BACKWEB TECHNOLOGIES LTD
Form 10-Q
August 14, 2006

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

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

For the Quarterly Period Ended June 30, 2006

or

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

For the Transition period from to

Commission File Number 000-26241

BackWeb Technologies Ltd.

(Exact Name of Registrant as Specified in its Charter)

Israel	**51-2198508**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification Number)*
10 Ha amal Street, Park Afek, RoshHa ayin, Israel	**48092**
(Address of Principal Executive Offices)	*(Zip Code)*

(972) 3-6118800

(Registrant s Telephone Number, Including Area Code)

3 Abba Hillel Street, Ramat Gan, Israel

(Former Address, if Changed Since Last Report

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

Indicate by check mark whether the registrant 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 o Accelerated filer o Non-accelerated filer þ

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

The registrant had 41,250,497 Ordinary Shares outstanding as of August 1, 2006.

BACKWEB TECHNOLOGIES LTD.
REPORT ON FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2006
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Cautionary Statement Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains express or implied forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are those that predict or describe future events or trends and that do not relate solely to historical matters. For example, our statements regarding the expected impact of the restructuring we implemented in the second quarter of 2006 and regarding our revenue and expense trend expectations in this Quarterly Report under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations are forward-looking statements. The words believes, expects, anticipates, intends, forecasts, projects, plans, estimates, ant similar expressions may identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, as they involve many risks and uncertainties. Our actual results may differ materially from such statements. Factors that may cause or contribute to such differences include those discussed in Item 1A. of Part II of this Quarterly Report under the caption Risk Factors. Forward-looking statements reflect our current views with respect to future events and financial performance or operations and speak only as of the date of this report. We undertake no obligation to issue any updates or revisions to any forward-looking statements to reflect any change in our expectations with regard thereto or any change in events, conditions, or circumstances on which any such statements are based.

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PART I FINANCIAL INFORMATION

Item 1. ***Condensed Consolidated Financial Statements***

BACKWEB TECHNOLOGIES LTD.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

	June 30, 2006 (Unaudited)	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,029	$ 1,583
Short-term investments	4,139	6,293
Trade accounts receivable, net	1,308	1,554
Other accounts receivable and prepaid expenses	427	325
Total current assets	7,903	9,755
Long-term investments and long-term assets	44	35
Property and equipment, net	177	213
Total assets	$ 8,124	$ 10,003
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 154	$ 247
Accrued liabilities	1,690	1,731
Deferred revenue	890	976
Total current liabilities	2,734	2,924
Long-term liabilities		8
Commitments and contingencies (Note 2)		
Shareholders equity:		
Ordinary Shares	152,050	151,763
Accumulated other comprehensive income		(2)
Accumulated deficit	(146,660)	(144,720)
Total shareholders equity	5,390	7,041
Total liabilities and shareholders equity	$ 8,124	$ 10,003

Note: The balance sheet at December 31, 2005 has been derived from the audited financial statements at that date.

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

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BACKWEB TECHNOLOGIES LTD.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
	(Unaudited)		(Unaudited)	
Revenue:				
License	$ 462	$ 859	$ 1,253	$ 1,626
Service	680	859	1,545	1,749
Total revenue	1,142	1,718	2,798	3,375
Cost of revenue:				
License	19	7	40	13
Service	182	193	422	351
Total cost of revenue	201	200	462	364
Gross profit	941	1,518	2,336	3,011
Operating expenses:				
Research and development	619	547	1,201	1,140
Sales and marketing	979	805	2,054	1,530
General and administrative	479	446	1,084	850
Total operating expenses	2,077	1,798	4,339	3,520
Loss from operations	(1,136)	(280)	(2,003)	(509)
Interest and other income, net	40	47	64	27
Net loss	$ (1,096)	$ (233)	$ (1,939)	$ (482)
Basic and diluted net loss per share	$ (0.03)	$ (0.01)	$ (0.05)	$ (0.01)
Weighted average number of shares used in computing basic and diluted net loss per share	41,250	40,993	41,181	40,923

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

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BACKWEB TECHNOLOGIES LTD.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Six Months Ended June 30, 2006	June 30, 2005
	Unaudited	
Operating Activities		
Net loss	$ (1,939)	$ (482)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	75	68
Changes in operating assets and liabilities:		
Trade accounts receivable	246	459
Other receivables, prepaid expenses, and other long-term assets	(111)	194
Accounts payable and accrued liabilities	(134)	(327)
Deferred revenue	(94)	(1,083)
Net cash used in operating activities	(1,957)	(1,171)
Investing Activities		
Disposals of property and equipment	(37)	(121)
Purchases / (sales) of short-term investments	2,154	(1,072)
Net cash provided by / (used for) investing activities	2,117	(1,193)
Financing Activities		
Proceeds from issuance of ordinary shares, net	286	65
Net cash provided by financing activities	286	65
Net increase (decrease) in cash and cash equivalents	446	(2,299)
Cash and cash equivalents at beginning of the period	1,583	5,213
Cash and cash equivalents at end of the period	$ 2,029	$ 2,914

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

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BACKWEB TECHNOLOGIES LTD.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Summary of Significant Accounting Policies

Organization BackWeb Technologies Ltd. was incorporated under the laws of Israel in August 1995 and commenced operations in November 1995. BackWeb Technologies Ltd., together with its subsidiaries (collectively, BackWeb or the Company), is a provider of offline Web infrastructure and application-specific software that enables companies to extend the reach of their Web assets to the mobile community of their customers, partners, and employees. The Company s products address the need of mobile users who are disconnected from a network to access and transact with critical enterprise Web content, such as sales tools, forecast management, contact lists, service repair guides, expense report updates, pricing data, time sheets, collaboration sessions, work orders, and other essential documents and applications. The Company s products are designed to reduce network costs and improve the productivity of increasingly mobile workforces. BackWeb sells its products primarily to end users in a variety of industries, including the telecommunications, financial and computer industries, through its direct sales force, resellers, OEMs and sales/marketing partners.

Basis of Presentation The unaudited interim condensed consolidated financial statements include the accounts of BackWeb Technologies Ltd. and its wholly owned subsidiaries. They have been prepared in accordance with U.S. generally accepted accounting principles for interim financial reporting and with the instructions of Form 10-Q and Article 10 of Regulation S-X. All significant intercompany balances and transactions have been eliminated upon consolidation. In the opinion of management, the interim condensed consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) required to fairly state the Company s financial position, results of operations and cash flows for the periods indicated. The condensed consolidated balance sheet at December 31, 2005 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. The interim condensed consolidated financial statements should be read in conjunction with the notes to the consolidated financial statements included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2005. The results of the Company s operations for the interim periods presented are not necessarily indicative of operating results for the full fiscal year ending December 31, 2006 or any future interim period.

Net Loss Per Share Basic net loss per share is computed based on the weighted average number of Ordinary Shares outstanding during each period. Diluted net loss per share is computed based on the weighted average number of Ordinary Shares outstanding during the period plus potentially dilutive Ordinary Shares considered outstanding during the period in accordance with Statement of Financial Accounting Standard (SFAS) No. 128, Earnings per Share. The total number of Ordinary Shares subject to outstanding options excluded from the diluted net loss per share calculation because they would be considered anti-dilutive was 6,067,211 and 6,196,416 at June 30, 2006 and 2005, respectively.

The following table presents the calculation of basic and diluted net loss per share (in thousands, except per share data):

	Three Months Ended		**Six Months Ended**	
	June 30, 2006	**June 30, 2005**	**June 30, 2006**	**June 30, 2005**
	Unaudited		**Unaudited**	
Net loss	$ (1,096)	$ (233)	$ (1,939)	$ (482)
Basic and diluted:				
Weighted-average shares	41,250	40,993	41,181	40,923
Less weighted-average shares subject to forfeiture				
	41,250	40,993	41,181	40,923

Weighted average number of shares used in computing basic and diluted net loss per share				
Basic and diluted net loss per share	$ (0.03)	$ (0.01)	$ (0.05)	$ (0.01)

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Comprehensive Loss The following table presents the components of comprehensive loss (in thousands):

	Three Months Ended June 30, 2006	June 30, 2005	Six Months Ended June 30, 2006	June 30, 2005
	Unaudited		Unaudited	
Net loss	$ (1,096)	$ (233)	$ (1,939)	$ (482)
Change in net unrealized loss on investments		6	1	(8)
Total comprehensive loss	$ (1,096)	$ (227)	$ (1,938)	$ (490)

Stock-Based Compensation In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard 123R, which revised FAS 123 *Accounting for stock based compensation,* (SFAS 123R). SFAS 123R requires all share-based payments to employees, or to non-employee directors as compensation for service on the Board of Directors, to be recognized as compensation expense in the consolidated financial statements based on the fair values of such payments. The Company maintains shareholder approved stock-based compensation plans, pursuant to which it grants stock-based compensation to its employees, and to non-employee directors for Board service. These grants are primarily in the form of options that allow a grantee to purchase a fixed number of shares of the Company s common stock at a fixed exercise price equal to the market price of the shares at the date of the grant. The options may vest on a single date or in tranches over a period of time, but normally they do not vest unless the grantee is still employed by, or is a director of, the Company on the vesting date. The compensation expense for these grants will be recognized over the requisite service period, which is typically the period over which the stock-based compensation awards vest.

The Company made no modifications to outstanding options with respect to vesting periods or exercise prices prior to adopting SFAS 123R. In March 2005, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 107 (SAB 107), which provides guidance on the implementation of SFAS 123R. The Company applied the principles of SAB 107 in conjunction with its adoption of SFAS 123R.

The Company adopted SFAS 123R effective January 1, 2006, using the modified-prospective transition method. Under this transition method, compensation expense will be recognized based on the grant date fair value estimated in accordance with the provisions of SFAS 123R for all new grants effective January 1, 2006, and for options granted prior to but not vested as of December 31, 2005. Prior periods were not restated to reflect the impact of adopting the new standard and therefore do not include compensation expense related to stock option grants for those periods. In accordance with SFAS 123R, the Company recognized stock option related compensation expense of approximately $110,000 for the three-month period ended June 30, 2006 and a total of approximately $217,000 for the six-month period ended June 30, 2006. All options granted in the periods were stock options and the related compensation expense will be recognized on a straight-line basis over the vesting period of each grant, net of estimated forfeitures. The Company s estimated forfeiture rates are based on its historical experience. The estimated fair value of the options granted through the first half of 2006 and prior years was calculated using a Black Scholes Merton option pricing model (Black Scholes model). The following summarizes the assumptions used in the Black Scholes model as applied in the three and six-month periods ended June 30, 2006:

Stock Options	Three Months Ended June 30, 2006
Risk-free interest rates (1)	5.1%
Expected lives (in years) (2)	6.25
Dividend yield (3)	0%
Expected volatility (4)	113%

Stock Options	**Six Months Ended June 30, 2006**
Risk-free interest rates (1)	4.7% - 5.1%
Expected lives (in years) (2)	6.25
Dividend yield (3)	0%
Expected volatility (4)	83% - 113%

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Stock Purchase Plan Shares	Three Months Ended June 30, 2006
Risk-free interest rates (1)	4.8%
Expected lives (in years) (2)	.5
Dividend yield (3)	0%
Expected volatility (4)	113%

Stock Purchase Plan Shares	Six Months Ended June 30, 2006
Risk-free interest rates (1)	4.8 5.2%
Expected lives (in years) (2)	.5
Dividend yield (3)	0%
Expected volatility (4)	82% - 113%

(1) The risk-free interest rate is based on U.S. Treasury debt securities with maturities close to the expected term of the option.

(2) The expected term represents the estimated period of time until exercise and is based on historical experience of similar awards, giving consideration to the contractual terms, vesting schedules and expectations of future employee behavior

(3) No cash dividends have

been declared on the Company s common stock since the Company s inception, and the Company currently does not anticipate paying cash dividends over the expected term of the option.

(4) Expected volatility is based on relevant historical volatility of the Company s stock factoring in daily share price observations.

At June 30, 2006, approximately $300,000 of unrecognized compensation expense related to stock options is expected to be recognized over a weighted average period of approximately 4.7 years. The resulting effect on net loss and net loss per share attributable to common shareholders is not likely to be representative of the effects in future periods, due to additional grants and subsequent periods of vesting.

Prior to January 1, 2006, the Company accounted for its stock-based compensation plans under Accounting Principles Board Opinion No. 25 (APB 25), *Accounting for Stock Issued to Employees*. In accordance with APB 25, the Company recognized no compensation expense for qualified stock option grants. For options issued with an exercise price less than the fair market value of the shares at the date of grant, the Company recognized the difference between the exercise price and fair market value as compensation expense in accordance with APB 25. Prior to January 1, 2006, the Company provided pro forma disclosure amounts in accordance with SFAS No. 123 *Accounting for Stock-Based Compensation,* (SFAS 123) as amended by SFAS No. 148 *Accounting for Stock-Based Compensation Transition and Disclosure* (SFAS 148). As compensation expense was disclosed but not recognized in periods prior to January 1, 2006, no cumulative adjustment for forfeitures was recorded in any subsequent period. The following table illustrates the effect on net loss and net loss per share if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation in the prior three and six-month periods ended June 30, 2005:

		Three Months ended June 30, 2005
Net loss as reported	$	(233)
Stock based compensation expense determined under the fair value method		(115)

Pro forma net loss		$	(348)
Net loss per share:			
Basic and diluted	as reported	$	(0.01)
Basic and diluted	pro forma	$	(0.01)

		Six Months ended June 30, 2005
Net loss as reported	$	(482)
Stock based compensation expense determined under the fair value method		(271)
Pro forma net loss	$	(753)
Net loss per share:		
Basic and diluted as reported	$	(0.01)
Basic and diluted pro forma	$	(0.02)

The Company accounts for stock options granted to non-employees in accordance with SFAS 123 and Emerging Issues Task Force (EITF) 96-18 *Accounting For Equity Instruments That Are Issued To Other Than Employees For Acquiring, Or In Conjunction With Selling, Goods Or Services*, and, accordingly, recognizes as expense the estimated fair value of such options as calculated using the Black Scholes model. The fair value is remeasured during the service period and is amortized over the vesting period of each option or the recipient s contractual arrangement, if shorter. No stock options were issued to non-employees other than options granted to non-employee members of the Board of Directors for service as Board members.

Recent Accounting Pronouncements.

In December 2004, the FASB issued Staff Position SFAS No. 109-1, Application of FASB Statement No. 109, Accounting for Income Taxes (FSP No. 109-1) to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004 which was signed into law by the President of the United States on October 22, 2004. Companies that qualify for the tax law s deduction for domestic production activities must account for it as a special deduction under SFAS No. 109 and reduce their tax expense in the period or periods the amounts are deductible, according to FSP No. 109-1. FSP No. 109 is effective for the Company in fiscal 2006. The FASB s guidance is not expected to have a material impact on the Company s financial results.

In December 2004, the FASB also issued Staff Position SFAS No. 109-2, Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision (FSP No. 109-2) within the American Jobs Creation Act of 2004. The Act provides for a one-time deduction of 85 percent of certain foreign earnings that are repatriated in either an enterprise s last tax year that began before the date of enactment, or the first tax year that begins during the one-year period beginning on the date of enactment. FSP No. 109-2 allows companies additional time to evaluate whether foreign earnings will be repatriated under the repatriation provisions of the new tax law and requires specified disclosures for companies needing the additional time to complete the evaluation. The Company is currently evaluating the repatriation provisions of the Act and will complete its evaluation once guidance has been issued by the Treasury Department on the repatriation provision.

In July 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). Under FIN 48, companies are required to apply the more likely than not threshold to the recognition and derecognition of tax positions. FIN 48 also provides guidance on the measurement of tax positions, balance sheet classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 will be effective beginning January 1, 2007. The Company is currently evaluating the provisions in FIN 48; however, at the present time the Company does not anticipate the adoption of FIN 48 will have a material impact on its consolidated financial position, results of operations and cash flows.

Note 2. Contingencies

Litigation

On November 13, 2001, BackWeb, six of our officers and directors, and various underwriters for our initial public offering were named as defendants in a consolidated action captioned *In re BackWeb Technologies Ltd. Initial Public Offering Securities Litigation,* Case No. 01-CV-10000, a purported securities class action lawsuit filed in the United States District Court, Southern District of New York. Similar cases have been filed alleging violations of the federal securities laws in the initial public offerings of more than 300 other companies, and these cases have been coordinated for pretrial proceedings as *In re Initial Public Offering Securities Litigation,* 21 MC 92. A consolidated amended complaint filed in the case asserts that the prospectus from BackWeb s June 8, 1999 initial public offering failed to disclose certain alleged improper actions by the underwriters for the offering, including the receipt of excessive brokerage commissions and agreements with customers regarding aftermarket purchases of shares of our stock. The complaint alleges violations of Sections 11 and 15 of the Securities Act of 1933, Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and Rule 10b-5 promulgated under the Securities Exchange Act of 1934. On or about July 15, 2002, an omnibus motion to dismiss was filed in the coordinated litigation on behalf of defendants, including BackWeb, on common pleadings issues. In October 2002, the Court dismissed all six individual defendants from the litigation without prejudice, pursuant to a stipulation. On February 19, 2003, the Court denied the motion to dismiss with respect to the claims against BackWeb. No trial date has yet been set.

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A proposal has been made for the settlement and release of claims against the issuer defendants, including BackWeb. BackWeb has agreed to the proposal. The settlement is subject to a number of conditions, including approval of the proposed settling parties and the court. In September 2004, an agreement of settlement was submitted to the court for preliminary approval.

If the settlement does not occur, and litigation against BackWeb continues, BackWeb believes it has meritorious defenses and intends to defend the case vigorously. However, the results of any litigation are inherently uncertain and can require significant management attention, and BackWeb could be forced to incur substantial expenditures, even if it ultimately prevails. In the event there were an adverse outcome, BackWeb s business could be harmed. Thus, BackWeb cannot assure you that this lawsuit will not materially and adversely affect its business, results of operations or the price of its Ordinary Shares.

Additionally, BackWeb was jointly named in a judgment during September 2005 for approximately $500,000 related to a claim against its dormant French subsidiary. The judgment is related to a dispute between a former French distributor of BackWeb and one of the distributor s end user customers. While BackWeb believes it has additional defenses against the claim and will ultimately not be responsible for payments under the judgment, BackWeb accrued approximately $250,000, or approximately one-half of the total judgment against the distributor and BackWeb, in the third quarter of 2005.

From time to time we are involved in litigation incidental to the conduct of our business. Apart from the litigation described above, BackWeb is not party to any lawsuit or proceeding that, in its opinion, is likely to seriously harm its business.

Significant Risks

Due to uncertainties in the technology market in particular and the economy in general, the Company has limited visibility to forecast future revenues. While the Company believes there is a market for its products, this lack of revenue visibility exposes the Company to risk should it not be able to adjust its expenditures to mitigate unfavorable trends in its revenue.

Letter of Credit

In February 2001, the Company signed a thirty-day revolving letter of credit of $300,000 in favor of Equity Office LLC (formerly Speiker Properties LLC). In conjunction with its lease renegotiation in San Jose, CA, the Company extended this letter of credit to a total of $500,000 in favor of Equity Office LLC in October 2003. The letter of credit extends to the end of the lease in January 2007.

Line of Credit

As of June 30, 2006, the Company had a $500,000 line of credit with a lender. The amount of borrowings available under the line of credit is based on a formula using accounts receivable. The line of credit has a stated maturity date of January 31, 2007 and provides that the lender may demand payment in full of the entire outstanding balance of the loan at any time. The line of credit is secured by substantially all of the Company s assets. The line requires that the Company meet certain financial covenants, provides payment penalties for noncompliance and prepayment, limits the amount of other debt the Company can incur, and limits the amount of spending on fixed assets. During the third quarter of 2004, the Company moved the $500,000 deposit related to its lease space in San Jose, California under the line of credit. At June 30, 2006, the Company had no unused borrowing capacity.

Note 3. Restructuring Liabilities

During the fourth quarter of 2004, the Company recorded a charge of approximately $500,000 related to the termination of 19 employees throughout the Company, including the Company s Chief Executive Officer and Chief Financial Officer. All amounts related to this action were expensed in 2004, and at June 30, 2005, there was an accrual of approximately $20,000 related to severance and other payments yet to be distributed. At June 30, 2006, there was no balance remaining related to restructuring charges and all amounts had either been disbursed or reversed.

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The following table summarizes the costs and activities related to the 2004 restructuring (in thousands):

	Involuntary Terminations	Involuntary Terminations
Total charge 2004 restructuring	$ 500	500
Cash payments 2004 restructuring	(400)	(400)
Balance at December 31, 2004	100	$ 100
Cash payments 2005 restructuring	(100)	(100)
Balance at December 31, 2005	$	$

Note 4. Segments and Geographic Information

BackWeb operates in one industry segment, the development, marketing and sales of network application software. Operations in Israel are primarily related to research and development. Operations in North America and Europe include sales and marketing, and administration. The following is a summary of operations within geographic areas based on the location of the legal entity making that sale (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2005	June 30, 2005	June 30, 2005	June 30, 2005
	Unaudited		Unaudited	
Revenue:				
North America	$ 972	$ 1,193	$ 2,216	$ 2,703
Israel		1		2
Europe	170	524	582	670
	$ 1,142	$ 1,718	$ 2,798	$ 3,375

	June 30, 2006	December 31, 2005
		Unaudited
Total assets:		
North America	$ 1,690	$ 2,204
Israel	6,138	7,566
Other	296	233
	$ 8,124	$ 10,033

Revenue generated in the U.S. and Canada (collectively, North America) and Europe is all to customers located in those geographic regions. Revenue generated in Israel consists of export sales to end-customers located in the rest of the world, excluding North America and Europe. OEM sales are made to all geographic regions. One customer accounted for approximately $200,000, or 16% of our total revenue, and another customer accounted for approximately $150,000, or 13% of our total revenue, in the three months ended June 30, 2006. One customer accounted for approximately $330,000, or 12% of our total revenue, and another customer accounted for approximately $325,000, or 12% of our total revenue, in the six months ended June 30, 2006.

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Note 5. Guarantees

Under the terms of the Company s standard contract with its customers, the Company agrees to indemnify the customer against certain liabilities and damages to the extent such liabilities and damages arise from claims that such customer s use of the Company s software or services infringes intellectual property rights of a third party. The Company believes that these terms are common in the high technology industry. The Company does not record a liability for potential litigation claims related to indemnification obligations with its customers as it cannot be estimated accurately. The Company does not believe the likelihood of a material obligation is probable.

Note 6. Short-Term Investments

The following is a summary of the Company s available-for-sale marketable securities (in thousands):

We have retained Independence Realty Securities, LLC, or our dealer manager, a wholly-owned subsidiary of our sponsor, to serve as our dealer manager for our offering. Our dealer manager is responsible for marketing our common shares. Because our advisor and our dealer manager are indirectly owned and controlled by our sponsor, they are affiliated with us and are considered related parties. Our advisor and our dealer manager will receive compensation and fees for services related to our offering and for the investment and management of our assets. The compensation levels during our offering, acquisition and operational stages are based on percentages of offering proceeds, the cost of properties acquired and the annual revenue earned from such properties, respectively.

NOTE 2: Summary of Significant Accounting Policies

a. Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared by management in accordance with U.S. generally accepted accounting principles, or GAAP. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations, although we believe that the included disclosures are adequate to make the information presented not misleading. The unaudited interim consolidated financial statements should be read in conjunction with our audited financial statements as of and for the year ended December 31, 2010 included in our Annual Report on Form 10-K. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly our consolidated financial position and consolidated results of operations and cash flows are included. The results of operations for the interim periods presented are not necessarily indicative of the results for the full year.

b. Principles of Consolidation

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

c. Use of Estimates

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

d. Organization and Offering Costs

We have recently exited our development stage and we are fully operational. As such, we no longer provide the additional reporting requirements of development stage enterprises. We have incurred and expect to incur additional organizational, accounting and offering costs in pursuit of our offering. The offering and organization costs, which are primarily being incurred by our advisor, are expected to be paid or reimbursed by us with offering proceeds.

Our advisor may advance or reimburse all of the organization and offering costs incurred on our behalf. These costs are not included in our consolidated financial statements because such costs are not a liability of ours until the subscriptions for the minimum number of our common shares are received and accepted. Organization and offering costs include items such as legal and accounting fees, marketing, promotional and printing costs. All organization and offering costs will be recorded as a reduction of additional paid-in-capital when incurred. Our advisor has incurred $2,906 of organization and offering costs from our date of inception through June 30, 2011.

e. Revenue Recognition

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

f. Accounts Receivable and Allowance for Bad Debts

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

g. Investments in Real Estate

Allocation of Purchase Price of Acquired Assets

We account for acquisitions of properties in accordance with FASB ASC Topic 805, Business Combinations . The fair value of the real estate acquired is allocated to the acquired tangible assets, consisting of land, building and tenant improvements, and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases for acquired in-place leases and the value of tenant relationships, based in each case on their fair values. Purchase accounting is applied to assets and liabilities associated with the real estate acquired. Transaction costs and fees incurred related to acquisitions are expensed as incurred. Transaction costs and fees incurred related to the acquisition of a joint venture interest, accounted for under the equity method of accounting, are capitalized as part of the cost of the investment.

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

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

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

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Impairment of Long-Lived Assets

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

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

Depreciation and Amortization

Depreciation expense for real estate assets are computed using a straight-line method based on a life of 40 years for buildings and improvements and five to ten years for equipment and fixtures. Expenditures for tenant improvements are capitalized and amortized over the initial term of each lease.

h. Deferred Costs

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

i. Income Taxes

We expect that we will qualify and elect to be taxed as a REIT beginning with the taxable year ending December 31, 2011. For the three and six month periods ended June 30, 2011 and 2010, we recorded no income tax expense.

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

j. Earnings Per Share

Earnings per share is computed in accordance with FASB ASC Topic 260, Earnings per Share , by dividing the net income by the weighted average number of common shares outstanding during the respective period.

k. Recent Accounting Pronouncements

On January 1, 2011, we adopted ASU No. 2010-29, Disclosure of Supplementary Pro Forma Information for Business Combinations. This accounting standard requires that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. This accounting standard also expands the supplemental pro forma disclosures under FASB ASU Topic 805, Business Combinations to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The adoption of this standard did not have a material effect on our consolidated financial statements.

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NOTE 3: Investments in Real Estate

As of June 30, 2011, our investments in real estate consisted of six multifamily real estate properties with 1,492 units. The table below summarizes our investments in real estate:

Land	$ 21,469
Building	86,592
Furniture, fixtures and equipment	504
Total investment in real estate	108,565
Accumulated depreciation	(7,132)
Investments in real estate, net	$ 101,433

Acquisitions:

On April 29, 2011, we, through our operating partnership, acquired six multifamily properties, which we refer to as the initial portfolio, from six wholly-owned subsidiaries of our sponsor. The contribution value of the initial portfolio was $103,790. In connection with the acquisition of the initial portfolio, our operating partnership assumed $64,575 of mortgage indebtedness and issued $39,215 of limited partner interests, or 3,921,500 limited partner units, to our sponsor. In addition, our sponsor purchased an additional 125,000 limited partner units for $1,250 in cash on April 29, 2011. As we are wholly-owned by our sponsor and under common control, the assets and liabilities of the initial portfolio were recorded at our sponsor s carrying amount, or book value, at the time of contribution, pursuant to Staff Accounting Bulletin Topic 5G and ASC 805-50-30-5.

The following table summarizes the aggregate carrying value of the assets and liabilities associated with the Initial Portfolio acquired during the six-month period ended June 30, 2011, on the respective date of each conversion, for the real estate accounted for under FASB ASC Topic 805.

Description	**Carrying Amount**
Assets acquired:	
Investments in real estate, net	$ 101,733
Liabilities assumed:	
Mortgage indebtedness	64,575
Carrying amount of net assets acquired	$ 37,158

Our consolidated unaudited pro forma information, after including the acquisition of real estate properties, is presented below as if the acquisition occurred on January 1, 2010. These pro forma results are not necessarily indicative of the results which actually would have occurred if the acquisition had occurred on the first day of the periods presented, nor does the pro forma financial information purport to represent the results of operations for future periods:

Description	**For the Six-Month Period Ended June 30, 2011**	**For the Six-Month Period Ended June 30, 2010**
Total revenue, as reported	$ 2,174	$ 5
Pro forma revenue	6,521	6,526
Net income (loss) allocable to common shares, as reported	(36)	5

Pro forma net income (loss) allocable to common shares	(35)	(31)

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NOTE 4: Mortgage Indebtedness

Each of the properties included in the initial portfolio is encumbered by a first mortgage held by our sponsor. A summary of each mortgage, as of June 30, 2011 is as follows:

Property	Outstanding Principal	Current Interest Rate	Maturity Date	Interest Terms
Crestmont Apartments	$ 6,750	5.7%	April 29, 2021	Fixed rate. Interest only payments are due monthly. Beginning May 1, 2013, principal and interest payments are required based on a 30-year amortization schedule
Cumberland Glen Apartments	6,900	5.7%	April 29, 2021	Fixed rate. Interest only payments are due monthly. Beginning May 1, 2013, principal and interest payments are required based on a 30-year amortization schedule
Copper Mill Apartments	7,350	5.7%	April 29, 2021	Fixed rate. Interest only payments are due monthly. Beginning May 1, 2013, principal and interest payments are required based on a 30-year amortization schedule
Heritage Trace Apartments	5,500	5.7%	April 29, 2021	Fixed rate. Interest only payments are due monthly. Beginning May 1, 2013, principal and interest payments are required based on a 30-year amortization schedule
Belle Creek Apartments	10,575	2.5%	April 29, 2021	Fixed rate of interest at 2.5% for the first two years with a floating rate thereafter at 225 basis points over 30-day LIBOR. Interest only.
Tresa at Arrowhead	27,500	2.5%	April 29, 2021	Fixed rate of interest at 2.5% for the first two years with a floating rate thereafter at 225 basis points over 30-day LIBOR. Interest only.
Total /Weighted-Average	$ 64,575	3.8%		

NOTE 5: Shareholder Equity and Non-Controlling Interest

On April 8, 2011, we filed with the Securities and Exchange Commission, or the SEC, a Registration Statement on Form S-11 (SEC File No. 333-173391) to register our new offering of shares of common stock to the public at $10.00 per share and shares of common stock at $9.50 per share pursuant to our distribution reinvestment plan, which we refer to as our new registration statement. Our new registration statement was declared effective by the SEC on June 10, 2011, which caused our previously effective registration statement (SEC File No. 333-160093) to be automatically terminated.

In connection with the acquisition of the initial portfolio, our operating partnership issued $39,215 of limited partner interests, or 3,921,500 limited partner units, to our sponsor. We recorded the issuance of these limited partnership units at $37,158 as the six properties were recorded at our sponsor s historical carrying amount at the time of contribution to us. In addition, our sponsor purchased an additional 125,000 limited partner units for $1,250 in cash on April 29, 2011.

On July 28, 2011, our board of directors authorized and declared a special distribution for July 2011, which will be paid to the stockholder of record on July 29, 2011, in an amount equal to $0.0509589 per share, which for the month of July is equivalent to a 6.0% annualized rate based on a share price of $10.00. Additionally, our board of directors declared distributions for the months of August and September 2011, payable to the stockholders of record at a rate of $0.0016438 per share per day, which is an amount that is equivalent to a 6.0% annualized distribution rate based on a share price of $10.00.

NOTE 6: Equity Compensation Plans

Long Term Incentive Plan

On April 5, 2011, our board of directors terminated the Employee and Director Incentive Restricted Share Plan and approved and adopted the Long Term Incentive Plan, or our incentive plan, and the Independent Directors Compensation Plan. Our incentive plan provides for the grants of awards to our directors, officers and full-time employees (in the event we ever have employees), full-time employees of our advisor and its affiliates, full-time employees of entities that provide services to our advisor, directors of our advisor or of entities that provide services to it, certain of our consultants and certain consultants to our advisor and its affiliates or to entities that provide services to our advisor. The incentive plan authorizes the grant of restricted or unrestricted shares of our common stock, non-qualified and incentive stock options, restricted stock units, stock appreciation rights, dividend equivalents and other stock- or cash-based awards.

Under our Independent Directors Compensation Plan, which operates as a subplan of our incentive plan, each of our independent directors will receive 3,000 shares of common stock annually; provided, however, that no shares will be issued pursuant to our Independent Directors Compensation Plan until we have raised at least $2,500,000 in gross offering proceeds from unaffiliated persons. In addition, our independent directors may elect to receive their annual fee in the form of our common shares or a combination of common shares and cash.

We will account for stock-based compensation in accordance with FASB ASC Topic 718, Compensation Stock Compensation . Under the fair value recognition provisions of this statement, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense of the requisite service period, which is the vesting period. We have not granted any stock-based compensation to date. Stock-based compensation will be classified within general and administrative expense in the consolidated statements of operations. As stock-based compensation expense recognized in the consolidated statement of operations will be based on awards ultimately expected to vest, the amount of expense will be reduced for estimated forfeitures. Forfeitures will be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures will be estimated on experience of other companies in the same industry until entity-specific information is available.

Distribution Reinvestment Program

We have adopted a distribution reinvestment program, or the DRP, through which our stockholders may elect to reinvest an amount equal to the distributions declared on their shares of common stock in additional shares in lieu of receiving cash distributions. No selling commissions or dealer manager fees will be paid on shares sold under the DRP. Our board of directors may amend or terminate the DRP for any reason, provided that any amendment that adversely affects the rights or obligations of a participant shall only take effect upon ten days written notice to participants.

Share Repurchase Plan

Our board of directors has approved a share repurchase plan which allows for share repurchases when certain criteria are met. Share repurchases will be made at the sole discretion of our board of directors.

NOTE 7: Related Party Transactions and Arrangements

On April 6, 2011, we terminated our management agreement with Independence Realty Management, LLC and our board of directors approved a new management agreement with Jupiter Communities, LLC, or Jupiter, our new property manager, which is majority owned by our sponsor. On April 7, 2011, we executed an amended and restated advisory agreement with our advisor and a new dealer manager agreement with our dealer manager. These agreements entitle our advisor and its affiliates to specified fees upon the provision of certain services with regard to our offering and the investment of proceeds in real estate assets, among other services, as well as reimbursement of organization and offering costs incurred by our advisor and our dealer manager on behalf of us and certain costs incurred by our advisor in providing services to us. A summary of these fees and reimbursement obligations are as follows:

Type of Compensation	Determination of Amount
	Offering Stage
Selling Commissions	

	Payable to our dealer manager up to 7% of gross offering proceeds before reallowance of commissions earned by participating broker-dealers. Our dealer manager intends to reallow all or a portion of commissions earned for those transactions that involve participating broker dealers. During the three and six month period ended June 30, 2011, selling commissions were $0.
Dealer Manager Fee	Payable to our dealer manager up to 3% of gross offering proceeds before reallowance to participating broker-dealers. Our dealer manager, in its sole discretion, may reallow a portion of its dealer manager fee of up to 1.5% of the gross offering proceeds to be paid to such participating broker-dealers. During the three and six month period ended June 30, 2011, the dealer manager fee was $0.

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Type of Compensation	Determination of Amount
Organization and Offering Expenses	We will pay our advisor up to 1% of the gross offering proceeds for organizational and offering expenses (other than dealer manager fees and selling commissions). We currently estimate that $7,262 of organizational and offering expenses will be incurred if the maximum offering is achieved. Our advisor and its affiliates are responsible for the payment of organization and offering expenses, other than selling commissions and the dealer manager fee, to the extent they exceed 1% of gross offering proceeds, without recourse against or reimbursement by us; provided, however, that in no event will we pay or reimburse organization and offering expenses (including dealer manager fees and selling commissions) in excess of 15% of the gross offering proceeds. During the three and six month period ended June 30, 2011, we paid organization and offering expenses of $0.
	Operational Stage
Acquisition Fees	None.
Acquisition Expenses	Expenses reimbursed to our advisor incurred in connection with the purchase of an asset. We have assumed that acquisition expenses will equal approximately 0.5% of the contract purchase price. The acquisition fees and expenses for any particular asset, including amounts payable to affiliates, will not exceed, in the aggregate, 6% of the contract purchase price (including any mortgage assumed) of the asset. Our advisor will be paid acquisition expenses and we will reimburse our advisor for acquisition expenses only to the extent that acquisition fees and acquisition expenses collectively do not exceed 6% of the contract price of our assets. During the three and six month period ended June 30, 2011, acquisition expenses were $0.
Asset Management Fees	Payable to our advisor in the amount of 0.75% of average invested assets. Average invested assets means the average of the aggregate book value of our assets invested in interests in, and loans secured by, real estate before reserves for depreciation or bad debt or other similar non-cash reserves. We will compute the average invested assets by taking the average of these book values at the end of each month during the quarter for which we are calculating the fee. The fee will be payable quarterly in an amount equal to 0.1875% of average invested assets as of the last day of such quarter. We will also reimburse our advisor for expenses that it pays on our behalf. Our advisor waived any asset management fees on the initial portfolio for a two-year period from its contribution to us. During the three and six month period ended June 30, 2011, asset management fees were $0.
Property Management and Leasing Fees	We intend to enter into management agreements with our property manager on a property-by-property basis, pursuant to which we will pay a property management fee in an amount up to 4% of the gross revenues. Additionally, we may pay our property manager a separate fee for the one-time initial rent-up or leasing-up of newly constructed properties in an amount not to exceed the fee customarily charged in arm s length transactions by others rendering similar services in the same geographic area for similar properties as determined by a survey of brokers and agents in such area. During the three and six month period ended June 30, 2011, property management and leasing fees were $0.
Operating Expenses	We will reimburse our advisor for all expenses paid or incurred by our advisor in connection with the services provided to us, subject to the limitation that we will not reimburse our advisor for any amount by which our operating expenses (including the asset management fee and the financing coordination fee) at the end of the four preceding fiscal quarters (commencing on the fourth fiscal quarter after we make our first investment) exceeds the greater of: (A) 2% of our average invested assets, or (B) 25% of our net income determined without reduction for any additions to reserves for depreciation, bad debts or other similar non-cash reserves and excluding any gain from the sale of our assets for that period. Notwithstanding the above, we may reimburse our advisor for expenses in excess of this limitation if a majority of the independent directors determines that such excess expenses are justified based on unusual and non-recurring factors. We will not reimburse our advisor or its affiliates for personnel employment costs incurred by our advisor or its affiliates in performing services under the advisory agreement to the extent that such employees perform services for which the advisor receives a separate fee. During the three and six month period ended June 30, 2011, operating expenses were $0.
Financing Coordination Fee	If our advisor provides services in connection with the refinancing of any debt that we obtain, we will pay the advisor a financing coordination fee equal to 1% of the amount available and/or outstanding under such financing, subject to certain limitations. We will not pay a financing coordination fee in connection with debt provided by our sponsor. The services our advisor may perform include, without limitation, searching for lenders in connection with a proposed refinancing and negotiating the terms of any proposed refinancing with such lenders. Our advisor may reallow some or all of this fee to reimburse third parties that it retains to procure any such refinancing. During the three and six month period ended June 30, 2011, the financing coordination fee was $0.

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Type of Compensation	Determination of Amount
	Liquidation Distributions
Disposition Fee	We may pay our advisor a commission upon the sale of one or more of our properties in an amount equal to the lesser of (a) one-half of the commission that would be reasonable, customary and competitive in light of the size, type and location of the asset or (b) 1% of the sale price of the asset. Payment of such fee may be made only if the advisor provides a substantial amount of services in connection with the sale of the asset. In addition, the amount paid when added to all other commissions paid to unaffiliated parties in connection with such sale shall not exceed the lesser of the commission that would be reasonable, customary and competitive in light of the size, type and location of the asset or an amount equal to 6% of the sale price of such asset. During the three and six month period ended June 30, 2011, the disposition fee was $0.
Subordinated Participation in Net Sale Proceeds	After investors have received a return of their capital contributions invested and a 7% annual cumulative, non-compounded return, then RAIT NTR Holdings, LLC as holder of the special units is entitled to receive 10% of the remaining net sale proceeds. During the three and six month period ended June 30, 2011, the subordinated participation in net sale proceeds was $0.
Subordinated Participation Upon a Listing	Upon listing our common stock on a national securities exchange, RAIT NTR Holdings, LLC as holder of the special units is entitled to a fee based on the redemption of the special units equal to 10% of the amount, if any, by which (a) the market value of our outstanding stock plus distributions paid by us prior to listing, exceeds (b) the aggregate remaining capital contributed by investors plus an amount equal to a 7% annual cumulative, non-compounded return to investors on their aggregate capital contributed. We have no intent to list our shares at this time. During the three and six month period ended June 30, 2011, subordinated participation upon a listing fee was $0.
Subordinated Participation Upon a Termination of Advisory Agreement	Upon termination of the advisory agreement, RAIT NTR Holdings, LLC as holder of the special units will be entitled to a subordinated participation payable in the form of an interest bearing promissory note. The subordinated participation, if any, will be equal to 10% of the amount, if any, by which (1) the appraised value of our assets on the termination date, less any indebtedness secured by such assets, plus total distributions paid through the termination date, less any amounts distributable as of the termination date to limited partners who received units in the operating partnership in connection with the acquisition of any assets upon the liquidation or sale of such assets (assuming the liquidation or sale of such assets on the termination date) exceeds (2) the sum of the total amount of capital raised from stockholders (less amounts paid to repurchase shares of our common stock pursuant to our share repurchase plan) and the total amount of cash that, if distributed to them as of the termination date, would have provided them a 7% annual cumulative, pre-tax, non-compounded return on the gross proceeds from the sale of shares of our common stock through the termination date. The subordinated participation will be payable solely from the net proceeds from the sale of properties. During the three and six month period ended June 30, 2011, subordinated participation upon termination of advisory agreement fee was $0.

During the three and six months ended June 30, 2010, we made a short-term loan, bearing a weighted-average interest rate of 5.6%, to our former sponsor in the aggregate principal amount of $200,000. No such loans were made during the six-months ended June 30, 2011. Each of these loans was repaid by our former sponsor. Our interest income was primarily related to these loans.

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Item 2. Management s Discussion and Analysis of Financial Condition And Results of Operations
Certain portions of this Item 2 are omitted under the reduced disclosure format permitted by General Instruction H(2)(a) of Form 10-Q.

Forward-Looking Statements

Certain statements included in this Quarterly Report on Form 10-Q that are not historical facts (including any statements concerning investment objectives, other plans and objectives of management for future operations or economic performance, or assumptions or forecasts related thereto) are forward-looking statements. These statements are only predictions. We caution that forward-looking statements are not guarantees. Actual events or our investments and results of operations could differ materially from those expressed or implied in any forward-looking statements. Forward-looking statements are typically identified by the use of terms such as may, should, expect, could, intend, plan, ant estimate, believe, continue, predict, potential or the negative of such terms and other comparable terminology.

The forward-looking statements included herein are based upon our current expectations, plans, estimates, assumptions and beliefs, which involve numerous risks and uncertainties. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, our actual results and performance could differ materially from those set forth in the forward-looking statements. Factors which could have a material adverse effect on our operations and future prospects include, but are not limited to:

- the fact that we have a limited operating history;
- our ability to effectively deploy the proceeds raised in our public offering of common stock;
- changes in economic conditions generally and the real estate market specifically;
- legislative or regulatory changes (including changes to the laws governing the taxation of REITs);
- the availability of capital;
- interest rates; and
- changes to generally accepted accounting principles, or GAAP.

Any of the assumptions underlying the forward-looking statements included herein could be inaccurate, and undue reliance should not be placed on any forward-looking statements included herein. All forward-looking statements are made as of the date this quarterly report is filed with the SEC, and the risk that actual results will differ materially from the expectations expressed herein will increase with the passage of time. Except as otherwise required by the federal securities laws, we undertake no obligation to publicly update or revise any forward-looking statements made herein, whether as a result of new information, future events, changed circumstances or any other reason.

All forward-looking statements included herein should be read in light of the factors identified in the Risk Factors section of our Registration Statement on Form S-11 (File No. 333-173391) filed with the SEC, as the same may be amended and supplemented from time to time.

Overview

We intend to invest in a diversified portfolio of real estate assets, primarily multifamily properties, located throughout the United States. Our investment objectives are to:

- pay attractive and consistent cash distributions;
- preserve invested capital; and
- provide a diversified direct investment in multifamily properties.

We recently exited our development stage with the acquisition of six multifamily properties with 1,492 units from our sponsor in April 2011. The aggregate purchase price for the properties was $103.8 million. In connection with the acquisition, we assumed $64.6 million in mortgage debt and our operating partnership issued $39.2 million in limited partnership units.

Investors should read the Management s Discussion and Analysis of Financial Condition and Results of Operations section of our Annual Report on Form 10-K for the fiscal year ended December 31, 2010, or the Annual Report, for a detailed discussion of the following items:

- credit, capital markets and liquidity risk;

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interest rate environment;

prepayment rates; and

commercial real estate lack of liquidity and reduced performance.

Our Investment Portfolio

Our current investment portfolio is comprised entirely of multifamily properties. We generate a return on our real estate investments through rental income and other sources of income from the operations of the properties. By owning real estate, we also participate in any increase in the value of the real estate in addition to current income. We finance our real estate holdings through mortgage indebtedness.

The table below describes certain characteristics of our investments in real estate as of June 30, 2011 (dollars in thousands, except average effective rent):

	Investments in Real Estate	Average Physical Occupancy (a)	Units	Number of Properties	Average Effective Rent (a)(b)
Multi-family real estate properties (b)	$ 101,433	94.4%	1,492	6	$ 726

(a) Based on operating performance for the six-month period ended June 30, 2011.
(b) Average effective rent is rent per unit per month.

Results of Operations

Six-Month Period Ended June 30, 2011 Compared to the Six-Month Period Ended June 30, 2010

We generated $2.2 million of revenue during the six-months ended June 30, 2011 as a result of the acquisition of six properties in April 2011. Prior to this acquisition, we did not own any revenue-producing assets and as such the financial information for the six-month period ended June 30, 2011 is not comparable to the six-month period ended June 30, 2010. Our revenue for the six months ended June 30, 2010 was comprised of interest income on a short-term loan to our former sponsor in the principal aggregate amount of $200,000. This loan had an average interest rate of 5.6%

We incurred $2.0 million of expenses during the six-month period ended June 30, 2011, comprised mainly of property operating expenses of $1.1 million, acquisition expenses of $0.3 million and depreciation and amortization of $0.5 million. As discussed above, these expenses relate to the acquisition and ownership of the six properties we acquired in April 2011. We incurred certain general and administrative expenses related to audit and other professional fees, trustee fees and other federal and state filing fees during the six-months ended June 30, 2011. We did not incur any expenses during the six months ended June 30, 2010.

During the six-months ended June 30, 2011 we incurred $0.4 million of interest expense associated with the $64,575 of mortgage indebtedness used to finance the six properties we acquired in April 2011.

Liquidity and Capital Resources

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

We believe our available cash balances, other financing arrangements, and cash flows from operations will be sufficient to fund our liquidity requirements for the next 12 months. Should our liquidity needs exceed our available sources of liquidity, we believe that we could sell assets to raise additional cash. We may not be able to obtain additional financing when we desire to do so, or may not be able to obtain desired financing on terms and conditions acceptable to us. If we fail to obtain additional financing, our ability to maintain or grow our business will be constrained.

Our primary cash requirements are as follows:

- to make investments and fund the associated costs;
- to repay our indebtedness;
- to pay our operating and organization and offering expenses; and
- to distribute a minimum of 90% of our REIT taxable income and to make investments in a manner that enables us to maintain our qualification as a REIT.

We intend to meet these liquidity requirements primarily through the following:

- the use of our cash and cash equivalent balances of $1.6 million as of June 30, 2011;
- cash generated from operating activities;

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proceeds from the sale of our common stock pursuant to our offering; and

proceeds from future borrowings.

Cash Flows

As of June 30, 2011 and 2010, we maintained cash and cash equivalents of approximately $1.6 million and $0.2 million, respectively. Our cash and cash equivalents were generated from the following activities (dollars in thousands):

	For the Six-Month Periods Ended June 30	
	2011	**2010**
Cash flow from operating activities	$ 664	$ 3
Cash flow from investing activities	(216)	0
Cash flow from financing activities	987	0
Net change in cash and cash equivalents	1,435	3
Cash and cash equivalents at beginning of period	209	206
Cash and cash equivalents at end of period	$ 1,644	$ 209

Our increased cash inflow from operating activities during the six-month period ended June 30, 2011 is due to the acquisition of the six multifamily properties in April 2011.

Our cash outflows from investing activities during the six-month period ended June 30, 2011 is due to the cash expenses and proration adjustments we incurred to acquire the six properties, along with the payment of certain real estate taxes in June 2011 across our portfolio.

The cash inflow from our financing activities during the six-month period ended June 30, 2011 is substantially due to the issuance of 125,000 limited partnership units of our operating partnership to our sponsor for $1.3 million in cash.

Critical Accounting Estimates and Policies

Our Annual Report on Form 10-K for the year ended December 31, 2010 contains a discussion of our critical accounting policies. On January 1, 2011 we adopted a new accounting pronouncement and revised our accounting policies as described below. See Note 2 in our unaudited consolidated financial statements as of June 30, 2011, as set forth herein. Management discusses our critical accounting policies and management s judgments and estimates with our Audit Committee.

Recent Accounting Pronouncements

On January 1, 2011, we adopted ASU No. 2010-29, Disclosure of Supplementary Pro Forma Information for Business Combinations. This accounting standard requires that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. This accounting standard also expands the supplemental pro forma disclosures under FASB ASU Topic 805, Business Combinations to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The adoption of this standard did not have a material effect on our consolidated financial statements.

Item 3. Qualitative and Quantitative Disclosure About Market Risk.

This Item 3 is omitted under the reduced disclosure format permitted by General Instruction H(2)(c) of Form 10-Q.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

As of the end of the period covered by this report, management, including our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 13d-15(e) under the Securities Exchange Act of 1934, or the Exchange Act). Based upon, and as of the date of, the evaluation, our principal executive officer and principal financial officer concluded that the disclosure controls and procedures were effective in recording, processing, summarizing and reporting on a timely basis, information required to be disclosed by us in our reports that we file or submit under the Exchange Act.

Changes in Internal Control Over Financial Reporting

There have been no significant changes in our internal control over financial reporting that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 1A. Risk Factors.

The following risk factors should be read together with the risk factors disclosed under Item 1A. of our Annual Report on Form 10-K for the year ended December 31, 2010, which includes a comprehensive discussion of some of the risks and uncertainties that could cause our actual results to differ materially from those presented in our forward-looking statements.

Due to the risks involved in the ownership of real estate, there is no guarantee of any return on your investment in us, and you may lose some or all of your investment.

By owning our shares, stockholders will be subjected to the risks associated with the ownership and operation of real estate properties. The performance of your investment in us will be subject to these risks, which include, without limitation:

- changes in the general economic climate;
- changes in local conditions such as an oversupply of space or reduction in demand for real estate;
- changes in interest rates and the availability of financing;
- changes in property level operating expenses due to inflation or otherwise; and
- changes in laws and governmental regulations, including those governing real estate usage, zoning and taxes.

If our assets decrease in value, the value of your investment will likewise decrease, and you could lose some or all of your investment.

The nature of our sponsor s business, and our dependence on our sponsor and advisor, makes us subject to certain risks that we would not ordinarily be subject to based on our targeted investments.

Our sponsor, as part of the operation of its business, provides a comprehensive set of debt financing options to the commercial real estate industry along with fixed income trading and advisory services. Its investments consist of commercial mortgages, mezzanine loans, other loans and preferred equity investments, debt securities issued by real estate companies, subordinated debentures, mortgage-backed securities, collateralized debt obligations, or CDOs, and other real estate-related debt, none of which we intend to acquire as part of our investment strategy. As a result of our dependence on our sponsor and advisor, we are indirectly subject to some of the same investment risks as our advisor, including risk of payment defaults and credit risks in our sponsor s investment portfolio, the illiquidity of longer-term, subordinate and non-traditional loans, risk of loss from our sponsor s subordinated real estate investments such as mezzanine loans and preferred equity interests, exposure to interest rate risk, risks associated with its use of derivatives and hedging instruments and the risk of loss in its commercial mortgage loans from delinquency and foreclosure. We would not be subject to these risks if we were not dependent upon our sponsor and advisor, and therefore investors may not be able to avoid these risks by investing in us.

In addition, our sponsor engages in securitization strategies that seek to match the payment terms, interest rate and maturity dates of its financings with the payment terms, interest rate and maturity dates of its investments. In particular, our sponsor financed the majority of its commercial real estate loan portfolio through two non-recourse loan securitizations which aggregate $1.85 billion of loan capacity. Our sponsor retained all of the most junior debt tranche and all of the preferred equity issued by these securitizations. Our sponsor also financed most of its debt securities portfolio in a series of non-recourse CDOs, which provide long-dated, interest-only, match funded financing to the debt investments. These securitizations typically require that the principal amount of the assets must exceed the principal balance of the related securities issued by them by a certain amount, a practice known as over-collateralization. The securitization terms provide that if delinquencies or losses exceed specified levels, the required levels of over-collateralization may be increased or may be prevented from decreasing. In addition, failure by a securitization entity to satisfy an over-collateralization test typically results in accelerated distributions to the holders of the senior debt securities issued by the securitization entity, and a reduction in payment to the holders of the junior debt tranche and preferred equity of the type our sponsor holds. As a result, our sponsor is in a first-loss position because the rights of the securities it holds are subordinate in right of payment and in liquidation to the rights of senior security holders issued by the securitization entities. In addition, the failure of the securitization financings of our sponsor to meet their performance tests, including these over-collateralization requirements, may reduce our sponsor s net income and its cash flow generated by these securitizations may trigger certain termination provisions in the related collateral management agreements under which our sponsor manages these securitizations and may cause an event of default under the remaining securitizations. This would increase the likelihood of a reduction or elimination of cash flow to our sponsor, upon which we are dependent, and may result in adverse consequences to our operations.

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We will not calculate our net asset value per share until not more than 18 months after completion of our offering stage. In addition, the methodologies we will use to calculate net asset value are uncertain. Therefore, you will not be able to determine the net asset value of your shares for a substantial period of time and may not be able to meaningfully compare our net asset value to the net asset value of other non-listed REITs.

We do not intend to calculate the net asset value per share for our shares until not more than 18 months after the completion of our offering stage. We will consider our offering stage complete when we are no longer publicly offering equity securities in a continuous offering, whether through our initial public offering or any future offerings (excluding offers to sell under our distribution reinvestment program). Thereafter, our advisor, or another firm it chooses for that purpose, will determine the value of our properties and our other assets based on such information as our advisor determines appropriate, which may or may not include independent valuations of our properties and our other assets or of our enterprise as a whole. We will disclose our net asset value and the methodologies we use to calculate our net asset value to stockholders in our filings with the SEC. Therefore, you will not be able to determine the net asset value of your shares on an on-going basis during this offering and for a substantial period of time thereafter. In addition, we may utilize net asset value calculation methodologies which differ from methodologies utilized by other public, non-listed REITs. As a result, a comparison of our net asset value with the net asset value of other public, non-listed REITs may not be meaningful. Therefore, it is important that you carefully consider how our calculation methodologies differ, if at all, from other non-listed REITs.

Our investment objectives and strategies may be changed without stockholder consent.

Except for the investment limitations contained in our charter, which require stockholder consent to amend, we may change our investment objectives and strategies, and our policies with respect to investments, operations, indebtedness, capitalization and distributions, at any time without the consent of our stockholders, which could result in our making investments that are different from, and possibly riskier or more highly leveraged than, the types of investments described in this prospectus. A change in our investment strategy may, among other things, increase our exposure to interest rate risk, default risk and real estate market fluctuations, all of which could materially affect our ability to achieve our investment objectives.

We may have assumed unknown liabilities in connection with the acquisition of the multifamily properties contributed by our sponsor.

We acquired six multifamily properties contributed by our sponsor subject to existing liabilities, some of which may be unknown at the time of contribution. Unknown liabilities might include liabilities for cleanup or remediation of undisclosed environmental conditions, claims of tenants, vendors or other persons dealing with such entities prior to this offering (that had not been asserted or threatened prior to this offering), tax liabilities, and accrued but unpaid liabilities incurred in the ordinary course of business. As part of the contribution to us of the multifamily properties in the initial portfolio, our sponsor made limited representations and warranties to us regarding the properties. Because many liabilities may not be identified at the time of contribution, we may have no recourse against our sponsor.

We may pursue less vigorous enforcement of terms of the contribution agreement for the multifamily properties we acquired from our sponsor because of conflicts of interest with certain members of our senior management team.

Our senior management team has ownership interests in and professional responsibilities with our sponsor, which contributed the multifamily properties to our operating partnership. As part of the contribution of these properties, our sponsor made limited representations and warranties to us regarding the properties and interests acquired. Any indemnification from our sponsor related to the contribution is limited. We may choose not to enforce, or to enforce less vigorously, our rights under the contribution agreement due to our ongoing relationship with the principals and executive officers of our sponsor.

We will face risks relating to financing arrangements with our sponsor for the multifamily properties we acquire from our sponsor that would not be present with third-party financing.

In connection with the acquisition of the multifamily properties we acquire from our sponsor, our sponsor will make financing available to us. Such financing arrangements may involve risks not otherwise present with other methods of financing, including, for example:

- the possibility that our sponsor may sell or securitize our loan agreements with a third party, in which case our loan would become subject to the rights of the assignee or transferee whose interests may not be the same as our sponsor s interests;

that our sponsor may in the future have interests that are or that become inconsistent with our interests, which may cause us to disagree with our sponsor as to the best course of action with respect to the payment terms, remedies available under and refinancing of the loan and which disagreement may not be resolved to our satisfaction;

that in the event of our default on the loan, our sponsor may determine to foreclose upon the collateral without pursuing alternative remedies such as renegotiation of loan terms or workouts that a third-party lender might pursue; and

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that our executive officers are also executive officers or employees of our sponsor and would be responsible for negotiating the terms of any loan agreement on our behalf as well as on our sponsor s behalf.

Our sponsor may also make a loan as part of a lending syndicate with third parties, in which case we expect our sponsor would enter into an inter-creditor agreement that will define its rights and priority with respect to the underlying collateral. The third-party lending syndicate may also have interests that differ with our interests as well as the interests of our sponsor.

Our revenue and net income may vary significantly from one period to another due to investments in opportunity-oriented properties and portfolio acquisitions, which could increase the variability of our cash available for distributions.

We may make investments in opportunity-oriented properties in various phases of development, redevelopment or repositioning and portfolio acquisitions, which may cause our revenues and net income to fluctuate significantly from one period to another. Projects do not produce revenue while in development or redevelopment. During any period when our projects in development or redevelopment or those with significant capital requirements increase without a corresponding increase in stable revenue-producing properties, our revenues and net income will likely decrease. Many factors may have a negative impact on the level of revenues or net income produced by our portfolio of investments, including higher than expected construction costs, failure to complete projects on a timely basis, failure of the properties to perform at expected levels upon completion of development or redevelopment, and increased borrowings necessary to fund higher than expected construction or other costs related to the project. Further, our net income and stockholders equity could be negatively affected during periods with large portfolio acquisitions, which generally require large cash outlays and may require the incurrence of additional financing. Any such reduction in our revenues and net income during such periods could cause a resulting decrease in our cash available for distributions during the same periods.

If we are required to make payments under any bad boy carve-out guaranties that we may provide in connection with certain mortgages and related loans, our business and financial results could be materially adversely affected.

In obtaining certain nonrecourse loans, we may provide standard carve-out guaranties. These guaranties are only applicable if and when the borrower directly, or indirectly through agreement with an affiliate, joint venture partner or other third party, voluntarily files a bankruptcy or similar liquidation or reorganization action or takes other actions that are fraudulent or improper (commonly referred to as bad boy guaranties). Although we believe that bad boy carve-out guaranties are not guaranties of payment in the event of foreclosure or other actions of the foreclosing lender that are beyond the borrower s control, some lenders in the real estate industry have recently sought to make claims for payment under such guaranties. In the event such a claim were made against us under a bad boy carve-out guaranty, following foreclosure on mortgages or related loan, and such claim were successful, our business and financial results could be materially adversely affected.

The risk factor in our Annual Report on Form 10-K entitled If we do not successfully implement our listing or liquidation policy, you may have to hold your investment for an indefinite period of time is replaced in its entirety with the risk factor below.

If we do not successfully implement a liquidity transaction, you may have to hold your investment for an indefinite period.

Our charter does not require our board of directors to pursue a transaction providing liquidity to our stockholders. If our board of directors does determine to pursue a liquidity transaction, we would be under no obligation to conclude the process within a set time. If we adopt a plan of liquidation, the timing of the sale of assets will depend on real estate and financial markets, economic conditions in areas in which properties are located, and federal income tax effects on stockholders, that may prevail in the future. We cannot guarantee that we will be able to liquidate our assets. After we adopt a plan of liquidation, we would likely remain in existence until all our investments are liquidated. If we do not pursue a liquidity transaction, or delay such a transaction due to market conditions, your shares may continue to be illiquid and you may, for an indefinite period of time, be unable to convert your investment to cash easily and could suffer losses on your investment.

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

This Item 2 is omitted under the reduced disclosure format permitted by General Instruction H(2)(b) of Form 10-Q.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Removed and Reserved.

Item 5. Other Information.

None.

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Item 6. Exhibits.

The exhibits listed on the Exhibit Index (following the signatures section of this Quarterly Report on Form 10-Q) are included herewith.

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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.

	Independence Realty Trust, Inc.
Date: August 8, 2011	By: /s/ Jack E. Salmon Jack E. Salmon President and Chief Financial Officer (Principal Executive Officer)
Date: August 8, 2011	By: /s/ James J. Sebra James J. Sebra Treasurer (Principal Financial Officer and Principal Accounting Officer)

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EXHIBIT INDEX

Exhibit	Description
3.1	Third Articles of Amendment and Restatement of the Company
3.2	First Amended and Restated Bylaws of the Company (filed as Exhibit 3.2 to the Registration Statement on Form S-11 (File No. 333-173391) filed on April 8, 2011 and incorporated herein by reference)
4.1	Second Amended and Restated Agreement of Limited Partnership of Independence Realty Operating Partnership, LP (filed as Exhibit 4.1 to Pre-Effective Amendment No. 1 to the Registration Statement on Form S-11 (File No. 333-173391) filed on May 10, 2011 and incorporated herein by reference)
4.2	Distribution Reinvestment Plan (included as Appendix B to the prospectus (File No. 333-173391) filed on June 10, 2011 and incorporated herein by reference)
4.3	Form of Subscription Agreement (included as Appendix C to the prospectus (File No. 333-173391) filed on June 10, 2011 and incorporated herein by reference)
10.1	Escrow Agreement by and among the Company, UMB Bank, N.A. and Independence Realty Securities, LLC, dated April 7, 2011 (filed as Exhibit 10.1 to the Registration Statement on Form S-11 (File No. 333-173391) filed on April 8, 2011 and incorporated herein by reference)
10.2	Amended and Restated Advisory Agreement by and among the Company, Independence Realty Operating Partnership, LP and Independence Realty Advisors, LLC, dated April 8, 2011 (filed as Exhibit 10.2 to the Registration Statement on Form S-11 (File No. 333-173391) filed on April 8, 2011 and incorporated herein by reference)
10.3	Form of Management Agreement by and among the Company, Independence Realty Operating Partnership, LP and Jupiter Communities, LLC (filed as Exhibit 10.3 to Pre-Effective Amendment No. 1 to the Registration Statement on Form S-11 (File No. 333-173391) filed on May 10, 2011 and incorporated herein by reference)
10.4	Long Term Incentive Plan, dated April 6, 2011 (filed as Exhibit 10.4 to the Registration Statement on Form S-11 (File No. 333-173391) filed on April 8, 2011 and incorporated herein by reference)
10.5	Independent Directors Compensation Plan (filed as Exhibit 10.5 to the Registration Statement on Form S-11 (File No. 333-173391) filed on April 8, 2011 and incorporated herein by reference)
10.6	Contribution Agreement by and among Independence Realty Operating Partnership, LP and the other parties named therein, dated April 7, 2011 (filed as Exhibit 10.7 to the Registration Statement on Form S-11 (File No. 333-173391) filed on April 8, 2011 and incorporated herein by reference)
10.7	Fifth Amendment to Loan and Security Agreement and Promissory Notes, dated as of April 29, 2011, by and among IRT Belle Creek Apartments Colorado, LLC, RAIT Partnership, L.P., Independence Realty Operating Partnership, LP and RAIT CRE CDO I, LTD., relating to the property referred to as Belle Creek (filed as Exhibit 10.8 to Pre-Effective Amendment No. 1 to the Registration Statement on Form S-11 (File No. 333-173391) filed on May 10, 2011 and incorporated herein by reference)
10.8	Guaranty of Non-Recourse Carveouts, dated as of April 29, 2011, by Independence Realty Operating Partnership, LP for the benefit of RAIT CRE CDO I, Ltd., relating to the property referred to as Belle Creek (filed as Exhibit 10.9 to Pre-Effective Amendment No. 1 to the Registration Statement on Form S-11 (File No. 333-173391) filed on May 10, 2011 and incorporated herein by reference)
10.9	Loan Agreement, dated as of April 29, 2011, by and between IRT Copper Mill Apartments Texas, LLC and RAIT Partnership, L.P., relating to the property referred to as Copper Mill (filed as Exhibit 10.10 to Pre-Effective Amendment No. 1 to the Registration Statement on Form S-11 (File No. 333-173391) filed on May 10, 2011 and incorporated herein by reference)
10.10	Guaranty of Non-Recourse Carveouts, dated as of April 29, 2011, by Independence Realty Operating Partnership, LP for the benefit of RAIT Partnership, L.P., relating to the property referred to as Copper Mill (filed as Exhibit 10.11 to Pre-Effective Amendment No. 1 to the Registration Statement on Form S-11 (File No. 333-173391) filed on May 10, 2011 and incorporated herein by reference)

Exhibit	Description
10.11	Loan Agreement, dated as of April 29, 2011, by and between IRT Crestmont Apartments Georgia, LLC and RAIT Partnership, L.P., relating to the property referred to as Crestmont (filed as Exhibit 10.12 to Pre-Effective Amendment No. 1 to the Registration Statement on Form S-11 (File No. 333-173391) filed on May 10, 2011 and incorporated herein by reference)
10.12	Guaranty of Non-Recourse Carveouts, dated as of April 29, 2011, by Independence Realty Operating Partnership, LP for the benefit of RAIT Partnership, L.P., relating to the property referred to as Crestmont (filed as Exhibit 10.13 to Pre-Effective Amendment No. 1 to the Registration Statement on Form S-11 (File No. 333-173391) filed on May 10, 2011 and incorporated herein by reference)
10.13	Loan Agreement, dated as of April 29, 2011, by and between IRT Cumberland Glen Apartments Georgia, LLC and RAIT Partnership, L.P., relating to the property referred to as Cumberland Glen (filed as Exhibit 10.14 to Pre-Effective Amendment No. 1 to the Registration Statement on Form S-11 (File No. 333-173391) filed on May 10, 2011 and incorporated herein by reference)
10.14	Guaranty of Non-Recourse Carveouts, dated as of April 29, 2011, by Independence Realty Operating Partnership, LP for the benefit of RAIT Partnership, L.P., relating to the property referred to as Cumberland Glen (filed as Exhibit 10.15 to Pre-Effective Amendment No. 1 to the Registration Statement on Form S-11 (File No. 333-173391) filed on May 10, 2011 and incorporated herein by reference)
10.15	Loan Agreement, dated as of April 29, 2011, by and between IRT Heritage Trace Apartments Virginia, LLC and RAIT Partnership, L.P., relating to the property referred to as Heritage Trace (filed as Exhibit 10.16 to Pre-Effective Amendment No. 1 to the Registration Statement on Form S-11 (File No. 333-173391) filed on May 10, 2011 and incorporated herein by reference)
10.16	Guaranty of Non-Recourse Carveouts, dated as of April 29, 2011, by Independence Realty Operating Partnership, LP for the benefit of RAIT Partnership, L.P., relating to the property referred to as Heritage Trace (filed as Exhibit 10.17 to Pre-Effective Amendment No. 1 to the Registration Statement on Form S-11 (File No. 333-173391) filed on May 10, 2011 and incorporated herein by reference)
10.17	Third Amendment to Loan and Security Agreement and Promissory Note, dated as of April 29, 2011, by and among IRT Tresa at Arrowhead Arizona, LLC, RAIT Partnership, L.P., Independence Realty Operating Partnership, LP and RAIT CRE CDO I, Ltd., relating to the property referred to as Tresa at Arrowhead (filed as Exhibit 10.18 to Pre-Effective Amendment No. 1 to the Registration Statement on Form S-11 (File No. 333-173391) filed on May 10, 2011 and incorporated herein by reference)
10.18	Guaranty of Non-Recourse Carveouts, dated as of April 29, 2011, by Independence Realty Operating Partnership, LP for the benefit of RAIT CRE CDO I, Ltd., relating to the property referred to as Tresa at Arrowhead (filed as Exhibit 10.19 to Pre-Effective Amendment No. 1 to the Registration Statement on Form S-11 (File No. 333-173391) filed on May 10, 2011 and incorporated herein by reference)
31.1	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	Pursuant to Rule 405 of Regulation S-T, the following financial information from the Company s Quarterly Report on Form 10-Q for the period ended June 30, 2011 is formatted in XBRL interactive data files: (i) Consolidated Balance Sheets as of June 30, 2011 and December 31, 2010; (ii) Consolidated Statements of Operations for the Three-Month and Six-Month Periods ended June 30, 2011 and June 30, 2010; (iii) Consolidated Statements of Cash Flows for the Six-Month Periods ended June 30, 2011 and June 30, 2010; and (iv) Condensed Notes to Consolidated Financial Statements as of June 30, 2011. The information in this exhibit shall not be deemed filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, or otherwise subject to liability of that section and shall not be incorporated by reference into any filing or other document pursuant to the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing or document.