BLACKBAUD INC
Form 10-Q
May 08, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2009

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: 000-50600

BLACKBAUD, INC.

(Exact name of registrant as specified in its charter)

Delaware	**11-2617163**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

2000 Daniel Island Drive

Charleston, South Carolina 29492

(Address of principal executive offices, including zip code)

(843) 216-6200

(Registrant s telephone number, including area code)

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

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 (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ¨ 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 x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

The number of shares of the registrant s Common Stock outstanding as of April 30, 2009 was 43,819,883.

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BLACKBAUD, INC.

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PART I- FINANCIAL INFORMATION

Item 1. Financial statements

Consolidated balance sheets

(Unaudited)

(in thousands, except share amounts)	March 31, 2009	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	$ 23,027	$ 16,361
Donor restricted cash	7,047	12,363
Accounts receivable, net of allowance of $2,986 and $2,777 at March 31, 2009 and December 31, 2008, respectively	47,296	52,554
Prepaid expenses and other current assets	16,946	17,281
Deferred tax asset, current portion	6,779	6,858
Total current assets	101,095	105,417
Property and equipment, net	20,426	21,384
Deferred tax asset	64,231	64,762
Goodwill	73,070	73,615
Intangible assets, net	46,402	48,171
Other assets	473	537
Total assets	$ 305,697	$ 313,886
Liabilities and stockholders equity		
Current liabilities:		
Trade accounts payable	$ 7,552	$ 7,023
Accrued expenses and other current liabilities	18,167	21,758
Donations payable	7,047	12,363
Capital lease obligations, current portion	346	384
Debt, current portion	60,079	60,049
Deferred revenue	112,110	113,802
Total current liabilities	205,301	215,379
Capital lease obligations, noncurrent	127	203
Long-term debt, net of current portion	1,007	1,288
Deferred revenue, noncurrent	4,946	5,838
Other noncurrent liabilities	681	670
Total liabilities	212,062	223,378
Commitments and contingencies (see Note 9)		
Stockholders equity:		
Preferred stock; 20,000,000 shares authorized, none outstanding	-	-
Common stock, $0.001 par value; 180,000,000 shares authorized, 51,316,535 and 51,269,081 shares issued at March 31, 2009 and December 31, 2008, respectively	51	51

Additional paid-in capital	120,116	116,846
Treasury stock, at cost; 7,511,932 and 7,494,466 shares at March 31, 2009 and December 31, 2008, respectively	(130,793)	(130,594)
Accumulated other comprehensive income	(569)	(899)
Retained earnings	104,830	105,104
Total stockholders equity	93,635	90,508
Total liabilities and stockholders equity	$ 305,697	$ 313,886

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

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Blackbaud, Inc.

Consolidated statements of operations

(Unaudited)

(in thousands, except share and per share amounts)	Three months ended March 31, 2009	2008
Revenue		
License fees	$ 7,405	$ 9,635
Services	21,129	23,576
Maintenance	28,011	25,430
Subscriptions	16,723	8,785
Other revenue	1,473	2,010
Total revenue	74,741	69,436
Cost of revenue		
Cost of license fees	903	842
Cost of services	16,209	15,693
Cost of maintenance	5,148	4,704
Cost of subscriptions	6,740	3,656
Cost of other revenue	1,278	1,848
Total cost of revenue	30,278	26,743
Gross profit	44,463	42,693
Operating expenses		
Sales and marketing	16,115	15,239
Research and development	11,461	8,767
General and administrative	8,939	7,266
Amortization	186	167
Total operating expenses	36,701	31,439
Income from operations	7,762	11,254
Interest income	62	165
Interest expense	(425)	(70)
Other expense, net	(161)	(89)
Income before provision for income taxes	7,238	11,260
Income tax provision	3,166	4,217
Net income	$ 4,072	$ 7,043
Earnings per share		
Basic	$ 0.10	$ 0.16

Diluted	$ 0.09	$ 0.16
Common shares and equivalents outstanding		
Basic weighted average shares	42,536,810	43,897,369
Diluted weighted average shares	43,043,777	44,662,620
Dividends per share	$ 0.10	$ 0.10

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

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Blackbaud, Inc.

Consolidated statements of cash flows

(Unaudited)

(in thousands)	Three months ended March 31, 2009	2008
Cash flows from operating activities		
Net income	$ 4,072	$ 7,043
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,826	2,492
Provision for doubtful accounts and sales returns	905	1,162
Stock-based compensation expense	3,220	2,359
Excess tax benefit on exercise of stock options	(65)	(221)
Deferred taxes	1,713	1,579
Other non-cash adjustments	35	21
Changes in assets and liabilities:		
Accounts receivable	3,751	1,640
Prepaid expenses and other assets	326	(884)
Trade accounts payable	566	2
Accrued expenses and other current liabilities	(3,687)	(3,274)
Donor restricted cash	5,315	-
Donations payable	(5,315)	-
Deferred revenue	(2,237)	2,459
Net cash provided by operating activities	12,425	14,378
Cash flows from investing activities		
Purchase of property and equipment	(1,114)	(2,123)
Purchase of net assets of acquired companies	-	(2,327)
Net cash used in investing activities	(1,114)	(4,450)
Cash flows from financing activities		
Proceeds from issuance of debt	-	11,500
Proceeds from exercise of stock options	51	287
Excess tax benefit on exercise of stock options	65	221
Payments on debt	(251)	(8)
Payments on capital lease obligations	(114)	(136)
Purchase of treasury stock	-	(19,837)
Dividend payments to stockholders	(4,349)	(4,493)
Net cash used in financing activities	(4,598)	(12,466)
Effect of exchange rate on cash and cash equivalents	(47)	(95)
Net increase (decrease) in cash and cash equivalents	6,666	(2,633)
Cash and cash equivalents, beginning of period	16,361	14,775
Cash and cash equivalents, end of period	$ 23,027	$ 12,142

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

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Blackbaud, Inc.

Consolidated statements of stockholders equity and comprehensive income

(Unaudited)

(in thousands, except share amounts)	**Comprehensive income**	**Common stock Shares**	**Common stock Amount**	**Additional paid-in capital**	**Treasury stock**	**Accumulated other comprehensive income (loss)**	**Retained earnings**	**Total stockholders equity**
Balance at December 31, 2007		50,450,675	$ 50	$ 105,687	$ (85,487)	$ 137	$ 92,716	$ 113,103
Net income	$ 29,878	-	-	-	-	-	29,878	29,878
Payment of dividends	-	-	-	-	-	-	(17,497)	(17,497)
Purchase of 1,956,168 treasury shares under stock repurchase program and surrender of 106,446 shares upon restricted stock vesting	-	-	-	-	(45,107)	-	-	(45,107)
Exercise of stock options	-	126,206	1	882	-	-	-	883
Tax impact of exercise of nonqualified stock options and restricted stock vesting	-	-	-	(1,126)	-	-	-	(1,126)
Stock options assumed in acquisition	-	-	-	172	-	-	-	172
Stock-based compensation	-		-	11,231	-	-	7	11,238
Restricted stock grants	-	727,237	-	-	-	-	-	-
Restricted stock cancellations	-	(35,037)	-	-	-	-	-	-
Translation adjustment, net of tax	(1,036)	-	-	-	-	(1,036)	-	(1,036)
Comprehensive income	$ 28,842							
Balance at December 31, 2008		51,269,081	$ 51	$ 116,846	$ (130,594)	$ (899)	$ 105,104	$ 90,508
Net income	$ 4,072	-	-	-	-	-	4,072	4,072
Payment of dividends	-	-	-	-	-	-	(4,349)	(4,349)
Surrender of 17,466 shares upon restricted stock vesting	-	-	-	-	(199)	-	-	(199)
Exercise of stock options	-	14,160	-	51	-	-	-	51
Tax impact of exercise of nonqualified stock options and restricted stock vesting	-	-	-	18	-	-	-	18
Stock-based compensation	-	-	-	2,752	-	-	3	2,755
Restricted stock grants	-	39,140	-	449	-	-	-	449
Restricted stock cancellations	-	(5,846)	-	-	-	-	-	-
Translation adjustment, net of tax	330	-	-	-	-	330	-	330
Comprehensive income	$ 4,402							
Balance at March 31, 2009		51,316,535	51	120,116	(130,793)	(569)	104,830	$ 93,635

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

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Blackbaud, Inc.

Notes to consolidated financial statements

(Unaudited)

1. Organization

Blackbaud, Inc. (the Company) a leading global provider of software and related services designed specifically for nonprofit organizations, provides products and services that enable nonprofit organizations to increase donations, reduce fundraising costs, improve communications with constituents, manage finances and optimize internal operations. As of March 31, 2009, the Company had approximately 22,000 active customers distributed across multiple verticals within the nonprofit market including education, foundations, health and human services, religion, arts and cultural, public and societal benefits, environment and animal welfare and international foreign affairs.

2. Summary of significant accounting policies

Unaudited interim financial statements

The interim consolidated financial statements as of March 31, 2009, and for the three months ended March 31, 2009 and 2008, have been prepared by the Company pursuant to the rules and regulations of the SEC for interim financial reporting. These consolidated statements are unaudited and, in the opinion of management, include all adjustments (consisting of normal recurring adjustments and accruals) necessary to state fairly the consolidated balance sheets, consolidated statements of operations, consolidated statements of cash flows and consolidated statements of stockholders equity and comprehensive income for the periods presented in accordance with accounting principles generally accepted in the United States (U.S. GAAP). The consolidated balance sheet at December 31, 2008 has been derived from the audited consolidated financial statements at that date. Operating results for the three months ended March 31, 2009 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2009 or any other future period. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with U.S. GAAP have been omitted in accordance with the rules and regulations for interim reporting of the SEC. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008 and other forms filed with the SEC from time to time.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting periods. Areas of the financial statements where estimates may have the most significant effect include revenue recognition, the allowance for sales returns and doubtful accounts, valuation of long-lived and intangible assets and goodwill, stock-based compensation and provision for income taxes and valuation of deferred tax assets. Changes in the facts or circumstances underlying these estimates could result in material changes and actual results could differ from these estimates.

Revenue recognition

The Company s revenue is primarily generated from the following sources: (1) the sale of perpetual licenses of its software products, (2) providing professional services including implementation, training, consulting, hosting and other services, (3) providing software maintenance and support services and (4) charging for the use of its software products in a hosted environment.

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Notes to consolidated financial statements

(Unaudited)

Software license fees

The Company recognizes revenue from the sale of perpetual software license rights when all of the following conditions are met:

- persuasive evidence of an arrangement exists;
- the product has been delivered;
- the fee is fixed or determinable; and
- collection of the resulting receivable is probable.

The Company deems acceptance of an agreement to be evidence of an arrangement. Delivery occurs when the product is shipped or transmitted, and title and risk of loss have transferred to the customers. The Company s typical license agreement does not include customer acceptance provisions; however, if acceptance provisions are provided, delivery is deemed to occur upon acceptance. The Company considers the fee to be fixed or determinable unless the fee is subject to refund or adjustment or is not payable within the Company s standard payment terms. Payment terms greater than 90 days are considered to be beyond the Company s customary payment terms. Collection is deemed probable if the Company expects that the customer will be able to pay amounts under the arrangement as they become due. If the Company determines that collection is not probable, revenue recognition is deferred until collection.

The Company sells software licenses with maintenance, varying levels of professional services and, in certain instances, with hosting services. The Company allocates revenue to delivered components, normally the license component of the arrangement, using the residual value method based on objective evidence of the fair value of the undelivered elements, which is specific to the Company. Fair value for maintenance services associated with software licenses is based upon renewal rates stated in the agreements with customers, which vary according to the level of support service provided under the maintenance program. Fair value of professional services and other products and services is based on sales of these products and services to other customers when sold on a stand-alone basis. When a software license is sold with software customization services, generally the services are to provide customer support for assistance in creating special reports and other enhancements that will assist with efforts to improve operational efficiency and/or to support business process improvements. These services are not essential to the functionality of the software. However, when software customization services are considered essential to the functionality of the software the Company recognizes revenue for both the software license and the services on a percent-complete basis.

Services

The Company s consulting, installation and implementation services are generally billed based on hourly rates plus reimbursable travel-related expenses. Revenue is recognized for these services over the period the services are performed. For service engagements of less than $10,000, the Company frequently contracts for and bills based on a fixed fee plus reimbursable travel-related expenses. The Company recognizes this revenue upon completion of the work performed.

The Company recognizes analytic services revenue from donor prospect research engagements, the sale of lists of potential donors, benchmarking studies and data modeling service engagements upon delivery.

The Company sells training at a fixed rate for each specific class, at a per attendee price or at a packaged price for several attendees, and revenue is recognized only upon the customer attending and completing training. Additionally, the Company sells a fixed-rate program, which permits customers to attend unlimited training over a specified contract period, typically one year, subject to certain restrictions, and revenue is recognized ratably over this contract period.

Blackbaud, Inc.

Notes to consolidated financial statements

(Unaudited)

Maintenance

The Company recognizes revenue from maintenance services ratably over the contract term, which is principally one year. Maintenance contracts are at rates that vary according to the level of the maintenance program and are generally renewable annually. Maintenance contracts also include the right to unspecified product upgrades on an if-and-when available basis. Certain support services are sold in prepaid units of time and recognized as revenue upon their usage.

Subscriptions

The Company provides hosting services to customers who have purchased perpetual rights to certain of its software products (hosting services). Revenue from hosting services, as well as data enrichment services, data management services and online training programs is recognized ratably over the service period of the contract. Any related set-up fees are also recognized ratably over the service period of the contract.

Additionally, the Company makes available certain of its software products for use in hosted application arrangements without licensing perpetual rights to the software (hosted applications). Revenue from hosted applications is recognized over the subscription agreement, which is generally one year. For contractual arrangements covering the use of hosted applications, such as Kintera Sphere, eTapestry and TeamApproach, the stand alone value of the delivered items or the fair value of undelivered items in the arrangement have not been established. Such items include upfront activation, implementation and hosting of the solution. For these arrangements the Company treats the transaction as a single element and the revenue is deferred until the hosted application is deployed and in use, at which time revenue is recognized over the remaining term of the arrangement. Direct and incremental costs relating to activation and implementation are capitalized until the hosted application is deployed and in use, and then expensed over the remaining term of the arrangement.

Revenue from transaction processing fees is recognized when received. Credit card fees directly associated with processing donations for customers are included in subscription revenue net of netted transaction costs.

Deferred revenue

To the extent that the Company s customers are billed or pay for the above described services in advance of delivery, such amounts are recorded in deferred revenue.

Amortization expense

Amortization expense related to intangible assets acquired in business combinations is allocated to cost of revenue on the statements of operations based on the revenue stream to which the asset contributes. The following table summarizes amortization expense for the three months ended March 31, 2009 and 2008.

(in thousands)	**Three months ended March 31, 2009**	**2008**
Included in cost of revenue:		
Cost of license fees	$ 81	$ 43
Cost of services	334	334
Cost of maintenance	325	98
Cost of subscriptions	819	409
Cost of other revenue	19	19

Total included in cost of revenue	1,578	903
Included in operating expenses	186	167
Total	$ 1,764	$ 1,070

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Blackbaud, Inc.

Notes to consolidated financial statements

(Unaudited)

Recently adopted accounting pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157), which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS No. 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. The Company adopted SFAS No. 157 with no material impact effective January 1, 2008 for financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. On February 12, 2008, the FASB issued FASB Staff Position (FSP) SFAS No. 157-2, Effective Date of FASB Statement No. 157 (FSP 157-2), which delays the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. Further, in October 2008, the FASB issued FSP FAS 157-3, which provides clarifying guidance on valuing securities in markets that are not active. Effective January 1, 2009, the Company adopted SFAS No. 157 for the remaining non-financial assets and liabilities which primarily included goodwill and long-lived assets subject to impairment tests. The adoption of SFAS No. 157 on January 1, 2009 did not have a material impact on the Company s consolidated financial statements.

Effective January 1, 2009, the Company adopted SFAS No. 141 (revised 2007), Business Combinations (SFAS No. 141R). SFAS No. 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS No. 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after January 1, 2009. At the time of adoption, SFAS No. 141R did not have a material impact on the Company s consolidated financial statements. The Company expects the adoption of SFAS No. 141R will have an impact on the accounting for future business combinations. The extent of the impact of SFAS No. 141R on future acquisitions is dependent upon the size and nature of the acquisitions.

Effective January 1, 2009, the Company adopted FSP FAS 142-3, Determination of the Useful Life of Intangible Assets (FSP FAS 142-3). The adoption of FSP FAS 142-3 did not have a material impact on the Company s consolidated financial statements. FSP FAS 142-3 removes the requirement of SFAS No. 142 for an entity to consider, when determining the useful life of an acquired intangible asset, whether the intangible asset can be renewed without substantial cost or material modifications to the existing terms and conditions associated with the intangible asset. FSP FAS 142-3 replaces the previous useful-life assessment criteria with a requirement that an entity consider its own experience in renewing similar arrangements. If the entity has no relevant experience, it would consider market participant assumptions regarding renewal.

Effective January 1, 2009, the Company adopted FSP EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities (FSP EITF 03-6-1). The adoption of FSP EITF 03-6-1 did not have a material impact on the Company s consolidated financial statements. FSP EITF 03-6-1 clarifies that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) participating securities and should be included in the calculation of basic earnings per share pursuant to the two-class method.

In April 2009, the FASB issued FSP FAS 141R-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination that Arise from Contingencies which provides additional guidance regarding the initial recognition and measurement model under SFAS 141R for assets and liabilities arising from contingencies. The FSP establishes a model for preacquisition contingencies that is similar to the model used under SFAS 141. Under the FSP, an acquirer is required to recognize, at fair value, an asset acquired or liability assumed in a business combination that arises from a contingency if the acquisition-date fair value can be determined during the measurement period. If the acquisition-date fair value cannot be determined, the acquirer applies the recognition criteria of SFAS 5 to determine when the contingency should be recognized. This FSP applies to business combinations for which the acquisition date is on or after January 1, 2009. This FSP did not have a material impact at the time of adoption on the Company s consolidated financial statements.

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Notes to consolidated financial statements

(Unaudited)

3. Business combinations

Kintera

On July 8, 2008, the Company acquired Kintera, a publicly-traded company based in San Diego, California. Kintera is a leader in providing web-based, software-as-a-service solutions to the nonprofit market. The acquisition of Kintera added experience in on-demand solutions and expanded the Company s online offerings. The Company acquired all of the outstanding capital stock of Kintera through a tender offer and subsequent short-form merger, paying $1.12 per share for a total of $45,660,000. The Company financed this acquisition with cash on hand and borrowings under the Company s revolving credit facility. The total purchase price of $50.2 million includes $2.4 million in payments to Kintera management under change of control provisions, $1.9 million of direct acquisition-related costs and $0.2 million related to Kintera employee stock options assumed. The results of operations of Kintera are included in the consolidated financial statements of the Company from the date of acquisition.

At the time of the purchase price allocation, the Company provided a full valuation allowance for all of Kintera s state net operating loss carryforwards of $2.7 million, net of tax. Upon completion of further analysis, the Company determined approximately $0.8 million of the deferred tax assets related to the state net operating loss carryforwards will be realizable in the future. Accordingly, it reversed the associated valuation allowance and recorded a corresponding adjustment to goodwill in first quarter of 2009. Using the same evaluation model, the Company also determined certain deferred tax assets related to temporary differences are not more-likely-than-not to be realized in the future and therefore provided a valuation allowance of $0.3 million with a corresponding adjustment to goodwill in first quarter of 2009.

The purchase price allocation the Company has recorded related to the acquisition of Kintera has not been finalized. The Company is currently in the process of evaluating potential state sales and use tax liabilities at Kintera that existed at the time of the acquisition.

Pro forma information

The following unaudited pro forma information presents the consolidated results of operations of the Company as if the acquisition of Kintera had taken place at the beginning of 2008. The pro forma information includes the historical operating results of Kintera and adjustments for the business combination effect of the amortization charges from acquired intangible assets, interest expense, interest income and related tax effects. The pro forma information does not necessarily reflect the actual results that would have occurred nor is it necessarily indicative of future results of operations.

(in thousands, except per share amounts)	**Three months ended March 31, 2008**
Revenue	$78,347
Net income	$ 4,108
Earnings per share, basic	$ 0.09
Earnings per share, diluted	$ 0.09

eTapestry

In connection with the acquisition of eTapestry, the Company entered into stock-based incentive arrangements with certain eTapestry employees. Under these arrangements, an additional amount of up to $1.0 million remains contingently payable based upon performance of the acquired business for the twelve-month period ending September 30, 2009. Based on actual and expected performance, the Company has accrued, as of March 31, 2009, a liability of $0.5 million.

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Blackbaud, Inc.

Notes to consolidated financial statements

(Unaudited)

4. Earnings per share

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding. Diluted earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common shares and dilutive potential common shares then outstanding. Diluted earnings per share reflect the assumed conversion of all dilutive securities, using the treasury stock method. Dilutive potential common shares consist of shares issuable upon the exercise of stock options, shares of non-vested restricted stock and settlement of stock appreciation rights. Additionally, dilutive potential common shares includes shares issuable for certain contingent liabilities that will be paid in shares of common stock based on the number of shares that would be issuable if March 31, 2009 was the end of the contingency period.

Diluted earnings per share for the three months ended March 31, 2009 does not include the effect of 1,645,649 potential common share equivalents as they are anti-dilutive. There were no anti-dilutive potential common shares outstanding for the three months ended March 31, 2008.

The following table sets forth the computation of basic and diluted earnings per share:

	Three months ended March 31,	
(in thousands, except share and per share amounts)	**2009**	**2008**
Numerator:		
Net income, as reported	$ 4,072	$ 7,043
Denominator:		
Weighted average common shares	42,536,810	43,897,369
Add effect of dilutive securities:		
Employee stock options and restricted stock	392,411	765,251
Liabilities to be paid in shares of common stock	114,556	-
Weighted average common shares assuming dilution	43,043,777	44,662,620
Earnings per share:		
Basic	$ 0.10	$ 0.16
Diluted	$ 0.09	$ 0.16

5. Comprehensive Income

Total comprehensive income for the three months ended March 31, 2009 and 2008 is as follows:

	Three months ended March 31,	
(in thousands)	**2009**	**2008**
Net income	$ 4,072	$ 7,043
Foreign currency translation adjustment, net of tax	330	8
Comprehensive income	$ 4,402	$ 7,051

The amount of tax allocated to the translation adjustment recorded in accumulated other comprehensive income was a benefit of $0.6 million, and expense of $6,000 for the three months ended March 31, 2009 and 2008, respectively.

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Blackbaud, Inc.

Notes to consolidated financial statements

(Unaudited)

6. Prepaid expenses and other current assets

Prepaid expenses and other current assets consisted of the following as of March 31, 2009 and December 31, 2008:

(in thousands)	March 31, 2009	December 31, 2008
Taxes, prepaid and receivable	$ 5,441	$ 6,385
Prepaid software maintenance and royalties	4,407	3,904
Deferred sales commissions	3,582	3,047
Other	3,516	3,945
Total prepaid expenses and other current assets	$ 16,946	$ 17,281

7. Accrued expenses and other current liabilities

Accrued expenses and other current liabilities consisted of the following as of March 31, 2009 and December 31, 2008:

(in thousands)	March 31, 2009	December 31, 2008
Accrued bonuses	$ 4,675	$ 6,905
Accrued commissions and salaries	3,009	3,703
Customer credit balances	2,932	3,028
Taxes payable	1,796	2,033
Accrued health care costs	1,222	758
Accrued accounting and legal fees	929	1,283
Other	3,604	4,048
Total accrued expenses and other current liabilities	$ 18,167	$ 21,758

8. Debt

The Company has a five-year $75.0 million revolving credit facility, which expires July 2012. Under the terms of the credit agreement, the Company may elect not more than twice over the term of the agreement to increase the amount available under the facility for an aggregate amount of up to $50.0 million, subject to certain terms and conditions. In June 2008, the Company exercised one of its options and increased the credit facility by $15.0 million to an aggregate available amount of $90.0 million. The revolving credit facility is guaranteed by the material domestic subsidiaries and is collateralized with the stock of all of the Company s subsidiaries.

Amounts borrowed under the revolving credit facility bear interest, at the Company s option, at a variable rate based (a) on the higher of the prime rate plus a margin of up to 0.5% or federal funds rate plus a margin of 0.5% to 1.0% (Base Rate Loans) or (b) LIBOR plus a margin of 1.0% to 1.5% (LIBOR Loans). The exact amount of any margin depends on the nature of the loan and the leverage ratio at the time of the borrowing. At March 31, 2009, the weighted average interest rate on the credit facility was 1.54%. The Company also pays a quarterly commitment fee on the unused portion of the revolving credit facility equal to 0.2%, 0.25% or 0.3% per annum, depending on the Company s leverage ratio.

Under the credit facility the Company has the ability to choose either Base Rate Loans or LIBOR Loans. Base rate borrowings mature in July 2012. LIBOR Loans can have one, two, three or six month maturities, and the Company has the ability to extend the maturity of these loans by rolling them at their maturity into new loans with the same or longer maturities. The Company evaluates the classification of its debt based on the maturity of individual borrowings and any roll-over of borrowings subsequent to the balance sheet date, but prior to issuance of the financial statements. At March 31, 2009, outstanding borrowings under the credit facility were $59.0 million, all of which were in the form of short-term LIBOR Loans, and accordingly classified as current liabilities.

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Blackbaud, Inc.

Notes to consolidated financial statements

(Unaudited)

Note payable

As a result of the acquisition of Kintera, the Company assumed a note payable that Kintera had executed on December 1, 2007 in the amount of $3.2 million for the purchase of computer equipment. The note is collateralized by the underlying computer equipment, bears interest at a rate of 11.34% and has a maturity date of November 30, 2010. The Company recorded the note at its fair value as of the acquisition date, which resulted in an increase of $0.1 million in the carrying value. As of March 31, 2009, the note payable balance was $2.1 million, of which $1.1 million is classified as current.

Using a discounted cash flow technique which incorporates a market interest rate with adjustments for duration and risk profile, the Company has determined the fair value of this note payable to be $2.2 million at March 31, 2009.

9. Commitments and contingencies

Leases

The Company leases its headquarters facility from Duck Pond Creek, LLC, which is partially owned by certain current executive officers of the Company. The lease agreement has a term of fifteen years with two five-year renewal options by the Company. The annual base rent of the lease is $3,644,064 payable in equal monthly installments. The base rent escalates annually at a rate equal to the change in the consumer price index, as defined in the agreement, but not to exceed 5.5% in any year. In addition, under the terms of the lease, the lessor will reimburse the Company an aggregate amount of $4.0 million for leasehold improvements, which will be recorded as a reduction to rent expense ratably over the term of the lease. During the three months ended March 31, 2009 rent expense was reduced by $66,700 related to this lease provision. There were no such amounts recorded during the three months ended March 31, 2008 because this lease provision began under the renegotiated lease, which became effective in October 2008. The $4.0 million leasehold improvement allowance has been included in the table below of operating lease commitments as a reduction in the Company s lease commitments ratably over the life of the lease. The timing of the reimbursements for the actual leasehold improvements may vary from the amount reflected in the table below.

Additionally, the Company has subleased a portion of its headquarters facility under various agreements extending through 2010. Under these agreements, rent expense was reduced by $45,000 and $65,000 for the three months ended March 31, 2009 and 2008, respectively. The operating lease commitments in the table below have been reduced by minimum aggregate sublease commitments of $140,000 and $62,000 during 2009 and 2010, respectively. No minimum aggregate sublease commitments exist after 2010. The Company has also received, and expects to receive through 2012, quarterly South Carolina state incentive payments as a result of locating its headquarters facility in Berkeley County, South Carolina. These amounts are recorded as a reduction of rent expense and were $0.5 million and $0.4 million for the three months ended March 31, 2009 and 2008, respectively.

Additionally, the Company leases various office space and equipment under operating leases. The Company also has various non-cancelable capital leases for computer equipment and furniture.

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Blackbaud, Inc.

Notes to consolidated financial statements

(Unaudited)

As of March 31, 2009, the future minimum lease commitments related to lease agreements, net of related sublease commitments and lease incentives, were as follows:

Year ending December 31,	Operating
(in thousands)	

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Property Under Contract

On February 27, 2014, we entered into a purchase and sale agreement, or the purchase agreement, for the purchase of all of the outstanding limited liability company interests, or the interests, of King s Landing, LLC, or the Missouri property owner, from BCMR King s Landing, a Limited Partnership and MLP King s Landing, LLC, which are collectively referred to as the Missouri property sellers. The Missouri property owner is the fee owner of a property located in Creve Coeur, Missouri, or the Missouri property. The Missouri property sellers do not have any relationship with us or our affiliates. Pursuant to the terms and conditions of the purchase agreement, the purchase price, or the Missouri purchase price, for the interests is $32.7 million payable as follows: (1) a deposit of $500,000 and (2) at the closing of the transaction, an amount, or the equity, equal to the difference between the Missouri purchase price and the then current outstanding principal balance of the existing loan defined below, as adjusted by credits and prorations provided for in the purchase agreement. The purchase agreement provides that the date of the closing is March 14, 2014, subject to extension.

In connection with its acquisition of the interests, we have agreed to assume all of property sellers and defined guarantors obligations in connection with a loan made to the property owner with a current outstanding principal amount of $21.2 million, or the existing loan. The transaction contemplated by the purchase agreement is subject to obtaining the consent to the assumption of the existing loan of the lender, or the existing lender, of the existing loan by April 14, 2014, which may be extended to May 14, 2014, and other customary conditions. We may terminate the purchase agreement with or without cause if we object to title matters that are not cured by property sellers, for the property sellers breach of, and failure to cure, their representations and warranties, if any of our conditions to closing are not satisfied and for other reasons set forth in the purchase agreement. If we terminate the purchase agreement on any of these grounds or if the existing lender s consent has not been obtained by the relevant deadline, our deposit will be refunded.

The property has 152 apartment units with 10,921 square feet of retail. The property unit mix is comprised of 39 one bedroom, one bathroom apartments, 88 two bedroom, two bathroom apartments, eight three bedroom, two bathroom apartments and 17 one bedroom, two bathroom loft apartments with an average size of 1,105 square feet. Unit amenities include HVAC and a full kitchen appliance package. Property amenities include parking and landscaping. As of February 2014, the property s occupancy rate was 94% and the average monthly effective rent per occupied unit was $1,402. The property is the newest construction asset in the relevant submarket, having been built in 2005.

ITEM 3.*Legal Proceedings*

From time to time, we are party to various lawsuits, claims for negligence and other legal proceedings that arise in the ordinary course of our business. We are not currently a party, as plaintiff or defendant, to any legal proceedings which, individually or in the aggregate, would be expected to have a material effect on our business, financial condition, results of operations, or financial statements, taken as a whole, if determined adversely to us.

ITEM 4.*Mine Safety Disclosures*

Not applicable.

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PART II

ITEM 5. *Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Market Price Information

Our common stock has been listed and traded on the NYSE MKT under the symbol IRT since August 13, 2013. At the close of business on March 10, 2014, the closing price for our common stock was $8.73 per share and there were 23 holders of record, one of which is the holder for all beneficial owners who hold in street name.

Since our formation, we have sold our common stock in three public offerings. See Item 1- Business. The following table sets forth the range of high and low sales prices of our common stock by quarter since August 13, 2013, the date our common stock commenced trading on the NYSE MKT.

2013	**High**	**Low**
Third Quarter (August 13, 2013 through September 30, 2013)	$ 8.50	$ 7.90
Fourth Quarter (October 1, 2013 through December 31, 2013)	$ 8.85	$ 7.95
2014		
First Quarter (January 1, 2014 through March 10, 2014)	$ 9.06	$ 8.15

We have adopted a Code of Ethics, which we refer to as the Code, for our directors, officers and employees intended to satisfy NYSE MKT listing standards and the definition of a code of ethics set forth in Item 406 of Regulation S-K. Any information relating to amendments to the Code or waivers of a provision of the Code required to be disclosed pursuant to Item 5.05 of Form 8-K will be disclosed through our website.

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PERFORMANCE GRAPH

On August 13, 2013, our common stock commenced trading on the NYSE MKT. The following graph compares the index of the cumulative total shareholder return on our common shares for the measurement period commencing August 12, 2013 and ending December 31, 2013 with the cumulative total returns of the National Association of Real Estate Investment Trusts (NAREIT) Equity REIT index and the Russell 3000 Index. The following graph assumes that each index was 100 on the initial day of the relevant measurement period and that all dividends were reinvested.

Share Repurchase Program

We terminated our share repurchase program effective May 1, 2013 that enabled stockholders to sell their shares to us in limited circumstances. During the year ended December 31, 2013, we did not repurchase any of our securities under our share repurchase program.

Unregistered Sales of Equity Securities

We previously disclosed our issuances during the year ended December 31, 2013 of equity securities that were not registered under the Securities Act of 1933, as amended, in our quarterly report on Form 10-Q for the quarterly period ended March 31, 2013.

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DISTRIBUTIONS

We intend to continue to qualify as a REIT for U.S. federal income tax purposes. The Code generally requires that a REIT annually distribute at least 90% of its REIT taxable income, determined without regard to the deduction for dividends paid and excluding any net capital gain, and imposes a tax on any taxable income retained by a REIT, including capital gains.

To satisfy the requirements for qualification as a REIT and generally not be subject to U.S. federal income and excise tax, we intend to make regular monthly distributions of all or substantially all of our REIT taxable income, determined without regard to dividends paid, to our stockholders out of assets legally available for such purposes. Except for dividends for January, February and March 2014, our board of directors has not yet determined the rate for our future dividends, and all future distributions will be at the sole discretion of our board of directors. When determining the amount of future distributions, our board of directors considers, among other factors, (i) the amount of cash generated from our operating activities, (ii) our expectations of future cash flows, (iii) our determination of near-term cash needs for acquisitions of new properties, general property capital improvements and debt repayments, (iv) our ability to continue to access additional sources of capital, (v) the requirements of Maryland law, (vi) the amount required to be distributed to maintain our status as a REIT and to reduce any income and excise taxes that we otherwise would be required to pay and (vii) any limitations on our distributions contained in our credit or other agreements.

We cannot assure you that we will generate sufficient cash flows to make distributions to our stockholders or that we will be able to sustain those distributions. If our operations do not generate sufficient cash flow to allow us to satisfy the REIT distribution requirements, we may be required to fund distributions from working capital, borrow funds, sell assets, make taxable distributions of our securities or reduce such distributions. Our distribution policy enables us to review the alternative funding sources available to us from time to time. Our actual results of operations will be affected by a number of factors, including the revenues we receive from our properties, our operating expenses, interest expense, the ability of our tenants to meet their obligations and unanticipated expenditures. For more information regarding risk factors that could materially adversely affect our actual results of operations, please see Risk Factors.

Prior to October 1, 2013, we calculated our distributions based upon daily record dates and distribution amounts so that our stockholders would be entitled to be paid distributions beginning with the day their shares were purchased. Thereafter, our board has established, and intends to continue to establish, on a quarterly basis, in advance, the dividend amount for our common stock for each month in the quarter. The distributions for each month in the three-month period are paid on or about the fifteenth day following the completion of each respective month. For 2011, 2012, and 2013, we have declared and paid the following dividends (expressed on a quarterly basis) on our common stock (dollars in thousands except per share and per unit data):

	Common Shares	
	Dividends Declared and Paid per Share	**Total Dividends Paid**
2011		
First Quarter	$	$
Second Quarter		
Third Quarter	0.1500	2
Fourth Quarter	0.1500	3
2012		
First Quarter	0.1500	3
Second Quarter	0.1500	49
Third Quarter	0.1500	49
Fourth Quarter	0.1500	48
2013		
First Quarter	0.1500	50
Second Quarter	0.1563	554
Third Quarter	0.1600	1,330
Fourth Quarter	0.1600	1,544

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On January 15, 2014, we declared the following monthly dividends for January, February and March 2014:

Month	Record Date	Payment Date	Dividend Declared Per Share
January 2014	January 31, 2014	February 14, 2014	$ 0.06
February 2014	February 28, 2014	March 17, 2014	0.06
March 2014	March 31, 2014	April 15, 2014	0.06
			$ 0.18

For the year ended December 31, 2013, including amounts paid to or allocable to our non-controlling interests, we paid cash distributions of $4.8 million, as compared to cash flows from operations of $6.0 million and FFO of $5.7 million. FFO is a non-GAAP financial measure. For a reconciliation of FFO to net income (loss), see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Non-GAAP Financial Measures.

Our board of directors intends to continue, on a quarterly basis, in advance, establishing the dividend amount for our common stock for each month in the quarter. Distributions will be paid monthly in arrears. The record date for each monthly distribution will be the last business day of such month and the payment date for each distribution will be the ninth day of the subsequent month (or, if such day is not a business day, the first business day following the ninth day of such month), or such other date as our board of directors may determine in its discretion.

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ITEM 6. ***Selected Financial Data***

The following table summarizes selected financial data about our company (dollars in thousands, except share and per share data). The following selected financial data information should be read in conjunction with Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, and our consolidated financial statements, including the notes thereto, included elsewhere herein.

	As of and for the Years Ended December 31				As of and for the period from March 26, 2009 (inception) to December 31,
	2013	2012	2011	2010	2009
Operating Data:					
Total revenue	$ 19,943	$ 16,629	$ 8,668	$ 5	$ 2
Property operating expenses	(9,429)	(8,066)	(4,477)		
Total expenses	(15,010)	12,897	7,311	(1)	(1)
Interest expense	(3,659)	(3,305)	(1,727)		
Net income (loss)	1,274	427	(370)	4	1
Net income (loss) allocable to common shares	615	(123)	(112)	4	1
Earnings (loss) per share:					
Basic	$ 0.12	$ (0.45)	$ (5.60)	$ 0.20	$ 0.06
Diluted	$ 0.12	$ (0.45)	$ (5.60)	$ 0.20	$ 0.06
Balance Sheet Data:					
Investments in real estate	$ 174,321	$ 141,282	$ 128,124	$	$
Total assets	181,871	146,197	131,352	209	206

Total indebtedness	103,303	92,413	82,175		
Total liabilities	106,963	95,346	84,294	2	3
Total equity	74,908	50,851	47,058	207	203

	As of and for the years ended December 31				As of and for th period from March 26, 2009 (inception) to December 31,
	2013	**2012**	**2011**	**2010**	**2009**
Other Data:					
Property portfolio occupancy	94.5%	92.0%	91.4%		
Common shares outstanding	9,652,540	345,063	20,000	20,000	20,000
Limited partnership units outstanding		5,274,900	5,274,900		
Cash distributions declared per common share/unit	$ 0.6263	$ 0.6000	$ 0.3000	$	$

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ITEM 7. *Management s Discussion and Analysis of Financial Condition and Results of Operations*

Overview

We were formed on March 26, 2009 as a Maryland corporation and elected to be taxed as a REIT for U.S. federal income tax purposes commencing with our taxable year ended December 31, 2011. We are externally managed by our advisor, an indirect, wholly owned subsidiary of RAIT. We conduct our operations through our operating partnership, of which we are the sole general partner.

We own and operate a portfolio of apartment properties located throughout the United States. Our primary business objective is to maximize stockholder value by increasing cash flows at our existing apartment properties and acquiring additional properties either with strong and stable occupancies and the ability to raise rental rates or potential for repositioning through capital expenditures.

During 2013 we acquired two apartment properties adding 786 units to our portfolio. In addition we entered into purchase agreements for six additional apartment properties with 2,028 total units. As of December 31, 2013, we own ten apartment properties containing an aggregate of 2,790 apartment units. We refer to these apartment properties as our existing portfolio. As of December 31, 2013, our existing portfolio had an average occupancy of 94.5% and an average monthly effective rent per occupied apartment unit of $775. See Historical Performance of our Apartment Properties. We expect that that acquisition of The Reserve at Eagle Ridge and the Oklahoma portfolio and, upon completion, the Missouri property, will increase our revenues, expenses and net income.

Key Statistics

(Dollars in thousands, except per share and per unit information)

	For the Years Ended		
Financial Statistics	**2013**	**2012**	**2011**
Total revenue	$ 19,943	$ 16,629	$ 8,668
Earnings (loss) per share- diluted	0.12	(0.45)	(5.60)
Core funds from operations (Core	0.81	0.71	0.46

FFO) per share			
Leverage	52%	58%	58%
Dividends declared per common share	0.63	0.60	0.30
Apartment Portfolio			
Reported investments in real estate at cost	$ 190,096	$ 153,565	$ 137,428
Net operating income	$ 10,514	$ 8,563	$ 4.191
Number of properties owned	10	8	7
Multifamily units owned	2,790	2,004	1,812
Portfolio average occupancy	94.5%	92.0%	91.4%
Average monthly effective rent per unit(1)	$ 770	$ 787	$ 721

(1) Average monthly effective rent per occupied unit represents the average monthly rent collected for all occupied units after giving effect to tenant concessions. We do not report average effective rent per unit in the month of acquisition as it is not representative of a full month of operations.

Non-GAAP Financial Measures

Funds from Operations and Core Funds from Operations

We believe that FFO and Core FFO, each of which is a non-GAAP financial measure, are additional appropriate measures of the operating performance of a REIT and us in particular. We compute FFO in accordance with the standards established by the National Association of Real Estate Investment Trusts, or NAREIT, as net income or loss allocated to common shares (computed in accordance with GAAP), excluding real estate-related depreciation and amortization expense, gains or losses on sales of real estate and the cumulative effect of changes in accounting principles.

Core FFO is a computation made by analysts and investors to measure a real estate company s operating performance by removing the effect of items that do not reflect ongoing property operations, including acquisition expenses, expensed costs related to the issuance of shares of our common stock and equity-based compensation expenses, from the determination of FFO. We incur acquisition expenses in connection with acquisitions of real estate properties and expense those costs when incurred in accordance with U.S.

GAAP. As these expenses are one-time and reflective of investing activities rather than operating performance, we add back these costs to FFO in determining Core FFO.

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Our calculation of Core FFO differs from the methodology used for calculating Core FFO by some other REITs and, accordingly, our Core FFO may not be comparable to Core FFO reported by other REITs. Our management utilizes FFO and Core FFO as measures of our operating performance, and believes they are also useful to investors, because they facilitate an understanding of our operating performance after adjustment for certain non-cash items, such as depreciation and amortization expenses, and with respect to Core FFO, acquisition expenses and pursuit costs that are required by GAAP to be expensed but may not necessarily be indicative of current operating performance and that may not accurately compare our operating performance between periods. Furthermore, although FFO, Core FFO and other supplemental performance measures are defined in various ways throughout the REIT industry, we also believe that FFO and Core FFO may provide us and our investors with an additional useful measure to compare our financial performance to certain other REITs. We also use Core FFO for purposes of determining the quarterly incentive fee, if any, payable to our advisor.

Neither FFO nor Core FFO is equivalent to net income or cash generated from operating activities determined in accordance with GAAP. Furthermore, FFO and Core FFO do not represent amounts available for management s discretionary use because of needed capital replacement or expansion, debt service obligations or other commitments or uncertainties. Neither FFO nor Core FFO should be considered as an alternative to net income as an indicator of our operating performance or as an alternative to cash flow from operating activities as a measure of our liquidity.

Set forth below is a reconciliation of net income (loss) to FFO and Core FFO for the years ended December 31, 2013, 2012 and 2011 (in thousands, except share and per share information):

	For the Year Ended December 31, 2013		For the Year Ended December 31, 2012		For the Year Ended December 31, 2	
	Amount	Per Share	Amount	Per Share	Amount	Per
Funds From Operations:						
Net income (loss)	$ 1,274	$ 0.18	$ 427	$ 0.08	$ (370)	$
Adjustments:						

Income allocated to preferred shares		(10)		(0.00)		(15)		(0.00)			
Income allocated to preferred units		(220)		(0.03)		(79)		(0.01)			
Real estate depreciation and amortization		4,413		0.62		3,466		0.61		1,771	
Funds From Operations	$	5,457	$	0.77	$	3,799	$	0.68	$	1,401	$
Weighted-average shares diluted (a)		7,151,738		7,151,738		5,550,284		5,550,284		4,146,260	4,1
Core Funds From Operations:											
Funds From Operations	$	5,457	$	0.77	$	3,799	$	0.68	$	1,401	$
Adjustments:											
Equity based compensation		77		0.01							
Acquisition fees and expenses		248		0.03		157		0.03		488	
Core Funds From Operations	$	5,782	$	0.81	$	3,956	$	0.71	$	1,889	$
Weighted-average shares diluted (a)		7,151,738		7,151,738		5,550,284		5,550,284		4,146,260	4,1

(a) Weighted-average shares diluted includes 5,274,900 limited partnership units that were exchanged for common stock on May 7, 2013 and exchangeable for common stock as of December 31, 2012 and 2011.

Results of Operations

Year Ended December 31, 2013 Compared to the Year Ended December 31, 2012

Our total revenue increased $3.3 million to $19.9 million for the year ended December 31, 2013 from $16.6 million for the year ended December 31, 2012. The increase is attributable to $2.8 million of revenue from a property we acquired in 2012 present for a full year in 2013 and the acquisition of two properties in 2013 along with improved occupancy which increased 250 basis points to 94.5% as of December 31, 2013 from 92.0% as of December 31, 2012.

Our expenses increased $2.1 million to $15.0 million for the year ended December 31, 2013 from $12.9 million for the year ended December 31, 2012. Expenses were comprised of property operating expenses which increased $1.4 million to $9.5 million from $8.1 million for the year ended December 31, 2012 and depreciation and amortization which increased $0.9 million to $4.4 million from $3.5 million for the year ended December 31, 2012. The increases are primarily attributable to $2.2 million from a property we acquired in 2012 present for a full year in 2013 and the acquisition of two properties in 2013. We incurred asset management fees during the year ended December 31, 2013 and 2012 of $0.3 million and $0.2 million, respectively. We incurred general and administrative expenses related to audit and other professional fees, trustee fees and other federal and state filing fees during the years ended December 31, 2013 and 2012 of $0.6 million and $1.0 million, respectively.

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Our interest expense increased $0.3 million to $3.6 million for the year ended December 31, 2013 from $3.3 for the year ended December 31, 2012. The increase is primarily attributable to the mortgage indebtedness used to finance a property we acquired in 2012, which was present for a full year in 2013.

Year Ended December 31, 2012 Compared to the Year Ended December 31, 2011

Our total revenue increased $7.9 million to $16.6 million for the year ended December 31, 2012 from $8.7 million for the year ended December 31, 2011. The increase is primarily attributable to the seven properties we acquired in 2011 and present for a full year in 2012.

Our expenses increased $5.6 million to $12.9 million for the year ended December 31, 2012 from $7.3 million for the year ended December 31, 2011. Expenses were comprised primarily of property operating expenses which increased $3.6 million to $8.1 million from $4.5 million for the year ended December 31, 2011 and depreciation and amortization which increased $1.7 million to $3.5 million from $1.8 million for the year ended December 31, 2011. The increases are primarily attributable to the seven properties we acquired in 2011, which were present for a full year in 2012. We incurred certain general and administrative expenses related to audit and other professional fees, trustee fees and other federal and state filing fees during the years ended December 31, 2012 and 2011 of $1.0 million and $0.6 million, respectively.

Our interest expense increased $1.6 million to $3.3 million for the year ended December 31, 2012 from $1.7 for the year ended December 31, 2011. The increase is primarily attributable to the mortgage indebtedness used to finance the seven properties we acquired in 2011, which were present for a full year in 2012.

Year Ended December 31, 2011 Compared to the Year Ended December 31, 2010

We generated $8.7 million of revenue during the year ended December 31, 2011 as a result of the acquisition of six properties in April 2011 and one property in December 2011. Prior to the April acquisition, we did not own any revenue-producing assets and as such the financial information for the year ended December 31, 2011 is not comparable to the financial information for the year ended

December 31, 2010. Our revenue for the year ended December 31, 2010 was comprised of interest income on short-term loans to our former sponsor in the aggregate principal amount of $200,000. These loans had a weighted average interest rate of 5.8%.

We incurred $7.3 million of expenses during the year ended December 31, 2011, comprised primarily of property operating expenses of $4.5 million, acquisition expenses of $0.5 million and depreciation and amortization of $1.8 million. As discussed above, these expenses relate to the acquisition and ownership of the seven properties we acquired in 2011. We incurred certain general and administrative expenses related to audit and other professional fees, trustee fees and other federal and state filing fees during the year ended December 31, 2011 of $0.6 million. We did not incur any expenses during the year ended December 31, 2010.

During the year ended December 31, 2011, we incurred $1.7 million of interest expense associated with the $82.2 million of mortgage indebtedness used to finance the seven properties we acquired in 2011.

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Liquidity and Capital Resources

Liquidity is a measure of our ability to meet potential cash requirements, including ongoing commitments to repay borrowings, fund and maintain investments, pay distributions and other general business needs.

We believe our available cash balances, other financing arrangements and cash flows from operations will be sufficient to fund our liquidity requirements with respect to our December 2013 Portfolio for the next 12 months. We expect that the capital we raised in our underwritten offerings of common stock in August 2013 and January 2014, together with borrowings we may obtain and the future acquisitions we expect to make, will have a significant impact on our future results of operations. In general, we expect that our income and expenses related to our portfolio will increase in future periods as a result of anticipated future acquisitions of real estate. Should our liquidity needs exceed our available sources of liquidity, we believe that we could sell assets to raise additional cash. We may not be able to obtain additional financing when we desire to do so or on terms and conditions acceptable to us. If we fail to obtain additional financing, our ability to maintain or grow our business will be constrained.

Our primary cash requirements are to:

- make investments and fund the associated costs;
- repay our indebtedness;
- pay our operating expenses, including fees paid to our advisor and our property manager; and
- distribute a minimum of 90% of our REIT taxable income (determined without regard to the deduction for dividends paid and excluding net capital gain) and to make investments in a manner that enables us to maintain our qualification as a REIT.

We intend to meet these liquidity requirements primarily through:

- the use of our cash and cash equivalent balance of $3.3 million as of December 31, 2013;
- cash generated from operating activities;
- our $20 million secured credit facility and existing and future financing secured directly or indirectly by the apartment properties in our portfolio;
- proceeds from the sale of our common stock, including the January 2014 offering; and
- if required, proceeds from future borrowings and offerings.

Since our formation, we have sold our common stock in three public offerings. From June 2011 to April 2013, we engaged in a registered continuous offering carried out in a manner consistent with offerings of non-listed REITs and sold 348,300 shares of our common stock for aggregate gross proceeds of $3.5 million, including approximately $3.0 million from RAIT and $0.5 million from unaffiliated investors. On August 16, 2013, we completed an underwritten public offering of 4,000,000 shares of our common stock for total gross proceeds of approximately $34.0 million and our common stock commenced trading on the NYSE MKT. In January 2014, we completed another underwritten public offering of 8,050,000 shares of our common stock for total gross proceeds of approximately $66.8 million. RAIT bought shares in each of these offerings and has been our largest stockholder since RAIT acquired us. RAIT beneficially owned 59.7% of the outstanding shares of our common stock at December 31, 2013 and owns approximately 39.3% of the outstanding shares of our common stock as of March 11, 2014. We used a portion of the net proceeds from the August 2013 public offering to acquire additional properties, to redeem all of our and our operating partnership s outstanding preferred securities and for general corporate purposes and the remainder of such proceeds for the acquisition of The Crossings. We used the proceeds of the January 2014 offering to acquire the Oklahoma Portfolio and Eagle Ridge. We expect to use the net proceeds of any future offerings in which we engage, our secured credit facility, and the proceeds of any debt financings, to meet our investment objectives of acquiring, owning and operating a portfolio of apartment properties.

We will seek to enhance our growth through the use of prudent amounts of leverage. In general, we intend to limit our aggregate leverage to no more than approximately 65% of the combined initial purchase price of all of the properties in our portfolio from time to time. However, we are not subject to any limitations on the amount of leverage we may use, and, accordingly, the amount of leverage we use may be significantly less or greater than we currently anticipate. By operating on a leveraged basis, we expect to have more funds available for property acquisitions and other purposes, which we believe will allow us to acquire more properties than would otherwise be possible, resulting in a larger and more diversified portfolio. We may employ greater leverage in order to more quickly build a diversified portfolio of assets.

On October 25, 2013, we entered into our secured credit facility to be used to acquire properties, capital expenditures and for general corporate purposes. See Outstanding Indebtedness Secured Credit Facility for a description of this facility.

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Cash Flows

As of December 31, 2013 and 2012, we maintained cash and cash equivalents of approximately $3.3 million and $2.5 million, respectively. Our cash and cash equivalents were generated from the following activities (dollars in thousands):

	For the Years Ended December 31		
	2013	2012	2011
Cash flow from operating activities	$ 6,018	$ 4,484	$ 2,196
Cash flow from investing activities	(38,239)	(16,928)	(18,788)
Cash flow from financing activities	33,022	13,870	17,490
Net change in cash and cash equivalents	801	1,426	898
Cash and cash equivalents at beginning of period	2,533	1,107	209
Cash and cash equivalents at end of period	$ 3,334	$ 2,533	$ 1,107

Our increased cash inflow from operating activities during the year ended December 31, 2013 is due to the acquisition of a property in 2012 present for a full year of operations and the acquisition of two properties in 2013 along with improved occupancy and rental rates.

Our increased cash outflow from investing activities during the year ended December 31, 2013 is due to the acquisition of two properties in 2013.

The increased cash flow from our financing activities during the year ended December 31, 2013 is substantially due to the completion of our August 2013 underwritten public offering.

Outstanding Indebtedness

The following table contains summary information concerning the indebtedness that encumbered our properties as of December 31, 2013 (dollars in thousands):

	Outstanding Principal			
	As of December 31, 2013	As of December 31, 2012	Current Interest Rate	Maturity D
Belle Creek Apartments	$ 10,575	$ 10,575	2.4%(1)	April 28, 20
Berkshire Square Apartments	8,612		4.4(5)	January 1, 2
Centrepoint Apartments	17,600	17,600	3.7(2)	January 1, 2
Copper Mill Apartments	7,293	7,350	5.7(3)	May 1, 202
Crestmont Apartments	6,698	6,750	5.7(3)	May 1, 202
Cumberland Glen Apartments	6,846	6,900	5.7(3)	May 1, 202
Heritage Trace Apartments	5,457	5,500	5.7(3)	May 1, 202
Runaway Bay Apartments	10,222	10,238	3.6(4)	November 1,
Tresa at Arrowhead	27,500	27,500	2.4(1)	April 28, 20
Total Mortgage debt/Weighted Average	$ 100,803	$ 92,413	3.8%	
Secured Credit Facility	2,500		2.9(6)	October 25, 2
Total indebtedness/Weighted-Average	$ 103,303	$ 92,413	3.8%	

(1) Floating rate at 225 basis points over 30-day LIBOR. As of December 31, 2013, 30-day LIBOR was 0.17%. Interest only payments are due monthly. The mortgage loan is not permitted to be prepaid prior to April 29, 2016. Thereafter, the mortgage loan is generally prepayable in whole, but not in part, subject to the payment of a make-whole breakage amount, which is based on the aggregate interest shortfall that would exist on each subsequent monthly payment date through maturity, if any.

(2) Fixed rate. Interest only payments are due monthly. Beginning February 1, 2015, principal and interest payments are required based on a 30-year amortization schedule. The mortgage loan is generally prepayable, subject to a prepayment premium based on the remaining amount of the loan and then-current rates, through June 2018.

(3) Fixed rate. Interest only payments are due monthly. Beginning May 1, 2013, principal and interest payments are required based on a 30-year amortization schedule. The mortgage loan is not permitted to be prepaid prior to February 2, 2021. However, the mortgage loan may be

defeased and the collateral securing the mortgage loan released, subject to our compliance with customary conditions to defeasance.

(4) Fixed rate. Interest only payments were due monthly through November 30, 2013. Beginning December 1, 2013, principal and interest payments are required based on a 30-year amortization schedule. The mortgage loan is generally prepayable, subject to a prepayment premium based on the remaining amount of the loan and then-current interest rates, through April 2022.

(5) Fixed Rate. Interest only payments are due monthly. Beginning February 1, 2016, principal and interest payments are required based on a 30-year amortization schedule.

(6) Floating rate at 275 basis points over 30-day LIBOR. As of December 31, 2013, 30-day LIBOR was 0.17%. Interest only payments are due monthly.

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The weighted average interest rate of our mortgage indebtedness was 3.8% as of December 31, 2013. As of December 31, 2013, RAIT held $38.1 million of our debt while $65.2 million was held by third parties. As of December 31, 2012, RAIT held $38.1 million of our debt while $54.3 million was held by third parties. For the year ended December 31, 2013 and 2012, we paid approximately $722,000 and $724,000 respectively, of interest to RAIT.

On December 27, 2013, we entered into a loan agreement for an $8.6 million loan secured by a first mortgage on our Berkshire Square property. We used a portion of the loan to repay an advance of approximately $8.0 million made with respect to the property pursuant to our Secured Credit Facility. The loan bears interest at a fixed rate of 4.42% per annum, provides for monthly payments of interest only until February 2016 and for payments of principal and interest thereafter. The loan matures on January 1, 2021 and $7.5 million will be due upon maturity. Prior to placement of the loan into a securitization, or if the placement of the loan into a securitization does not occur within the first year of the loan term, prepayment of the loan in full but not in part is permitted, along with payment of additional consideration which during the defined yield maintenance period is equal to the Federal Home Loan Mortgage Corporation s defined yield maintenance prepayment premium, subject to a minimum of 1% of the loan amount. If the loan is placed into a securitization within the first year of the loan term, the loan cannot thereafter be prepaid or defeased for two years following such placement of the loan into a securitization. Thereafter, the loan may be defeased pursuant to the terms of the note and loan agreement. The loan may be prepaid in full without additional consideration during the last three months of the loan term.

Each of our mortgages is a non-recourse obligation subject to customary exceptions. The loan agreements contain customary events of default, including defaults in the payment of principal or interest, defaults in compliance with the covenants contained in the documents evidencing the loan, defaults in payments under any other security instrument covering any part of the property, whether junior or senior to the loan, and bankruptcy or other insolvency events.

At the closing of our acquisition of the Oklahoma portfolio on February 28, 2014, our subsidiary assumed the OK loan secured by the Oklahoma portfolio having an outstanding principal balance of approximately $46.0 million. The OK loan accrues interest at a fixed rate equal to 5.62% per annum and will mature in April 2016. The mortgage is not permitted to be prepaid prior to March 1, 2016; however, the mortgage may be defeased and the collateral securing the mortgage loan released, subject to our compliance with customary conditions to defeasance. Our operating partnership guaranteed the loan and we agreed to give a springing guaranty of the loan if defined conditions relating to the operating partnership s financial condition are not met.

As of December 31, 2013, our total mortgage indebtedness had an aggregate outstanding principal balance of $103.3 million and a weighted average interest rate of 3.8%. On a pro forma basis, including the mortgage indebtedness on our Berkshire Square property incurred in December 2013 and the first lien mortgage to be assumed in connection with the probable acquisition of the Oklahoma portfolio, as of December 31, 2013, our total mortgage indebtedness would have an aggregate outstanding principal balance of $149.3 million and a weighted average interest rate of 4.3%.

Subsequent to our acquisition of Eagle Ridge on January 31, 2014, on February 7, 2014, our subsidiary entered into the ER loan agreement. Pursuant to the ER loan agreement, our subsidiary borrowed the ER loan in the amount of $18.85 million secured by a first mortgage on Eagle Ridge. The ER loan bears interest at a fixed rate of 4.67% per annum and provides for monthly payments of interest only until the maturity date of March 1, 2024 when the principal balance, accrued interest and all other amounts due under the ER loan become due. The ER loan is prepayable at our subsidiary s option after August 31, 2023 and permits defeasance by our subsidiary if defined conditions are met. Our operating partnership has guaranteed the ER loan.

Secured Credit Facility

On October 25, 2013, our operating partnership entered into the secured credit facility with The Huntington National Bank. Subject to the terms and conditions of the credit agreement, our operating partnership may borrow up to the lesser of $20.0 million, 60% of the total acquisition costs of all properties, or the borrowing base properties, acquired with advances under the secured credit facility or an amount that would not cause the operating partnership to exceed the debt service coverage ratio (as defined in the credit agreement). Advances under the secured credit facility bear interest at a daily fluctuating LIBO (as defined in the secured credit facility) rate plus 2.75% per annum or a prime commercial rate (as defined in the secured credit facility). Each advance against a specific borrowing base property must be repaid in full within six months after the property first becomes a borrowing base property. Our operating partnership must also make mandatory principal payments from time to time if, due to any reduction in net operating income at a borrowing base property, the debt service coverage ratio is no longer satisfied for the pool of borrowing base properties to the extent necessary to remain in compliance with such ratio. All outstanding advances must be paid by October 26, 2016, the maturity date; however, our operating partnership will have the option to extend the credit agreement for 12 months upon its satisfaction of defined conditions. The secured credit facility is secured by the equity of any of our operating partnership s subsidiaries that own any borrowing base properties and guaranteed by those subsidiaries and by us.

The credit agreement contains customary representations and warranties, conditions precedent to each advance and covenants, including, without limitation, restrictions and requirements relating to permitted investments, maintenance of insurance, our qualification as a REIT, the amendment of our charter documents and the charter documents of our operating partnership and its subsidiaries, mergers and sales of assets, the incurrence of liens and transactions with affiliates. The credit agreement also requires that (i) all of our recourse indebtedness is secured indebtedness; (ii) our outstanding variable rate indebtedness does not exceed 40% of our

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total asset value; and (ii) that we maintain the following: (A) a minimum adjusted tangible net worth of $75 million plus 75% of the net proceeds from certain equity contributions and sales, (B) a ratio of total funded indebtedness to total asset value of less than 65%, (C) a ratio of adjusted total EBITDA to fixed charges of less than 1.35 to 1.00 and (D) an aggregate amount of recourse indebtedness, excluding obligations under the credit agreement, not in excess of 5% of total asset value. The credit agreement contains events of default (subject to certain materiality thresholds and grace periods) customary for this type of credit facility, including payment defaults, covenant breaches, failure to pay defined material indebtedness, bankruptcy or insolvency proceedings and certain changes of control or changes of management.

As of December 31, 2013, there was approximately $2.5 million outstanding under the secured credit facility, collateralized by The Crossings, and $17.5 million in borrowing capacity available, subject to borrowing base requirements.

Equity Financing

Preferred Shares

On February 28, 2013, our board of directors authorized and declared distributions on our Series A Preferred Stock for the period beginning on January 1, 2013, and ending on June 30, 2013. The distributions are payable to the holders of the Series A Preferred Stock of record at a rate of $0.34722222 per day, which is an amount that is equivalent to a 12.5% annualized distribution rate based on a share price of $1,000. The distributions were aggregated and paid in cash on June 28, 2013, pursuant to the requirements of our charter.

On July 25, 2013, our board of directors authorized setting aside amounts sufficient to redeem our Series A Preferred Stock with the proceeds of our underwritten offering.

On August 19, 2013, we redeemed 125 shares of our 12.5% Series A Cumulative Non-Voting Preferred Stock for an aggregate redemption price of approximately $140. The redemption of the Series A Preferred Stock was funded with cash received from the August 2013 offering. After the redemption date, there were no shares of Series A Preferred Stock outstanding, and all rights of the holders of such shares and units were terminated.

Common Shares

On February 28, 2013, our board of directors authorized and declared distributions on our common stock for the months of January through June 2013. For the months of January through March 2013, the distributions were payable to the holders of our common stock at a rate of $0.00163934 per share per day. For the months of April through June 2013, our board of directors authorized and declared distributions on our common stock at a rate of $0.00171233 per share per day. The distributions for each month were aggregated and paid on or before the fifteenth day following the completion of each respective month. All distributions were paid in cash.

On August 13, 2013, we engaged in an underwritten public offering of 4,000,000 shares of our common stock for $8.50 per share for total gross proceeds of approximately $34.0 million.

Our board of directors declared the following dividends for the months of July, August, September, October, November and December 2013:

Month	**Record Date**	**Payment Date**	**Dividend Declared Per Share**
July 2013	August 5, 2013	August 15, 2013	$ 0.05333
August 2013	August 30, 2013	September 13, 2013	$ 0.05333
September 2013	September 30, 2013	October 15, 2013	$ 0.05333
October 2013	October 31, 2013	November 15, 2013	$ 0.05333
November 2013	November 29, 2013	December 16, 2013	$ 0.05333
December 2013	December 31, 2013	January 15, 2014	$ 0.05333

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On January 15, 2014, our board of directors declared the following dividends for January, February and March 2014:

Month	Record Date	Payment Date	Dividend Declared Per Share
January 2014	January 31, 2014	February 14, 2014	$ 0.06
February 2014	February 28, 2014	March 17, 2014	$ 0.06
March 2014	March 31, 2014	April 15, 2014	$ 0.06

Contractual Commitments

The table below summarizes our contractual obligations as of December 31, 2013 (dollars in thousands):

	Payment due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Principal payments on outstanding debt obligations	$ 103,303	$ 550	$ 4,425	$ 2,292	$ 96,036
Interest payments on outstanding debt obligations(a)	27,117	3,894	7,774	7,642	7,808
Total	$ 130,420	$ 4,444	$ 12,199	$ 9,934	$ 103,844

(a) All variable-rate indebtedness assumes a 30-day LIBOR rate of 0.17% as of December 31, 2013.

Terms of Leases and Tenant Characteristics

The leases for our portfolio typically follow standard forms customarily used between landlords and tenants in the geographic area in which the relevant property is located. Under such leases, the tenant typically agrees to pay an initial deposit (generally one month s rent) and pays rent on a monthly basis. As landlord, we are directly responsible for all real estate taxes, sales and use taxes, special assessments, property-level utilities, insurance and building repairs, and other building operation and management costs. Individual tenants are responsible for the utility costs of their unit. Our lease terms generally range from six months to two years and average twelve months.

Our apartment tenant composition varies across the regions in which we operate, includes single and family renters and is generally reflective of the principal employers in the relevant region. For example, in our Norfolk, Virginia market, many of our tenants are employees of the U.S. military. Our apartment properties predominantly consist of one-bedroom and two-bedroom units, although some of our apartment properties also have three-bedroom units.

Critical Accounting Estimates and Policies

We consider the accounting policies discussed below to be critical to an understanding of how we report our financial condition and results of operations because their application places the most significant demands on the judgment of our management.

Our financial statements are prepared on the accrual basis of accounting in accordance with GAAP. The preparation of financial statements in conformity with GAAP requires management to make use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

Revenue Recognition

Minimum rents are recognized on an accrual basis, over the terms of the related leases on a straight-line basis. Any above-market lease values and the capitalized below-market lease values are amortized as an adjustment to rental income over the lease term. Recoveries from residential tenants for utility costs are recognized as revenue in the period that the applicable costs are incurred.

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Investments in Real Estate

Allocation of Purchase Price of Acquired Assets

We account for acquisitions of properties in accordance with FASB ASC Topic 805, Business Combinations . The fair value of the real estate acquired is allocated to the acquired tangible assets, consisting of land, building and tenant improvements, and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases for acquired in-place leases and the value of tenant relationships, based in each case on their fair values. Purchase accounting is applied to assets and liabilities associated with the real estate acquired. Transaction costs and fees incurred related to acquisitions are expensed as incurred. Transaction costs and fees incurred related to the financing of an acquisition are capitalized and amortized over the life of the loan.

Upon the acquisition of properties, we estimate the fair value of acquired tangible assets (consisting of land, building and improvements) and identified intangible assets and liabilities (consisting of above and below-market leases, in-place leases and tenant relationships), and assumed debt at the date of acquisition, based on the evaluation of information and estimates available at that date. Based on these estimates, we allocate the initial purchase price to the applicable assets and liabilities. As final information regarding fair value of the assets acquired and liabilities assumed is received and estimates are refined, appropriate adjustments will be made to the purchase price allocation, in no case later than twelve months of the acquisition date.

In determining the fair value of the identified intangible assets and liabilities of an acquired property, above-market and below-market in-place lease values are recorded based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the differences between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management s estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining term of the lease. The capitalized above-market lease values and the capitalized below-market lease values are amortized as an adjustment to rental income over the lease term.

The aggregate value of in-place leases is determined by evaluating various factors, including an estimate of carrying costs during the expected lease-up periods, current market conditions and similar leases. In estimating carrying costs, management includes real estate taxes, insurance and other operating expenses, and estimates of lost rental revenue during the expected lease-up periods based on current market demand. Management also estimates costs to execute similar leases including leasing commissions, legal and other related costs. The value assigned to this intangible asset is amortized over the remaining lease terms.

Impairment of Long-Lived Assets

Management evaluates the recoverability of its investment in real estate assets, including related identifiable intangible assets, in accordance with FASB ASC Topic 360, Property, Plant and Equipment. This statement requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that recoverability of the assets is not assured.

Management evaluates the long-lived assets on an ongoing basis and records an impairment charge when there is an indicator of impairment. The estimated cash flows used for the impairment analysis and the determination of estimated fair value are based on our plans for the respective assets and our views of market and economic conditions. The estimates consider matters such as current and historical rental rates, occupancies for the respective and/or comparable properties, and recent sales data for comparable properties. Changes in estimated future cash flows due to changes in our plans or views of market and economic conditions could result in recognition of impairment losses, which, under the applicable accounting guidance, could be substantial.

Recent Accounting Pronouncements

In December 2011, the FASB issued an accounting standard classified under FASB ASC Topic 360, Property, Plant, and Equipment . This accounting standard amends existing guidance to resolve the diversity in practice about whether the guidance for real estate sales applies to a parent that ceases to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default on the subsidiary s nonrecourse debt. This accounting standard is effective for fiscal years, and interim periods with those years, beginning on or after June 15, 2012. The adaption of this standard did not have a material impact on our consolidated financial statements.

In June 2011, the FASB issued an accounting standard classified under FASB ASC Topic 222, Comprehensive Income . This accounting standard amends existing guidance to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income by requiring entities to present the total of comprehensive income, the components of net income, and the components of other comprehensive income in either a single continuous statement of comprehensive income or in two separate but consecutive statements. In addition, the entity is required to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. In December 2011, the FASB issued an accounting standard that deferred the new presentation requirements about reclassification adjustments. Both of these accounting standards are effective for fiscal years, and interim periods with those years, beginning after December 15, 2011. The adoption of these standards did not have a material effect on our consolidated financial statements.

ITEM 7A. ***Quantitative and Qualitative Disclosures About Market Risk***

Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. We may be exposed to interest rate changes primarily as a result of long-term debt used to maintain liquidity, fund capital expenditures and expand our real estate investment portfolio and operations. Market fluctuations in real estate financing may affect the availability and cost of funds needed to expand our investment portfolio. In addition, restrictions upon the availability of real estate financing or high interest rates for real estate loans could adversely affect our ability to dispose of real estate in the future. We seek to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. We may use derivative financial instruments to hedge exposures to changes in interest rates on loans secured by our assets. The market risk associated with interest-rate contracts is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. With regard to variable rate financing, our advisor assesses our interest rate cash flow risk by continually identifying and monitoring changes in interest rate exposures that may adversely impact expected future cash flows and by evaluating hedging opportunities. Our advisor maintains risk management control systems to monitor interest rate cash flow risk attributable to both our outstanding and forecasted debt obligations as well as our potential offsetting hedge positions. While this hedging strategy is designed to minimize the impact on our net income and funds from operations from changes in interest rates, the overall returns on any investment in our securities may be reduced. We currently have limited exposure to financial market risks.

We may also be exposed to credit risk in derivative contracts we may use. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. If the fair value of a derivative contract is positive, the counterparty will owe us, which creates credit risk for us. If the fair value of a derivative contract is negative, we will owe the counterparty and, therefore, do not have credit risk. We seek to minimize the credit risk in derivative instruments by entering into transactions with high-quality counterparties.

Interest Rate Risk and Sensitivity

Interest rates may be affected by economic, geo-political, monetary and fiscal policy, market supply and demand and other factors generally outside our control, and such factors may be highly volatile. A change in market interest rates applicable to the fixed portion of our indebtedness affects the fair value, but it has no effect on interest incurred or cash flows. A change in market interest rates applicable to the variable portion of our indebtedness affects the interest incurred and cash flows, but does not affect the fair value.

As of December 31, 2013, our only interest rate sensitive assets or liabilities related to our $103.3 million of outstanding indebtedness, of which $40.6 million is floating-rate and $62.7 million is fixed-rate indebtedness. We monitor interest rate risk routinely and seek to minimize the possibility that a change in interest rates would impact the interest incurred and our cash flows. To mitigate such risk, we may use interest rate derivative contracts. As of December 31, 2013 and 2012, we did not have any interest rate derivatives in effect.

As of December 31, 2013, the fair value of our $62.7 million of fixed-rate indebtedness was $63.3 million. The fair value estimate of our fixed rate debt was estimated using a discounted cash flow analysis utilizing rates we would expect to pay for debt of a similar type and remaining maturity if the loans were originated at December 31, 2013. As we expect to hold our fixed rate instruments to maturity and the amounts due under such instruments would be limited to the outstanding principal balance and any accrued and unpaid interest, we do not expect that fluctuations in interest rates, and the resulting change in fair value of our fixed rate instruments, would have a significant impact on our operations.

The following table summarizes the interest income and interest expense for a 12-month period, and the change in the net fair value of our investments and indebtedness assuming an instantaneous increase or decrease of 100 basis points in the LIBOR interest rate curve, both adjusted for the effects of our interest rate hedging activities (dollars in thousands):

	Liabilities Subject to Interest Rate Sensitivity (Par Amount)	100 Basis Point Increase	100 Basis Point Decrease (a)
Interest expense from variable-rate indebtedness	(40,575)	(406)	69
Fair value of fixed-rate indebtedness	(62,728)	(3,583)	3,834

(a) Assumes the LIBOR interest rate will not decrease below 0%. The quoted 30-day LIBOR rate was 0.17% at December 31, 2013.

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ITEM 8. ***Financial Statements and Supplementary Data***

INDEX TO FINANCIAL STATEMENTS

OF INDEPENDENCE REALTY TRUST, INC.

(A Maryland Corporation)

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Independence Realty Trust, Inc.

We have audited the accompanying consolidated balance sheets of Independence Realty Trust, Inc. (a Maryland corporation) and subsidiaries (the Company) as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income (loss), changes in equity, and cash flows for each of the three years in the period ended December 31, 2013. Our audits of the basic consolidated financial statements included the financial statement schedule listed in the index appearing under Item 15(1) and 15(2). These financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Independence Realty Trust, Inc. and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ GRANT THORNTON LLP

New York, New York
March 11, 2014

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Independence Realty Trust, Inc. and Subsidiaries

Consolidated Balance Sheets

(Dollars in thousands, except share and per share data)

	As of December 31, 2013	As of December 31, 2012
ASSETS:		
Investments in real estate:		
Investments in real estate at cost	$ 190,096	$ 153,565
Accumulated depreciation	(15,775)	(12,283)
Investments in real estate, net	174,321	141,282
Cash and cash equivalents	3,334	2,533
Restricted cash	1,122	1,150
Accounts receivable and other assets	1,731	345
Intangible assets, net of accumulated amortization of $569 and $79, respectively	517	274
Deferred costs, net of accumulated amortization of $151 and $68, respectively	846	613
Total Assets	$ 181,871	$ 146,197
LIABILITIES AND EQUITY:		
Indebtedness	$ 103,303	$ 92,413
Accounts payable and accrued expenses	2,374	1,986
Accrued interest payable	63	32
Dividends payable	515	499
Other liabilities	708	416
Total Liabilities	106,963	95,346
Equity:		
Stockholders equity:		
Preferred stock, $0.01 par value; 50,000,000 shares authorized, 0 and 125 shares issued and outstanding, respectively		0

Common stock, $0.01 par value; 300,000,000 shares authorized, 9,652,540 and 345,063 shares issued and outstanding, respectively	96	3
Additional paid-in capital	78,112	3,490
Retained earnings (accumulated deficit)	(3,300)	(401)
Total stockholders equity	74,908	3,092
Non-controlling interest		47,759
Total Equity	74,908	50,851
Total Liabilities and Equity	$ 181,871	$ 146,197

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

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Independence Realty Trust, Inc. and Subsidiaries

Consolidated Statements of Operations

(Dollars in thousands, except share and per share information)

	For the Years Ended December 31		
	2013	**2012**	**2011**
Revenue:			
Rental income	$ 17,843	$ 14,849	$ 7,716
Tenant reimbursement income	943	818	441
Other income	1,157	962	511
Total revenue	19,943	16,629	8,668
Expenses:			
Property operating expenses	9,429	8,066	4,477
General and administrative expenses	648	968	566
Asset management fees	272	240	9
Acquisition expenses	248	157	488
Depreciation and amortization	4,413	3,466	1,771
Total expenses	15,010	12,897	7,311
Operating Income	4,933	3,732	1,357
Interest expense	(3,659)	(3,305)	(1,727)
Net income (loss)	1,274	427	(370)
Income (loss) allocated to preferred shares	(10)	(15)	0
Income (loss) allocated to non-controlling interests	(649)	(535)	258
Net income (loss) allocable to common shares	$ 615	$ (123)	$ (112)
Earnings (loss) per share:			
Basic	$ 0.12	$ (0.45)	$ (5.60)

Diluted	$	0.12	$	(0.45)	$	(5.60)
Weighted-average shares:						
Basic		5,330,814		275,384		20,000
Diluted		5,330,814		275,384		20,000
Dividends declared per common share	$	0.63	$	0.60	$	0.30

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

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Independence Realty Trust, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)

(Dollars in thousands)

	For the Years Ended December 31		
	2013	2012	2011
Net income (loss)	$ 1,274	$ 427	$ (370)
Comprehensive income (loss) before allocation to non-controlling interests	1,274	427	(370)
Allocation to preferred shares	(10)	(15)	0
Allocation to non-controlling interests	(649)	(535)	258
Comprehensive income (loss)	$ 615	$ (123)	$ (112)

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

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Independence Realty Trust, Inc. and Subsidiaries

Consolidated Statements of Equity

(Dollars in thousands, except share and per share data)

	Stockholders Equity							
	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings (accumulated deficit)	Total Stockholders Equity	Non-Controlli[ng] Interest
Balance, December 31, 2010		$	20,000	$ 0	$ 200	$ 5	$ 205	$ 2
Net income						(112)	(112)	(258)
Distribution to non-controlling interest declared								(1,256)
Common dividends declared						(6)	(6)	
Issuance of non-controlling interest								48,483
Balance, December 31, 2011			20,000	$ 0	$ 200	$ (113)	$ 87	$ 46,971
Net income						(108)	(108)	535
Distribution to non-controlling interest declared								(3,247)
Preferred dividends						(15)	(15)	
Common dividends declared						(165)	(165)	
Issuance of preferred shares	125	0			100		100	
Issuance of common shares			325,063	3	3,190		3,193	
Issuance of non-controlling								3,500

interest								
Balance, December 31, 2012	125	$ 0	345,063	$ 3	$ 3,490	$ (401)	$ 3,092	$ 47,759
Net income (loss)						625	625	649
Distribution to non-controlling interest declared								(1,323)
Preferred dividends						(10)	(10)	
Common dividends declared						(3,477)	(3,477)	
Redemption of preferred shares	(125)	0			(100)	(37)	(137)	
Redemption of Series B preferred units								(3,500)
Issuance of common shares			4,023,577	40	31,113		31,153	
Conversion of common units			5,274,900	53	43,532		43,585	(43,585)
Stock compensation expense			9,000	0	77		77	
Balance, December 31, 2013		$	9,652,540	$ 96	$ 78,112	$ (3,300)	$ 74,908	$

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

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Independence Realty Trust, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(Dollars in thousands)

	For the Years Ended December 31		
	2013	**2012**	**2011**
Cash flows from operating activities:			
Net income (loss)	$ 1,274	$ 427	$ (370)
Adjustments to reconcile net income (loss) to cash flow from operating activities:			
Depreciation and amortization	4,413	3,466	1,771
Amortization of deferred financing costs	83	121	15
Share based compensation	77		
Changes in assets and liabilities:			
Accounts receivable and other assets	(89)	240	(333)
Accounts payable and accrued expenses	210	132	1,075
Accrued interest payable	31	32	
Other liabilities	19	66	38
Cash flow from operating activities	6,018	4,484	2,196
Cash flows from investing activities:			
Acquisition of real estate properties	(36,822)	(15,781)	(18,244)
Capital expenditures	(1,445)	(1,148)	(868)
(Increase) decrease in restricted cash	28	1	324
Cash flow from investing activities	(38,239)	(16,928)	(18,788)
Financing activities:			
Proceeds from issuance of preferred stock		100	

Proceeds from issuance of common stock	31,153	3,193	
Proceeds from issuance of non-controlling interests		3,500	1,250
Proceeds from mortgage indebtedness	10,940	10,238	17,600
Mortgage principal repayments	(222)		
Redemption of Series B preferred units	(3,500)		
Redemption of preferred shares	(137)		
(Payments) reimbursements for deferred financing costs	(418)	7	(338)
Distributions on preferred stock	(10)	(15)	
Distributions on common stock	(2,979)	(149)	(5)
Distributions to non-controlling interests	(1,805)	(3,004)	(1,017)
Cash flow from financing activities	33,022	13,870	17,490
Net change in cash and cash equivalents	801	1,426	898
Cash and cash equivalents at the beginning of the period	2,533	1,107	209
Cash and cash equivalents at the end of the period	$ 3,334	$ 2,533	$ 1,107
Supplemental cash flow information:			
Cash paid for interest	$ 3,545	$ 3,219	$ 1,712
Non cash decrease in non-controlling interests from conversion of limited partnership units to shares of common stock	$ 43,585	$	$

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

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Independence Realty Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

As of December 31, 2013

(Dollars in thousands, except share and per share data)

NOTE 1: Organization

Independence Realty Trust, Inc., or the Company, was formed on March 26, 2009 as a Maryland corporation that has elected to be taxed as a real estate investment trust, or REIT, commencing with the taxable year ended December 31, 2011. We are externally managed by a subsidiary of RAIT Financial Trust, or RAIT, a publicly traded Maryland REIT whose common shares are listed on the New York Stock Exchange under the symbol RAS. As used herein, the terms we, our and us refer to Independence Realty Trust, Inc. and, as required by context, Independence Realty Operating Partnership, LP, which we refer to as our operating partnership, and their subsidiaries. We own apartment properties in geographic submarkets that we believe support strong occupancy and have the potential for growth in rental rates. We seek to provide stockholders with attractive risk-adjusted returns, with an emphasis on distributions and capital appreciation. We own substantially all of our assets and conduct our operations through our operating partnership, of which we are the sole general partner.

As of December 31, 2013, we owned ten apartment properties with 2,790 units located in seven states.

NOTE 2: Summary of Significant Accounting Policies

a. Basis of Presentation

The consolidated financial statements have been prepared by management in accordance with U.S. generally accepted accounting principles, or GAAP. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly our consolidated financial position and consolidated results of operations, equity and cash flows are included.

b. Principles of Consolidation

The consolidated financial statements reflect our accounts and the accounts of our operating partnership and other wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

c. Use of Estimates

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

d. Cash and Cash Equivalents

Cash and cash equivalents include cash held in banks and highly liquid investments with maturities of three months or less when purchased. Cash, including amounts restricted, may at times exceed the Federal Deposit Insurance Corporation deposit insurance limit of $250 per institution. We mitigate credit risk by placing cash and cash equivalents with major financial institutions. To date, we have not experienced any losses on cash and cash equivalents.

e. Restricted Cash

Restricted cash includes tenant escrows and our funds held by lenders to fund certain expenditures or to be released at our discretion upon the occurrence of certain pre-specified events. As of December 31, 2013 and 2012, we had $1,122 and $1,150, respectively, of restricted cash accounts.

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Independence Realty Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

As of December 31, 2013

(Dollars in thousands, except share and per share data)

f. Accounts Receivable and Allowance for Bad Debts

We make estimates of the collectability of our accounts receivable related to base rents, expense reimbursements and other revenue. We analyze accounts receivable and historical bad debt levels, tenant credit worthiness and current economic trends when evaluating the adequacy of the allowance for doubtful accounts. In addition, tenants experiencing financial difficulties are analyzed and estimates are made in connection with expected uncollectible receivables. Our reported operating results are directly affected by management s estimate of the collectability of accounts receivable.

g. Investments in Real Estate

Allocation of Purchase Price of Acquired Assets

We account for acquisitions of properties in accordance with FASB ASC Topic 805, Business Combinations . The fair value of the real estate acquired is allocated to the acquired tangible assets, consisting of land, building and tenant improvements, and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases for acquired in-place leases and the value of tenant relationships, based in each case on their fair values. Purchase accounting is applied to assets and liabilities associated with the real estate acquired. Transaction costs and fees incurred related to acquisitions are expensed as incurred. Transaction costs and fees incurred related to the financing of an acquisition are capitalized and amortized over the life of the loan.

Upon the acquisition of properties, we estimate the fair value of acquired tangible assets (consisting of land, building and improvements) and identified intangible assets and liabilities (consisting of above and below-market leases, in-place leases and tenant relationships), and assumed debt at the date of acquisition, based on the evaluation of information and estimates available at that date. Based on these estimates, we allocate the initial purchase price to the applicable assets and liabilities. As final information regarding fair value of the assets acquired and liabilities assumed is received and estimates are refined, appropriate adjustments will be made to the purchase price allocation, in no case later than twelve months of the acquisition date.

In determining the fair value of the identified intangible assets and liabilities of an acquired property, above-market and below-market in-place lease values are recorded based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the differences between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management s estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining term of the lease. The capitalized above-market lease values and the capitalized below-market lease values are amortized as an adjustment to rental income over the lease term.

The aggregate value of in-place leases is determined by evaluating various factors, including an estimate of carrying costs during the expected lease-up periods, current market conditions and similar leases. In estimating carrying costs, management includes real estate taxes, insurance and other operating expenses, and estimates of lost rental revenue during the expected lease-up periods based on current market demand. Management also estimates costs to execute similar leases including leasing commissions, legal and other related costs. The value assigned to this intangible asset is amortized over the remaining lease terms. For the year ended December 31, 2013 we recorded $490 of amortization expense for intangible assets. We expect to record amortization expense of intangible assets of $517 for 2014.

Impairment of Long-Lived Assets

Management evaluates the recoverability of its investment in real estate assets, including related identifiable intangible assets, in accordance with FASB ASC Topic 360, Property, Plant and Equipment . This statement requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that recoverability of the assets is not assured.

Management evaluates the long-lived assets on an ongoing basis and records an impairment charge when there is an indicator of impairment. The estimated cash flows used for the impairment analysis and the determination of estimated fair value are based on our plans for the respective assets and our views of market and economic conditions. The estimates consider matters such as current and historical rental rates, occupancies for the respective and/or comparable properties, and recent sales data for comparable properties. Changes in estimated future cash flows due to changes in our plans or views of market and economic conditions could result in recognition of impairment losses, which, under the applicable accounting guidance, could be substantial.

Depreciation and Amortization

Depreciation expense for real estate assets are computed using a straight-line method based on a life of 40 years for buildings and improvements and five to ten years for equipment and fixtures. Expenditures for tenant improvements are capitalized and amortized over the initial term of each lease. For the years ended December 31, 2013, 2012 and 2011 we recorded $3,923, $3,411 and $1,748 of depreciation expense, respectively.

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Independence Realty Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

As of December 31, 2013

(Dollars in thousands, except share and per share data)

h. Revenue Recognition

Minimum rents are recognized on an accrual basis, over the terms of the related leases on a straight-line basis. Any above-market lease values and the capitalized below-market lease values are amortized as an adjustment to rental income over the lease term. Recoveries from residential tenants for utility costs are recognized as revenue in the period that the applicable costs are incurred.

i. Fair Value of Financial Instruments

In accordance with FASB ASC Topic 820, Fair Value Measurements and Disclosures , fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. These valuation techniques involve management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments complexity for disclosure purposes. Assets and liabilities recorded at fair value in the consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their value. Hierarchical levels, as defined in FASB ASC Topic 820, Fair Value Measurements and Disclosures and directly related to the amount of subjectivity associated with the inputs to fair valuations of these assets and liabilities, are as follows:

Level 1: Valuations are based on unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date. The types of assets carried at level 1 fair value generally are equity securities listed in active markets. As such, valuations of these investments do not entail a significant degree of judgment.

Level 2: Valuations are based on quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3: Inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is 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.

The availability of observable inputs can vary depending on the financial asset or liability and is affected by a wide variety of factors, including, for example, the type of investment, whether the investment is new, whether the investment is traded on an active exchange or in the secondary market, and the current market condition. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by us in determining fair value is greatest for instruments categorized in level 3.

Fair value is a market-based measure considered from the perspective of a market participant who holds the asset or owes the liability rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, our own assumptions are set to reflect those that management believes market participants would use in pricing the asset or liability at the measurement date. We use prices and inputs that management believes are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition could cause an instrument to be transferred from Level 1 to Level 2 or Level 2 to Level 3.

Fair value for certain of our Level 3 financial instruments is derived using internal valuation models. These internal valuation models include discounted cash flow analyses developed by management using current interest rates, estimates of the term of the particular instrument, specific issuer information and other market data for securities without an active market. In accordance with FASB ASC Topic 820, *Fair Value Measurements and Disclosures* , the impact of our own credit spreads is also considered when measuring the fair value of financial assets or liabilities, including derivative contracts. Where appropriate, valuation adjustments are made to account for various factors, including bid-ask spreads, credit quality and market liquidity. These adjustments are applied on a consistent basis and are based on observable inputs where available. Management s estimate of fair value requires significant management judgment and is subject to a high degree of variability based upon market conditions, the availability of specific issuer information and management s assumptions.

FASB ASC Topic 825, Financial Instruments requires disclosure of the fair value of financial instruments for which it is practicable to estimate that value. The fair value of mortgage indebtedness is based on a discounted cash flows valuation technique, which classifies this as a level 3 liability within the fair value hierarchy. The carrying value and fair value of mortgage indebtedness as of December 31, 2013 is $100,803 and $101,272, respectively. The carrying value and fair value of mortgage indebtedness as of December 31, 2012 was $92,413 and $95,827, respectively. The fair value of secured credit facility, cash and cash equivalents and restricted cash approximates cost due to the nature of these instruments.

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Independence Realty Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

As of December 31, 2013

(Dollars in thousands, except share and per share data)

j. Deferred Costs

We capitalize initial direct costs in accordance with FASB ASC Topic 310, Receivables . The costs are capitalized upon the execution of the loan or lease and amortized over the initial term of the corresponding loan or lease. Deferred loan costs are amortized to interest expense over the term of the loan. Deferred leasing costs are amortized to amortization expense over the initial term of the lease.

k. Income Taxes

We have elected to be taxed as a REIT beginning with the taxable year ended December 31, 2011. Accordingly, we recorded no income tax expense for the years ended December 31, 2013, 2012 and 2011.

To qualify as a REIT, we must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of our ordinary taxable income to stockholders. As a REIT, we generally are not subject to federal income tax on taxable income that we distribute to our stockholders. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income taxes on our taxable income at regular corporate rates and will not be permitted to qualify for treatment as a REIT for federal income tax purposes for four years following the year during which qualification is lost unless the Internal Revenue Service grants us relief under certain statutory provisions. Such an event could materially adversely affect our net income and net cash available for distribution to stockholders; however, we believe that we are organized and operate in such a manner as to qualify and maintain treatment as a REIT and intend to operate in such a manner so that we will remain qualified as a REIT for federal income tax purposes.

l. Share-Based Compensation

We will account for stock-based compensation in accordance with FASB ASC Topic 718, Compensation Stock Compensation . Under the fair value recognition provisions of this statement, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense of the requisite service period, which is the vesting period. Stock-based compensation will be classified within general and administrative expense in the consolidated statements of operations. As stock-based compensation expense recognized in the consolidated statement of operations will be based on awards ultimately expected to vest, the amount of expense will be reduced for estimated forfeitures. Forfeitures will be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures will be estimated on experience of other companies in the same industry until entity-specific information is available.

m. Recent Accounting Pronouncements

In December 2011, the FASB issued an accounting standard classified under FASB ASC Topic 360, Property, Plant, and Equipment . This accounting standard amends existing guidance to resolve the diversity in practice about whether the guidance for real estate sales applies to a parent that ceases to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default on the subsidiary s nonrecourse debt. This accounting standard is effective for fiscal years, and interim periods with those years, beginning on or after June 15, 2012. This standard did not have a material impact on our consolidated financial statements.

In June 2011, the FASB issued an accounting standard classified under FASB ASC Topic 222, Comprehensive Income . This accounting standard amends existing guidance to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income by requiring entities to present the total of comprehensive income, the components of net income, and the components of other comprehensive income in either a single continuous statement of comprehensive income or in two separate but consecutive statements. In addition, the entity is required to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. In December 2011, the FASB issued an accounting standard that deferred the new presentation requirements about reclassification adjustments. Both of these accounting standards are effective for fiscal years, and interim periods with those years, beginning after December 15, 2011. The adoption of these standards did not have a material effect on our consolidated financial statements.

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Independence Realty Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

As of December 31, 2013

(Dollars in thousands, except share and per share data)

NOTE 3: Investments in Real Estate

As of December 31, 2013, our investments in real estate consisted of ten apartment properties with 2,790 units. The table below summarizes our investments in real estate:

	2013	2012	Depreciable Lives
Land	$ 37,418	$ 30,168	
Building	149,657	121,390	40
Furniture, fixtures and equipment	3,021	2,007	5-10
Total investment in real estate	190,096	153,565	
Accumulated depreciation	(15,775)	(12,283)	
Investments in real estate, net	$ 174,321	$ 141,282	

Acquisitions

On November 22, 2013, we acquired a fee simple interest in a 432-unit apartment residential community located in Jackson, Mississippi, known as The Crossings at Ridgewood Apartments. We acquired the property through a wholly owned subsidiary, from an unaffiliated third party. We acquired the property for an aggregate purchase price of $23,000 exclusive of closing costs.

On September 19, 2013, we acquired a fee simple interest in a 354-unit apartment residential community located in Indianapolis, Indiana, known as Berkshire Square Apartments.

We acquired the property through a wholly owned subsidiary of our operating partnership, from an unaffiliated third party. We acquired the property for an aggregate purchase price of $13,250 exclusive of closing costs.

On October 11, 2012, we acquired a fee simple interest in a 192-unit apartment residential community located in Indianapolis, Indiana, known as Runaway Bay Apartments. We acquired the property through a wholly owned subsidiary of our operating partnership, from an unaffiliated third party. We acquired the property for an aggregate purchase price of $15,750 exclusive of closing costs. We paid the purchase price with a combination of a $10,238 first mortgage loan and $5,512 in cash.

The following table summarizes the aggregate fair value of the assets associated with the properties acquired during the years ended December 31, 2013 and 2012, on the respective date of each acquisition, for the real estate accounted for under FASB ASC Topic 805.

Description	**Fair Value of Assets Acquired During the Year Ended December 31, 2013**	**Fair Value of Assets Acquired During the Year Ended December 31, 2012**
Assets acquired:		
Investments in real estate	$ 35,517	$ 15,397
Intangible asset	733	353
Total	$ 36,250	$ 15,750

Our consolidated unaudited pro forma information, after including the acquisition of real estate properties, is presented below as if the acquisitions occurred on January 1, 2012. These pro forma results are not necessarily indicative of the results which actually would have occurred if the acquisition occurred on the first day of the periods presented, nor does the pro forma financial information purport to represent the results of operations for future periods:

Description

	For the Year Ended December 31, 2013	For the Year Ended December 31, 2012
Total revenue, as reported	$ 19,943	$ 16,629
Pro forma revenue	25,238	24,025
Net income (loss) allocable to common shares, as reported	615	(123)
Pro forma net income (loss) allocable to common shares	1,348	398

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Independence Realty Trust, Inc. and Subsidiaries

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(Dollars in thousands, except share and per share data)

We have not yet completed the process of estimating the fair value of assets acquired and liabilities assumed during 2013. Accordingly, our preliminary estimates and the allocation of the purchase price to the assets acquired and liabilities assumed may change as we complete the process. In accordance with FASB ASC Topic 805, changes, if any, to the preliminary estimates and allocation will be reported in our financial statements retrospectively.

NOTE 4: Indebtedness

The following table contains summary information concerning the indebtedness that encumbered our properties as of December 31, 2013 and 2012:

	Outstanding Principal			
	As of December 31, 2013	**As of December 31, 2012**	**Current Interest Rate**	**Maturity Da**
Belle Creek Apartments	10,575	10,575	2.4%(1)	April 28, 202
Berkshire Square Apartments	8,612		4.4%(5)	January 1, 20
Centrepoint Apartments	17,600	17,600	3.7%(2)	January 1, 20
Copper Mill Apartments	7,293	7,350	5.7%(3)	May 1, 202
Crestmont Apartments	6,698	6,750	5.7%(3)	May 1, 202
Cumberland Glen Apartments	6,846	6,900	5.7%(3)	May 1, 202
Heritage Trace Apartments	5,457	5,500	5.7%(3)	May 1, 202
Runaway Bay Apartments	10,222	10,238	3.6%(4)	November 1, 2
Tresa at Arrowhead	27,500	27,500	2.4%(1)	April 28, 202
Total mortgage debt/Weighted-Average	$ 100,803	$ 92,413	3.8%	
Secured Credit Facility	2,500		2.9%(6)	October 25, 2
Total indebtedness /Weighted-Average	$ 103,303	$ 92,413	3.8%	

(1) Floating rate at 225 basis points over 30-day LIBOR. As of December 31, 2013 and 2012, 30-day LIBOR was 0.17% and 0.21%, respectively. Interest only payments are due monthly. These mortgages are held by RAIT.
(2) Fixed rate. Interest only payments are due monthly. Beginning February 1, 2015, principal and interest payments are required based on a 30-year amortization schedule.
(3) Fixed rate. Interest only payments are due monthly. Beginning May 1, 2013, principal and interest payments are required based on a 30-year amortization schedule.
(4) Fixed Rate. Interest only payments are due monthly. Beginning December 1, 2013, principal and interest payments are required based on a 30-year amortization schedule.
(5) Fixed Rate. Interest only payments are due monthly. Beginning February 1, 2016, principal and interest payments are required based on a 30-year amortization schedule.
(6) Floating rate at 275 basis points our 30-day LIBOR. As of December 31, 2013, 30-day LIBOR was 0.17%. Interest only payments are due monthly.

The weighted average interest rate of our mortgage indebtedness was 3.8% as of December 31, 2013. As of December 31, 2013, RAIT held $38,100 of our debt while $65,200 was held by third parties. As of December 31, 2012, RAIT held $38,200 of our debt while $54,300 was held by third parties. For the year ended December 31, 2013 and 2012, we paid approximately $722 and $724 respectively, of interest to RAIT.

On October 25, 2013, we entered into a $20,000 secured revolving credit agreement with The Huntington National Bank to be used to acquire properties, capital expenditures and for general corporate purposes. The facility has a 3-year term, bears interest at LIBOR plus 2.75% and contains customary financial covenants for this type of revolving credit agreement. As of December 31, 2013 we had $2,500 of debt outstanding on this credit facility. As of December 31, 2013, we were in compliance with all financial covenants contained in the $20,000 secured facility.

On December 27, 2013, we entered into a loan agreement for an $8.6 million loan secured by a first mortgage on our Berkshire Square property. We used a portion of the loan to repay an advance of approximately $8.0 million made with respect to the property pursuant to our secured credit facility. The loan bears interest at a fixed rate of 4.42% per annum, provides for monthly payments of interest only until February 2016 and for payments of principal and interest thereafter. The loan matures on January 1, 2021 and $7.5 million will be due upon maturity. Prior to placement of the loan into a securitization, or if the placement of the loan into a securitization does not occur within the first year of the loan term, prepayment of the loan in full but not in part is permitted, along with payment of additional consideration which during the defined yield maintenance period is equal to the Federal Home Loan Mortgage Corporation s defined yield maintenance prepayment premium, subject to a minimum of 1% of the loan amount. If the loan is placed into a securitization within the first year of the loan term, the loan cannot thereafter be prepaid or defeased for two years following such placement of the loan into a securitization. Thereafter, the loan may be defeased pursuant to the terms of the note and loan agreement. The loan may be prepaid in full without additional consideration during the last three months of the loan term.

Maturity of Indebtedness

The following table displays the principal repayments on of our indebtedness by year:

2014	$ 550
2015	869
2016	3,556
2017	1,120
2018	1,172
Thereafter	96,036
Total	$ 103,303

As of December 31, 2013, the fair value of our fixed-rate indebtedness was $63,324. The fair value estimate of our fixed rate debt was estimated using a discounted cash flow analysis utilizing interest rates we would expect to pay for debt of a similar type and remaining maturity if the loans were originated at December 31, 2013.

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Independence Realty Trust, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

As of December 31, 2013

(Dollars in thousands, except share and per share data)

NOTE 5: Stockholder Equity and Non-Controlling Interest

Stockholder Equity

Preferred Shares

On February 28, 2013, our board of directors authorized and declared distributions on our Series A Preferred Stock for the period beginning on January 1, 2013, and ending on June 30, 2013. The distributions are payable to the holders of the Series A Preferred Stock of record at a rate of $0.34722222 per day, which is an amount that is equivalent to a 12.5% annualized distribution rate based on a share price of $1,000. The distributions were aggregated and paid in cash on June 28, 2013, pursuant to the requirements of our charter.

On July 25, 2013, our board of directors authorized setting aside amounts sufficient to redeem our Series A Preferred Stock with the proceeds of our underwritten offering.

On August 19, 2013, we redeemed 125 shares of our 12.5% Series A Cumulative Non-Voting Preferred Stock for an aggregate redemption price of approximately $140 inclusive of accrued interest. The redemption of the Series A Preferred Stock was funded with cash received from the August 2013 public offering of common stock. After the redemption date, there were no shares of Series A Preferred Stock outstanding, and all rights of the holders of such shares and units were terminated.

Common Shares

On February 28, 2013, our board of directors authorized and declared distributions on our common stock for the months of January through June 2013. For the months of January through March 2013, the distributions were payable to the holders of our common stock at a rate of $0.00163934 per share per day. For the months of April through June 2013, our board of directors authorized and declared distributions on our common stock at a rate of $0.00171233 per share per day. The distributions for each month were aggregated and paid on or before the fifteenth day following the completion of each respective month. All distributions were paid in cash.

On August 13, 2013, we engaged in an underwritten public offering of 4,000,000 shares of our common stock for $8.50 per share for total gross proceeds of approximately $34.0 million.

Our board of directors declared the following dividends for the months of July, August, September, October, November and December 2013:

Month	Record Date	Payment Date	Dividend Declared Per Share
July 2013	August 5, 2013	August 15, 2013	$ 0.05333
August 2013	August 30, 2013	September 13, 2013	$ 0.05333
September 2013	September 30, 2013	October 15, 2013	$ 0.05333
October 2013	October 31, 2013	November 15, 2013	$ 0.05333
November 2013	November 29, 2013	December 16, 2013	$ 0.05333
December 2013	December 31, 2013	January 15, 2014	$ 0.05333

On January 15, 2014, our board of directors declared the following dividends for January, February and March 2014:

Month	Record Date	Payment Date	Dividend Declared Per Share
January 2014	January 31, 2014	February 14, 2014	$ 0.06
February 2014	February 28, 2014	March 17, 2014	$ 0.06
March 2014	March 31, 2014	April 15, 2014	$ 0.06

On February 15, 2012, our board of directors authorized and declared distributions on our common stock for the months of January, February and March 2012. The distributions were paid to the holders of our common stock of record at a rate of $0.00163934 per share per day, for a total of $19 for the three months ended March 31, 2012.

On May 10, 2012, our board of directors authorized and declared distributions on our common stock for the months of April, May and June 2012. The distributions were paid to the holders of our common stock of record at a rate of $0.00163934 per share per day, for a total of $48 for the three months ended June 30, 2012.

On August 9, 2012, our board of directors authorized and declared distributions on our common stock for the months of July, August and September 2012. The distributions were paid to the holders of our common stock of record at a rate of $0.00163934 per share per day, for a total of $48 for the three months ended September 30, 2012.

On November 5, 2012, our board of directors authorized and declared distributions on our common stock for the months of October, November and December 2012. The distributions were paid to the holders of our common stock of record at a rate of $0.00163934 per share per day, for a total of $50 for the three months ended December 31, 2012.

Non-controlling Interest

On February 28, 2013, our board of directors, in our capacity as the general partner of the operating partnership, authorized and declared distributions on our operating partnership s common partnership units for the months of January through June 2013. For the months of January through March 2013, the distributions were paid to the holders of our common operating partnership units at a rate of $0.00163934 per unit per day. For the months of April through June 2013, our board of directors authorized and declared distributions on our operating partnership s common units at a rate of $0.00171233 per share per day. The distributions for each month

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were aggregated and paid on or before the fifteenth day following the completion of each respective month. On July 25, 2013, our board of directors, in our capacity as the general partner of the operating partnership, declared distributions on our operating partnership s common partnership units for the months of July through September 2013 with record dates, payment dates and the amounts of the dividend declared per unit corresponding to the dividends on our common stock set forth above. On October 10, 2013, our board of directors, in our capacity as the general partner of the operating partnership, declared distributions on our operating partnership s common partnership units for the months of July through September 2013 with record dates, payment dates and the amounts of the dividend declared per unit corresponding to the dividends on our common stock set forth above.

On May 7, 2013, RAIT elected to convert 5,274,900 of its common limited partnership units to shares of our common stock according to the terms of the Agreement of Limited Partnership. The shares of our common stock issued were issued in reliance on an exemption from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended.

On February 28, 2013, our board of directors, in our capacity as the general partner of the operating partnership, authorized and declared distributions on our operating partnership s Series B Preferred Units for the period of January, February and March 2013. The distributions were paid to holders of our Series B Preferred Units of record at a rate of $2.78 per unit per day. On May 7, 2013, our board of directors, in our capacity as the general partner of the operating partnership, authorized and declared distributions on our operating partnership s Series B Preferred Units for the period of April, May and June 2013. The distributions were paid to holders of our Series B Preferred Units of record at a rate of $2.78 per unit per day. On July 25, 2013, our board of directors, in our capacity as the general partner of the operating partnership, authorized setting aside amounts sufficient to redeem our operating partnership s Series B Preferred Units with the proceeds of our August 2013 underwritten offering. Our operating partnership, had the right to redeem the Series B Preferred Units, in whole or in part, at any time or from time to time for a redemption price equal to $10 plus all accrued and unpaid distributions thereon to and including the date fixed for redemption.

On August 19, 2013, our operating partnership redeemed 350 of its Series B Units, all of which were owned by a wholly-owned subsidiary of RAIT, an affiliate of the Company, for an aggregate redemption price of approximately $3,500. The redemption of the Series B Units was funded with cash received from the August 2013 underwritten offering of the common stock. After the redemption date, there were no Series B Units outstanding and all rights of the holders of such units were terminated.

NOTE 6: Equity Compensation Plans

Long Term Incentive Plan

On April 5, 2011, our board of directors approved and adopted the Long Term Incentive Plan, or our incentive plan, and the Independent Directors Compensation Plan, or the director plan. Our incentive plan provides for the grants of awards to our directors, officers and full-time employees (in the event we ever have employees), full-time employees of our advisor and its affiliates, full-time employees of entities that provide services to our advisor, directors of our advisor or of entities that provide services to it, certain of our consultants and certain consultants to our advisor and its affiliates or to entities that provide services to our advisor. The incentive plan authorizes the grant of restricted or unrestricted shares of our common stock, non-qualified and incentive stock options, restricted stock units, stock appreciation rights, dividend equivalents and other stock- or cash-based awards. On July 29, 2013, our board of directors and stockholders approved the amendment and restatement of our incentive plan to reduce the number of shares of common stock issuable thereunder to 800,000 shares.

Under our Independent Directors Compensation Plan, which operates as a sub-plan of our incentive plan, each of our independent directors will receive 3,000 shares of common stock annually. In addition, our independent directors may elect to receive their annual fee in the form of our common shares or a combination of common shares and cash. On October 29, 2013, our compensation committee made the initial stock grant under the director plan so that our independent directors received 9,000 shares of our common stock, in the aggregate. These awards vested immediately.

On January 31, 2014, the compensation committee awarded 40,000 shares of restricted common stock, valued at $328 using our closing stock price of $8.20, to persons affiliated with our advisor, including our executive officers. These awards generally vest over three-year periods.

On January 31, 2014, the compensation committee awarded 80,000 stock appreciation rights, or SARs, valued at $106 based on a Black-Scholes option pricing model at the date of grant, to persons affiliated with our advisor, including our executive officers. The SARs vest over a three-year period and may be exercised between the date of vesting and January 31, 2019, the expiration date of the SARs.

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Distribution Reinvestment Program

We had adopted a distribution reinvestment program, or the DRP, through which our stockholders could elect to reinvest an amount equal to the distributions declared on their shares of common stock in additional shares in lieu of receiving cash distributions. The common stock available under the DRP was reallocated to the August 2013 underwritten offering when the amended registration statement was filed and the DRP was subsequently terminated. No selling commissions or dealer manager fees were paid on shares sold under the DRP.

NOTE 7: Related Party Transactions and Arrangements

Fees and Expenses Paid to Our Advisor

Effective as of May 7, 2013, we entered into the Second Amended and Restated Advisory Agreement, or the amended and restated advisory agreement. The amended and restated advisory agreement was adopted primarily to adjust the advisor s compensation and modify its duties to us.

Pursuant to the terms of the amended advisory agreement, our advisor is compensated as follows:

Annual base management fee of 0.75% of average gross real estate assets. Average gross real estate assets means the average of the aggregate book value of our real estate assets before reserves for depreciation or other similar noncash reserves. We will compute average gross real estate assets by taking the average of these book values at the end of each month during the quarter for which we are calculating the fee. The fee is payable quarterly in an amount equal to 0.1875% of average gross real estate assets as of the last day of such quarter. In July 2013, our advisor agreed to an amendment to our advisory agreement, which provides that the gross assets attributable to the initial eight properties in our existing portfolio are excluded from the computation of the base management fee payable to the advisor, which amendment is retroactive to April 1, 2013. This agreement will have the effect of increasing our net income, or reducing our net loss, in future periods from what they otherwise would be. For the years ended December 31, 2013 and 2012 our advisor waived $494 and $821 of asset management fees, respectively.

Beginning with the second quarter of 2013, we pay our advisor an incentive fee based on our pre-incentive fee core funds from operations, or Core FFO, a non-GAAP measure as defined in the advisory agreement. The incentive fee is computed at the end of each fiscal quarter as follows:

no incentive fee in any fiscal quarter in which our pre-incentive fee Core FFO does not exceed the hurdle rate of 1.75% (7% annualized) of the cumulative gross amount of equity capital we have obtained; and

20% of the amount of our pre-incentive fee Core FFO that exceeds 1.75% (7% annualized) of the cumulative gross amount of equity capital we have obtained.

For the years ended December 31, 2013 and 2012 we incurred $144 and $0 of incentive fees to our advisor. These fees are included in asset management fees in our consolidated statements of operations. As of December 31, 2013 and 2012 we had liabilities payable to our advisor for incentive fees of $65 and $0, respectively.

Prior to the May 7, 2013 amendment to the advisory agreement, we paid our advisor the fees described below.

A quarterly asset management fee of 0.1875% of the average invested assets as of the last day of the quarter, which equated to an annualized rate of 0.75% per annum. Average invested assets meant the average of the aggregate book value of our assets invested in interests in, and loans secured by, real estate before reserves for depreciation or bad debt or other similar non-cash reserves. For the years ended December 31, 2013, 2012 and 2011, we paid $166, $240 and $0 of asset management fees to our advisor, respectively. As of December 31, 2013 and December 31, 2012 we had liabilities payable to our advisor for asset management fees of $42 and $80, respectively.

If our advisor provided services in connection with the financing of any third party debt that we obtained, we would pay the advisor a financing coordination fee equal to 1.0% of the amount available and/or outstanding under such financing, subject to certain limitations. We did not pay financing coordination fees in connection with debt provided by RAIT. For the years ended December 31, 2013, 2012 and 2011 we paid $102, $0 and $0 of financing coordination fees to our advisor, respectively. As of December 31, 2013 and December 31, 2012, we had liabilities payable to our advisor for financing coordination fees of $0 and $102, respectively.

Our advisor was entitled to a disposition fee upon the sale of one or more of our properties in an amount equal to the lesser of (a) one-half of the commission that would be reasonable, customary and competitive in light of the size, type and location of the asset or (b) 1% of the sale price of the asset. Payment of such fee could be made only if the advisor provided

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a substantial amount of services in connection with the sale of the asset. In addition, the amount paid when added to all other commissions paid to unaffiliated parties in connection with such sale could not exceed the lesser of the commission that would be reasonable, customary and competitive in light of the size, type and location of the asset or an amount equal to 6% of the sale price of such asset. For the years ended December 31, 2013, 2012 and 2011, we did not pay any disposition fees to our advisor.

In addition to the fees we paid to our advisor pursuant to the advisory agreement prior to May 7, 2013, we also reimbursed our advisor and its affiliates for the costs and expenses, subject to the limitations described below under the heading 2%/25% Guidelines. We did not reimburse the advisor or its affiliates for services for which the advisor or its affiliates were entitled to compensation in the form of a separate fee. If the advisor or its affiliates performed services that were outside of the scope of the advisory agreement, we compensated them at rates and in amounts agreed upon by the advisor and the independent directors. We could reimburse our advisor for acquisition expenses up to a maximum amount which, collectively with all acquisition fees and expenses, did not exceed, in the aggregate, 6% of the gross offering proceeds from our continuous offering which terminated in April 2013.

We reimbursed our advisor for certain costs it incurs in connection with the services it provided to us including, but not limited to: (i) organization and offering costs in an amount up to 1% of gross offering proceeds, which include actual legal, accounting, printing and expenses attributable to preparing the SEC registration statement, qualification of the shares for sale in the states and filing fees incurred by the advisor, as well as reimbursements for salaries and direct expenses of its employees, including, without limitation, employee benefits, while engaged in registering the shares and other organization costs, other than selling commissions and the dealer manager fee; (ii) advertising expenses, expense reimbursements, and legal and accounting fees; (iii) the actual cost of goods and materials used by us and obtained from entities not affiliated with the advisor; (iv) administrative services (including personnel costs; provided, however, that no reimbursement was made for costs of personnel to the extent that such personnel performed services in transactions for which the advisor receives a separate fee); and (v) rent, leasehold improvement costs, utilities or other administrative items generally constituting our advisor s overhead. We did not reimburse the advisor for any services for which we paid the advisor a separate fee. For the year ended December 31, 2013 and 2012, our advisor incurred $0 and $657 of organization and offering costs, respectively. During the year ended December 31, 2013 and 2012, we reimbursed our advisor for $3 and $32, respectively, of organization and offering costs.

We reimbursed our advisor for expenses it incurred in connection with our purchase of an asset. The acquisition fees and expenses for any particular asset, including amounts payable to affiliates, could not exceed, in the aggregate, 6% of the contract purchase price (including any mortgage assumed) of the asset. We reimbursed our advisor for acquisition expenses only to the extent that acquisition fees and acquisition expenses collectively did not exceed 6% of the contract price of our assets. For the years ended December 31, 2013 and 2012, we did not reimburse our advisor for any acquisition expenses.

During the year ended December 31, 2013, our advisor reimbursed us for $134 of transfer agent costs we incurred from January 2013 through May 2013 in connection with the continuous offering.

2%/25% Guidelines

Our charter was amended on May 7, 2013. The amendments included removing the 2%/25% Guidelines.

Commencing on the fourth fiscal quarter following the quarter ended June 30, 2011 through May 7, 2013 our advisor was required to reimburse us for the amounts, if any, by which our total REIT operating expenses paid during the previous fiscal year exceed the greater of:

2% of our average invested assets for that fiscal year; or

25% of our net income for that fiscal year;

provided, however, that only so much of the excess specified above was required to be reimbursed as the board of directors, including a majority of the independent directors, determined should justifiably be reimbursed in light of any unanticipated, unusual or non-recurring factors. Within 60 days after the end of the quarter for which the excess occurred, we were required to send to the stockholders a written disclosure and explanation of the factors the independent directors considered in arriving at the conclusion that the higher total operating expenses were justified. Operating expenses were defined for this purpose as all expenses paid or incurred by us, as determined under GAAP, that were in any way related to our operation, including advisory fees, but excluding (i) the expenses of raising capital such as organization and offering expenses, legal, audit, accounting, underwriting, brokerage, listing, registration and other fees, printing and other such expenses and taxes incurred in connection with the issuance, distribution, transfer, registration and stock exchange listing of our stock; (ii) interest payments; (iii) taxes; (iv) non-cash expenditures such as depreciation, amortization and bad debt reserves; (v) reasonable incentive fees based on the gain from the sale of our assets; and (vi) acquisition fees and expenses (including expenses relating to potential investments that we did not close), disposition fees on the resale of property and other expenses connected with the acquisition, disposition and ownership of real estate interests, loans or other property (including the costs of foreclosure, insurance premiums, legal services, maintenance, repair and improvement of property).

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Selling Commissions and Fees Paid to our Dealer Manager

The dealer manager for our continuous offering of common stock which was terminated in April 2013, was Independence Realty Securities LLC, or IR Securities, an indirect wholly owned subsidiary of RAIT. IR Securities is a licensed broker-dealer registered with FINRA. IR Securities did not participate in our underwritten offerings in August 2013 and January 2014 and our agreement with IR Securities was terminated when we terminated our continuous offering. IR Securities was entitled to certain selling commissions, dealer manager fees and reimbursements relating to raising capital in connection with the continuous offering. Our agreement with IR Securities provided for the following compensation relating to the continuous offering:

We paid IR Securities selling commissions of up to 7.0% of the gross proceeds from our continuous offering. IR Securities reallowed all or a portion of commissions earned for those transactions that involve participating broker-dealers. For the year ended December 31, 2013, 2012 and 2011, we did not pay any selling commissions to IR Securities.

We paid IR Securities a dealer manager fee of 3.0% of the gross proceeds from our continuous offering. IR Securities, in its sole discretion, could reallow a portion of its dealer manager fee of up to 1.5% of the gross offering proceeds to be paid to such participating broker-dealers. For the year ended December 31, 2013, 2012 and 2011, we paid $0, $7 and $0 of dealer manager fees to IR Securities, respectively.

We reimbursed IR Securities for its reasonable *bona fide* due diligence expenses and reimbursed it for reimbursements it could make to broker-dealers for reasonable *bona fide* due diligence expenses which are included in a detailed and itemized invoice. Reimbursement of these amounts, combined with the reimbursement of all other organizational and offering costs, was not to exceed 15% of the gross proceeds raised in our continuous offering. For the years ended December 31, 2013, 2012 and 2011, IR Securities did not incur any reimbursable due diligence expenses.

Property Management Fees Paid to Our Property Manager

We have entered into property management agreements with RAIT Residential, LLC, or our property manager, which is majority owned by RAIT, with respect to each of our properties. Pursuant to the property management agreements, we pay our property manager property management and leasing fees on a monthly basis of an amount up to 4.0% of the gross revenues from the property for each month. Additionally, we may pay our property manager a separate fee for the one-time initial rent-up or leasing-up of newly constructed properties in an amount not to exceed the fee customarily charged in arm s length transactions by others rendering similar services in the same geographic area for similar properties as determined by a survey of brokers and agents in such area. Each management agreement has an initial one year term, subject to automatic one-year renewals unless either party gives prior notice of its desire to terminate the management agreement. For the years ended December 31, 2013, 2012 and 2011 we paid $762, $655 and $339, respectively, of property management and leasing fees to our property manager. As of December 31, 2013 and December 31, 2012, we had liabilities payable to our property manager for property management and leasing fees of $83 and $59, respectively.

NOTE 8: Earnings (Loss) Per Share

The following table presents a reconciliation of basic and diluted earnings (loss) per share for the years ended December 31, 2013, 2012 and 2011:

	For the Years Ended December 31		
	2013	2012	2011
Net Income (loss)	$ 1,274	$ 427	$ (370)
(Income) loss allocated to	(10)	(15)	0

preferred shares						
(Income) loss allocated to non-controlling interests		(649)		(535)		258
Net Income (loss) allocable to common shares	$	615	$	(123)	$	(112)
Weighted-average shares outstanding Basic		5,330,814		275,384		20,000
Weighted-average shares outstanding Diluted		5,330,814		275,384		20,000
Earnings (loss) per share Basic	$	0.12	$	(0.45)	$	(5.60)
Earnings (loss) per share Diluted	$	0.12	$	(0.45)	$	(5.60)

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Earnings per share is computed in accordance with FASB ASC Topic 260, *Earnings per Share*, by dividing the Net Income (loss) allocable to common shares by the weighted average number of common shares outstanding during the respective periods. Earnings (loss) per share for the period beginning January 1, 2013 and ended May 7, 2013 and the years ended December 31, 2012 and 2011 excludes 5,274,900 limited partnership units that were exchanged for common stock on May 7, 2013 as their effect would be anti-dilutive.

NOTE 9: Quarterly Financial Data (Unaudited)

The following table summarizes our quarterly financial data which, in the opinion of management, reflects all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of our results of operations:

	For the Three-Month Periods Ended			
	March 31	**June 30**	**September 30**	**December 31**
2013:				
Total revenue	$ 4,688	$ 4,700	$ 4,787	$ 5,768
Net income (loss)	340	324	302	308
Net income (loss) allocable to common shares	4	48	255	308
Total earnings (loss) per share Basic (a)	$ 0.01	$ 0.01	$ 0.03	$ 0.03
Total earnings (loss) per share Diluted (a)	$ 0.00	$ 0.01	$ 0.03	$ 0.03
2012:				

Total revenue	$ 3,990	$ 4,086	$ 4,041	$ 4,512
Net income (loss)	153	239	(14)	49
Net income (loss) allocable to common shares	(26)	(14)	(28)	(55)
Total earnings (loss) per share Basic (a)	$ (0.21)	$ (0.04)	$ (0.09)	$ (0.19)
Total earnings (loss) per share Diluted (a)	$ (0.21)	$ (0.04)	$ (0.09)	$ (0.19)

(a) The summation of quarterly per share amounts do not equal the full year amounts.

NOTE 10: SEGMENT REPORTING

Segments

We have identified one operating segment and have determined that we have one reportable segment. As a group, our executive officers act as the Chief Operating Decision Maker or CODM. The CODM reviews operating results to make decisions about all investments and resources and to assess performance for the entire company. Our portfolio consists of one reportable segment, investments in real estate through the mechanism of lending and/or ownership. The CODM manages and reviews our operations as one unit. Resources are allocated without regard to the underlying structure of any investment, but rather after evaluating such economic characteristics as returns on investment, leverage ratios, current portfolio mix, degrees of risk, income tax consequences and opportunities for growth. We have no single customer that accounts for 10% or more of revenue.

NOTE 11: COMMITMENTS AND CONTINGENCIES

Litigation

From time to time, we are party to various lawsuits, claims for negligence and other legal proceedings that arise in the ordinary course of our business. We are not currently a party, as plaintiff or defendant, to any legal proceedings which, individually or in the aggregate, would be expected to have a material effect on our business, financial condition, results of operations, or financial statements, taken as a whole, if determined adversely to us.

NOTE 12: SUBSEQUENT EVENTS

On February 28, 2014, we acquired a fee simple interest in five apartments properties known as the Oklahoma Portfolio. The Oklahoma portfolio consists of five properties and 1,658 units, consisting of 1,048 one bedroom, one bathroom units, 40 two bedroom, one bathroom units, 537 two bedroom, two bathroom units, 32 three bedroom, two bathroom units and one bungalow house. The properties were constructed between 1984 and 1986 and have been owned by the seller since 2000. Four properties are located in Oklahoma City s northwest submarket and the fifth in Edmond, Oklahoma, a suburb of Oklahoma City. The seller has spent approximately $12 million to improve the portfolio since 2010. The improvements include new roofs and siding, windows, parking lots, interior flooring and HVAC units. The purchase price for the Oklahoma portfolio was $65 million. The first lien mortgage that is to be assumed accrues interest at a fixed rate equal to 5.6% per annum, will mature in April 2016 and $43.6 million will be due upon maturity.

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On February 7, 2014, we entered into a loan agreement, or the loan agreement, with Bank of America, N.A, the lender. Pursuant to the loan agreement, the lender made a loan for $18,850, to us secured by a first mortgage on the property known as The Reserve at Eagle Ridge located in Waukegan, Illinois. The loan bears interest at a fixed rate of 4.67% per annum and provides for monthly payments of interest only until the maturity date of March 1, 2024 when the principal balance, accrued interest and all other amounts due under the loan become due. The loan is prepayable at our option after August 31, 2023 and permits defeasance by us if defined conditions are met.

On January 31, 2014, we acquired a fee simple interest in a 370-unit apartment residential community located in Waukegan, Illinois, known as The Reserve at Eagle Ridge. We acquired the property through a wholly owned subsidiary for an aggregate purchase price of $29,000 exclusive of closing costs.

On January 29, 2014, we completed an underwritten public offering selling 8,050,000 shares of IRT common stock for $8.30 per share raising gross proceeds of $66.8 million.

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Independence Realty Trust

Schedule III

Real Estate and Accumulated Depreciation

As of December 31, 2013

(Dollars in thousands)

Property Name	**Description**	**Location**	**Initial Cost Land**	**Initial Cost Building**	**Cost of Improvements, net of Retirements Land**	**Cost of Improvements, net of Retirements Building**	**Gross Carrying Amount Land(a)**	**Gross Carrying Amount Building(a)**	**Accumulat Depreciatio Building**
Crestmont	Apartment	Marietta, GA	$ 3,254	$ 13,044	$	$ 225	$ 3,254	$ 13,269	$ (2,129
Copper Mill	Apartment	Austin, TX	3,472	13,958		346	3,472	14,304	(2,326
Cumberland	Apartment	Smyrna, GA	3,100	13,166		308	3,100	13,474	(2,180
Heritage Trace	Apartment	Newport News, VA	2,673	10,761		350	2,673	11,111	(1,811
Belle Creek Apartments	Apartment	Henderson, CO	1,890	7,596		370	1,890	7,966	(1,123
Runaway Bay	Apartment	Indianapolis, IN	3,079	12,318		192	3,079	12,510	(377
Tresa at Arrowhead	Apartment	Phoenix, AZ	7,080	28,500		353	7,080	28,853	(3,455
The Crossings	Apartment	Phoenix, AZ	4,600	17,948		3	4,600	17,951	(37
Berkshire Square	Apartment	Phoenix, AZ	2,650	10,319		7	2,650	10,326	(65
Centrepoint Apartments	Apartment	Tucson, AZ	5,620	22,720		194	5,620	22,914	(2,272
			$ 37,418	$ 150,330	$	$ 2,348	$ 37,418	$ 152,678	$ (15,775

(a) The aggregate cost basis for federal income tax purposes of our investments in real estate approximates the carrying amount at December 31, 2013.

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Investments in Real Estate	For the Year Ended December 31, 2013	For the Year Ended December 31, 2012
Balance, beginning of period	$ 153,565	$ 137,428
Additions during period:		
Acquisitions	35,517	15,397
Improvements to land and building	1,014	1,148
Deductions during period:		
Dispositions of real estate		(408)
Balance, end of period:	$ 190,096	$ 153,565

Accumulated Depreciation	For the Year Ended December 31, 2013	For the Year Ended December 31, 2012
Balance, beginning of period	$ 12,283	$ 9,304
Depreciation expense	3,492	3,387
Dispositions of real estate		(408)
Balance, end of period:	$ 15,775	$ 12,283

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ITEM 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

ITEM 9A. ***Controls and Procedures***

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Exchange Act, is recorded, processed, summarized, and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and our chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Under the supervision of our chief executive officer and chief financial officer, we have carried out an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective at the reasonable assurance level.

Management s Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2013. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework.* Based on this assessment, management believes that, as of December 31, 2013, our internal control over financial reporting is effective.

This report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management s report was not subject to attestation by our independent registered public accounting firm pursuant to the Dodd-Frank Wall Street and Consumer Protection Act, which exempts non-accelerated filers from the auditor attestation requirement of section 404(b) of the Sarbanes-Oxley Act.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. ***Other Information***

None.

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PART III

ITEM 10. *Directors, Executive Officers and Corporate Governance*

The information required by this item will be set forth in our definitive proxy statement with respect to our 2014 annual meeting of shareholders to be filed on or before April 30, 2014, and is incorporated herein by reference.

ITEM 11. *Executive Compensation*

The information required by this item will be set forth in our definitive proxy statement with respect to our 2014 annual meeting of shareholders, and is incorporated herein by reference.

ITEM 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The information required by this item will be set forth in our definitive proxy statement with respect to our 2014 annual meeting of shareholders, and is incorporated herein by reference.

ITEM 13. *Certain Relationships and Related Transactions and Director Independence*

The information required by this item will be set forth in our definitive proxy statement with respect to our 2014 annual meeting of shareholders, and is incorporated herein by reference.

ITEM 14. *Principal Accountant Fees and Services*

The information required by this item will be set forth in our definitive proxy statement with respect to our 2014 annual meeting of shareholders, and is incorporated herein by reference.

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PART IV

ITEM 15. ***Exhibits and Financial Statement Schedules***

The following documents are filed as part of this report:

1. Consolidated Financial Statements

Index to Consolidated Financial Statements

Independence Realty Trust, Inc.

2. Financial Statement Schedules

Schedule III: Real Estate and Accumulated Depreciation

All other schedules are not applicable.

3. Exhibits

The exhibits listed on the Exhibit List (following the signatures section of this report on Form 10-K) are included herewith.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INDEPENDENCE REALTY TRUST, INC.

Date: March 11, 2014

By: /s/ SCOTT F. SCHAEFFER
Scott F. Schaeffer
Chairman of the Board, Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ SCOTT F. SCHAEFFER **Scott F. Schaeffer**	Chairman of the Board, Chief Executive Officer (Principal Executive Officer)	March 11, 2014
/s/ JAMES J. SEBRA **James J. Sebra**	Chief Financial Officer and Treasurer (Principal Financial Officer and Principal Accounting Officer)	March 11, 2014
/s/ WILLIAM C. DUNKELBERG **William C. Dunkelberg**	Independent Director	March 11, 2014
/s/ ROBERT F. MCCADDEN **Robert F. McCadden**	Independent Director	March 11, 2014

/s/ DeForest B. Soaries, Jr.	Independent Director	March 11, 2014
DeForest B. Soaries, Jr.		

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EXHIBIT INDEX

Exhibit	Description
3.1	Articles of Restatement of Independence Realty Trust, Inc. (the Company), dated as of August 20, 2013, incorporated by reference to Exhibit 3.1 to the Company s Current Report on Form 8-K filed on August 20, 2013.
3.2	Second Amended and Restated Bylaws of the Company, incorporated by reference to Exhibit 3.2 to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 (the First Quarter 10-Q)..
4.1	Fourth Amended and Restated Agreement of Limited Partnership of Independence Realty Operating Partnership, LP, dated as of May 7, 2013, incorporated by reference to Exhibit 4.1 to the First Quarter 10-Q.
4.2	First Amendment, dated as of August 20, 2013, to Fourth Amended and Restated Agreement of Limited Partnership of Independence Realty Operating Partnership, LP, dated as of May 7, 2013, incorporated by reference to Exhibit 4.1 to the Company s Current Report on Form 8-K filed on August 20, 2013.
4.3	Registration Rights Agreement by and among the Company, Independence Realty Operating Partnership, LP, RAIT Financial Trust and the RAIT Parties (as defined therein), dated as of July 26, 2013, incorporated by reference to Exhibit 10.2 to the Company s Current Report on Form 8-K filed on August 1, 2013.
10.1	Second Amended and Restated Advisory Agreement by and among the Company, Independence Realty Operating Partnership, LP and Independence Realty Advisors, LLC, dated as of May 7, 2013, incorporated by reference to Exhibit 10.1 to the First Quarter 10-Q.
10.2	First Amendment dated as of July 26, 2013 to the Second Amended and Restated Advisory Agreement dated May 7, 2013 by and among the Company, Independence Realty Operating

	Partnership, LP and Independence Realty Advisors, LLC, incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed on August 1, 2013.
10.3	Independence Realty Trust, Inc. Long-term Incentive Plan (as amended and restated as of July 29, 2013), incorporated by reference to Exhibit 10.3 to the Company s Current Report on Form 8-K filed on August 1, 2013.
10.4	Independent Directors Compensation Plan, incorporated by reference to Exhibit 10.5 to the Registration Statement on Form S-11 filed on April 8, 2011, as amended, Commission File No. 333-173391, as amended (the 4/8/11 Registration Statement).
10.5	Contribution Agreement by and among Independence Realty Operating Partnership, LP and the other parties named therein, dated as of April 7, 2011, incorporated by reference to Exhibit 10.7 to the 4/8/11 Registration Statement.
10.6	Fifth Amendment to Loan and Security Agreement and Promissory Notes, dated as of April 29, 2011, by and among IRT Belle Creek Apartments Colorado, LLC, RAIT Partnership, L.P., Independence Realty Operating Partnership, LP and RAIT CRE CDO I, LTD., relating to the property referred to as Belle Creek, incorporated by reference to Exhibit 10.8 to the Pre-Effective Amendment No. 1 to the 4/8/11 Registration Statement filed on May 10, 2011 (Amendment No. 1).
10.7	Guaranty of Non-Recourse Carveouts, dated as of April 29, 2011, by Independence Realty Operating Partnership, LP for the benefit of RAIT CRE CDO I, Ltd., relating to the property referred to as Belle Creek, incorporated by reference to Exhibit 10.9 to Amendment No. 1.
10.8	Loan Agreement, dated as of April 29, 2011, by and between IRT Copper Mill Apartments Texas, LLC and RAIT Partnership, L.P., relating to the property referred to as Copper Mill, incorporated by reference to Exhibit 10.10 to Amendment No. 1.
10.9	Guaranty of Non-Recourse Carveouts, dated as of April 29, 2011, by Independence Realty Operating Partnership, LP for the benefit of RAIT Partnership, L.P., relating to the property referred to as Copper Mill, incorporated by reference to Exhibit 10.11 to Amendment No. 1.

10.10	Loan Agreement, dated as of April 29, 2011, by and between IRT Crestmont Apartments Georgia, LLC and RAIT Partnership, L.P., relating to the property referred to as Crestmont, incorporated by reference to Exhibit 10.12 to Amendment No. 1.

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Exhibit	Description
10.11	Guaranty of Non-Recourse Carveouts, dated as of April 29, 2011, by Independence Realty Operating Partnership, LP for the benefit of RAIT Partnership, L.P., relating to the property referred to as Crestmont, incorporated by reference to Exhibit 10.13 to Amendment No. 1.
10.12	Loan Agreement, dated as of April 29, 2011, by and between IRT Cumberland Glen Apartments Georgia, LLC and RAIT Partnership, L.P., relating to the property referred to as Cumberland Glen, incorporated by reference to Exhibit 10.14 to Amendment No. 1.
10.13	Guaranty of Non-Recourse Carveouts, dated as of April 29, 2011, by Independence Realty Operating Partnership, LP for the benefit of RAIT Partnership, L.P., relating to the property referred to as Cumberland Glen, incorporated by reference to Exhibit 10.15 to Amendment No. 1.
10.14	Loan Agreement, dated as of April 29, 2011, by and between IRT Heritage Trace Apartments Virginia, LLC and RAIT Partnership, L.P., relating to the property referred to as Heritage Trace, incorporated by reference to Exhibit 10.16 to Amendment No. 1.
10.15	Guaranty of Non-Recourse Carveouts, dated as of April 29, 2011, by Independence Realty Operating Partnership, LP for the benefit of RAIT Partnership, L.P., relating to the property referred to as Heritage Trace, incorporated by reference to Exhibit 10.17 to Amendment No. 1.
10.16	Third Amendment to Loan and Security Agreement and Promissory Note, dated as of April 29, 2011, by and among IRT Tresa at Arrowhead Arizona, LLC, RAIT Partnership, L.P., Independence Realty Operating Partnership, LP and RAIT CRE CDO I, Ltd., relating to the property referred to as Tresa at Arrowhead, incorporated by reference to Exhibit 10.18 to Amendment No. 1.
10.17	Guaranty of Non-Recourse Carveouts, dated as of April 29, 2011, by Independence Realty Operating Partnership, LP for the benefit of RAIT CRE CDO I, Ltd., relating to the property referred to as Tresa at Arrowhead, incorporated by reference to Exhibit 10.19 to Amendment No. 1.

10.18	Contribution Agreement by and between Independence Realty Operating Partnership, LP and Centrepoint Arizona, LLC, dated as of December 16, 2011, incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on December 22, 2011 (the 12/22/11 Form 8-K).
10.19	Multifamily Loan and Security Agreement, dated as of December 16, 2011, by and between IRT Centrepoint Arizona, LLC and KeyCorp Real Estate Capital Markets, Inc., relating to the property referred to as the Centrepoint Apartments, incorporated by reference to Exhibit 10.2 to the 12/22/11 Form 8-K.
10.20	Guaranty of Non-Recourse Obligations, dated as of December 16, 2011, by Independence Realty Operating Partnership, LP for the benefit of KeyCorp Real Estate Capital Markets, Inc., relating to the property referred to as the Centrepoint Apartments, incorporated by reference to Exhibit 10.3 to the 12/22/11 Form 8-K.
10.21	Multifamily Loan and Security Agreement, dated as of October 11, 2012, by and between IRT Runaway Bay Apartments, LLC and Walker & Dunlop, LLC, relating to the property referred to as Runaway Bay Apartments, incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on October 17, 2012 (the 10/17/12 Form 8-K).
10.22	Guaranty of Non-Recourse Obligations, dated as of October 11, 2012, by Independence Realty Operating Partnership, LP for the benefit of Walker & Dunlop, LLC, relating to the property referred to as Runaway Bay Apartments, incorporated by reference to Exhibit 10.2 to the 10/17/12 Form 8-K.

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Exhibit	Description
10.23	Indemnification Agreement dated March 17, 2011 between the Company and Scott F. Schaeffer, together with the schedule required by Instruction 2 of Item 601 of Regulation S-K, listing other substantially identical agreements incorporated by reference to Exhibit 10.22 to Pre-Effective Amendment No. 1 to the Registration Statement on Form S-11 filed on June 18, 2013, Commission File No. 333-188577.
10.24	Secured Revolving Credit Agreement dated as of October 25, 2013 among Independence Realty Operating Partnership, LP, as borrower, and The Huntington National Bank, as lender, incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on October 28, 2013 (the 10/28/13 Form 8-K).
10.25	Guaranty Agreement, dated as of October 25, 2013 made by Independence Realty Trust, Inc., as guarantor, to The Huntington National Bank and defined related creditors, incorporated by reference to Exhibit 10.2 to the 10/28/13 Form 8-K.
10.26	Agreement of Purchase and Sale, dated October 16, 2013, between Independence Realty Operating Partnership, LP and Kola Investments, LLC, and amendments thereto incorporated by reference to Exhibit 10.25 to Pre-Effective Amendment No. 1 to the Registration Statement on Form S-11 filed on January 21, 2014, Commission File No. 333-192403 (the 01/21/14 Amendment No. 1).
10.27	Agreement for the Purchase of Real Estate and Related Property, dated December 19, 2013, between Independence Realty Operating Partnership, LP and JRC/CSE Eagle Ridge JV, LLC incorporated by reference to Exhibit 10.26 to the 01/21/14 Amendment No. 1.
10.28	Multifamily Loan and Security Agreement dated as of December 27, 2013 among Berkshire Square LLC and Berkshire II Cumberland, LLC, collectively as borrower, and Grandbridge Real Estate Capital, LLC, as lender, incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed on January 3, 2014 (the 1/3/14 Form 8-K).

10.29	Multifamily Note effective as of December 27, 2013 made by Berkshire Square LLC and Berkshire II Cumberland, LLC, collectively as borrower, incorporated by reference to Exhibit 10.2 to the 1/3/14 Form 8-K.
10.30	Guaranty dated as of December 27, 2013 made by Independence Realty Operating Partnership, LP, as guarantor, for the benefit of Grandbridge Real Estate Capital, LLC, as lender, incorporated by reference to Exhibit 10.3 to the 1/3/14 Form 8-K.
10.31	Independence Realty Trust, Inc. Long Term Incentive Plan Form of Stock Appreciation Rights Award Certificate adopted January 31, 2014 incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed on February 6, 2014 (the 2/6/14 Form 8-K).
10.32	Independence Realty Trust, Inc. Long Term Incentive Plan a Form of Restricted Stock Award Certificate adopted January 31, 2014 incorporated by reference to Exhibit 10.2 to the 2/6/14 Form 8-K.
10.33	Loan Agreement dated as of February 7, 2014 between Bank of America, N.A., as lender, and IRT Eagle Ridge Apartments Owner, LLC, as borrower, incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed on February 12, 2014 (the 2/12/14 Form 8-K).
10.34	Promissory Note dated February 7, 2014 made by IRT Eagle Ridge Apartments Owner, LLC, as borrower, payable to Bank of America, N.A., as lender, incorporated by reference to Exhibit 10.2 to the 2/12/14 Form 8-K.
10.35	Guaranty Agreement dated as of February 7, 2014 made by Independence Realty Operating Partnership, LP, as guarantor, for the benefit of Bank of America, N.A., as lender, incorporated by reference to Exhibit 10.2 to the 2/12/14 Form 8-K.
10.36	Purchase and Sale Agreement dated as of February 27, 2014 among Independence Realty Operating Partnership, LP, as buyer, BCMR King s Landing, a Limited Partnership, and MLP King s Landing, LLC, as sellers, filed herewith.
10.37	Note and Mortgage Assumption Agreement dated as of February 28, 2014 among U.S. Bank National Association, a national banking association, as trustee for the registered holders of J.P. Morgan Chase Commercial Mortgage Securities Corp., Commercial Mortgage Pass-Through Certificates,

	Series 2006-LDP7, as lender, Kola Investments, LLC, as original borrower, IRT OKC Portfolio Owner, LLC, as new borrower, together with the Joinder by and Agreement of Original Indemnitor by Allstate Management Corp. and the Joinder by and Agreement of New Indemnitor by Independence Realty Operating Partnership, LP and the Company, filed herewith.
10.38	Loan Agreement dated as of March 3, 2006 between Kola Investments, L.L.C., as borrower, and GMAC Commercial Mortgage Corporation, as lender, filed herewith.
10.39	Consolidated Amended and Restated Promissory Note dated as of March 3, 2006 between Kola Investments, L.L.C., as borrower, and GMAC Commercial Mortgage Corporation, as lender, filed herewith.
10.40	Guaranty dated as of March 3, 2006 by Allstate Management Corp. in favor of GMAC Commercial Mortgage Corporation, as lender, filed herewith.
10.41	Environmental Indemnity Agreement dated as of March 3, 2006 by Kola Investments, L.L.C. and Allstate Management Corp. in favor of GMAC Commercial Mortgage Corporation, as lender, filed herewith.
21.1	Subsidiaries of the company, filed herewith.
31.1	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 filed herewith.

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Exhibit	Description
31.2	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 filed herewith.
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 filed herewith.
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 filed herewith.
99.1	Material U.S. Federal Income Tax Considerations filed herewith.
101	XBRL (eXtensible Business Reporting Language). The following materials, formatted in XBRL: (i) Consolidated Balance Sheets as of December 31, 2013 and December 31, 2012, (ii) Consolidated Statements of Operations for the years ended December 31, 2013, 2012 and 2011. (iii) Consolidated Statements of Equity for the years ended December 31, 2013, 2012 and 2011, (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2013, 2012, and 2011, and (v) notes to the consolidated financial statements as of December 31, 2013.