

GMH Communities Trust  
Form 10-Q  
August 09, 2007

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended June 30, 2007

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-32290

**GMH COMMUNITIES TRUST**

(Exact Name of Registrant as Specified in Its Charter)

**Maryland**

(State or other Jurisdiction of  
Incorporation or Organization)

**201181390**

(IRS Employer Identification No.)

**10 Campus Boulevard, Newtown Square, PA**

(Address of Principal Executive Offices)

**19073**

(Zip Code)

Registrant's Telephone Number, Including Area Code **(610) 355-8000**

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

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Yes  No

On August 9, 2007, 41,621,594 of the registrant's common shares of beneficial interest, \$0.001 par value, were outstanding.

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**GMH COMMUNITIES TRUST  
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**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Our disclosure and analysis in this document and in the documents that are or will be incorporated by reference into this document contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements provide our current expectations or forecasts of future events and are not statements of historical fact. These forward-looking statements include information about possible or assumed future events, including, among other things, operating or financial performance, strategic plans and objectives, or regulatory or competitive environments. Statements regarding the following subjects are forward-looking by their nature:

- our ability to successfully implement our current business strategy, including our ability to acquire and manage student housing properties and to secure and operate military housing privatization projects;
- our projected operating results and financial condition;
- completion of any of our targeted acquisitions or development projects, sales of assets, refinancings or joint venture transactions within our expected timeframe or at all;
- our ability to obtain future financing arrangements on terms acceptable to us, or at all;
- estimates relating to, and our ability to pay, future dividends;
- our ability to qualify as a REIT for federal income tax purposes;
- our understanding of our competition, market opportunities and trends;
- projected timing and amounts of capital expenditures;
- the impact of technology on our properties, operations and business.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account the information currently available to us. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. Factors that could cause actual results to differ materially from our management's current expectations include, but are not limited to:

- the factors referenced in the sections of this report titled "Our Business," "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations";
- changes in our business strategy, including acquisition, sales, and development activities;
- availability, terms and deployment of capital, including equity and debt financing;
- availability of qualified and/or sufficient personnel, including, but not limited, within our accounting staff;
- failure to effectively remediate any deficiencies in our disclosure controls and procedures and internal control over financial reporting, or failure to identify additional material weaknesses and deficiencies in our disclosure controls and procedures and internal control over financial reporting that could occur in the future;
- the adverse effects of pending litigation or any investigation of the Company by the U.S. Securities and Exchange Commission, or SEC;

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- unanticipated costs associated with the acquisition and integration of our student housing property acquisitions and development projects, and military housing privatization projects;

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- the effects of military base realignment and closures, or deployments, on installations covered by our military housing privatization projects;
- high leverage on the entities that own the military housing privatization projects;
- reductions in government military spending;
- changes in student population enrollment at colleges and universities or adverse trends in the off-campus student housing market;
- changes in the student and military housing industry, interest rates or the general economy;
- changes in local real estate conditions (including changes in rental rates and the number of competing properties) and the degree and nature of our competition;
- failure to lease unoccupied space in accordance with management's projections;
- potential liability under environmental or other laws; and
- the existence of complex regulations relating to our status as a REIT and the adverse consequences of our failure to qualify as a REIT.

When we use the words believe, expect, may, potential, anticipate, estimate, plan, will, could, intend or similar expressions, we are making forward-looking statements. You should not place undue reliance on these forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent otherwise required by law.

**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****GMH COMMUNITIES TRUST****CONSOLIDATED BALANCE SHEETS**

(in thousands, except par value and number of shares)

	<b>June 30, 2007 (unaudited)</b>	<b>December 31, 2006</b>
<b>ASSETS</b>		
Real estate investments:		
Student housing properties	\$ 1,435,509	\$ 1,659,422
Accumulated depreciation	76,088	66,855
	1,359,421	1,592,567
Corporate assets:		
Corporate assets	9,808	9,427
Accumulated depreciation	1,257	1,002
	8,551	8,425
Cash and cash equivalents	30,344	22,539
Restricted cash	24,956	16,955
Accounts and other receivables, net:		
Related party	16,233	17,131
Third party	3,365	2,762
Investments in military housing projects	51,726	37,987
Deferred contract costs	1,189	2,344
Deferred financing costs, net	5,047	5,103
Lease intangibles, net	272	2,468
Deposits	1,176	907
Assets held for sale	39,868	
Other assets	5,015	4,802
Total assets	\$ 1,547,163	\$ 1,713,990
<b>LIABILITIES AND BENEFICIARIES EQUITY</b>		
Notes payable	\$ 962,451	\$ 1,028,290
Note facility and line of credit	60,205	199,435
Accounts payable	3,117	3,213
Accrued expenses	27,777	27,257
Dividends and distributions payable	12,077	12,077
Liabilities related to assets held for sale	27,581	
Other liabilities	20,022	28,446
Total liabilities	1,113,230	1,298,718
Minority interest	165,745	157,972
Commitments and contingencies (Note 9)		
Beneficiaries' equity:		
Common shares of beneficial interest, \$0.001 par value; 500,000,000 shares authorized, 41,621,594 and 41,567,146 issued and outstanding at June 30, 2007, and December 31, 2006, respectively	42	42
Preferred shares 100,000,000 shares authorized, no shares issued or outstanding		
Additional paid-in capital	325,746	325,347
Cumulative earnings	25,536	1,324
Cumulative dividends	(83,136)	(69,413)
Total beneficiaries' equity	268,188	257,300
Total liabilities and beneficiaries' equity	\$ 1,547,163	\$ 1,713,990

See accompanying notes to consolidated financial statements.





**GMH COMMUNITIES TRUST**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
<b>Revenue:</b>				
Rent and other property income	\$ 46,917	\$ 39,750	\$ 98,382	\$ 79,409
Expense reimbursements:				
Related party	16,639	17,675	34,038	31,055
Third party	1,357	1,389	2,803	2,725
Management fees:				
Related party	2,617	2,101	5,038	4,140
Third party	656	647	1,334	1,655
Other fee income-related party	7,435	5,581	13,573	10,261
Other income	196	51	424	141
Total revenue	75,817	67,194	155,592	129,386
<b>Operating Expenses:</b>				
Property operating expenses	21,623	17,713	43,766	34,171
Reimbursed expenses	17,996	19,064	36,841	33,780
Real estate taxes	4,492	3,917	9,394	7,660
Administrative expenses	4,496	4,931	9,366	9,011
Audit Committee and Special Committee expenses		2,301		4,876
Depreciation and amortization	11,308	9,826	23,113	19,298
Interest	15,746	10,839	33,221	20,968
Total operating expenses	75,661	68,591	155,701	129,764
Gain on sale to joint venture	21,773		21,773	
Income (loss) from continuing operations before equity in earnings of unconsolidated entities, income taxes and minority interest				
	21,929	(1,397)	21,664	(378)
Equity in earnings of unconsolidated entities	1,230	1,174	2,259	2,390
Income (loss) from continuing operations before income taxes and minority interest				
	23,159	(223)	23,923	2,012
Income taxes	1,327	1,214	2,852	2,187
Income (loss) from continuing operations before minority interest				
	21,832	(1,437)	21,071	(175)
Less minority interest attributable to continuing operations	9,431	(627)	9,103	(79)
Net Income (loss) income from continuing operations	12,401	(810)	11,968	(96)
<b>Discontinued Operations:</b>				
Income from discontinued operations before minority interest				
	1,175	478	2,164	1,265
Gain on sale of student housing properties	19,390		19,390	
Less minority interest attributable to discontinued operations	8,883	209	9,311	570
Income from discontinued operations	11,682	269	12,243	695
Net income (loss)	\$ 24,083	\$ (541)	\$ 24,211	\$ 599
Earnings(loss) per common share-basic				
Continuing operations	\$ 0.30	\$ (0.02)	\$ 0.29	\$ 0.00
Discontinued operations	0.28	0.01	0.29	0.01
	\$ 0.58	\$ (0.01)	\$ 0.58	\$ 0.01
Earnings(loss) per common share-diluted				
Continuing operations	\$ 0.30	\$ (0.02)	\$ 0.29	\$ 0.00
Discontinued operations	0.28	0.01	0.29	0.01
	\$ 0.58	\$ (0.01)	\$ 0.58	\$ 0.01
Weighted-average shares outstanding during the period:				
Basic	41,503,312	40,872,036	41,498,941	40,275,829
Diluted	73,119,138	73,097,859	73,119,138	73,537,988
Common share dividend declared per share	\$ 0.165	\$ 0.2275	\$ 0.33	\$ 0.455

See accompanying notes to consolidated financial statements.



**GMH COMMUNITIES TRUST**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited and in thousands)

	<b>Six Months Ended June 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 24,211	\$ 599
Minority interest	18,414	491
Adjustments to reconcile net income to net cash provided by operating activities from continuing operations:		
Gain on sale to joint venture	(21,773 )	
Gain on sale of student housing properties	(19,390 )	
Depreciation	20,868	15,926
Amortization:		
Lease intangibles	1,975	3,140
Investment in military housing projects	257	233
Notes payable fair value adjustment	(2,111 )	(1,251 )
Deferred loan costs	2,296	638
Restricted shares	188	75
Allowance for doubtful accounts	1,284	957
Equity in earnings of unconsolidated entities in excess of distributions received	(748 )	(1,818 )
Changes in operating assets and liabilities from continuing operations:		
Restricted cash	(8,001 )	(1,956 )
Accounts and other receivables	(1,014 )	(238 )
Deferred contract costs	1,155	(823 )
Deposits and other assets	(3,056 )	(4,958 )
Accounts payable	56	(1,040 )
Accrued expenses and other liabilities	(6,821 )	9,370
Net cash provided by discontinued operations	(239 )	1,721
Net cash provided by operating activities	7,551	21,066
<b>Cash flows from investing activities:</b>		
Property acquisitions	(1,291 )	(75,429 )
Property dispositions	111,452	
Capitalized expenditures	(4,905 )	(24,998 )
Distributions received in excess of earnings of unconsolidated entities	729	
Investments in military housing projects	(13,850 )	
Discontinued operations	(101 )	(563 )
Net cash used in investing activities	92,034	(100,990 )
<b>Cash flows from financing activities:</b>		
Owner distributions	(24,152 )	(32,454 )
Redemption of unitholders		(45 )
Proceeds from note facility/line of credit	110,705	93,000
Repayment of note facility/line of credit	(249,935 )	(36,000 )
Proceeds from notes payable	121,600	60,389
Repayment of notes payable	(47,018 )	(1,772 )
Payment of financing costs	(2,519 )	(357 )
Discontinued operations	(461 )	(409 )
Net cash provided by financing activities	(91,780 )	82,352
Net increase (decrease) in cash and cash equivalents	7,805	2,428
Cash and cash equivalents, beginning of period	22,539	2,240
Cash and cash equivalents, end of period	\$ 30,344	\$ 4,668
<b>Supplemental information:</b>		
Real estate acquired by assuming debt, including debt premium	\$	\$ 46,963
Cash paid for interest	\$ 34,352	\$ 22,258
Cash paid for taxes	\$ 2,378	\$ 2,270

See accompanying notes to consolidated financial statements.



**GMH COMMUNITIES TRUST**

Notes to Consolidated Financial Statements

June 30, 2007

(Unaudited)

**1. Organization and Basis of Presentation**

*Organization*

GMH Communities Trust (the Trust, the Company, or sometimes referred to as we ) conducts substantially all of its operations through its operating partnership, GMH Communities, LP, a Delaware limited partnership (the Operating Partnership ). As of June 30, 2007, the Operating Partnership had 73,206,211 units of partnership interest outstanding, of which the Trust owned 41,040,425 units of limited partnership interest; and through a wholly-owned subsidiary, GMH Communities GP Trust, the Trust owned 581,169 units of general partnership interest, which represents 100% of the general partnership interest in the Operating Partnership. As of June 30, 2007, there were 31,584,617 units of limited partnership interest outstanding that were not owned by the Company.

We, through the Operating Partnership and its subsidiaries, are a self-advised, self-managed, specialty housing company that focuses on providing housing to college and university students residing off-campus and to members of the U.S. military and their families located on or near military bases throughout the United States. Through the Operating Partnership, we own and operate our student housing properties and the interests in joint ventures that own military housing privatization projects ( military housing projects ).

*Basis of Presentation*

The consolidated financial statements have been prepared by the Company without audit except as to the balance sheet as of December 31, 2006, which has been derived from audited data, pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ( SEC ). Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the included disclosures are adequate to make the information presented not misleading. In the opinion of management, all adjustments (consisting solely of normal recurring matters) necessary for a fair presentation of the financial position of the Company as of June 30, 2007, the results of its operations for the three-month and six-month periods ended June 30, 2007 and June 30, 2006 and its cash flows for the six-month periods ended June 30, 2007 and June 30, 2006 have been included. The results of operations for such interim periods are not necessarily indicative of the results for a full year. These consolidated financial statements should be read in conjunction with the Company s consolidated financial statements and notes to the financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2006.

**2. Summary of Significant Accounting Policies**

*Use of Estimates*

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The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect various amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

### *Real Estate Investments and Corporate Assets*

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We carry real estate investments and corporate assets at cost, net of accumulated depreciation. Cost of acquired assets includes the purchase price and related closing costs. We allocate the cost of real estate investments to net tangible and identified intangible assets based on relative fair values in accordance with SFAS No. 141, *Business Combinations* ( SFAS 141 ). We estimate fair value based on information obtained from a number of sources, including our due diligence, marketing and leasing activities, independent appraisals that may be obtained in connection with the acquisition or financing of the respective property, and other market data.

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The value of in-place leases is based on the difference between (i) the property valued with existing in-place leases and (ii) the property valued as if vacant. As lease terms typically are 12 months or less, actual rates on in-place leases generally approximate market rental rates. Factors that we consider in the valuation of in-place leases include an estimate of incremental carrying costs during the expected lease-up periods considering current market conditions and nature of the tenancy. Purchase prices of student housing properties to be acquired are not expected to be allocated to tenant relationships considering the terms of the leases and the expected levels of renewals. We amortize the value of in-place leases to expense over the remaining term of the respective leases, which is generally one year or less. Accumulated amortization related to intangible lease costs was \$4.2 million at June 30, 2007 and \$2.0 million at December 31, 2006.

We expense routine repair and maintenance expenditures that do not improve the value of an asset or extend its useful life, including turnover costs. We capitalize expenditures that improve the value and extend the useful life of an asset. We compute depreciation using the straight-line method over the estimated useful lives of the assets, which is generally 40 years for buildings, including student housing properties and the commercial office building, and three to five years for residential furniture and appliances. Commencing towards the end of the second quarter and more significantly during the third quarter of each fiscal year, the Company typically will experience an increase in property operating expenses over other quarters as a result of repair and maintenance expenditures relating to turnover of units at student housing properties. The Company's student housing lease terms generally commence in August and September to coincide with the beginning of the academic year for the various institutions. Accordingly, the Company expects to incur a majority of its repair and maintenance costs in the second and third quarters to prepare for new residents.

In accordance with SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, long-lived assets, such as real estate investments and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. These circumstances may include, but are not limited to, operational performance, market conditions and competition from other off-campus properties and on-campus housing, legal and environmental concerns, and results of appraisals or other information obtained as part of a financing or disposition strategy. When required, we review recoverability of assets to be held and used through a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized in an amount by which the carrying value of the asset exceeds the fair value of the asset determined using customary valuation techniques, such as the present value of expected future cash flows. Assets to be disposed of would be separately presented in the balance sheet as assets held for sale and reported at the lower of the carrying amount or fair value less costs to sell, and no longer would be depreciated.

### ***Cash Equivalents***



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All highly-liquid investments with an original maturity of three months or less are considered to be cash equivalents. The Company has substantially all of its cash and short-term investments with one major financial institution. Such cash balances, at times, may exceed FDIC limits.

### ***Restricted Cash***

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Restricted cash consists of security deposits and cash held as escrow for real estate taxes, capital expenditures and other amounts, as required by the terms of various loan agreements.

### *Allowance for Doubtful Accounts*

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We estimate the collectibility of receivables generated by rental and other income as a result of the operation of our student housing properties. If we believe that the collectibility of certain amounts is questionable, we record a specific reserve for these amounts to reduce the amount outstanding to an amount we believe will be collectible and a reserve for all other accounts based on a range of percentages applied to aging categories, which is based on historical collection and write-off experience.

We also evaluate the collectibility of fee income and expense reimbursements generated by the management of student housing properties owned by others and through the provision of development, construction, renovation, and management services to our military housing projects based upon the individual facts and circumstances, and record a reserve for specific amounts, if necessary.

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Accounts receivable are presented net of the allowance for doubtful accounts of \$419,000 and \$331,000 at June 30, 2007 and December 31, 2006, respectively.

### *Deferred Financing Costs*

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Costs incurred in connection with obtaining financing are deferred and amortized on a straight-line basis over the term of the related loan, which is not materially different than the effective interest method. Amortization of deferred financing costs is included in interest expense. Accumulated amortization of deferred financing costs was \$1.3 million and \$2.9 million at June 30, 2007 and December 31, 2006, respectively.

### *Deferred Contract Costs*

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Deferred contract costs include costs attributable to a specific military housing project incurred in connection with seeking Congressional approval of a Community Development and Management Plan, or CDMP, subsequent to the project being awarded by the Department of Defense, or DoD. In addition, deferred contract costs also include transition and closing costs incurred that are expected to be reimbursed by the military housing project. Such amounts are evaluated as to the probability of recovery and costs that are not considered probable of recovery are written off. Revenue is recognized and the related costs are expensed at the time that the reimbursement for preparing the CDMP is approved by Congress or at closing of the military housing project.

### *Deposits*

Deposits primarily consist of amounts paid to third parties in connection with planned acquisitions or joint venture transactions, amounts paid to lenders that provide related financing or the refinancing of existing loans and deposits paid to utility companies. At June 30, 2007, deposits for planned acquisitions totaled \$371,000 and other deposits totaled \$805,000. At December 31, 2006, deposits for planned acquisitions totaled \$155,000 and other deposits totaled \$752,000.

### *Fair Value of Financial Instruments*

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The carrying amount of cash and cash equivalents, restricted cash, accounts and other receivables, deposits, other assets, accounts payable, accrued expenses, dividends and distributions payable and other liabilities approximate fair value because of the relatively short-term nature of these instruments.

Debt assumed in connection with property acquisitions is recorded at fair value at the date of acquisition and the resulting premium or discount is amortized through interest expense over the remaining term of the debt, resulting in a non-cash decrease (in the case of a premium) or increase (in the case of a discount) in interest expense.

The carrying value and fair value of fixed-rate notes payable at June 30, 2007 were approximately \$0.9 million and \$0.9 million, respectively. Fair value was estimated using rates the Company believed were available to it as of June 30, 2007 for debt with similar terms. The carrying value of variable-rate notes payable approximates fair value at June 30, 2007.

### *Advertising Costs*

Advertising costs are expensed as incurred.

***Revenue Recognition***



**Student Housing Owned Properties Segment**

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Rental revenue is recognized when due over the lease terms, which are generally 12 months or less.

Other property income, including, but not limited to, lease processing fees, move-in fees, utility reimbursements and activity fees is recognized as earned throughout the course of the year. The timing of these fees typically fluctuates in relation to the academic year leasing cycle.

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**Student Housing Managed Properties Segment**

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Standard management fees are based on a percentage of monthly cash receipts or gross monthly rental and other revenues generated by the properties managed for others. We recognize these fees on a monthly basis as the services are performed.

Incentive management fees are earned as a result of the achievement of certain operating performance criteria over a specified period by certain managed properties, including targeted annual debt service coverage ratios of the properties. We recognize these fees at the amount that would be due under the contract if the contract had been terminated on the balance sheet date.

Expense reimbursements are comprised primarily of salary and related costs of certain of our employees working at certain properties we manage for others, the cost of which is reimbursed by the owners of the related properties. We accrue operating expense reimbursements as the related expenses are incurred.

### **Military Housing Segment**

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Standard and incentive management fees, which are based on a percentage of effective gross revenue generated by the military housing privatization projects from the basic allowance for housing (BAH) provided by the government to service members are recognized when the revenue is earned by the military housing projects. Incentive management fees are based upon the satisfaction of certain criteria including, among other things, satisfying designated benchmarks relating to emergency work order response, occupancy rates, home turnover and resident satisfaction surveys. Incentive management fees are recognized when the various criteria stipulated in the management contract have been satisfied. Accrued and unbilled incentive management fees of \$1.2 million and \$1.0 million are included in accounts receivable related party at June 30, 2007 and December 31, 2006, respectively.

Standard and incentive development and construction/renovation fees, which are based on a percentage of development and construction/renovation costs incurred by the military housing projects, including hard and soft costs and financing costs, are recognized on a monthly basis as the costs are incurred by the military housing projects. Incentive development and construction/renovation fees are based upon the satisfaction of certain criteria including, among other things, completing a number of houses according to schedule, achieving specific safety records and implementing small business or minority subcontracting plans. Incentive development and construction/renovation fees are recognized when the various criteria stipulated in the contract have been satisfied. Accrued and unbilled incentive development and construction/renovation fees of \$3.2 million and \$2.3 million are included in accounts receivable related party at June 30, 2007 and December 31, 2006, respectively.

Revenues on our renovation contracts are recorded on the percentage-of-completion method. When the percentage-of-completion method is used, contract revenue is recognized in the ratio that costs incurred to date bear to estimated costs at completion. Adjustments to cost estimates are made in the period in which the facts requiring such revisions become known. When the revised estimates indicate a loss, such loss is currently provided for in its entirety.

Business development fees are earned from our business partners that provide architectural and design or construction services for the Company's military housing projects. The fees consist of (i) an annual base fee, which is a fee paid to the Company in consideration of the Company's ongoing pursuit of additional projects and is not contingent upon the success of those efforts and can be cancelled at any time, and (ii) an additional fee, which is paid over the course of an awarded project based on a percentage of revenue earned by these business partners for providing services to the Company's military housing projects. The base fees are recognized on a straight-line basis over the term of the related business development agreement, which is generally one year. The additional fee is recognized and paid to us as the related services are provided to our military housing projects by our business partners.

In certain instances, the Company may receive fees relating to the performance of pre-construction/renovation services. These pre-construction/renovation fees are determined on a project-by-project basis, and are (i) paid in proportion to the amount of pre-construction/renovation costs incurred by us for the project, and (ii) recognized as revenue upon performance of the pre-construction/renovation services.

The Company earns equity returns on its investments in military housing projects. During the initial development period for certain of our projects ( IDP ), the equity returns are a fixed percentage of our investment and subsequent to the

IDP for a project, the equity returns are based on a fixed percentage of our investment and on the project's net operating income, subject to cash distribution caps, as defined in the operating agreements related to the particular project. As of June 30, 2007, only the Fort Carson project had passed its IDP.

Expense reimbursements are comprised primarily of renovation expenses and property management expenses, the costs of which are reimbursed by the military housing projects to which they relate. The expenses include payments to third parties for renovation services, and include salaries and related costs of the Company's employees that are managing the renovation and property management services. The Company accrues expense reimbursements as the related expenses are incurred.

***Minority Interest***

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Minority interest as initially reported at the date of our initial public offering represented the net equity of the Operating Partnership, including the proceeds received from the sale of a warrant to Vornado Realty LP, multiplied by the ownership percentage of holders of limited partnership units in the Operating Partnership other than the Company. The Operating Partnership is obligated to redeem, at the request of a holder, each unit of limited partnership interest for cash or common shares on a one-for-one basis, at the Company's option, subject to adjustments for share splits, dividends, recapitalizations and similar events; except that Gary M. Holloway, Sr. has the right to require the Operating Partnership to redeem his and his affiliates' units of limited partnership interest for common shares, subject to his restriction from owning more than 20% of the Company's outstanding common shares. If the minority interest unitholders' share of a current year loss would cause the minority interest balance to be less than zero, the minority interest balance will be reported as zero unless there is an obligation of the minority interest holders to fund those losses. Any losses in excess of the minority interest will be charged against equity. If future earnings materialize, equity will be credited for all earnings up to the amount of those losses previously absorbed. Distributions to limited partnership unitholders other than the Company are recorded as a reduction to minority interest.

### *Investments in Military Housing Projects and Student Housing Joint Ventures*

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The Company owns equity interests in the joint ventures that own our military housing projects with the U.S. military to design, develop, construct/renovate and manage the military family housing located on or near various bases throughout the United States. The Company evaluates its investments in military housing project joint ventures in which we have a variable interest to determine if the underlying entity is a variable interest entity ( VIE ) as defined under FASB Financial Interpretation No. 46 (as revised) ( FIN 46(R) ). The Company has concluded that each of the project joint ventures in which it has a variable interest is a VIE and that the Company is not the primary beneficiary of any of these VIEs. The Company records its investments in joint ventures under its military housing projects in accordance with the equity method of accounting. The Company's investment is initially recorded at cost, and then subsequently adjusted at each balance sheet date to an amount equal to what the Company would receive from the joint venture in the event that the project were liquidated at net book value as of that date, and assuming that the proceeds from the liquidation are distributed in accordance with the terms of, and priority of returns set forth under, the joint venture's operating agreement. The Company has exposure to loss to the extent of its investments, if any, and any receivables due from the project.

With respect to the student housing business, the Company entered into a joint venture in the third quarter of 2005 to develop and construct two student housing properties. The Company contributed land to the joint venture in exchange for its 10% interest in the joint venture and cash. The Company has the option to purchase the equity interest of its joint venture partner within one year of completion of the properties, and the Company provided certain guarantees for a portion of the construction loans. Construction was completed in August 2006. As such, the transaction is being accounted for as a financing arrangement, whereby the Company records the real estate as an asset, depreciates the property, and records a financing obligation. The Company did not exercise its purchase option which expired in August 2007 and as such the transaction will no longer be accounted for as a financing transaction commencing in the third quarter of 2007.

In addition, the Company entered into a joint venture in April 2007 with Fidelity Real Estate Group, pursuant to which the Company transferred its 100% interest in six student housing properties into the joint venture in exchange for cash and a 10% interest in the joint venture entity. The Company records its investment in this joint venture under the equity method of accounting. As part of the transaction, the Company recorded a deferred gain of approximately \$2.4 million. As of June 30, 2007, our investment was approximately \$305,000, which is recorded net of the deferred gain and is included in other assets on the consolidated balance sheet.



***Income Taxes***

The Company elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the Code ), commencing with its taxable year ended December 31, 2004. To continue to qualify as a REIT, we must meet a number of organizational and operational requirements, including a requirement that we currently distribute at least 90% of our adjusted taxable income to our shareholders. We believe we are organized and operate in a manner that allows us to qualify for taxation as a REIT under the Code, and it is our intention to adhere to these requirements and maintain the Company's REIT status in the future. Accordingly, no provision has been made for federal income taxes in the accompanying consolidated financial statements, other than with respect to the Company's taxable REIT subsidiaries.

***Audit Committee and Special Committee Expenses***

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During the first quarter of 2006, the Audit Committee of our Board of Trustees initiated an investigation promptly following receipt of a letter from the Company's former chief financial officer, alleging, among other things, a "tone-at-the-top" problem within management, and raising concerns regarding various accounting methodologies that were being considered by management in connection with certain transactions that occurred in the fourth quarter of 2005. The Audit Committee conducted the investigation with the assistance of independent legal counsel, as well as a forensic accounting firm retained by the Audit Committee's counsel. The investigation was completed during the third quarter of 2006.

During 2006, the Board of Trustees formed a Special Committee to explore strategic alternatives for the Company. The Special Committee was disbanded in December 2006.

The Company incurred significant legal, accounting, financial advisory as well as committee fees in connection with both the Audit Committee investigation and activities of the Special Committee. All costs have been expensed as incurred and are reported in Audit Committee and Special Committee expenses on the accompanying consolidated statements of operations.

### ***Adoption of Recent Accounting Pronouncements***

Effective January 1, 2007, we adopted the Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, (FIN 48), which prescribes detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. Tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of FIN 48 and in subsequent periods. Under FIN 48, the Company determined that there were no uncertain tax positions recognized in the consolidated financial statements and therefore there was no impact of the adoption of FIN 48 on its consolidated financial statements.

### ***Recent Accounting Pronouncements***

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 applies where other accounting pronouncements require or permit fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, which for the Company is January 1, 2008, and interim periods within those fiscal years. The Company has not yet evaluated the impact if any, this statement will have on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). SFAS 159 provides entities with an option to measure many financial assets and liabilities and certain other items at fair value as determined on an instrument-by-instrument basis. The Company has not yet evaluated the impact, if any, this standard might have on the Company's consolidated financial statements once it becomes effective on January 1, 2008.

### ***Reclassifications***

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Certain amounts in the prior period financial statements have been reclassified to be consistent with the current period presentation.

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### 3. Real Estate Investments

Included in real estate investments as of June 30, 2007, are 63 student housing properties that the Company owns and two student housing properties that the Company has equity interests in and accounts for as a deferred financing obligation, located near 42 colleges and universities in 24 states. These 65 properties contain an aggregate of 12,283 units and 39,302 beds. At December 31, 2006, included in real estate investments were 77 student housing properties. The Company's investment in student housing properties at June 30, 2007 and December 31, 2006 was as follows (in thousands):

	June 30, 2007	December 31, 2006
Land	\$ 151,048	\$ 168,579
Building and improvements	1,242,318	1,444,349
Residential furniture and appliances	39,834	44,902
Construction in progress	2,309	1,592
	\$ 1,435,509	\$ 1,659,422

### 4. Dispositions

During the second quarter of 2007, the Company entered into a joint venture transaction with Fidelity Real Estate Group, a unit of Pyramis Global Advisors, a Fidelity Investments Company, encompassing six student housing properties. Under the joint venture structure, the Company completed the transfer of its 100% interest in six student housing properties into the joint venture entity during the second quarter of 2007, which is now owned 90% by Fidelity and 10% by the Company. The Company recognized a partial gain of \$21.8 million and a deferred gain of \$2.4 million in connection with this transaction. As part of the transaction, the joint venture entity simultaneously placed new mortgage indebtedness on five of the properties in an aggregate amount of approximately \$88.0 million, and assumed previously existing mortgage indebtedness on a sixth property in the amount of approximately \$4.6 million. The new mortgage debt has a five-year term and requires interest-only payments at a fixed rate of approximately 5.52%. After the repayment of previously existing mortgage indebtedness on the properties of approximately \$50.9 million, the Company received net proceeds from both the Fidelity equity contribution and the new mortgage debt totaling approximately \$61.3 million, and has used these proceeds to repay \$56.1 million indebtedness outstanding under the former line of credit and \$5.2 million indebtedness outstanding under the Company's Note Facility (See Note 7). Under the terms of the joint venture, the Company will continue to manage the properties and receive management fees.

Also during the second quarter of 2007, the Company completed the sale of four student housing properties to SCI Real Estate Investments LLLC, pursuant to an agreement to sell a total of five student housing properties. The Company received an aggregate of approximately \$45.1 million in net proceeds from these initial sales, after the repayment of existing mortgage debt on the properties totaling approximately \$57.3 million, and recognized a gain of \$19.4 million. The sales agreement contains certain contingent purchase price considerations that can be earned based on certain net rental income targets being met as defined in the agreement. Total amount of potential contingent consideration is \$1.5 million and can be earned through August 2009. A portion of the net proceeds was used to repay indebtedness outstanding under the Company's Note Facility. The fifth property sale pursuant to this agreement was completed in early July 2007 in which the Company received net proceeds of approximately \$12.3 million after the buyers assumption of existing mortgage debt on the property of approximately \$11.4 million (see Note 13).

Also during July 2007, the Company completed the sale of a student housing property to a third party and received net proceeds of approximately \$9.9 million, after the buyer's assumption of existing mortgage indebtedness on the property totaling approximately \$16.1 million. (See Note 13)

The assets held for sale at June 30, 2007 represent the two properties that were sold subsequent to June 30, 2007 and the amounts included in the balance sheet are as follows (in thousands):

	<b>June 30, 2007</b>
Land	\$ 3,782
Building and improvements	36,114
Residential furniture and appliances	1,121
	41,017
Less accumulated depreciation	(1,149 )
Assets held for sales	\$ 39,868

At June 30, 2007, included in liabilities related to the two assets held for sale, were notes payable totaling \$27.6 million which were secured by the two student housing properties with a cost basis of \$39.9 million. The notes payable had a weighted average interest rate of 5.39%, a weighted average maturity of 8.91 years, one matures in July 2015 and the other matures in November 2016 and require monthly payments of principal and interest or monthly payments of interest only.

##### **5. Investments in Military Housing Projects**

We record our investments in joint ventures under our military housing projects in accordance with the equity method of accounting. Our investment is initially recorded at cost, and subsequently adjusted at each balance sheet date to an amount equal to what we would receive from the joint venture in the event that it were liquidated at net book value as of that date, assuming that the proceeds from the liquidation are distributed in accordance with the terms of, and the priority of returns set forth under, the joint venture's operating agreement. The terms of the various agreements generally provide for the payment to the Company of an agreed upon return on the Company's invested capital and a return of the Company's invested capital prior to the distribution of any amounts to the government entity that is a member of the joint venture.

As of June 30, 2007, of the 10 joint venture entities in which we had ownership interests relating to military housing projects in operation as of that date, we had invested capital in four of the joint ventures as discussed below.

On February 6, 2007, the Company closed on the Air Education and Training Command (AETC) Group I project with the Department of the Air Force. This military housing privatization project covers four bases and 2,875 end-state housing units. The AETC Group I project represents the Company's first military housing project with the Department of the Air Force. The 50-year term of the project commences with a five-year IDP that includes the design, construction and/or renovation of, as well as the overall management and operational responsibilities over the end-state housing units. The Company invested \$8.0 million for its 80% interest in the partnership that owns the rights to the AETC Group I project. The Company has concluded that this joint venture is a variable interest entity (VIE) as defined under FIN 46(R) and that the Company is not the primary beneficiary. The primary beneficiary is a non-equity partner in the joint venture that is more closely associated with the VIE. The Company earns a preferred return on its investment in AETC Group I. The preferred return will accrue, but not be paid, until the end of the IDP for the project which is in January 2012. The carrying value of this investment was \$8.4 million at June 30, 2007.

In November 2004, the Company contributed \$9.5 million to GMH/Benham Military Communities LLC in return for a 90% interest and Benham Military Communities, LLC invested \$1.1 million for the remaining 10% interest. The Company consolidates GMH/Benham Military Communities LLC as it has a 90% economic interest and controls a majority of the voting interests. Benham Military Communities, LLC's 10% interest is accounted for as minority interest and is included in other liabilities. In November 2004, GMH/Benham Military Communities, LLC invested \$10.6 million in Northeast Housing LLC, which owns and operates the Navy Northeast Region military housing project. GMH/Benham Military Communities LLC is entitled to a preferred return on its investment in Northeast Housing LLC. The preferred return will accrue, but not be paid, until the end of the IDP for the project in October 2010. The carrying value of this investment was \$13.1 million at June 30, 2007 and \$12.7 million at December 31, 2006.

During the first quarter of 2007, the Company contributed \$5.9 million and Benham Military Communities, LLC contributed \$0.6 million, to their joint venture, GMH/Benham Military Communities LLC. The joint venture then used these funds to make a required \$6.5 million equity contribution to FDWR Parent LLC, which operates our Fort Detrick/Walter Reed Medical Center military housing project. The Company has a 90% interest, and Benham has a 10% interest, in GMH/Benham Military Communities LLC, which is entitled to a preferred return on its investment in FDWR Parent LLC, commencing after the end of the IDP for the project.

The acquisition of our ownership interests in the joint venture that owns a 10% interest in Fort Carson Family, LLC



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and has the rights to exclusively negotiate the Fort Eustis/Fort Story military housing project was recorded at the fair value of the consideration paid in the amount of \$31.0 million. The underlying book value of the equity on the acquisition date was approximately \$11.5 million. The remaining \$19.5 million of this investment is being amortized based on the then current fiscal year revenue as a percentage of the estimated revenue to be earned over the remaining lives of the projects, which are 45 years for the Fort Carson project and 50 years for the Fort Eustis/Story project. Amortization expense was \$147,000 and \$123,000 for the three months ended June 30, 2007 and 2006, respectively, and \$257,000 and \$233,000 during the six months ended June 30, 2007 and June 30, 2006, respectively. The accumulated amortization of the excess purchase price was \$0.9 million and \$0.7 million at June 30, 2007 and December 31, 2006, respectively. The carrying value of this investment was \$24.3 million at June 30, 2007 and \$25.3 million at December 31, 2006. The Company is entitled to a preferred return on its investment in Fort Carson Family Housing LLC, plus 50% of the project's net operating income, which will decrease to 30% and 15% in 2012 and 2016, respectively. After 2016 and through 2025, the Company's returns on its investments are subject to an annual maximum amount of \$1.75 million. The project began repaying the Company's initial investment in Fort Carson Family Housing LLC in July 2005. The equity is expected to be completely repaid by 2015. During the three months ended June 30, 2007 and 2006, the Company received \$965,000 and \$251,000, respectively and during the six months ended June 30, 2007 and 2006, the Company received \$2.3 million and \$571,000, respectively of equity distributions from Fort Carson Family Housing LLC.

The following is a summary of the financial position of the unconsolidated Fort Carson Family Housing LLC (in thousands):

	June 30, 2007	December 31, 2006
Net Property	\$ 168,125	\$ 162,106
Other Assets	\$ 123,581	\$ 132,020
Notes Payable	\$ 259,550	\$ 260,730
Other Liabilities	\$ 6,245	\$ 5,160
Equity	\$ 25,911	\$ 28,236
Company's Share of Equity	\$ 5,750	\$ 6,479

The following is a summary of the results of operations of the unconsolidated Fort Carson Family Housing LLC (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Revenue	\$ 7,726	\$ 7,808	\$ 15,216	\$ 15,847
Operating Expenses	\$ 3,894	\$ 3,930	\$ 6,046	\$ 6,046
Interest Expense, net	\$ 3,005	\$ 2,778	\$ 5,629	\$ 5,629
Depreciation and amortization	\$ 1,839	\$ 1,843	\$ 3,684	\$ 3,684
Net Income (loss)	\$ (1,012 )	\$ (743 )	\$ (441 )	\$ 488

### 6. Notes Payable

At June 30, 2007, notes payable totaling \$962.5 million were secured by 62 student housing properties, including the two properties that we have an ownership interest in and account for as a deferred financing obligation and our corporate office. The net carrying value of these encumbered properties was \$1.292 billion at June 30, 2007. These notes payable had a weighted average interest rate of 5.40%, a weighted average maturity of 6.91 years, mature at various dates between May 2008 and June 2024 and require monthly payments of principal and interest or monthly payments of interest only.

On May 3, 2007, the Company completed the refinancing of three student housing properties that previously had debt maturity dates during 2007. Under the refinancing, the Company placed an aggregate of \$31.6 million in mortgage indebtedness covering the three properties pursuant to a LIBOR-based pool. Under this pool arrangement, the loan is interest-only with a one-year term (with four additional one-year extension options), and bears a variable interest rate of 30-day LIBOR plus 1.9%. The Company did not receive any net proceeds from this refinancing.

### 7. Note Facility

On May 7, 2007, the Company entered into a note facility structured through a Note Purchase Agreement (Note Facility) with Merrill Lynch, Pierce, Fenner and Smith Incorporated, which allows the Company, through the Operating





Partnership, to borrow up to a maximum of \$100 million on a revolving basis, subject to an increase to \$125 million if certain conditions are met. The Company initially issued a note to Merrill Lynch representing borrowings equal to approximately \$90.7 million under the Note Facility, and used these proceeds to pay approximately \$1.5 million in transaction costs associated with the Note Facility, and to repay all remaining principal and interest under, and to simultaneously terminate, its former \$250 million revolving credit facility with Wachovia Bank.

The initial note was issued with an interest rate of 7.07% and has a term through April 30, 2010. Additional notes are issuable at an annual interest of LIBOR plus 1.75%, will require monthly payments of interest only, and are secured solely by the fees and equity returns the Company receives in connection with the military housing projects in operation as of the effective date of the Note Facility, as well as the Company's Navy Southeast Region project and Fort Jackson project that were under exclusive negotiations as of the date of commencement of the Note Facility. As of June 30, 2007, the Company had approximately \$60.2 million in principal amount of notes outstanding under the Note Facility.

The notes issued in connection with the Note Facility are administered under a Trust Indenture, which contains affirmative and negative covenants and also contains financial covenants which, among other things, require that the Company maintain (i) a fixed charge coverage ratio, as defined in the Trust Indenture, of at least 1:15 to 1:00, (ii) a consolidated tangible net worth, as defined in the Trust Indenture, of at least \$375 million (iii) quarterly minimum Adjusted Management EBITDA, as defined in the Trust Indenture, of \$3.5 million, and (iv) federal tax status as a REIT.

## 8. Transactions with Related Parties

In the ordinary course of its operations, the Company has on-going business relationships with Gary M. Holloway, Sr., entities affiliated with Mr. Holloway, and entities in which Mr. Holloway or the Company has an equity investment. The operating results or financial position of the Company could be significantly different from those that would have been reported if the entities were autonomous. These relationships and related transactions are summarized below.

Shared costs for human resources, information technology, office equipment and furniture, and certain management personnel were allocated to the various entities owned or controlled by Mr. Holloway, using assumptions based on headcount that management believed were reasonable. The allocation of such costs to other entities owned or controlled by Mr. Holloway during the three months and six months ended June 30, 2007 totaled \$58,000 and \$122,000, respectively, and totaled \$115,000 and \$172,000 during the three and six months ended June 30, 2006 and are reflected as expense reimbursements from related parties in the accompanying consolidated statements of operations.

The Company leases space in its corporate headquarters to entities wholly-owned by Mr. Holloway. Rental income from these entities totaled \$39,000 during each of the three months ended June 30, 2007 and 2006 and \$78,000 during each of the six months ended June 30, 2007. These amounts are included in other property income in the accompanying consolidated statements of operations.

The Company earned management fees during the second quarter of 2007 from six properties held in a joint venture in which the Company has a 10% interest. During both the three and six month periods ended June 30, 2007 such income totaled \$117,000, after elimination of our 10% interest.

The Company earned management fees from properties in which Mr. Holloway was an investor until December 2006. During the three months and six months ended June 30, 2006 such income totaled \$17,000 and \$37,000 respectively.

The Company received \$800,000 of structuring fees during the second quarter relating to the formation of a joint venture in which the Company has a 10% interest. The Company has recognized \$720,000 of fee income in other fee income related party in the accompanying consolidated statement of operations, after elimination of its 10% interest.

The Company is reimbursed by the joint ventures relating to certain of its military housing projects, and student housing properties, in which the Company has an ownership interest, for the cost of certain employees engaged in the daily operation of those military housing projects and student housing properties. In addition, during 2006, the Company also received reimbursements for similar costs relating to student housing properties under the Company's management in which Mr. Holloway was an investor through December 2006. The reimbursement of these costs is included in expense reimbursements related party in the accompanying consolidated and combined statements of operations. Such expense

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reimbursements relating to these military housing projects and student housing properties totaled \$16.6 million and \$33.9 million, respectively, during the three and six months ended June 30, 2007, and \$17.6 million and \$30.9 million during the three and six months ended June 30, 2006.

Mr. Holloway owns Bryn Mawr Abstract, Inc., an entity that provides title abstract services to third party title insurance companies, from which we have purchased title insurance with respect to certain student housing properties and military housing projects that we have acquired or refinanced. In connection with the purchase of title insurance for these student housing properties and military housing projects, premiums were paid to other title insurance companies, which fees in some cases are fixed according to statute. From these premiums, the other title insurance companies paid to Bryn Mawr Abstract, Inc. \$79,000 and \$162,000 during the three and six months ended June 30, 2007 respectively, and \$187,000 during both the three and six months ended June 30, 2006, respectively, for providing title abstract services.

Mr. Holloway owns Corporate Flight Services, LLC, an entity that provides private aircraft services. The Company paid Corporate Flight Services, LLC for use of its aircraft equal to approximately \$304,000 and \$587,000 during the three and six months ended June 30, 2007, respectively, and \$266,000 and \$500,000, respectively, during the three and six months ended June 30, 2006.

### 9. Commitments and Contingencies

As of June 30, 2007, the Company had agreements to acquire one student housing property and 13 parcels of land for the development of a future student housing property for an aggregate purchase price of \$17.8 million and had placed deposits related to such acquisitions totaling approximately \$371,000.

With regard to military housing projects at Army bases, depending on the terms of each respective agreement, the Company is either required to fund its portion of the equity commitment to the project's joint venture (i) after all other sources of funding for the project have been expended or (ii) after the initial development period is completed. With respect to the Company's Navy Northeast Region project and AETC Group I project, however, the Company was required to fund the equity commitments at commencement of the projects. With respect to the Company's Fort Detrick/Walter Reed Medical Center project, the Company was required to fund its equity commitment during the first quarter of 2007. In connection with finalizing the agreements with the DoD for the Company's military housing projects, the Company has committed to contribute the following aggregate amounts as of June 30, 2007 (in thousands):

2007	\$ 1,980
2010	6,600
2011	12,510
2012	6,300
Total	\$ 27,390

In connection with the development, management, construction and renovation agreements for certain of the military housing projects, the Company guarantees the completion of its obligations under the agreements. The guaranties require the Company to fund any costs in excess of the amounts budgeted in the underlying development, management, construction and renovation agreements. The maximum exposure to the Company on these guaranties cannot be determined at this time. Management believes that these guaranties will not have a material adverse impact on the Company's financial position or results of operations.

Under the provisions of FIN 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34, a guarantor is to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken by issuing the guarantee. The Company enters into indemnification agreements in the ordinary course of business that are subject to the provisions of FIN 45. Under these agreements, the Company indemnifies, holds harmless, and agrees to reimburse the indemnified party for losses suffered or incurred by the indemnified party. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited. The Company believes the estimated fair value of these agreements is immaterial. Accordingly, there were no liabilities recorded for these agreements as of June 30, 2007.

The Company is currently engaged in exclusive negotiations with the Department of the Navy to finalize agreements and plans for the design, construction/renovation, management and maintenance of the Navy Southeast Region Project that is expected to commence operations during the fourth quarter of 2007. On July 20, 2007, the Company entered into an agreement with Balfour Beatty Construction, LLC, under which the parties have agreed to share costs incurred during the exclusive negotiations period, and for the Company to share costs incurred by Balfour Beatty for architectural, engineering, and other site services in preparation for the project's commencement. In the event that the project fails to achieve final closing, while not anticipated, the Company estimates that its commitment to reimburse Balfour Beatty for these costs would be approximately \$2.6 million.

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Starting on April 5, 2006, five putative class actions alleging violations of Sections 11, 12(a)(2) and 15 of the

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Securities Act of 1933 and Sections 10(b) and 20 of the Securities Exchange Act of 1934 and Rule 10b-5 of the Securities and Exchange Commission have been filed in the United States District Court for the Eastern District of Pennsylvania, naming as defendants GMH Communities Trust, Gary M. Holloway, Sr., and Bradley W. Harris. The complaints purport to bring claims on behalf of a class of purchasers of GMH securities during various periods, the longest of which is the period between October 28, 2004 and March 10, 2006. By orders filed January 22, 2007, the cases were consolidated, and lead plaintiffs and lead counsel were appointed. A consolidated complaint alleging violations of Sections 11 and 15 of the Securities Act of 1933 and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 was filed on March 19, 2007 against the same defendants for a class period between May 5, 2005 and March 10, 2006 based upon the Company's restatement of certain financial results. On June 1, 2007, motions to dismiss were filed by the defendants. On July 16, 2007, the lead plaintiffs filed a response to these motions to dismiss. On August 6, 2007, the defendants filed a motion in support of their motion to dismiss. Discovery is stayed pending the disposition of any motion to dismiss. The outcome of this litigation is uncertain, and while the Company believes that it has valid defenses to Plaintiff's claims and intends to defend the class action lawsuit vigorously, no assurance can be given as to the outcome of this litigation. An adverse outcome could have a material adverse effect on our financial condition and results of operations.

On March 12, 2007, Stone Gate I LLC, Southview LLC, The Commons LLC, Seminole Ride LLC, LB&J Limited, Bruce Forbes, Lois Forbes and Jeff Forbes filed a complaint in the United States District Court for the Eastern District of Pennsylvania against GMH Communities Trust, GMH Communities, L.P., College Park Investments, LLC, Peach Grove Associates, LLC, Neff Avenue Associates, LLC, Gary M. Holloway, Sr., Bradley W. Harris and John DeRiggi. The complaint alleges violations of Sections 10(b), 18 and 20(a) of the Securities Exchange Act of 1934, Section 522(a) and 522(c) of the Virginia Securities Act and Sections 1-401 and 1-501 of the Pennsylvania Securities Act, as well as common law claims for fraud, fraud in the inducement, negligent misrepresentation and breach of contract. The claims arise from the Company's restatement of certain financial results upon which plaintiffs purportedly relied in selling properties to certain defendants. In connection with the acquisition of the properties, Company entities purchased four student housing properties in exchange for a combination of cash, assumption of debt and the issuance of 1,940,282 units of limited partnership interests in our operating partnership valued at a total of approximately \$76.8 million. The units of limited partnership interest were issued for a total value of approximately \$27.5 million or \$14.17 per unit of limited partnership interest. The parties have stipulated to extend the deadline to respond to plaintiffs' complaint pending mediation. Discovery is stayed pending the disposition of any motion to dismiss. The outcome of this litigation is uncertain, and while the Company believes that it has valid defenses to Plaintiff's claims and intends to defend the lawsuit vigorously, no assurance can be given as to the outcome of this litigation. An adverse outcome could have a material adverse effect on our financial condition and results of operations.

The Company also is subject to routine litigation, claims and administrative proceedings arising in the ordinary course of business. Other than the matters described above, we are not involved in any other material litigation nor, to our knowledge, is any material litigation pending or threatened against us. The maximum exposure to the Company relating to these matters cannot be determined at this time. Management believes that the disposition of these routine litigation matters will not have a material adverse impact on the Company's financial position or results of operations.

## 10. Segment Reporting

The Company is comprised of four reportable segments: (1) student housing owned properties (2) student housing management, (3) military housing, and (4) corporate. The operating results of our student housing owned properties and student housing management, which included our acquisitions department, had been previously classified as one segment. The acquisitions department is now included in the corporate segment. The segment data for 2006 has been restated to conform to the current year's presentation. The corporate segment also includes the corporate overhead and other service departments. The Company's management evaluates each segment's performance based upon net income. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies.

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Three Months Ended June 30, 2007

	Student Housing- Owned Properties	Student Housing- Management	Military Housing	Corporate	Elimination	Total
<b>Revenue</b>						
Rent and other property income	\$ 46,878	\$	\$	\$ 39	\$	\$ 46,917
Expense reimbursements:						
Related party		347	16,234	58		16,639
Third party		1,357				1,357
Management fees:						
Owned properties		1,677			(1,677 )	
Related party		117	2,500			2,617
Third party		656				656
Other fee income - related party		720	6,715			7,435
Other income	30	3	5	158		196
Total revenue	46,908	4,877	25,454	255	(1,677 )	75,817