

Education Realty Trust, Inc.  
Form 10-Q  
November 07, 2007

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

**(Mark One)**

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

**For the quarterly period ended September 30, 2007**

**Or**

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

**For the transition period from to**

**Commission File Number: 001-32417**

**Education Realty Trust, Inc.**

(Exact name of registrant as specified in its charter)

**Maryland**

(State or other jurisdiction of incorporation or  
organization)

**20-1352180**

(I.R.S. Employer Identification No.)

**530 Oak Court Drive, Suite 300, Memphis, Tennessee**

(Address of principal executive offices)

**38117**

(Zip Code)

**(Registrant's telephone number, including area code): (901)259-2500**

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  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer  Accelerated filer  Non-accelerated filer

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

As of November 5, 2007, the latest practicable date, the Registrant had outstanding 28,506,966 shares of common stock, \$.01 par value per share.

**EDUCATION REALTY TRUST, INC.**  
**FORM 10-Q**  
**QUARTER ENDED SEPTEMBER 30, 2007**  
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EX-32.2 SECTION 906 CERTIFICATION OF CFO

**Table of Contents****Part I Financial Information****Item 1. Financial Statements.****EDUCATION REALTY TRUST, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS**

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

	<b>September 30, 2007</b>	<b>December 31, 2006</b>
	(Unaudited)	
<b>Assets</b>		
Student housing properties, net	\$ 738,788	\$ 804,759
Assets under development	2,457	
Corporate office furniture, net	1,782	752
Cash and cash equivalents	3,171	6,427
Restricted cash	9,534	9,154
Student contracts receivable, net	185	227
Receivable from affiliate	428	369
Management fee receivable from third party	630	669
Goodwill and other intangibles, net	3,540	3,649
Other assets	10,127	9,452
 Total assets	 \$ 770,642	 \$ 835,458
 <b>Liabilities and stockholders equity</b>		
Liabilities:		
Mortgage loans, net of unamortized premium/discount	\$ 422,071	\$ 423,933
Term loan		47,000
Revolving line of credit	2,200	22,400
Accounts payable and accrued expenses	14,423	10,764
Deferred revenue	10,997	9,073
 Total liabilities	 449,691	 513,170
 Minority interest	 18,108	 19,289
 Commitments and contingencies		
Stockholders equity:		
Common stock, \$.01 par value, 200,000,000 shares authorized, 28,422,849 and 26,810,552 shares issued and outstanding at September 30, 2007 and December 31, 2006, respectively	284	268
Preferred shares, \$.01 par value, 50,000,000 shares authorized, no shares issued and outstanding		
Additional paid-in capital	336,676	330,374
Warrants		375
Accumulated deficit	(34,117)	(28,018)

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Total stockholders' equity	302,843	302,999
Total liabilities and stockholders' equity	\$ 770,642	\$ 835,458

*See accompanying notes to the condensed consolidated financial statements.*

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**EDUCATION REALTY TRUST, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

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

(Unaudited)

	<b>Nine months ended September 30, 2007</b>	<b>Nine months ended September 30, 2006</b>
<b>Revenues:</b>		
Student housing leasing revenue	\$ 62,381	\$ 58,723
Student housing food service revenue	1,744	2,670
Other leasing revenue	10,377	10,577
Third-party development services	3,354	2,283
Third-party management services	2,447	2,051
Operating expense reimbursements	7,055	5,891
 Total revenues	 87,358	 82,195
 <b>Operating expenses:</b>		
Student housing leasing operations	31,227	29,706
Student housing food service operations	1,683	2,427
General and administrative	10,789	9,037
Depreciation and amortization	24,009	25,904
Reimbursable operating expenses	7,055	5,891
 Total operating expenses	 74,763	 72,965
 Operating income	 12,595	 9,230
 <b>Nonoperating expenses:</b>		
Interest expense	20,676	21,682
Amortization of deferred financing costs	792	834
Loss on early repayment of debt	174	
Interest income	(353)	(439)
 Total nonoperating expenses	 21,289	 22,077
 Loss before equity in earnings of unconsolidated entities, income taxes, minority interest and discontinued operations	 (8,694)	 (12,847)
Equity in earnings (losses) of unconsolidated entities	(245)	573
 Loss before income taxes, minority interest and discontinued operations	 (8,939)	 (12,274)
Income tax expense (benefit)	(103)	463
 Net loss before minority interest and discontinued operations	 (8,836)	 (12,737)

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Minority interest	(341)	(585)
Loss from continuing operations	(8,495)	(12,152)
Discontinued operations:		
Income from discontinued operations, net of minority interest of \$35 and \$36, respectively	817	669
Gain on sale of student housing property, net of minority interest of \$65	1,579	
Income from discontinued operations	2,396	669
Net loss	\$ (6,099)	\$ (11,483)
<b>Earnings per share information</b>		
Income (loss) per share basic and diluted:		
Continuing operations	\$ (0.30)	\$ (0.46)
Discontinued operations	.08	0.02
Net loss per share	\$ (0.22)	\$ (0.44)
Weighted average common shares outstanding basic and diluted	27,869,054	26,336,343
Distributions per common share	\$ 0.6150	\$ 0.8925

*See accompanying notes to the condensed consolidated financial statements.*



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**EDUCATION REALTY TRUST, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

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

(Unaudited)

	<b>Three months ended September 30, 2007</b>	<b>Three months ended September 30, 2006</b>
<b>Revenues:</b>		
Student housing leasing revenue	\$ 19,378	\$ 18,166
Student housing food service revenue	642	895
Other leasing revenue	3,509	3,709
Third-party development services	1,287	856
Third-party management services	844	653
Operating expense reimbursements	2,672	2,146
 Total revenues	 28,332	 26,425
 <b>Operating expenses:</b>		
Student housing leasing operations	12,803	12,344
Student housing food service operations	611	844
General and administrative	3,739	2,872
Depreciation and amortization	8,005	8,680
Reimbursable operating expenses	2,672	2,146
 Total operating expenses	 27,830	 26,886
 Operating income (loss)	 502	 (461)
 <b>Nonoperating expenses:</b>		
Interest expense	6,290	7,551
Amortization of deferred financing costs	244	281
Interest income	(102)	(101)
 Total nonoperating expenses	 6,432	 7,731
 Loss before equity in earnings of unconsolidated entities, income taxes, minority interest and discontinued operations	 (5,930)	 (8,192)
Equity in earnings (losses) of unconsolidated entities	(247)	148
 Loss before income taxes, minority interest and discontinued operations	 (6,177)	 (8,044)
Income tax expense (benefit)	(54)	381
 Net loss before minority interest and discontinued operations	 (6,123)	 (8,425)
Minority interest	(337)	(471)

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Loss from continuing operations	(5,786)	(7,954)
Loss from discontinued operations, net of minority interest of \$0 and \$(13), respectively	(16)	(235)
Net loss	\$ (5,802)	\$ (8,189)
<b>Earnings per share information</b>		
Loss per share basic and diluted:		
Continuing operations	\$ (0.20)	\$ (0.30)
Discontinued operations	(0.00)	(0.01)
Loss per share	\$ (0.20)	\$ (0.31)
Weighted average common shares outstanding basic and diluted	28,418,349	26,390,417
Distributions per common share	\$ 0.2050	\$ 0.2975

*See accompanying notes to the condensed consolidated financial statements.*

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**EDUCATION REALTY TRUST, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Amounts in thousands)

(Unaudited)

	Nine months ended September 30, 2007	Nine months ended September 30, 2006
<b>Operating activities:</b>		
Net loss	\$ (6,099)	\$ (11,483)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	24,009	25,904
Depreciation included in discontinued operations	711	1,541
Deferred taxes	(631)	249
Gain on disposal of assets		(10)
Gain on sale of student housing property	(1,644)	
Loss on early repayment of debt	138	
Amortization of deferred financing costs	792	834
Amortization of unamortized debt premiums/discounts	(407)	(413)
Distributions of earnings from unconsolidated entities	339	658
Noncash compensation expense related to PIUs and restricted stock	593	622
Equity in earnings of unconsolidated entities	245	(573)
Minority interest in continuing operations	(341)	(585)
Minority interest in discontinued operations	100	35
Change in operating assets and liabilities (net of student housing acquisitions/disposals)	5,270	3,001
Net cash provided by operating activities	23,075	19,780
<b>Investing activities:</b>		
Property acquisitions, net of cash acquired		(112,694)
Deferred acquisition costs and earnest money deposits		(468)
Purchase of corporate furniture and fixtures	(1,380)	(63)
Restricted cash	(380)	(2,593)
Insurance proceeds on property loss		184
Investment in student housing properties	(6,093)	(3,669)
Proceeds from sale of student housing property	48,942	
Investment in assets under development	(2,457)	
Investment in joint ventures	(178)	(1,021)
Net cash provided by (used in) investing activities	38,454	(120,324)
<b>Financing activities:</b>		
Payment of mortgage notes	(59,204)	(1,402)
Borrowings of mortgage notes	57,800	
Borrowing (repayment) of term loan	(47,000)	50,000

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Borrowing (repayment) of line of credit, net	(20,200)	20,800
Debt issuance costs	(549)	(1,350)
Proceeds (payments) from issuance of common stock	22,428	(125)
Dividends and distributions paid	(18,060)	(25,133)
Redemption of minority interest		(8)
Net cash provided by (used in) financing activities	(64,785)	42,782
Net decrease in cash and cash equivalents	(3,256)	(57,762)
Cash and cash equivalents, beginning of period	6,427	61,662
Cash and cash equivalents, end of period	\$ 3,171	\$ 3,900

*See accompanying notes to the condensed consolidated financial statements.*

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	<b>Nine months ended September 30, 2007</b>	<b>Nine months ended September 30, 2006</b>
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	\$ 20,965	\$ 21,501
Income taxes paid	\$ 632	\$ 855
<b>Supplemental disclosure of noncash activities:</b>		
Prepaid acquisition costs	\$	\$ 4,718
Warrants expired	375	
Redemption of minority interest to satisfy loan to unitholder		6,116
Common stock issued under the dividend reinvestment plan	78	
<i>See accompanying notes to the condensed consolidated financial statements.</i>		

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**EDUCATION REALTY TRUST, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

(Unaudited)

**1. Organization and description of business**

Education Realty Trust, Inc. (the Trust ) was organized in the state of Maryland on July 12, 2004 and commenced operations as a real estate investment trust ( REIT ) effective with the initial public offering (the Offering ) that was completed on January 31, 2005. Under the Trust s Articles of Incorporation, as amended, the Trust is authorized to issue up to 200 million shares of common stock and 50 million shares of preferred stock, each having a par value of \$0.01 per share.

The Trust operates primarily through a majority owned Delaware limited partnership, Education Realty Operating Partnership, LP (the Operating Partnership ). The Operating Partnership owns, directly or indirectly, interests in student housing communities located near major universities in the United States.

The Trust also provides real estate facility management, development and other advisory services through the following subsidiaries of the Operating Partnership:

Allen & O Hara Education Services, Inc. ( AOES ), a Delaware corporation performing student housing management activities.

Allen & O Hara Development Company, LLC ( AODC ), a Delaware limited liability company providing development consulting services for third party student housing properties.

The Trust is subject to the risks involved with the ownership and operations of residential real estate near major universities throughout the United States. These include, among others, the risks normally associated with changes in the demand for housing by students at the related universities, competition for tenants, creditworthiness of tenants, changes in tax laws, interest rate levels, the availability of financing, and potential liability under environmental and other laws.

**2. Summary of significant accounting policies**

*Basis of presentation and principles of consolidation*

The accompanying condensed consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States ( GAAP ). The accompanying condensed consolidated financial statements of the Trust represent the assets and liabilities and operating results of the Trust and its majority owned subsidiaries.

The Trust, as the sole general partner of the Operating Partnership, has the responsibility and discretion in the management and control of the Operating Partnership, and the limited partners of the Operating Partnership, in such capacity, have no authority to transact business for, or participate in the management activities of the Operating Partnership. Accordingly, the Trust accounts for the Operating Partnership using the consolidation method.

All intercompany balances and transactions have been eliminated in the accompanying condensed consolidated financial statements.

*Reclassifications*

Certain prior period amounts in our segment information presented in Note 5 have been reclassified to conform to the current period presentation. Interest expense of \$2,982 related to borrowings on our revolving line of credit that were used to acquire the Place Portfolio (see Note 7) was previously an unallocated corporate expense. This amount has been reclassified to the student housing leasing segment for the nine months ended September 30, 2006.

*Interim financial information*

The accompanying unaudited interim financial statements include all adjustments, consisting only of normal recurring adjustments, that in the opinion of management are necessary for a fair presentation of the Trust s financial position, results of operations and cash flows for such periods. Because of the seasonal nature of the business, the operating results and cash flows are not necessarily indicative of results that may be expected for any other interim periods or for the full fiscal year. These financial statements should be read in conjunction with the Trust s consolidated financial statements and related notes, together with the Trust s annual report on



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Form 10-K for the year ended December 31, 2006, filed with the Securities and Exchange Commission.

*Use of estimates*

The preparation of financial statements in accordance with GAAP requires making estimates and assumptions. Such estimates and assumptions affect the reported amounts of assets and liabilities, as well as the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates and assumptions are used by management in determining the useful lives of student housing assets, the valuation of goodwill, the initial valuations and underlying allocations of purchase price in connection with student property acquisitions, and in the recording of the allowance for doubtful accounts. Actual results could differ from those estimates.

*Cash and cash equivalents*

All highly liquid investments with a maturity of three months or less when purchased are considered cash equivalents. Restricted cash is excluded from cash for the purpose of preparing the consolidated statements of cash flows. The Trust maintains cash balances in various banks. At times, the amounts of cash may exceed the \$100,000 amount the FDIC insures. The Trust does not believe it is exposed to any significant credit risk on cash and cash equivalents.

*Restricted cash*

Restricted cash includes escrow accounts held by lenders for the purpose of paying taxes, insurance, principal and interest, and to fund capital improvements.

*Distributions*

The Trust pays regular quarterly cash distributions to shareholders. These distributions are determined quarterly by the Board based on the operating results, economic conditions, capital expenditure requirements, the Internal Revenue Code's REIT annual distribution requirements, leverage covenants imposed by our revolving credit facility and other debt documents, and any other matters the Board deems relevant.

*Student housing properties*

Land, land improvements, buildings and improvements, and furniture, fixtures and equipment are recorded at cost. Buildings and improvements are depreciated over 30 to 40 years, land improvements are depreciated over 15 years and furniture, fixtures, and equipment are depreciated over 3 to 7 years. Depreciation is computed using the straight-line method for financial reporting purposes over the estimated useful life.

Acquisitions of student housing properties are accounted for utilizing the purchase method in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 141, *Business Combinations*, and accordingly, the acquired student housing properties' results of operations are included in the Trust's results of operations from the respective dates of acquisition. Pre-acquisition costs, which include legal and professional fees and other third party costs related directly to the acquisition of the property, are accounted for as part of the purchase price. Independent appraisals, estimates of cash flows, and valuation techniques are used to allocate the purchase price of acquired property between land, land improvements, buildings and improvements, furniture, fixtures and equipment and identifiable intangibles such as amounts related to in-place leases.

Management assesses impairment of long-lived assets in accordance with SFAS No. 144, *Accounting for the Impairment and Disposal of Long-lived Assets*. SFAS No. 144 requires that long-lived assets to be held and used be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In accordance with SFAS No. 144, management uses an estimate of future undiscounted cash flows of the related asset over the remaining life in measuring whether the assets are recoverable. As of September 30, 2007, management determined that no indicators of impairment existed.

Certain student housing properties are classified as held for sale based on the criteria within SFAS No. 144. When a student housing property is identified as held for sale, the net realizable value of such asset is estimated. If the net realizable value of the asset is less than the carrying amount of the asset an impairment charge is recorded for the estimated loss. Depreciation expense is no longer recorded once a student housing property has met the held for sale criteria. Operations of student housing properties that are sold or classified as held for sale are recorded as part of discontinued operations for all periods presented. For the nine months ended September 30, 2007, no impairment loss on student housing properties held for sale was recognized.





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*Repairs, maintenance, and major improvements*

The costs of ordinary repairs and maintenance are charged to operations when incurred. Major improvements that extend the life of an asset are capitalized and depreciated over the remaining useful life of the asset. Planned major repair, maintenance and improvement projects are capitalized when performed. In some circumstances the lenders require the Trust to maintain a reserve account for future repairs and capital expenditures. These amounts are classified as restricted cash as the funds are not available for current use.

*Investment in unconsolidated joint ventures, limited liability companies, and limited partnerships*

The Operating Partnership accounts for its investments in unconsolidated joint ventures, limited liability companies, and limited partnerships using the equity method whereby the cost of an investment is adjusted for the Trust's share of earnings of the respective investment reduced by distributions received. The earnings and distributions of the unconsolidated joint ventures, limited liability companies, and limited partnerships are allocated based on each owner's respective ownership interests.

*Deferred financing costs*

Deferred financing costs represent costs incurred in connection with acquiring debt facilities. These costs are amortized over the terms of the related debt using a method that approximates the effective interest method.

*Issuance costs*

Specific incremental costs directly attributable to the issuance of common stock are charged against the gross proceeds. Accordingly, underwriting commissions and other stock issuance costs are reflected as a reduction of additional paid-in capital.

*Debt premiums/discounts*

Differences between the estimated fair value of debt and the principal value of debt assumed in connection with student housing property acquisitions are amortized over the term of the related debt as an adjustment to interest using the effective interest method.

*Income taxes*

The Trust qualifies as a REIT under the Internal Revenue Code of 1986, as amended (the Code). The Trust is generally not subject to federal income tax to the extent that it distributes at least 90% of its taxable income for each tax year to its shareholders. REITs are subject to a number of organizational and operational requirements. If the Trust fails to qualify as a REIT in any taxable year, the Trust will be subject to federal income tax (including any applicable alternative minimum tax) on its taxable income and property and to federal income and excise taxes on its undistributed income.

The Trust has elected to treat its management company, AOES, as a taxable REIT subsidiary (TRS). The TRS is subject to federal, state and local income taxes. AOES manages the Trust's non-REIT activities. The Trust follows SFAS No. 109, *Accounting for Income Taxes*, which requires the use of the asset and liability method. Deferred tax assets and liabilities are recognized based on the difference between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect in the years in which those temporary differences are expected to reverse.

*Earnings per share*

The Trust calculates earnings per share in accordance with SFAS No. 128, *Earnings Per Share*. Basic earnings per share is calculated by dividing net earnings available to common shares by weighted average common shares outstanding. Diluted earnings per share is calculated similarly, except that it includes the dilutive effect of the assumed exercise of potentially dilutive securities. At September 30, 2007, the following potentially dilutive securities were outstanding, but were not included in the computation of diluted earnings per share because the effects of their inclusion would be anti-dilutive:

Operating Partnership units	913,738
University Towers Operating Partnership units	269,757
Restricted Stock (unvested shares)	84,117
Profits Interest Units	275,000

Total potentially dilutive securities

1,542,612

A reconciliation of the numerators and denominators for the basic and diluted earnings per share computations is not required as the Trust reported a loss from continuing operations for all periods presented, and therefore the effect of the inclusion of all potentially dilutive securities would be anti-dilutive when computing diluted earnings per share; thus, the computation for both basic and diluted earnings per share is the same.

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*Goodwill and other intangible assets*

The Trust accounts for its goodwill and other intangible assets under SFAS No. 142, *Goodwill and Other Intangible Assets*. Goodwill is tested annually for impairment, and is tested for impairment more frequently if events and circumstances indicate that the assets might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value.

*Minority interests*

Minority interests in the Operating Partnership represent limited partnership interests in the form of operating partnership units and profits interest units. Income is allocated to minority interests based on weighted average percentage ownership each month.

*Comprehensive Income*

The Trust follows SFAS No. 130, *Reporting Comprehensive Income*, which established standards for reporting and display of comprehensive income and its components. For all periods presented, comprehensive income (loss) is equal to net income (loss).

*Revenue recognition*

The Trust recognizes revenue related to leasing activities at the student housing properties owned by the Trust, management fees related to managing third party student housing properties, development consulting fees related to the general oversight of third party student housing development and construction and operating expense reimbursements for payroll and related expenses incurred for third party student housing properties managed by the Trust.

*Student housing leasing revenue* Student housing leasing revenue is comprised of all activities related to leasing and operating the student housing properties and includes revenues from leasing apartments by the bed, from parking lot rentals, and from providing certain ancillary services. This revenue is reflected in student housing leasing revenue in the accompanying condensed consolidated statements of operations. Students are required to execute lease contracts with payment schedules that vary from annual to monthly payments. Generally, the Trust requires each executed leasing contract to be accompanied by nonrefundable application and service fees and a signed parental guarantee. Receivables are recorded when billed. Revenues and related lease incentives and nonrefundable application and service fees are recognized on a straight-line basis over the term of the contracts. The Trust has no contingent rental contracts except as noted below related to other leasing revenue. At certain student housing facilities, the Trust offers parking lot rentals to the tenants. The related revenues are recognized on a straight-line basis over the term of the related agreement.

*Student housing food service revenue* The Trust maintains a dining facility at University Towers, which offers meal plans to the tenants as well as dining to other third party customers. The meal plans typically require upfront payment by the tenant covering the school semester and the related revenue is recognized on a straight-line basis over the corresponding semester.

*Other leasing revenue* Other leasing revenue relates to our leasing of the 13 properties we acquired from Place Properties ( Place ). Simultaneous with the acquisition of the 13 properties, the Trust leased the assets to Place and receives base monthly rent of \$1,145 and has the right to receive Additional Rent annually if the properties exceed certain criteria defined in the lease agreement. Base rent is recognized on a straight line basis over the lease term and Additional Rent is recognized only upon satisfaction of the defined criteria.

*Third-party management services revenue* The Trust enters into management contracts to manage third-party student housing facilities. Management revenues are recognized when earned in accordance with each management contract. Incentive management fees are recognized when the incentive criteria have been met.

*Third-party development services revenue* The Trust provides development consulting services in an agency capacity with third parties whereby the fee is determined based upon the total construction costs. Total fees vary from 3-5% of the total estimated costs, and we typically receive a portion of the fees up front. These fees, including the upfront fee, are recognized using the percentage of completion method in proportion to the contract costs incurred by the owner over the course of construction of the respective projects.

*Operating expense reimbursements* The Trust pays certain payroll and related costs to operate third-party student housing properties that are managed by the Trust. Under the terms of the related management agreements, the

third-party property owners reimburse these costs. The amounts billed to the third-party owners are recognized as revenue in accordance with Emerging Issues Task Force No. 01-14, *Income Statement Characterization of Reimbursements Received for Out of Pocket Expenses Incurred*.

*Recent accounting pronouncements*

In June 2006, the Financial Accounting Standards Board ( FASB ) issued Interpretation No. 48, *Accounting for Uncertainty in*

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*Income Taxes, an Interpretation of FASB Statement No. 109 ( FIN 48 ).* FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation also provides guidance on description, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 became effective on January 1, 2007. The Trust has no unrecognized tax benefits as of September 30, 2007. The Trust, or its subsidiaries, file income tax returns in the U.S. Federal jurisdiction and various states' jurisdictions. Open tax years generally include tax years 2004-2006 as of the date of adoption. The adoption of FIN 48 did not have a material impact on the Trust's consolidated financial condition or results of operations taken as a whole.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements ( SFAS 157 )*. SFAS 157 does not address what to measure at fair value; instead, it addresses how to measure fair value. SFAS 157 applies (with limited exceptions) to existing standards that require assets or liabilities to be measured at fair value. SFAS 157 establishes a fair value hierarchy, giving the highest priority to quoted prices in active markets and the lowest priority to unobservable data and requires new disclosures for assets and liabilities measured at fair value based on their level in the hierarchy. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Trust is currently evaluating the impact of adopting SFAS 157 on its consolidated financial condition and results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities ( SFAS 159 )*, which permits the option to measure financial instruments and certain other items at fair value, with changes in fair value recorded in earnings. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Trust is currently evaluating the impact of adopting SFAS 159 on its consolidated financial condition and results of operations.

**3. Investments in unconsolidated entities**

As of September 30, 2007, the Trust had investments, directly or indirectly, in the following active unconsolidated joint ventures, limited liability companies and limited partnerships that are accounted for under the equity method:

University of Louisville Apartment Developers LLC, a Kentucky limited liability company, 50% owned by AOES

National Development/Allen & O Hara CUPA, LLC, a Pennsylvania limited liability company, 50% owned by AODC

University Village-Greensboro LLC, a Delaware limited liability company, 25% owned by the Operating Partnership

AODC/CPA, LLC, a Delaware limited liability company, 50% owned by AODC

WEDR Riverside Investors V, LLC, a Delaware limited liability company, 10% owned by the Operating Partnership

APF EDR, LP, a Delaware limited partnership, 10% owned by the Operating Partnership

APF EDR Food Services, LP, a Delaware limited partnership, 10% owned by the Operating Partnership

WEDR Stinson Investors V, LLC, a Delaware limited liability company, 10% owned by the Operating Partnership

The following is a summary of financial information for the Trust's unconsolidated joint ventures, limited liability companies, and limited partnerships for the nine months ended September 30, 2007 and 2006:

	<b>2007</b>	<b>2006</b>
Results of Operations:		
Revenues	\$ 8,871	\$1,418
Net income (loss)	(3,590)	1,104
Equity in earnings (losses) of unconsolidated entities	\$ (245)	\$ 573

These entities provide development consulting services to third party student housing owners in an agency capacity or own student housing communities which are managed by the Trust.

#### **4. Debt**

##### **Term loan and revolving credit facility**

On March 31, 2006, the Operating Partnership amended and restated the revolving credit facility (the Amended Revolver ) dated January 31, 2005 in the amount of \$100,000 and entered into a senior unsecured term loan facility (the Term Loan ) in the amount of \$50,000. On June 8, 2007, the Trust prepaid the entire balance outstanding on the Term Loan with the proceeds received from the sale of the student housing property discussed in Note 8. In conjunction with this prepayment, the Trust recognized a loss from early extinguishment of debt totaling \$174 consisting of the write-off of unamortized deferred financing costs.

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The Trust serves as the guarantor for any funds borrowed by the Operating Partnership under the Amended Revolver. Additionally, the Amended Revolver is secured by a cross-collateralized, first mortgage lien on six unmortgaged properties. The Amended Revolver has a term of three years and matures on March 31, 2009, provided that the Operating Partnership may extend the maturity date for one year subject to certain conditions. At September 30, 2007, there was \$2,200 outstanding on the Amended Revolver. The interest rate per annum applicable to the Amended Revolver is, at the Operating Partnership's option, equal to a base rate or London InterBank Offered Rate ( LIBOR ) plus an applicable margin based upon our leverage (7.57% at September 30, 2007).

Availability under the Operating Partnership's Amended Revolver is limited to a borrowing base availability equal to the lesser of (i) 65% of the property asset value (as defined in the amended credit agreement) of the properties securing the facility and (ii) the loan amount which would produce a debt service coverage ratio of no less than 1.30, with debt service based on the greater of two different sets of conditions specified in the amended credit agreement.

The Operating Partnership's Amended Revolver contains customary affirmative and negative covenants and contains financial covenants that, among other things, require the Trust and its subsidiaries to maintain certain minimum ratios of EBITDA (earnings before payment or charges of interest, taxes, depreciation, amortization or extraordinary items) as compared to interest expense and total fixed charges. The financial covenants also include consolidated net worth and leverage ratio tests. During January 2007, the Trust determined it would be in violation of its interest coverage ratio covenant related to the Amended Revolver. On February 27, 2007, the Trust entered into an amendment to the Amended Revolver ( First Amendment ), whereby the interest coverage ratio was adjusted from 1.85:1.00, to not less than 1.70:1.00 at all times from December 31, 2006 until March 31, 2008. However, the First Amendment states that if the Trust attains an interest coverage ratio greater than 1.85:1.00 during the effective period of the First Amendment, the interest coverage ratio reverts back to 1.85:1.00 on a prospective basis. At September 30, 2007, the Trust attained an interest coverage ratio of 1.87:1.00. Accordingly, the interest coverage ratio covenant will revert back to 1.85:1.00 on a prospective basis.

The Trust is prohibited from making distributions that exceed \$1.20 per share unless prior to and after giving effect to such action the total leverage ratio is less than or equal to 60%. The amount of restricted payments permitted may be increased as long as either of the following conditions is met: (a) after giving effect to the increased restricted payment, the total leverage ratio shall remain less than or equal to 60%; or (b) the increased restricted payment, when considered along with all other restricted payments for the last 3 quarters, does not exceed (i) 100% of funds from operations for the applicable period through and including September 30, 2007, and (ii) 95% of funds from operations for the applicable period thereafter.

During the nine months ended September 30, 2007, the Trust issued 1,571,692 shares of common stock under the direct stock purchase plan, raising net proceeds of approximately \$22,530 which were primarily used to pay down the Amended Revolver.

**Mortgage debt**

At September 30, 2007, the Trust had outstanding mortgage indebtedness of \$422,071 (net of unamortized debt premium of \$1,849). During the nine months ended September 30, 2007, the Trust refinanced \$29,900 of maturing mortgage debt bearing interest at 6.63% and \$26,500 of maturing mortgage debt bearing interest at 3.49%. In connection with the refinancing, the Trust incurred \$549 of financing costs. The new mortgages are interest only at a fixed rate of 5.55% through March 1, 2012 and 5.59% through May 1, 2014, respectively. The scheduled maturities of outstanding mortgage indebtedness at September 30, 2007 are as follows:

**Fiscal Year Ending**

2007 (3 months ended December 31, 2007)	\$ 954
2008	26,481
2009	285,050
2010	888
2011	947
Thereafter	105,902



Total	420,222
Unamortized debt premium/discounts	1,849
Outstanding at September 30, 2007, net of unamortized premiums/discounts	\$ 422,071

At September 30, 2007, the outstanding mortgage debt had a weighted average interest rate of 5.90% and carried an average term to maturity of 2.72 years.

**5. Segments**

Business segments are defined by their distinct customer base and service provided. Three reportable segments have been identified: student housing leasing, third-party development consulting services and third-party management services. Management

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evaluates each segment's performance based on pretax income and net operating income, which is defined as income before depreciation, amortization, interest expense, interest income and equity in earnings of unconsolidated entities. Discontinued operations are not included in segment reporting as management addresses these items on a corporate level. Intercompany fees are reflected at the contractually stipulated amounts. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. The following table represents segment information for the nine months ended September 30, 2007 and 2006:

	Nine months ended September 30, 2007					Nine months ended September 30, 2006				
	Student Housing Leasing	Third-Party Development Consulting Services	Third-Party Management Services	Adjustments	Total	Student Housing Leasing	Third-Party Development Consulting Services	Third-Party Management Services	Adjustments	Total
<b>Revenues:</b>										
Student housing leasing revenue	\$ 62,381	\$	\$	\$	\$ 62,381	\$ 58,723	\$	\$	\$	\$ 58,723
Student housing food service revenue	1,744				1,744	2,670				2,670
Other leasing revenue	10,377				10,377	10,577				10,577
Third-party development consulting services		3,354			3,354		2,283			2,283
Third-party management revenue			2,447		2,447			2,051		2,051
Intersegment revenues			2,545	(2,545)				2,470	(2,470)	
Operating expense reimbursements				7,055	7,055				5,891	5,891
<b>Total revenues</b>	<b>74,502</b>	<b>3,354</b>	<b>4,992</b>	<b>4,510</b>	<b>87,358</b>	<b>71,970</b>	<b>2,283</b>	<b>4,521</b>	<b>3,421</b>	<b>82,195</b>
<b>Operating Expenses:</b>										
Student housing leasing operations	31,227				31,227	29,706				29,706
Student housing food service operations	1,683				1,683	2,427				2,427
General and administrative	102	1,985	4,976		7,063	4	1,601	3,653		5,258
Intersegment expenses	2,545			(2,545)		2,470		(2,470)		
				7,055	7,055				5,891	5,891

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Reimbursable  
operating  
expenses

Total operating  
expenses

35,557	1,985	4,976	4,510	47,028	34,607	1,601	3,653	3,421	43,282
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Net operating  
income

38,945	1,369	16		40,330	37,363	682	868		38,913
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Nonoperating  
expenses(1)

43,803				43,803	47,133				47,133
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	Nine months ended September 30, 2007				Nine months ended September 30, 2006			
	Third-Party Student Development Housing Leasing	Third-Party Consulting Services	Third-Party Management Services	Adjustments Total	Third-Party Student Development Housing Leasing	Third-Party Consulting Services	Third-Party Management Services	Adjustments Total
Income (loss) before equity in earnings of unconsolidated entities, income taxes, minority interest and discontinued operations	(4,858)	1,369	16	(3,473)	(9,770)	682	868	(8,220)
Equity in earnings of unconsolidated entities	(466)	221		(245)	(14)	587		573
Income (loss) before taxes, minority interest and discontinued operations(3)	\$ (5,324)	\$ 1,590	\$ 16	\$ (3,718)	\$ (9,784)	\$ 1,269	\$ 868	\$ (7,647)
Total segment assets, as of September 30, 2007 and December 31, 2006 (2)	\$ 755,685	\$ 3,873	\$ 7,645	\$ 767,203	\$ 818,832	\$ 2,082	\$ 5,567	\$ 826,481

(1) Nonoperating expenses include interest expense, interest income, amortization of deferred financing costs, depreciation, and amortization of intangibles.

- (2) The significant decrease in segment assets related to student housing leasing from that presented at December 31, 2006 relates to the disposition of the student housing property known as the Village on Tharpe as described in Note 8 and normal depreciation in the first nine months of 2007. The increase of \$1,791 in segment assets related to third party development consulting services is due to an increase of approximately \$531 in development fee receivables and an increase of operating cash at the end of the current quarter.
- (3) The following is a reconciliation of the reportable segments net income before income taxes, minority interest and discontinued operations to the Trust's consolidated net

loss before  
income taxes,  
minority interest  
and  
discontinued  
operations:

	<b>2007</b>	<b>2006</b>
Net loss before income taxes, minority interest and discontinued operations for reportable segments	\$ (3,718)	\$ (7,647)
Other unallocated corporate expenses (4)	(5,221)	(4,627)
Net loss before income taxes, minority interest and discontinued operations	\$ (8,939)	\$ (12,274)

(4) Certain prior period amounts have been reclassified to conform to the current period presentation. Interest expense of \$2,982 related to borrowings on our revolving line of credit that were used to acquire the Place Portfolio was previously an unallocated corporate expense. This amount has been reclassified to the student housing leasing segment for the nine months ended September 30, 2006.

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The following table represents segment information for the three months ended September 30, 2007 and 2006:

	Three months ended September 30, 2007					Three months ended September 30, 2006				
	Student Housing Leasing	Development Consulting Services	Third-Party Management Services	Adjustments	Total	Student Housing Leasing	Development Consulting Services	Third-Party Management Services	Adjustments	Total
<b>Revenues:</b>										
Student housing leasing revenue	\$ 19,378	\$	\$	\$	\$ 19,378	\$ 18,166	\$	\$	\$	\$ 18,166
Student housing food service revenue	642				642	895				895
Other leasing revenue	3,509				3,509	3,709				3,709
Third-party development consulting services		1,287			1,287		856			856
Third-party management revenue			844		844			653		653
Intersegment revenues			851	(851)				814	(814)	
Operating expense reimbursements				2,672	2,672				2,146	2,146
Total revenues	23,529	1,287	1,695	1,821	28,332	22,770	856	1,467	1,332	26,425
<b>Operating Expenses:</b>										
Student housing leasing operations	12,803				12,803	12,344				12,344
Student housing food service operations	611				611	844				844
General and administrative	16	714	1,629		2,359		547	1,141		1,688
Intersegment expenses	851			(851)		814			(814)	
Reimbursable operating expenses				2,672	2,672				2,146	2,146
Total operating expenses	14,281	714	1,629	1,821	18,445	14,002	547	1,141	1,332	17,022

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Net operating income	9,248	573	66	9,887	8,768	309	326	9,403
Nonoperating expenses(1)	14,041			14,041	16,037			16,037
Income (loss) before equity in earnings of unconsolidated entities, income taxes, minority interest and discontinued operations	(4,793)	573	66	(4,154)	(7,269)	309	326	(6,634)

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	Three months ended September 30, 2007					Three months ended September 30, 2006				
	Student Housing Leasing	Development Consulting Services	Third-Party Management	Adjustments	Total	Student Housing Leasing	Development Consulting Services	Third-Party Management	Adjustments	Total
Equity in earnings of unconsolidated entities	(261)	14			(247)	(14)	162			148
Income (loss) before taxes, minority interest and discontinued operations(2)	\$ (5,054)	\$ 587	\$ 66	\$	\$ (4,401)	\$ (7,283)	\$ 471	\$ 326	\$	\$ (6,486)

(1) Nonoperating expenses include interest expense, interest income, amortization of deferred financing costs, depreciation, and amortization of intangibles.

(2) The following is a reconciliation of the reportable segments net income before income taxes, minority interest and discontinued operations to the Trust's consolidated net loss before income taxes, minority interest and discontinued

operations:	<b>2007</b>	<b>2006</b>
Net loss before income taxes, minority interest and discontinued operations for reportable segments	\$ (4,401)	\$ (6,486)
Other unallocated corporate expenses (3)	(1,776)	(1,558)
Net loss before income taxes, minority interest and discontinued operations	\$ (6,177)	\$ (8,044)

(3) Certain prior period amounts have been reclassified to conform to the current period presentation. Interest expense of \$1,282 related to borrowings on our revolving line of credit that were used to acquire the Place Portfolio was previously an unallocated corporate expense. This amount has been reclassified to the student housing leasing segment for the three months ended September 30, 2006.

## **6. Commitments and contingencies**

In connection with one of the Trust's student housing portfolio acquisitions, the Trust became aware of a June 2001 notification from the United States Department of Justice of an on-going investigation regarding possible violations of the American Disabilities Act of 1990 and the Fair Housing Amendments Act of 1988 related to one of the student housing properties. In October 2002, the investigations were delayed for an undetermined period of time and therefore such has not been fully resolved. Management does not believe the resolution of this matter will result in a material adverse effect on the Trust's consolidated financial condition or results of operations.

The Operating Partnership entered into a letter of credit agreement in conjunction with the closing of the acquisition of a student housing property at the University of Florida. The letter of credit remains outstanding in the amount of \$1,500 at September 30, 2007 and is secured by the Operating Partnership's existing revolving credit facility.

On May 10, 2006, the Operating Partnership guaranteed \$23,200 of construction debt held by University Village-Greensboro LLC in order to receive a 25% ownership stake in the venture with College Park Apartments. The

construction debt is expected to be refinanced in September of 2008 after construction is complete and the student housing community is occupied. The Operating Partnership has determined that it will not guarantee the debt after the construction loan is refinanced.

The Trust also has various operating lease commitments for corporate office space, furniture and technology equipment.

As owners and operators of real estate, environmental laws impose ongoing compliance requirements on the Trust. The Trust is not aware of any environmental matters or liabilities with respect to the student housing properties that would have a material adverse effect on the Trust's consolidated financial condition or results of operations.

In the normal course of business, the Trust is subject to claims, lawsuits, and legal proceedings. While it is not possible to ascertain the ultimate outcome of such matters, in management's opinion, the liabilities, if any, in excess of amounts provided or covered by insurance, are not expected to have a material adverse effect on our financial position, results of operations or liquidity.

**Table of Contents****7. Acquisition of real estate investments**

During 2005, the Trust completed a private placement of 4,375,000 shares of its common stock which raised net proceeds of approximately \$67,000. These shares were registered with the Securities and Exchange Commission on January 25, 2006. The proceeds were used to acquire 13 student housing properties from Place Properties L.P. ( Place Portfolio ) in January 2006. Consideration for the acquisition included cash of \$95,800, issuance of 36,954 partnership units and the assumption of interest only mortgage debt of \$98,700. The results of operations for the acquisition have been included in the accompanying consolidated statements of operations from the date of acquisition (January 1, 2006).

On June 28, 2007, the Trust completed the acquisition of land in Carbondale, Illinois for \$1,946 in order to develop a wholly owned student apartment community near Southern Illinois University. Since the acquisition we have incurred an additional \$511 in costs to develop the community. All costs are classified as assets under development on the condensed consolidated balance sheet.

**8. Disposition of real estate investments and discontinued operations**

On June 5, 2007, the Trust sold the Village on Tharpe ( Tharpe ) student housing property for a purchase price of \$50,000, resulting in net proceeds of approximately \$48,942. The net proceeds were used to pay off the Term Loan (see Note 4). The resulting gain on disposition of approximately \$1,579, net of minority interest, is included in discontinued operations in the accompanying condensed consolidated statement of operations for the nine months ended September 30, 2007. Accordingly, the results of operations of Tharpe are included in discontinued operations for all periods presented. In accordance with the provisions of SFAS No. 144, the Trust ceased depreciation on the property when it met the held for sale criteria.

The following table summarizes income from discontinued operations, net of minority interest, and the related realized gains on sales of real estate from discontinued operations, net of minority interest, for the nine months ended September 30, 2007 and 2006:

	<b>2007</b>	<b>2006</b>
Student housing leasing revenue	\$ 2,692	\$ 4,699
Student housing leasing operating expenses	(1,129)	(2,453)
Depreciation and amortization	(711)	(1,541)
Minority interest in Operating Partnership	(35)	(36)
Income from discontinued operations (net of minority interest)	\$ 817	\$ 669
Gain on sale of student housing property	\$ 1,644	\$
Minority interest in Operating Partnership	(65)	
Gain on sale of student housing property (net of minority interest)	\$ 1,579	\$

**9. Incentive plan**

The Trust adopted the Education Realty Trust, Inc. 2004 Incentive Plan (the Plan ) effective upon the closing of the Offering. The Plan provides for the grant of stock options, restricted stock units, stock appreciation rights, other stock-based incentive awards, and profits interest units to employees, directors and other key persons providing services to the Trust. The Trust has reserved 800,000 shares of its common stock for issuance pursuant to the Plan, subject to adjustments for changes in the Trust's capital structure, including share splits, dividends and recapitalizations. The number of shares reserved under the Plan is also subject to an annual adjustment, beginning on January 1, 2006, so that the total number of shares reserved under the Plan is equal to 4% of the aggregate number of shares outstanding on the last day of the preceding fiscal year; provided that such annual increase generally may not exceed 80,000 shares.

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During the year ended December 31, 2006, the Trust issued 4,000 shares to its executive officers and 2,000 shares to its independent directors. The 2006 issuances vested immediately. During the nine months ended September 30, 2007, the Trust issued 4,000 shares to its executive officers and 4,000 shares to its independent directors, which vested immediately. A restricted stock award is an award of the Trust's common stock that is subject to restrictions on transferability and other restrictions as the Trust's compensation committee determines in its sole discretion on the date of grant. The restrictions may lapse over a specified period of employment or the satisfaction of pre-established criteria as our compensation committee may determine. Except to the extent restricted under the award agreement, a participant awarded restricted shares will have all of the rights of a stockholder as to those shares, including, without limitation, the right to vote and the right to receive dividends or distributions on the shares. Restricted stock is generally taxed at the time of vesting. At September 30, 2007 and December 31, 2006, unearned compensation totaled \$1,412 and \$1,866, respectively and will be recorded as expense over the applicable vesting period. The value is determined based on the market value of the Trust's common stock on the grant date. During the nine months ended September 30, 2007 and 2006, compensation expense of \$453 and \$500, respectively, was recognized during each period in the accompanying condensed consolidated statements of operations, related to the vesting of restricted stock.

Profits interest units, or PIUs, are units in a limited liability company controlled by the Trust that holds a special class of partnership interests in the Operating Partnership. Each PIU will be deemed equivalent to an award of one share of the Trust's

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common stock and will entitle the owner of such unit to receive the same quarterly per unit distributions as one common unit of the Operating Partnership. This treatment with respect to quarterly distributions is similar to the expected treatment of restricted stock awards, which will generally receive full dividends whether vested or not. PIUs will not initially have full parity with common units of the Operating Partnership with respect to liquidating distributions. Upon the occurrence of specified capital equalization events, PIUs may, over time, achieve full or partial parity with common units of the Operating Partnership for all purposes, and could accrete to an economic value equivalent to the Trust's common stock on a one-for-one basis. If such parity is reached, vested PIUs may be exchanged into an equal number of the Trust's shares of common stock at any time. However, there are circumstances under which full parity would not be reached. Until such parity is reached, the value that may be realized for vested PIUs will be less than the value of an equal number of shares of the Trust's common stock, if there is any value at all. The grant or vesting of PIUs is not expected to be a taxable transaction to recipients. Conversely, we will not receive any tax deduction for compensation expense from the grant of PIUs. PIUs are treated as minority interests in the accompanying condensed consolidated financial statements at an amount equal to the holders' ownership percentage of the net equity of the Operating Partnership.

Effective January 1, 2006, the Trust adopted the provisions of SFAS No. 123 (R) using the modified prospective transition method. This pronouncement requires that compensation costs related to share-based payments be recognized in the financial statements. Prior to January 1, 2006, the Trust applied the provisions of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. The adoption of SFAS No. 123 (R) had no impact on the accompanying financial statements other than the reclassification of unearned compensation to additional paid-in capital.

A summary of incentive plan activity for the nine months ended September 30, 2007 is as follows:

	<b>PIU s</b>	<b>Restricted Stock</b>	<b>Total</b>
Outstanding at December 31, 2006	265,000	192,000	457,000
Granted	7,500	4,000	11,500
Redeemed	(2,500)		(2,500)
Outstanding at March 31, 2007	270,000	196,000	466,000
Granted		4,000	4,000
Redeemed	(2,500)		(2,500)
Outstanding at June 30, 2007	267,500	200,000	467,500
Granted	7,500		7,500
Redeemed			
Outstanding at September 30, 2007	275,000	200,000	475,000
Vested at September 30, 2007	275,000	115,883	390,883

Total compensation cost recognized in general and administrative expense in the accompanying condensed consolidated statements of operations for the nine months ended September 30, 2007 and 2006 was approximately \$595 and \$600, respectively.

**10. Subsequent events**

On October 9, 2007, our board of directors declared a third quarter distribution of \$0.205 per share of common stock for the quarter ending on September 30, 2007. The distribution is payable on November 6, 2007 to shareholders of record at the close of business on October 23, 2007.



**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.  
(Dollars in thousands, except selected property information and share data)**

*The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this Quarterly Report. Certain statements contained in this filing are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including but not limited to statements related to plans for future acquisitions, our business and investment strategy, market trends and projected capital expenditures. When used in this report, the words expect, anticipate, intend, plan, believe, seek, estimate, would, could, should, and similar expressions are generally intended to identify forward-looking statements. You should not place undue reliance on these forward-looking statements, which reflect our opinions only as of the date of this Quarterly Report. We assume no obligation to update or supplement forward-looking statements that become untrue because of subsequent events. Forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. For further information about these and other factors that could affect our future results, please see the Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2006. Investors are cautioned that any forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements.*

**Overview**

We are a self-managed and self-advised real estate investment trust ( REIT ) engaged in the ownership, acquisition and management of high quality student housing communities. We also provide student housing development consulting services to universities, charitable foundations and others. We believe that we are one of the largest private owners, developers and managers of high-quality student housing communities in the United States in terms of both total beds owned and under management.

We earn income from rental payments we receive as a result of our ownership of student housing properties. We also earn income by performing property management services and development consulting services for third parties through our Management Company and Development Company, respectively. While we manage 67% of the properties we own, we will not recognize any fee income from their management on a consolidated basis. We have elected to be taxed as a REIT for federal income tax purposes.

**Our Business Segments**

We define business segments by their distinct customer base and service provided. Management has identified three reportable segments: student housing leasing, third-party management services and third-party development consulting services. We evaluate each segment's performance based on net operating income, which is defined as income before depreciation, amortization, interest expense, interest income, equity in earnings of unconsolidated entities and discontinued operations. The accounting policies of the reportable segments are described in more detail in the summary of significant accounting policies in the notes to the condensed consolidated financial statements appearing elsewhere in this Quarterly Report and in our Annual Report on Form 10-K for the year ended December 31, 2006. Intercompany fees are reflected at the contractually stipulated amounts.

***Student Housing Leasing***

Student housing leasing revenue represented approximately 92.8% of our revenue, excluding operating expense reimbursements, for the nine months ended September 30, 2007. Our revenue related to food service operations is included in this segment. Additionally, this segment includes other leasing revenue related to the Place Portfolio lease.

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

Due to our predominantly private bedroom accommodations, the high level of student-oriented amenities offered at our communities and the individual lease liability, we believe our properties can typically command higher per-unit and per-square foot rental rates than most multi-family properties in the same geographic markets. We are also



typically able to command higher rental rates than on-campus student housing, which tends to offer fewer amenities.

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The majority of our leases commence mid-August and terminate the last day of July. These dates generally coincide with the commencement of the universities' fall academic term and the completion of the subsequent summer school session. As such, we are required to re-lease each property in its entirety each year, resulting in significant turnover in our tenant population from year to year. In 2007 and 2006, approximately 68.5% and 68.3%, respectively, of our beds were leased to students who were first-time residents at our properties. As a result, we are highly dependent upon the effectiveness of our marketing and leasing efforts during the annual leasing season that typically begins in February and ends in August of each year. Our properties' occupancy rates are therefore typically stable during the August to July academic year but are susceptible to fluctuation at the commencement of each new academic year.

Prior to the commencement of each new lease period, mostly during the first two weeks of August but also during September at some communities, we prepare the units for new incoming tenants. Other than revenue generated by in-place leases for returning tenants, we do not generally recognize lease revenue during this period referred to as

Turn as we have no leases in place. In addition, during Turn we incur significant expenses making our units ready for occupancy, which we recognize immediately. This lease Turn period results in seasonality in our operating results during the third quarter of each year.

### ***Third-Party Management Services***

Revenue from our third-party management services, excluding operating expense reimbursements, represented approximately 3.0% of our revenue for the nine months ended September 30, 2007. These revenues are typically derived from multi-year management agreements, under which management fees are typically 3-5% of leasing revenue. These agreements typically have an initial term of five to ten years with a renewal option for an additional five years. As part of the management agreements, there are certain payroll and related expenses we pay on behalf of the third-party property owners. These costs are included in reimbursable operating expenses and are required to be reimbursed to us by the third-party property owners. We recognize the expense and revenue related to these reimbursements when incurred. These operating expenses are wholly reimbursable and therefore not considered by our management when analyzing the operating performance of our third-party management services business.

### ***Third-Party Development Consulting Services***

Revenue from our third-party development consulting services, excluding operating expense reimbursements, represented approximately 4.2% of our revenue for the nine months ended September 30, 2007. Fees for these services are typically 3-5% of the total project cost and are payable over the life of the project, which is typically one to two years in length. We incur expenses that are reimbursable by a project when awarded. We recognize the expenses when incurred, while the reimbursement revenue is not recognized until the consulting contract is awarded. These operating expenses are wholly reimbursable and therefore not considered by our management when analyzing the operating performance of our third-party development consulting services business. Also at times we will pay pre-development project expenses such as architectural fees and permits if such are required prior to the project's financing being in place. We typically obtain a guarantee from the owner for repayment.

We periodically enter into joint venture arrangements whereby we provide development consulting services to third-party student housing owners in an agency capacity. We recognize our portion of the earnings in each joint venture based on our ownership interest, which is reflected as equity in earnings of unconsolidated entities after net operating income in our statement of operations. Our revenue and operating expenses could fluctuate from period to period based on the extent we utilize joint venture arrangements to provide third-party development consulting services.

The amount and timing of future revenues from development consulting services will be contingent upon our ability to successfully compete in public universities' competitive procurement processes, our ability to successfully structure financing of these projects, and our ability to ensure completion of construction within agreed construction timelines and budgets. To date, all of our third-party development projects have completed construction in time for their targeted occupancy dates.

## **Trends and Outlook**

### ***Rents and Occupancy***

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We expect the general trends of increased university enrollment and limited availability of on-campus housing to continue for the foreseeable future, providing us with continued opportunities to maximize revenues through increased occupancy and/or rental rates in our owned portfolio. We manage our properties to maximize revenues, which are primarily determined by two components: rental rates and occupancy rates. For the nine months ended September 30, 2007, same community revenue per available bed increased to \$376 and same community physical occupancy increased to 93.3% compared to revenue per available bed of \$359 and physical occupancy of 92.4% for the nine months ended September 30, 2006.

We customarily adjust rental rates in order to maximize revenues, which in some cases results in a lower occupancy rate, but in most cases results in stable or increasing revenues from the property. As a result, a decrease in occupancy rates may be offset by an increase in rental rates and may not be material to our operations.

**Table of Contents*****General and Administrative Costs***

In 2006, we experienced additional payroll costs related to growth and costs associated with formulating and documenting our internal control systems to comply with the Sarbanes Oxley Act of 2002. In 2007, we have continued to experience increases in salaries and staffing costs primarily related to the growth of each business segment.

***Critical Accounting Policies***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States ( GAAP ) requires management to make estimates and assumptions in certain circumstances that affect amounts reported in our financial statements and related notes. In preparing these financial statements, management has utilized all available information, including its past history, industry standards and the current economic environment, among other factors, in forming its estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. The ultimate outcome anticipated by management in formulating its estimates may not be realized. Application of the critical accounting policies below involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. In addition, other companies in similar businesses may utilize different estimation policies and methodologies, which may impact the comparability of our results of operations and financial condition to those companies.

***Student Housing Leasing Revenue Recognition***

Student housing leasing revenue is comprised of all revenue related to the leasing activities at our student housing properties and includes revenues from the leasing of space, parking lot rentals and certain ancillary services. Revenue from our food service operations is also included in this segment. Additionally, we include other leasing revenue related to the Place Portfolio lease in this segment.

Students are required to execute lease contracts with payment schedules that vary from annual to monthly payments. Generally, a nonrefundable application fee, a nonrefundable service fee and a notarized parental guarantee must accompany each executed contract. Receivables are recorded when due. Leasing revenues and related lease incentives and nonrefundable application and service fees are recognized on a straight-line basis over the term of the contracts. Balances are considered past due when payment is not received on the contractual due date. Allowances for doubtful accounts are established by management when it is determined that collection is doubtful.

***Student Housing Food Service Revenue Recognition***

In 2006, we provided food service to an unaffiliated secondary boarding school through a contract covering a nine-month period. The contract required a flat weekly fee and the related revenues were recognized on a straight-line basis over the contract period. This contract was terminated effective December 31, 2006. Additionally, we maintain a dining facility at University Towers, which offers meal plans to the tenants as well as dining to other third-party customers. The meal plans typically require upfront payment by the tenant covering the school semester and the related revenue is recognized on a straight-line basis over the corresponding semester.

***Other Leasing Revenue Recognition***

Other leasing revenue relates to our leasing of 13 properties we acquired from Place Properties ( Place ) on January 1, 2006. Simultaneous with the acquisition of the 13 properties, the Trust leased the assets to Place and receives base monthly rent of \$1,145 and has the right to receive Additional Rent annually if the properties exceed certain criteria defined in the lease agreement. Base rent is recognized on a straight-line basis over the lease term and Additional Rent is recognized only upon satisfaction of the defined criteria.

***Revenue and Cost Recognition of Third-Party Development Consulting Services***

Costs associated with the pursuit of third-party development consulting contracts are expensed as incurred until such time as we have been notified of a contract award or reimbursement has been otherwise guaranteed by the customer. At such time, the reimbursable portion of such costs is recorded as a receivable. Development consulting revenues are recognized using the percentage of completion method as determined by construction costs incurred relative to the total estimated construction costs. Occasionally, our development consulting contracts include a provision whereby we can participate in project savings resulting from our successful cost management efforts. We recognize these revenues once all contractual terms have been satisfied and we have no future performance requirements. This typically occurs near the end of the construction period. Costs associated with development

consulting services are expensed as incurred. We generally receive a significant percentage of our fees for development consulting services upon closing of the project financing, a portion of the fee over the construction period, and the balance upon substantial completion of construction. Because revenue from these services is recognized for financial reporting purposes utilizing the percentage of completion method, differences occur between amounts

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received and revenues recognized. Differences also occur between amounts recognized for tax purposes and those recognized from financial reporting purposes. Because as a REIT, we are required to distribute 90% of our taxable income, our distribution requirement with respect to our income from third-party services may exceed that reflected as net income for financial reporting purposes from such activities.

We periodically enter into joint venture arrangements whereby we provide development consulting services to third-party student housing owners in an agency capacity. We recognize our portion of the earnings in each joint venture based on our ownership interest, which is reflected after net operating income in our statement of operations as equity in earnings of unconsolidated entities. Our revenue and operating expenses could fluctuate from period to period based on the extent we utilize joint venture arrangements to provide third-party development consulting services.

***Student Housing Property Acquisitions and Dispositions***

Land, land improvements, buildings and improvements, and furniture, fixtures and equipment are recorded at cost. Buildings and improvements are depreciated over 30 to 40 years, land improvements are depreciated over 15 years and furniture, fixtures, and equipment are depreciated over 3 to 7 years. Depreciation is computed using the straight-line method for financial reporting purposes.

Property acquisitions are accounted for utilizing the purchase method in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations*, and accordingly, the results of operations are included from the respective dates of acquisition. Pre-acquisition costs, including legal and professional fees and other third party costs related directly to the acquisition of the property, are accounted for as part of the purchase price. Independent appraisals, estimates of cash flows, and valuation techniques are used to allocate the purchase price of acquired property between land, land improvements, buildings and improvements, furniture, fixtures and equipment and other identifiable intangibles such as amounts related to in-place leases.

Certain student housing properties are classified as held for sale based on the criteria within SFAS No. 144. When a student housing property is identified as held for sale, the net realizable value of such asset is estimated. If the net realizable value of the asset is less than the carrying amount of the asset an impairment charge is recorded for the estimated loss. Depreciation expense is no longer recorded once a student housing property has met the held for sale criteria. Operations of student housing properties that are sold or classified as held for sale are recorded as part of discontinued operations for all periods presented. For the nine months ended September 30, 2007, no impairment loss on student housing properties held for sale was recognized.

***Repairs and Maintenance***

The costs of ordinary repairs and maintenance are charged to operations when incurred. Major improvements that extend the life of an asset beyond one year are capitalized and depreciated over the remaining useful life of the asset. Planned major repair, maintenance and improvement projects are capitalized when performed. In some circumstances, the lenders require us to maintain a reserve account for future repairs and capital expenditures. These amounts are not available for current use.

***Long Lived Assets Impairment***

Management is required to assess whether there are any indicators that our real estate properties may be impaired in accordance with SFAS No. 144, *Accounting for the Impairment and Disposal of Long Lived Assets*. A property's value is considered impaired if management's estimate of the aggregate future cash flows (undiscounted and without interest charges) to be generated by the property is less than the carrying value of the property. These estimates of cash flows are based on factors such as expected future operating income, trends and prospects, as well as the effects of demand, competition and other factors. To the extent impairment has occurred, the loss will be measured as the excess of the carrying amount of the property over the fair value of the property, thereby reducing our net income.

***Recently Issued Accounting Pronouncements***

In June 2006, the Financial Accounting Standards Board ( FASB ) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109* ( FIN 48 ). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation also provides guidance on description, classification, interest and

penalties, accounting in interim periods, disclosure and transition. FIN 48 became effective on January 1, 2007. The Trust has no unrecognized tax benefits as of September 30, 2007. The Trust, or its subsidiaries, file income tax returns in the U.S. Federal jurisdiction and various states' jurisdictions. Open tax years generally include tax years 2004-2006 as of the date of adoption. The adoption of FIN 48 did not have a material impact on the Trust's consolidated financial condition or results of operations taken as a whole.

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In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ( SFAS 157 ). SFAS 157 does not address what to measure at fair value; instead, it addresses how to measure fair value. SFAS 157 applies (with limited exceptions) to existing standards that require assets or liabilities to be measured at fair value. SFAS 157 establishes a fair value hierarchy, giving the highest priority to quoted prices in active markets and the lower priority in unobservable data and requires new disclosures for assets and liabilities measured at fair value based on their level in the hierarchy. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Trust is currently evaluating the impact of adopting SFAS 157 on its consolidated financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159 ), which permits the option to measure financial instruments and certain other items at fair value, with changes in fair value recorded in earnings. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Trust is currently evaluating the impact of adopting SFAS 159 on its consolidated financial condition and results of operations.

**Results of Operations for the Nine Months Ended September 30, 2007 and 2006**

The following table presents the results of operations for Education Realty Trust, Inc. for the nine months ended September 30, 2007 and 2006:

	Nine months ended September 30, 2007					Nine months ended September 30, 2006				
	Student Housing Leasing	Development Consulting Services	Third-Party Management Services	Third-Party Adjustments	Total	Student Housing Leasing	Development Consulting Services	Third-Party Management Services	Third-Party Adjustments	Total
<b>Revenues:</b>										
Student housing leasing revenue	\$ 62,381	\$	\$	\$	\$ 62,381	\$ 58,723	\$	\$	\$	\$ 58,723
Student housing food service revenue	1,744				1,744	2,670				2,670
Other leasing revenue	10,377				10,377	10,577				10,577
Third-party development consulting services		3,354			3,354		2,283			2,283
Third-party management revenue			2,447		2,447			2,051		2,051
Intersegment revenues			2,545	(2,545)				2,470	(2,470)	
Operating expense reimbursements				7,055	7,055				5,891	5,891
<b>Total revenues</b>	<b>74,502</b>	<b>3,354</b>	<b>4,992</b>	<b>4,510</b>	<b>87,358</b>	<b>71,970</b>	<b>2,283</b>	<b>4,521</b>	<b>3,421</b>	<b>82,195</b>
<b>Operating Expenses:</b>										
Student housing leasing	31,227				31,227	29,706				29,706



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operations								
Student housing								
food service								
operations	1,683			1,683	2,427			2,427
General and								
administrative	102	1,985	4,976	7,063	4	1,601	3,653	5,258
Intersegment								
expenses	2,545		(2,545)		2,470		(2,470)	
				23				

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	Nine months ended September 30, 2007					Nine months ended September 30, 2006				
	Student Housing Leasing	Development Services	Third-Party Management Services	Adjustments	Total	Student Housing Leasing	Development Services	Third-Party Management Services	Adjustments	Total
Reimbursable operating expenses				7,055	7,055				5,891	5,891
Total operating expenses	35,557	1,985	4,976	4,510	47,028	34,607	1,601	3,653	3,421	43,282
Net operating income	38,945	1,369	16		40,330	37,363	682	868		38,913
Nonoperating expenses(1)	43,803				43,803	47,133				47,133
Income (loss) before equity in earnings of unconsolidated entities, income taxes, minority interest and discontinued operations	(4,858)	1,369	16		(3,473)	(9,770)	682	868		(8,220)
Equity in earnings of unconsolidated entities	(466)	221			(245)	(14)	587			573
Income (loss) before taxes, minority interest and discontinued operations(2)	\$ (5,324)	\$ 1,590	\$ 16	\$	\$ (3,718)	\$ (9,784)	\$ 1,269	\$ 868	\$	\$ (7,647)

(1) Nonoperating expenses include interest expense, interest income, amortization of deferred financing costs,

depreciation,  
and  
amortization of  
intangibles.

- (2) The following is a reconciliation of the reportable segments net loss before income taxes, minority interest and discontinued operations to the Trust's consolidated net loss before income taxes, minority interest and discontinued operations:

	<b>2007</b>	<b>2006</b>
Net loss before income taxes, minority interest and discontinued operations for reportable segments	\$ (3,718)	\$ (7,647)
Other unallocated corporate expenses (3)	(5,221)	(4,627)
Net loss before income taxes, minority interest and discontinued operations	\$ (8,939)	\$ (12,274)

- (3) Certain prior period amounts have been reclassified to conform to the current period presentation. Interest expense of \$2,982 related to borrowings on our revolving line of credit that were used to acquire the Place Portfolio was previously an unallocated corporate expense. This

amount has  
been reclassified  
to the student  
housing leasing  
segment for the  
nine months  
ended  
September 30,  
2006.

**Table of Contents****Student housing leasing**

Student housing operating statistics for all owned and managed properties for the nine months ended September 30, 2007 and 2006 were as follows (excludes Place properties):

	<b>Nine months ended September 30, 2007</b>	<b>Nine months ended September 30, 2006</b>	<b>Difference</b>
Occupancy			
Physical (1)	92.8%	92.2%	0.6%
Economic (2)	92.2%	89.0%	3.2%
NarPAB (3)	\$ 348	\$ 334	\$ 14
Other income per avail. bed (4)	\$ 25	\$ 24	\$ 1
RevPAB (5)	\$ 373	\$ 358	\$ 15
Operating expense per bed (6)	\$ 187	\$ 181	\$ 6
Operating margin	49.9%	49.4%	0.5%
Design Beds (7)	167,139	164,019	3,120

(1) Physical occupancy represents a weighted average of the month-end occupancies for the respective period.

(2) Economic occupancy represents the effective occupancy calculated by taking net apartment rent accounted for on a GAAP basis for the respective period divided by potential rent for the respective period.

(3) NarPAB represents GAAP net apartment rent for the respective period divided by the sum of the

design beds in the portfolio for each of the included months. Does not include food service revenue or other leasing revenue.

- (4) Represents GAAP-based other income for the respective period divided by the sum of the design beds in the portfolio for each of the included months. Other income includes service/application fees, late fees, termination fees, parking fees, transfer fees, damage recovery, utility recovery, and other miscellaneous income.
- (5) RevPAB represents total revenue (net apartment rent plus other income) for the respective period divided by the sum of the design beds for each of the included months.
- (6) Represents property-level operating expense excluding management fees and depreciation and amortization divided by the sum of the design beds

for each of the included months.

- (7) Represents the sum of the monthly design beds in the portfolio during the period, excluding Place properties.

Total revenue in the student housing leasing segment was \$74,502 for the nine months ended September 30, 2007. This represents an increase of \$2,532 or 3.5% from the same period in 2006. Student housing leasing revenue increased 6.2%, contributing \$3,658 to the overall increase. Student housing leasing revenue growth consisted of a \$941 increase related to the acquisition of the Players Club located in Statesboro, Georgia in June of 2006, and a \$2,717 or 4.7% increase in same community revenue. Growth in same community revenue was driven by an approximate 2.1% improvement in rates, 1.1% improvement in occupancy, 0.4% improvement in other income and a 1.1% increase due to less vacant days during the turn period in the current leasing year compared to prior leasing year. Offsetting the improvement in student housing leasing revenue was a \$926 decline in student housing food service revenue, which was the result of terminating a contract to provide food service to an unaffiliated secondary boarding school in California on December 31, 2006. Other leasing revenue, which represents revenue on a master lease of 13 properties to a third-party, decreased \$200 for the nine months ended September 30, 2007 compared to the same period in 2006. The Trust has the right to receive Additional Rent annually if the properties exceed certain criteria defined by the lease agreement. The decrease in other leasing revenue is due to a decline in the additional rent recognized for the nine months ended September 30, 2007 compared to the same period in 2006.

Operating expenses in the student housing leasing segment increased \$950 or 2.7% to \$35,557 for the nine months ended September 30, 2007, as compared to the same period in 2006. Student housing leasing operations increased a total of \$1,521 or 5.1% over the prior year, with \$633 of the increase attributable to adding Players Club to the portfolio and \$888 attributable to a 3.0% increase in same community expenses. Increases in utility costs of \$419, insurance costs of \$169, and credit card and collection related costs of \$360 were the main drivers of the increase in same community expenses and were offset by decreases in payroll expenses, turn costs and real estate taxes. The increase in student housing leasing operations was offset by a \$744 decline in student housing food service operations related to the termination of the food service contract discussed above.

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Equity in earnings in unconsolidated entities decreased \$452 from the nine months ended September 30, 2006 to a loss of \$466 for the nine months ended September 30, 2007. This represents our share of the net income or loss related to four investments in unconsolidated entities that own student housing communities. These communities are also managed by the Trust. Three of the four investments were acquired subsequent to September 30, 2006.



**Table of Contents****Third-party development consulting services**

The following table represents the development consulting projects that were active during the nine months ended September 30, 2007 and 2006:

Project	Beds	Fee Type	Recognized Earnings		
			2007	2006	Difference
Slippery Rock University Phase I	1,390	Development fee	\$ 46	\$1,264	\$(1,218)
Indiana University of Pennsylvania	734	Development fee	712	422	290
University of Michigan	896	Development fee	196	459	(263)
University of North Carolina Greensboro	600	Construction oversight fee	49	45	4
University of Louisville Phase III	359	Construction oversight fee		57	(57)
University of Alabama Birmingham	753	Construction oversight fee		36	(36)
University of Alabama Tuscaloosa	631	Development fee	978		978
Slippery Rock University Phase II	746	Development fee	713		713
Indiana University of Pennsylvania Phase II	1,102	Development fee	660		660
Third-party development consulting services			\$3,354	\$2,283	\$ 1,071
California University of Pennsylvania Phase IV	447	Development fee	\$	\$	\$
California University of Pennsylvania Phase V	356	Development fee	118	225	(106)
University of North Carolina Greensboro	600	Development fee	112	105	7
University of Louisville Phase III	359	Development fee	(9)	124	(133)
University of Alabama Birmingham	753	Development fee		133	(133)
Equity in earnings of unconsolidated entities			\$ 221	\$ 587	\$ (366)

Third-party development consulting services revenue increased by \$1,071 or 46.9% to \$3,354 for the nine months ended September 30, 2007, as compared to the same period in 2006. During the nine months ended September 30, 2007, AODC was engaged in seven active development projects representing 6,099 beds, AODC initiated work on Slippery Rock University Phase II and Indiana University of Pennsylvania Phase II and completed work on Slippery Rock Phase I, California University of Pennsylvania Phase V, Indiana University of Pennsylvania Phase I, University of North Carolina- Greensboro and University of Alabama- Tuscaloosa. During the same period in 2006, revenue of \$2,283 was recognized, which included development fee revenue on three projects and construction oversight fees

related to three other projects.

The increased volume in development consulting revenue is mainly due to an increase in the number of projects being managed by AODC but also represents a shift in the percentage of new projects AODC contracted directly. In previous years, the majority of our development services were contracted through joint venture relationships with the profits from those services being recognized through equity in earnings of unconsolidated entities. The shift to direct contracts caused equity in earnings of unconsolidated entities in the third-party development consulting services segment to decrease \$366 or 62.3% from the prior year. There were four joint ventures with active development projects in 2006, compared to two in 2007.

General and administrative costs in the third-party development consulting services segment increased \$384 to \$1,985 for the nine months ended September 30, 2007, as compared to the same period in 2006. This increase is a result of the higher volume of development projects and increases in staffing and corporate overhead costs allocated to the segment.

***Third-party management services***

Total third-party management services revenue increased by \$471 or 10.4% to \$4,992 for the nine months ended September 30, 2007, as compared to the same period in 2006. Growth in our owned portfolio period over period as discussed under student housing leasing above contributed to \$75 of the increase by way of intersegment revenue, while third-party management fee revenue increased \$396 or 19.3% to \$2,447 for the nine months ended September 30, 2007. The increase in third-party fees consists of \$420 related to seven new management contracts entered into during the first quarter of 2007, \$49 related to a community that came out of development in August of 2006, \$301 related to four contracts entered into in the fall of 2006 to manage properties for which we also

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have an ownership interest, and \$47 related to revenue growth in existing contracts. These increases were partially offset by a decrease of \$421 in third-party fees as a result of three terminated contracts.

General and administrative costs for our third-party management services segment increased \$1,323 to \$4,976 for the nine months ended September 30, 2007, as compared to the same period in 2006. The increase reflects incremental salaries and overhead costs related to the additional management contracts and intersegment management revenue volume noted above, and increased travel and integration costs related to the new contracts added in late 2006 and in 2007.

**Nonoperating expenses**

Nonoperating expenses decreased \$3,330 to \$43,803 for the nine months ended September 30, 2007, as compared to same period in 2006. This decrease is primarily driven by a \$2,005 decline in depreciation expense due to fully depreciated assets that remain in service and a \$1,305 decline in interest expense related to the repayment of the Term Loan and Amended Revolver during the nine months ended September 30, 2007.

**Unallocated corporate expenses**

Unallocated corporate expenses represent general and administrative expenses that are not allocated to any of our business segments. For the nine months ended September 30, 2007, unallocated corporate expenses were \$5,221, an increase of \$594 or 12.8% over the prior year. The majority of this increase is due to higher salary and overhead costs related to growth driven increases in head count over the prior year. These increases were partially offset by a decrease in third-party service provider fees from 2006, which included first year implementation costs of Sarbanes Oxley.

**Results of Operations for the Three Months Ended September 30, 2007 and 2006**

The following table presents the results of operations for Education Realty Trust, Inc. for the three months ended September 30, 2007 and 2006:

	Three months ended September 30, 2007					Three months ended September 30, 2006				
	Student Housing Leasing	Development Consulting Services	Third-Party Management Services	Adjustments	Total	Student Housing Leasing	Development Consulting Services	Third-Party Management Services	Adjustments	Total
<b>Revenues:</b>										
Student housing leasing revenue	\$ 19,378	\$	\$	\$	\$ 19,378	\$ 18,166	\$	\$	\$	\$ 18,166
Student housing food service revenue	642				642	895				895
Other leasing revenue	3,509				3,509	3,709				3,709
Third-party development consulting services		1,287			1,287		856			856
Third-party management revenue			844		844			653		653
Intersegment revenues			851	(851)				814	(814)	
Operating expense reimbursements				2,672	2,672				2,146	2,146

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Total revenues	23,529	1,287	1,695	1,821	28,332	22,770	856	1,467	1,332	26,425
<b>Operating Expenses:</b>										
Student housing leasing operations	12,803				12,803	12,344				12,344
					28					

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	Three months ended September 30, 2007					Three months ended September 30, 2006				
	Student Housing Leasing	Third-Party Development Consulting Services	Third-Party Management Services	Adjustments	Total	Student Housing Leasing	Third-Party Development Consulting Services	Third-Party Management Services	Adjustments	Total
Student housing food service operations	611				611	844				844
General and administrative expenses	16	714	1,629		2,359		547	1,141		1,688
Intersegment Reimbursable operating expenses	851			(851)		814			(814)	
				2,672	2,672				2,146	2,146
Total operating expenses	14,281	714	1,629	1,821	18,445	14,002	547	1,141	1,332	17,022
Net operating income	9,248	573	66		9,887	8,768	309	326		9,403
Nonoperating expenses(1)	14,041				14,041	16,037				16,037
Income (loss) before equity in earnings of unconsolidated entities, income taxes, minority interest and discontinued operations	(4,793)	573	66		(4,154)	(7,269)	309	326		(6,634)
Equity in earnings of unconsolidated entities	(261)	14			(247)	(14)	162			148
Income (loss) before taxes, minority interest and discontinued operations(2)	\$ (5,054)	\$ 587	\$ 66	\$	\$ (4,401)	\$ (7,283)	\$ 471	\$ 326	\$	\$ (6,486)

(1)

Nonoperating expenses include interest expense, interest income, amortization of deferred financing costs, depreciation, and amortization of intangibles.

- (2) The following is a reconciliation of the reportable segments net income before income taxes, minority interest and discontinued operations to the Trust's consolidated net loss before income taxes, minority interest and discontinued operations:

	<b>2007</b>	<b>2006</b>
Net loss before income taxes, minority interest and discontinued operations for reportable segments	\$ (4,401)	\$ (6,486)
Other unallocated corporate expenses (3)	(1,776)	(1,558)
Net loss before income taxes, minority interest and discontinued operations	\$ (6,177)	\$ (8,044)

- (3) Certain prior period amounts have been reclassified to conform to the current period presentation. Interest expense of \$1,282 related to borrowings on our revolving

line of credit  
that were used  
to acquire the  
Place Portfolio  
was previously  
an unallocated  
corporate  
expense. This  
amount has  
been reclassified  
to the student  
housing leasing  
segment for the  
three months  
ended  
September 30,  
2006.

**Table of Contents****Student housing leasing**

Student housing operating statistics for all owned and managed properties for the three months ended September 30, 2007 and 2006 were as follows (excludes Place properties):

	<b>Three months ended September 30, 2007</b>	<b>Three months ended September 30, 2006</b>	<b>Difference</b>
Occupancy			
Physical (1)	92.2%	91.7%	0.5%
Economic (2)	85.7%	80.7%	5.0%
NarPAB (3)	\$ 323	\$ 301	\$ 22
Other income per avail. bed (4)	\$ 25	\$ 25	\$ 0
RevPAB (5)	\$ 348	\$ 326	\$ 22
Operating expense per bed (6)	\$ 230	\$ 222	\$ 8
Operating margin	33.9%	32.0%	1.9%
Design Beds (7)	55,713	55,713	

(1) Physical occupancy represents a weighted average of the month-end occupancies for the respective period.

(2) Economic occupancy represents the effective occupancy calculated by taking net apartment rent accounted for on a GAAP basis for the respective period divided by potential rent for the respective period.

(3) NarPAB represents GAAP net



apartment rent for the respective period divided by the sum of the design beds in the portfolio for each of the included months. Does not include food service revenue or other leasing revenue.

- (4) Represents GAAP-based other income for the respective period divided by the sum of the design beds in the portfolio for each of the included months. Other income includes service/application fees, late fees, termination fees, parking fees, transfer fees, damage recovery, utility recovery, and other miscellaneous income.
- (5) RevPAB represents total revenue (net apartment rent plus other income) for the respective period divided by the sum of the design beds for each of the included months.
- (6) Represents property-level operating expense excluding management fees

and depreciation  
and amortization  
divided by the sum  
of the design beds  
for each of the  
included months.

- (7) Represents the sum  
of the monthly  
design beds in the  
portfolio during the  
period, excluding  
Place properties.

Total revenue in the student housing leasing segment was \$23,529 for the three months ended September 30, 2007. This represents an increase of \$759 or 3.3% from the same period in 2006. Student housing leasing revenue, which is all same community revenue for the quarter, contributed an increase of \$1,212 or 6.7% quarter over quarter. This same community revenue growth was driven by an approximate 2.9% improvement in rates, 0.8% improvement in occupancy and a 3.0% increase in revenue due to less vacant days during the turn period in the current leasing year compared to prior leasing year. Offsetting the improvement in student housing leasing revenue was a \$253 decline in student housing food service revenue, which was the result of terminating a contract to provide food service to an unaffiliated secondary boarding school in California on December 31, 2006, and a \$200 decline in other lease revenue as a result of lower additional rent related to the master lease of 13 properties referred to as the Place Portfolio to a third-party.

Operating expenses in the student housing leasing segment increased \$279 or 1.9% to \$14,281 for the three months ended September 30, 2007, as compared to the same period in 2006. Student housing leasing operations increased a total of \$459 or 3.7% over the same quarter in 2006. Increases in general and administrative costs, mostly related to credit card and collection related expenses, contributed to \$362 of the increase, while student amenities, insurance costs and real estate taxes contributed equally to a majority of the remaining increase. The increase in student housing leasing expenses was offset by a \$233 decline in student housing food service operations related to the termination of the food service contract discussed above.

Equity in earnings in unconsolidated entities was a loss of \$261 for the quarter ended September 30, 2007 compared to a loss of \$14 on the same quarter of 2006. This represents our share of the net income or loss related to four investments in unconsolidated entities that own student housing communities. These communities are also managed by the Trust. Three out of the four investments occurred subsequent to September 30, 2006.

***Third-party development consulting services***

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Third-party development consulting services revenue increased by \$431 or 50.4% to \$1,287 for the three months ended September 30, 2007, as compared to the same period in 2006. During the quarter ended September 30, 2007, we were engaged in seven active development projects representing 6,099 beds. During the same period in 2006, revenues of \$856 related to development fee revenue recognized on three projects representing 2,973 beds and construction oversight fees related to three other projects.

The increased volume in development consulting revenue is mainly due to an increase in the number of projects being managed by our development subsidiary AODC but also represents a shift in the percentage of new projects AODC contracts directly. In previous years, the majority of our development services were contracted through joint venture relationships with the profits from those services being recognized through equity in earnings of unconsolidated entities. This shift caused equity in earnings of unconsolidated entities in the third-party development consulting services segment to decrease \$148 or 91.4% from the third quarter of 2006.

General and administrative costs in the third-party development consulting services segment increased \$167 to \$714 for the three months ended September 30, 2007, as compared to the same period in 2006. This increase is a result of the higher volume of development projects and increases in staffing and corporate overhead costs allocated to the segment.

***Third-party management services***

Total third-party management services revenue increased by \$228 or 15.5% to \$1,695 for the three months ended September 30, 2007. Growth in our owned portfolio period over period as discussed under student housing leasing above contributed to \$37 of the increase by way of intersegment revenue, while third-party management fee revenue increased \$191 or 29.2% to \$844 for the three months ended September 30, 2007. The increase in third-party fees consists of \$152 related to six new management contracts entered during the first quarter of 2007, \$6 related to one property that came out of third-party development and opened in the third quarter of 2006, and \$112 related to four contracts to manage properties for which we also have an ownership interest. These contracts were entered into in the fall of 2006; however, one of these contracts related to a property that did not open until the third quarter of 2007. These increases were offset by \$114 as a result of two contracts that were terminated in the second half of 2006.

General and administrative costs for our third-party management services segment increased \$488 to \$1,629 for the three months ended September 30, 2007. The increase reflects incremental salaries and overhead costs related to the additional management contracts and intersegment management revenue volume noted above and increased travel and integration costs related to the new contracts added in 2007.

***Nonoperating expenses***

Nonoperating expenses decreased \$1,996 to \$14,041 for the three months ended September 30, 2007. This decrease is primarily driven by a \$761 decline in depreciation expense due to fully depreciated assets that remain in service and a \$1,243 decline in interest expense related to the repayment of the Term Loan in June of 2007.

***Unallocated corporate expenses***

Unallocated corporate expenses represent general and administrative expenses that are not allocated to any of our business segments. For the three months ended September 30, 2007 unallocated corporate expenses were \$1,776, an increase of \$218 over the prior year. The majority of this increase is due to higher salary and overhead costs related to growth driven increases in head count over the prior year as well as additional costs related to an accounting system implementation in the third quarter of 2007. These increases were partially offset by a decrease in third party service provider fees from 2006, which included first year implementation costs of Sarbanes Oxley.

**Funds from Operations**

As defined by the National Association of Real Estate Investment Trusts ( NAREIT ), FFO represents net income (loss) (computed in accordance with GAAP), excluding gains (or losses) from sales of property, plus real estate related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. Adjustments for unconsolidated partnerships and joint ventures will be calculated to reflect funds from operations on the same basis. We present FFO available to all shareholders and unitholders because we consider it an important supplemental measure of our operating performance and believe it is frequently used by securities analysts, investors and other interested parties in the evaluation of REITs, many of which present FFO when reporting their results. As such, we also exclude the impact of minority interest in our calculation. FFO is intended to exclude GAAP historical

cost depreciation and amortization of real estate and related assets, which assumes that the value of real estate diminishes ratably over time. Historically, however, real estate values have risen or fallen with market conditions. Because FFO excludes depreciation and amortization unique to real estate, gains and losses from property dispositions and extraordinary items, it provides a performance measure that, when compared year over year, reflects the impact to operations from trends in occupancy rates, rental rates, operating costs, development activities and interest costs, providing perspective not immediately apparent from net income.

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We compute FFO in accordance with standards established by the Board of Governors of NAREIT in its March 1995 White Paper (as amended in November 1999 and April 2002), which may differ from the methodology for calculating FFO utilized by other equity REITs and, accordingly, may not be comparable to such other REITs. Further, FFO does not represent amounts available for management's discretionary use because of needed capital replacement or expansion, debt service obligations or other commitments and uncertainties. FFO should not be considered as an alternative to net income (loss) (computed in accordance with GAAP) as an indicator of our financial performance or to cash flow from operating activities (computed in accordance with GAAP) as an indicator of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to make distributions.

The following table presents a reconciliation of our FFO available to our shareholders and unitholders to our net loss for the three and nine months ended September 30, 2007 and 2006:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Net loss	\$ (5,802)	\$ (8,189)	\$ (6,099)	\$ (11,483)
Less gain on sale of student housing property, net of minority interest			(1,579)	
Plus student housing property depreciation and amortization of lease intangibles	7,824	8,585	23,633	25,638
Plus equity portion of real estate depreciation and amortization on equity investees	149	5	340	5
Plus depreciation and amortization of discontinued operations		526	711	1,541
Plus minority interest	(337)	(485)	(306)	(550)
Funds from operations	\$ 1,834	\$ 442	\$ 16,700	\$ 15,151

**Liquidity and Capital Resources**

On March 31, 2006, the Operating Partnership amended and restated the revolving credit facility (the Amended Revolver) dated January 31, 2005 in the amount of \$100,000 and entered into a senior unsecured term loan facility (the Term Loan) in the amount of \$50,000. On June 8, 2007, the Trust paid off the Term Loan with the proceeds received from the sale of the student housing property referred to as Tharpe.

The Trust serves as the guarantor for any funds borrowed by the Operating Partnership under the Amended Revolver. Additionally, the Amended Revolver is secured by a cross-collateralized, first mortgage lien on six unmortgaged properties. The Amended Revolver has a term of three years and matures on March 31, 2009, provided that the Operating Partnership may extend the maturity date for one year subject to certain conditions. At September 30, 2007, there was \$2,200 outstanding on the Amended Revolver. The interest rate per annum applicable to the Amended Revolver is, at the Operating Partnership's option, equal to a base rate or London InterBank Offered Rate (LIBOR) plus an applicable margin based upon our leverage (7.57% at September 30, 2007).

Availability under the Operating Partnership's Amended Revolver is limited to a borrowing base availability equal to the lesser of (i) 65% of the property asset value (as defined in the amended credit agreement) of the properties securing the facility and (ii) the loan amount which would produce a debt service coverage ratio of no less than 1.30, with debt service based on the greater of two different sets of conditions specified in the amended credit agreement.

The Operating Partnership's Amended Revolver contains customary affirmative and negative covenants and contains financial covenants that, among other things, require the Trust and its subsidiaries to maintain certain minimum ratios of EBITDA (earnings before payment or charges of interest, taxes, depreciation, amortization or extraordinary items) as compared to interest expense and total fixed charges. The financial covenants also include consolidated net worth and leverage ratio tests. In January 2007, the Trust determined it would be in violation of its interest coverage ratio covenant related to the Amended Revolver. On February 27, 2007, the Trust entered into an

amendment to the Amended Revolver ( First Amendment ), whereby the interest coverage ratio was adjusted from 1.85:1.00, to not less than 1.70:1.00 at all times from December 31, 2006 until March 31, 2008. However, due to the fact the Trust attained an interest coverage ratio greater than 1.85:1.00 during the effective period, 1.87:1.00 for the nine months ended September 30, 2007, the interest coverage ratio reverts back to 1.85:1.00 on a prospective basis.

The Trust is prohibited from making distributions that exceed \$1.20 per share unless prior to and after giving effect to such action the total leverage ratio is less than or equal to 60%. The amount of restricted payments permitted may be increased as long as either of the following conditions is met: (a) after giving effect to the increased restricted payment, the total leverage ratio shall remain less than or equal to 60%; or (b) the increased restricted payment, when considered along with all other restricted payments for the last 3 quarters, does not exceed (i) 100% of funds from operations for the applicable period through and including September 30, 2007, and (ii) 95% of funds from operations for the applicable period thereafter.

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During the nine months ended September 30, 2007, the Trust issued 1,571,692 shares of common stock under the direct stock purchase plan, raising net proceeds of approximately \$22,530 which was primarily used to pay down the Amended Revolver.

***Liquidity outlook and capital requirements***

At September 30, 2007, we had \$3,171 of cash, a decrease of \$3,256 from December 31, 2006. During the same period we reduced debt by \$69,062, improving our overall leverage ratio from 54.2% at December 31, 2006 to 51.3% at September 30, 2007.

During the nine months ended September 30, 2007, we generated \$23,075 cash from operations, received \$48,942 of proceeds from the sale of Tharpe and received \$22,530 in proceeds from our direct stock purchase plan. In addition to funding working capital needs, this allowed us to repay the remaining \$47,000 outstanding under the Term Loan, pay down \$20,200 outstanding under the Amended Revolver, invest \$2,457 in a new development and distribute \$18,060 to our stockholders.

Our current liquidity needs include funds for distributions to our stockholders and unit holders, including those required to maintain our REIT status and satisfy our current annual distribution target of \$0.82 per share/unit, funds for capital expenditures, funds for debt repayment and, potentially, funds for new property acquisitions and development. We generally expect to meet our short-term liquidity requirements through net cash provided by operations. However, distributions for the nine months ended September 30, 2006 outpaced cash from operations during the same period. The resulting operating cash shortfall of \$5,353 was funded by draws on our revolving line of credit. Distributions for the nine months ended September 30, 2007 totaled \$18,060 or \$0.62 per weighted average share/unit compared to cash provided by operations of \$23,075 or \$0.83 per weighted average share/unit for the same period. We expect our long-term liquidity requirements to be satisfied through growth in cash generated by operations and external sources of debt and equity capital, including public capital markets as well as private sources of capital. To the extent that we are unable to maintain our revolving credit facility or an equivalent source of debt financing, we will be more reliant upon the public and private capital markets to meet our long-term liquidity needs.

An additional source of capital is the possible disposition of non-core properties. We continually assess all of our properties, the markets they are in, and the universities they serve to determine if any dispositions are necessary or appropriate. During the nine months ended September 30, 2007, a student housing property located in Tallahassee, Florida was sold for proceeds of \$48,942. These proceeds were first used to repay the Term Loan and the remainder was used to pay down the Amended Revolver. The sale of any unencumbered asset would provide additional capital to most likely paydown debt or possibly finance acquisitions or other operational needs.

Based on our closing share price of \$13.50 on September 28, 2007, our total enterprise value was \$823,243. With total debt outstanding on September 30, 2007 of \$422,422, our current debt to total enterprise value was 51.3%. We believe our capital structure and current FFO and distribution targets along with the \$97,800 availability under our Amended Revolver leaves us with sufficient liquidity and access to financing to fund current working capital needs and make future student housing investments. Current market conditions and rising interest rates are expected to make additional capital more expensive for us and could impact our access to the capital markets. There can be no assurance that we will be able to obtain financing under satisfactory conditions or that we will make any investments in additional properties.

We intend to invest in additional properties only as suitable opportunities arise. In the short term, we intend to fund any acquisitions with working capital and borrowings under first mortgage property secured debt or our \$100 million revolving credit facility. We intend to finance property acquisitions over the longer term with the proceeds from additional issuances of common or preferred stock, debt financing and issuances of units of our Operating Partnership.

We anticipate that our existing working capital and cash from operations will be adequate to meet our liquidity requirements for at least the next twelve months.

***Predevelopment expenditures***

Our third-party development consulting activities have historically required us to fund predevelopment expenditures such as architectural fees, permits, and deposits. Because the closing of a development project's financing is often subject to third-party delay, we cannot always predict accurately the liquidity needs of these activities. We

frequently incur these predevelopment expenditures before a financing commitment has been obtained and, accordingly, bear the risk of the loss of these predevelopment expenditures if financing cannot ultimately be arranged on acceptable terms. We typically obtain from the project owner a guarantee of repayment of these predevelopment expenditures, but no assurance can be given that we would be successful in collecting the amount guaranteed in the event that a project financing is not obtained. During the nine months ended September 30, 2007, we purchased land for the development of a student housing property in Carbondale, Illinois. This is the first property that will be developed with the intent of ownership by the Trust; thus, increasing our exposure and capital requirements related to development.



**Table of Contents*****Long-term liquidity requirements***

Our long-term liquidity requirements consist primarily of funds necessary to pay scheduled debt maturities, renovations, expansion and other non-recurring capital expenditures that need to be made periodically to our properties. We expect to meet these needs through existing working capital, cash provided by operations, additional borrowings under our Amended Revolver, and the issuance of equity instruments, including common stock, or additional or replacement debt, if market conditions permit. We believe these sources of capital will be sufficient to provide for our long-term capital needs.

Our Amended Revolver is a material source to satisfy our long-term liquidity requirements. As such, compliance with the financial and operating debt covenants is material to our liquidity. Non-compliance with the covenants would have a material adverse effect on our financial condition and liquidity.

During the nine months ended September 30, 2007, we refinanced \$29,900 of maturing mortgage debt bearing interest of 6.63% and \$26,500 of maturing mortgage debt bearing interest at 3.49%. The new mortgages are interest only at a fixed rate of 5.55% through March 1, 2012 and 5.59% through May 1, 2014, respectively.

***Commitments and Contractual obligations***

The following table summarizes our contractual obligations as of September 30, 2007:

	<b>Less than 1 Year</b>	<b>1-3 Years</b>	<b>3-5 Years</b>	<b>After 5 Years</b>	<b>Total</b>
<b>Commitments and Contractual Obligations:</b>					
Long-Term Debt Obligations(1)	\$ 3,154	\$ 311,531	\$ 1,835	\$ 105,902	\$ 422,422
Contractual Interest Obligations(2)	6,330	41,249	12,900	6,270	66,749
Operating Lease and Future Purchase Obligations (3)	774	4,279	3,213	852	9,118
Capital Reserve Obligations(4)	1,573	2,418	421	182	4,594
<b>Total</b>	<b>\$ 11,831</b>	<b>\$ 359,477</b>	<b>\$ 18,369</b>	<b>\$ 113,206</b>	<b>\$ 502,883</b>

(1) Includes required monthly principal amortization and amounts due at maturity on first mortgage debt secured by student housing properties and principal amortization on the Amended Revolver and the Term Loan. The first mortgage debt does not include

\$1,849 of  
unamortized  
debt premium.

- (2) Includes contractual interest payments.
- (3) Includes future minimum lease commitments under operating lease obligations and future purchase obligations for advertising.
- (4) Includes future annual contributions to the capital reserve as required by certain mortgage debt.

At September 30, 2007, the outstanding mortgage debt had a weighted average interest rate of 5.90% and carried an average term to maturity of 2.72 years.

As of September 30, 2007, thirteen of our properties were unencumbered by mortgage debt. Six of these thirteen properties have, however, been pledged as collateral against any borrowing under our \$100,000 revolving credit facility.

#### **Distributions**

We are required to distribute 90% of our REIT taxable income (excluding capital gains) on an annual basis in order to qualify as a REIT for federal income tax purposes. Accordingly, we intend to make, but are not contractually bound to make, regular quarterly distributions to holders of our common stock. All such distributions are at the discretion of our board of directors. We may be required to use borrowings under our revolving credit facility, if necessary, to meet REIT distribution requirements and maintain our REIT status. We consider market factors and our performance in addition to REIT requirements in determining distribution levels.

On October 9, 2007, our board of directors declared a third quarter distribution of \$0.205 per share of common stock for the quarter ending on September 30, 2007. The distribution is payable on November 6, 2007 to shareholders of record at the close of business on October 23, 2007.

#### **Off-Balance Sheet Arrangements**

As discussed in Note 3 to the condensed consolidated financial statements we hold investments in unconsolidated entities. Three of these unconsolidated entities have third party mortgage indebtedness totaling \$88,640 at September 30, 2007. Additionally, on May 10, 2006, the Operating Partnership guaranteed \$23,200 of construction debt held by University Village-Greensboro LLC in

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order to receive a 25% ownership stake in the venture with College Park Apartments. The construction debt is expected to be refinanced in September of 2008 after construction is complete and the student housing community is occupied. The Operating Partnership has determined that it will not guarantee the debt after the construction loan is refinanced.

**Inflation**

Our student housing leases typically do not have terms that extend beyond 12 months. Accordingly, although on a short-term basis we would be required to bear the impact of rising costs resulting from inflation, we have the opportunity to raise rental rates at least annually to offset such rising costs. However, our ability to raise rental rates may be limited by a weak economic environment, increased competition from new student housing in our primary markets or a reduction in student enrollment at our principal universities.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk.**

Our future income, cash flows and fair values relevant to financial instruments are dependent upon prevailing market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates. The Trust's interest rate risk objective is to limit the impact of interest rate fluctuations on earnings and cash flows and to lower its overall borrowing costs. To achieve this objective, the Trust manages its exposure to fluctuations in market interest rates for its borrowings through the use of fixed rate debt instruments to the extent that reasonably favorable rates are obtainable.

For fixed rate debt, interest rate changes affect the fair market value but do not impact net income to common shareholders or cash flows. Conversely, for floating rate debt, interest changes generally do not affect the fair market value but do impact net income to common stockholders and cash flows, assuming other factors are held constant. At September 30, 2007, we had fixed rate debt of \$420,222. Holding other variables constant a 100 basis point increase in interest rates would cause a \$8,985 decline in the fair value of our fixed rate debt. Conversely, a 100 basis point decrease in interest rates would cause a \$9,359 increase in the fair value of our fixed rate debt. At September 30, 2007, all of the outstanding principal amounts of our mortgage notes payable on the properties we own have fixed interest rates with a weighted average rate of 5.90% and an average term to maturity of 2.7 years.

At September 30, 2007, we had \$2,200 outstanding on the Amended Revolver. The interest rate per annum applicable to the Amended Revolver is, at the Operating Partnership's option, equal to a base rate or LIBOR plus an applicable margin based upon our leverage.

99% of the Trust's outstanding debt was subject to fixed rates at September 30, 2007. In the future, we may draw down on the Amended Revolver, and we may use derivative financial instruments to manage, or hedge, interest rate risks related to such a variable rate borrowing. We do not, and do not expect to, use derivatives for trading or speculative purposes, and we expect to enter into contracts only with major financial institutions.

**Item 4. Controls and Procedures.*****Management's Evaluation of Disclosure Controls and Procedures***

The Trust maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Trust's filings under the Securities Exchange Act of 1934 (the Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and to ensure that such information is accumulated and communicated to the Trust's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The Trust also has investments in unconsolidated entities which are not under its control. Consequently, the Trust's disclosure controls and procedures with respect to these entities are necessarily more limited than those it maintains with respect to its consolidated subsidiaries.

Our management, with the participation of our principal executive officer and financial officers has evaluated the effectiveness of the design and operation of the Trust's disclosure controls and procedures pursuant to Rule 13a-15(e) and 15d-15(e) of the Exchange Act. Based on their evaluation as of September 30, 2007, our Chief Executive Officer and Chief Financial Officer have concluded that the Trust's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Trust in the Trust's Exchange Act filings is recorded, processed, summarized and reported within the time periods specified in the applicable SEC rules and forms.

***Changes in Internal Control Over Financial Reporting***

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During the nine months ended September 30, 2007, the Trust implemented a new general ledger system and began the implementation of a financial reporting analyses package. There were no other changes in the Trust's internal control over financial reporting that materially affected, or are reasonably likely to materially affect, the Trust's internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act).

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**PART II  
OTHER INFORMATION**

**Item 1. Legal Proceedings**

In the normal course of business, we are subject to claims, lawsuits, and legal proceedings. While it is not possible to ascertain the ultimate outcome of such matters, in management's opinion, the liabilities, if any, in excess of amounts provided or covered by insurance, are not expected to have a material adverse effect on our financial position, results of operations or liquidity.

**Item 1A. Risk factors**

The following risk factors should be read together with the discussion of the Trust's business and operations and the risk factors contained in Item 1A of our annual report on Form 10-K for the year ended December 31, 2006, which describes various risks and uncertainties to which we are or may be subject. These risks and uncertainties have the potential to affect the Trust's business, financial condition, results of operations, cash flows and prospects in a material adverse manner.

*Financing our future growth plan or refinancing existing debt maturities could be impacted by negative capital market conditions.* Recently, domestic financial markets have experienced unusual volatility and uncertainty. While this condition has occurred most visibly within the subprime mortgage lending sector of the credit market, liquidity has tightened in overall domestic financial markets, including the investment grade debt and equity capital markets. Consequently, there is greater uncertainty regarding our ability to access the credit market in order to attract financing on reasonable terms. Our ability to finance our pending or new acquisitions as well as our ability to refinance debt maturities could be adversely affected by our inability to secure permanent financing on reasonable terms, if at all.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

**Item 3. Defaults upon Senior Securities.**

None.

**Item 4. Submission of Matters to a Vote of Security Holders.**

None.

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

The exhibits listed on the accompanying Exhibit Index are filed or incorporated by reference (as stated therein) as part of this Quarterly Report on Form 10-Q.

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**SIGNATURES**

Pursuant to the requirements 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.

**EDUCATION REALTY TRUST, INC.**

Date: November 7, 2007

By /s/ Paul O. Bower

*Paul O. Bower*

President, Chief Executive Officer and  
Chairman of the Board of Directors  
(Principal Executive Officer)

Date: November 7, 2007

By /s/ Randall H. Brown

*Randall H. Brown*

Executive Vice President, Chief Financial  
Officer, Treasurer and Secretary  
(Principal Financial Officer)

Date: November 7, 2007

By /s/ J. Drew Koester

*J. Drew Koester*

Vice President and Chief Accounting Officer  
(Principal Accounting Officer)

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**EXHIBIT INDEX**

- 3.1 Second Articles of Amendment and Restatement of Education Realty Trust, Inc. (Incorporated by reference to Exhibit 3.1 to the Company's Amendment No. 2 to its Registration Statement on Form S-11 (File No. 333-1192364), filed on December 10, 2004.)
  - 3.2 Bylaws of Education Realty Trust, Inc. (Incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-11 (File No. 333-119264), filed on September 24, 2004.)
  - 4.1 Form of Certificate for Common Stock of Education Realty Trust, Inc. (Incorporated by reference to Exhibit 4.1 to the Company's Amendment No. 5 to its Registration Statement on Form S-11 (File No. 333-1192364), filed on January 24, 2005.)
  - 4.2 Form of Registration Rights Agreement dated January 31, 2005, by and among Education Realty Trust, Inc., Education Realty Operating Partnership, LP, JPI Investment Company, L.P. and the unit holders whose names are set forth on the signature pages thereto. (Incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-11 (File No. 333-119264), filed on September 24, 2004.)
  - Exhibit 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act, as amended.
  - Exhibit 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act, as amended.
  - Exhibit 32.1\* Section 906 Certification of Chief Executive Officer
  - Exhibit 32.2\* Section 906 Certification of Chief Financial Officer
- \* In accordance with Release No. 34-47986, this Exhibit is hereby furnished to the SEC as an accompanying document and is not deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 or

otherwise  
subject to the  
liabilities of that  
Section, nor  
shall it be  
deemed  
incorporated by  
reference into  
any filing under  
the Securities  
Act of 1933.