
| 6 | August 16, 2013 |
| 4 | September 6, 2013 |
| 2 | September 6, 2013 |

(1) Represents the total number of properties in which the Company initially acquired a 48.0% interest. Pursuant to the terms of the amendment to the Copper Beech Portfolio purchase and sale agreement, the Company agreed to transfer its 48.0% interest in each of seven properties in the Copper Beech Portfolio back to the CB Investors. The Company's interests in these seven properties were acquired on March 18, 2013, July 1, 2013, July 19, 2013, August 6, 2013 and August 8, 2013.

Our investment in the CB Portfolio entitles us to a preferred payment of $13.0 million for the first year of our investment and 48% of remaining operating cash flows. Operating cash flows, as defined in the operating agreements governing the properties comprising the CB Portfolio, is all cash revenues received reduced by cash expenditures for operating expenses, principal and interest payments on loans and other borrowed money, capital expenditures and reserves for working capital purposes.

In connection with the CB Portfolio Acquisition, we loaned approximately $31.7 million to the CB Investors. The loan has an interest rate of 8.5% per annum and a term of three years, and was secured by the CB Investors' interests in six unencumbered properties in the CB Portfolio (see Amendment to Copper Beech Purchase Agreement below for further discussion).

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

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

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

***Amendment to Copper Beech Purchase Agreement***

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

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

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

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

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

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

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

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

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

***Toledo, Ohio Acquisition***

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

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

***Montreal, Quebec Acquisition***

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

**5. Investment in Unconsolidated Entities**

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

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

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

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

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

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

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

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

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

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

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

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ASC 323 Investments Equity Method and Joint Ventures and Article 4.08(g) of Regulation S-X requires summarized financial information of material investments accounted for under the equity method be provided of the investee's financial position and results of operations including assets, liabilities and results of operations under the investee's historical cost basis of accounting. Notwithstanding the extensive efforts of the Company and Copper Beech to compile the necessary financial information, we have determined that the information needed for the preparation of historical financial statements of the CB Portfolio to satisfy these requirements is not available or otherwise sufficiently reliable. As a result, we have elected to present financial information on our investment in Copper Beech on the Company's cost basis for our investment as of September 30, 2013 as we believe this information is reliable and relevant to the users of our financial statements. Further, although we acknowledge that the information provided does not comply with all of the provisions of ASC 323 or Article 4.08(g) of Regulation S-X, we do not believe that the lack of the omitted disclosures, or the information of the financial position reflecting the cost basis of our investment provided results in a material omission or misstatement of the Company's condensed consolidated financial statements taken as a whole.

The following is a summary of the financial position reflecting the cost basis, including provisional fair value balances that are subject to our allocation analyses and appraisals, of our investment in Copper Beech in its entirety for the 35 properties in the CB Portfolio as of September 30, 2013 (in thousands):

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

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

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

| | Three months ended September 30, 2013 | September 30, 2012 | Nine months ended September 30, 2013 | September 30, 2012 |
|---|---|---|---|---|
| Revenues | $ 6,341 | $ 4,162 | $ 15,922 | $ 13,337 |
| Expenses: | | | | |
| Operating expenses | 3,070 | 2,159 | 8,327 | 7,242 |
| Interest expense | 1,260 | 1,091 | 3,553 | 3,790 |
| Depreciation and amortization | 1,592 | 1,134 | 4,298 | 3,555 |
| Other expenses | 4,571 | - | 4,588 | - |
| Total expenses | 10,493 | 4,384 | 20,766 | 14,587 |
| Net loss | $ (4,152) | $ (222) | $ (4,844) | $ (1,250) |
| | | | | |
| Company's share of net income (loss)[1] | $ (650) | $ (20) | $ (658) | $ (135) |
| Income on preferred investments | 479 | 106 | 684 | 418 |
| Equity in earnings of unconsolidated entities | $ (171) | $ 86 | $ 26 | $ 283 |

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

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The following is a summary of the combined operating results for our unconsolidated entity, Copper Beech, in its entirety, not only our interest in the entity. This summary includes the results of the 37 properties from March 18, 2013 through September 30, 2013 and reflects the impact of the Company's cost basis of our investment, which include provisional adjustments subject to our allocation analyses and appraisals, related to purchase accounting(in thousands):

| | Three months ended September 30, 2013 | | Nine months ended September 30, 2013 | |
|---|---|---|---|---|
| Revenues | $ | 22,899 | $ | 49,400 |
| Direct operating expenses | | 10,526 | | 20,963 |
| Revenues less direct operating expenses | | 12,373 | | 28,437 |
| Interest expense | | 4,008 | | 9,072 |
| Depreciation and amortization | | 9,304 | | 22,363 |
| Net loss based on the Company's purchase price | $ | (939) | $ | (2,998) |
| | | | | |
| Company's share of net income (loss)[(1)] | $ | 1,473 | $ | 3,582 |

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

During the period from March 18, 2013 to September 30, 2013, the CB Portfolio had net cash provided by operating activities of approximately $11.2 million, net cash used in investing activities of approximately $17.7 million and net cash provided by financing activities of approximately $7.3 million.

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The following table is the calculation of the Company's equity in earnings for the CB Portfolio for the period from March 18, 2013 to September 30, 2013. As there are several components of the calculation, set forth below are notes corresponding to the notes included in the Company's calculation below to further explain these components.

| | |
|---|---|
| Net loss incurred by the CB Portfolio based on the Company's purchase price(1) | $ (2,998) |
| Campus Crest's share of net loss | (972) |
| Campus Crest percentage of preferred payment(2) | 4,590 |
| Campus Crest income from Copper Beech | 3,618 |
| Amortization of basis difference(3) | (87) |
| Total equity in earnings in CB Portfolio | $ 3,531 |

(1) The basis of the financial statements of the CB Portfolio used in the calculation of the Company's equity in earnings for the period from March 18, 2013 to September 30, 2013 was computed using the Company's cost basis for its investment in the CB Portfolio's underlying assets and liabilities, including the effects of provisional purchase price adjustments, for its properties at the dates the Company acquired its interests in the CB Portfolio. For the period from March 18, 2013 to September 30, 2013 this included 35 properties.

We consummated the acquisition of a 48.0% interest in 35 properties of the CB Portfolio. As a result of lender consents that were required to be obtained from various lenders to the CB Portfolio prior to our ownership, we completed our acquisition of the 48.0% interest in stages, which resulted in a variation in our ownership percentage from 25.3% to 48.0% in all 35 of the CB Portfolio properties from March 18, 2013 to September 30, 2013. Accordingly, the Company recognized its proportionate share of earnings of the CB Portfolio for the specific percentage of ownership interest we held during the applicable period.

(2) As part of the purchase and sale agreement, the Company was entitled to receive a $13.0 million preferred payment over a one year period beginning March 18, 2013 and ending on March 17, 2014. As such, for the period from March 18, 2013 to September 30, 2013 the Company recorded in income its proportionate share of this payment, which corresponds to the portion of the CB Portfolio held by the other owners of Copper Beech.

(3) Included in the calculation of equity in earnings in the CB Portfolio is the amortization of the net difference in the Company's carrying value of investment as compared to the underlying equity in net assets of the investee.

We are entitled to a preferred payment of $13.0 million for the first year of our investment and 48.0% of the remaining operating cash flows in the CB Portfolio. During the period from March 18, 2013 to September 30, 2013, we were entitled to approximately $7.6 million of cash distributions of which we had received $4.9 million, approximately $4.3 million of preferred payment and approximately $0.6 million in other distributions, as of September 30, 2013. During the period from March 18, 2013 to September 30, 2013, the CB Portfolio had net cash provided by operating activities of approximately $11.2 million, net cash used in investing activities of approximately $17.7 millionand net cash provided by financing activities of approximately $7.3 million.

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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):

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

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

***Mortgage and Construction Loans***

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

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| | Face Amount | Principal Outstanding at 9/30/2013 | Principal Outstanding at 12/31/2012 | Stated Interest Rate | Interest Rate at 9/30/2013 | | Maturity Date [(1)] | Amortization | |
|---|---|---|---|---|---|---|---|---|---|
| Construction loans | | | | | | | | | |
| The Grove at Orono | $ 15,206 | $ 14,243 | $ 10,506 | LIBOR + 250 bps | 2.68 | % | 6/30/2014 | Interest only | |
| The Grove at Auburn | 16,294 | 13,157 | 13,157 | LIBOR + 295 bps | 3.13 | % | 7/22/2014 | Interest only | |
| The Grove at Flagstaff | 19,842 | 19,330 | 15,331 | Prime + 25 bps / LIBOR + 250 bps | 2.68 | % | 12/9/2014 | Interest only | |
| The Grove at Muncie | 14,567 | 11,252 | 1 | LIBOR + 225 bps | 2.43 | % | 7/3/2015 | Interest only | (2) |
| The Grove at Slippery Rock | 17,961 | - | - | Base Rate + 115 bps / LIBOR + 215 bps | 2.33 | % | 6/21/2016 | Interest only | |
| The Grove at Fort Collins | 19,073 | 16,744 | 1 | LIBOR + 225 bps | 2.43 | % | 7/13/2015 | Interest Only | |
| The Grove at Pullman | 16,016 | - | - | LIBOR + 220 bps | 2.38 | % | 9/5/2015 | Interest Only | |
| Mortgage loans | | | | | | | | | |
| The Grove at Huntsville | - | - | 12,635 | LIBOR + 250 bps | N/A | | | | |