

GMH Communities Trust
Form 10-Q
November 14, 2006

**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 September 30, 2006

**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).

Yes No

On November 9, 2006, 41,567,146 of the registrant's common shares of beneficial interest, \$0.001 par value, were outstanding.

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

Our disclosure and analysis in 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 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 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;
- our ability to successfully implement remedial measures that will effectively address material weaknesses and significant deficiencies that have been identified with respect to our disclosure controls and internal controls over financial reporting; and
- 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 all 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 section of our Annual Report on Form 10-K for the year ended December 31, 2005 titled *Risk Factors* and in the section of this report titled *Management's Discussion and Analysis of Financial Condition and Results of Operations*;
- changes in our business strategy, including acquisition 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 finance and accounting staff;
- failure to effectively remediate existing material weaknesses and significant deficiencies in our disclosure controls and internal controls over financial reporting, including through the implementation of such measures as discussed in the section of our Annual Report on Form 10-

K for the year ended December 31, 2005 titled *Controls and Procedures* under Item 9A of that report, or failure to identify additional material weaknesses and significant deficiencies in our disclosure controls and internal controls over financial reporting that could occur in the future;

- the adverse effects of pending litigation or any investigation of the Company by the United States Securities and Exchange Commission, or SEC;
- unanticipated costs associated with the acquisition and integration of our student housing property acquisitions and development projects, and military housing privatization projects;
- 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 are not obligated 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)

	September 30, 2006 (unaudited)	December 31, 2005
ASSETS		
Real estate investments:		
Student housing properties	\$ 1,413,617	\$ 1,210,255
Accumulated depreciation	55,685	29,039
	1,357,932	1,181,216
Corporate assets:		
Corporate assets	8,943	8,178
Accumulated depreciation	829	565
	8,114	7,613
Cash and cash equivalents	7,107	2,240
Restricted cash	16,416	11,625
Accounts and other receivables, net:		
Related party	15,293	19,191
Third party	4,470	2,925
Investments in military housing projects	37,356	37,828
Deferred contract costs	1,743	1,063
Deferred financing costs, net	3,947	4,088
Lease intangibles, net	713	3,201
Deposits	9,865	2,856
Other assets	5,243	4,105
Total assets	\$ 1,468,199	\$ 1,277,951
LIABILITIES AND BENEFICIARIES EQUITY		
Notes payable	\$ 829,789	\$ 692,069
Line of credit	128,000	36,000
Accounts payable	4,178	5,566
Accrued expenses	31,145	21,253
Dividends and distributions payable	16,571	16,227
Other liabilities	28,938	21,337
Total liabilities	1,038,621	792,452
Minority interest	164,218	188,633
Commitments and contingencies (Note 9)		
Beneficiaries' equity:		
Common shares of beneficial interest, \$0.001 par value; 500,000,000 shares authorized, 41,567,146 issued and outstanding at September 30, 2006, and 39,699,843 issued and outstanding at December 31, 2005	42	40
Preferred shares 100,000,000 shares authorized, no shares issued or outstanding		
Additional paid-in capital	326,072	325,455
Unearned share compensation	(817)	(320)
Cumulative earnings	2,617	6,310
Cumulative dividends	(62,554)	(34,619)
Total beneficiaries' equity	265,360	296,866
Total liabilities and beneficiaries' equity	\$ 1,468,199	\$ 1,277,951

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 September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Revenue:				
Rent and other property income	\$ 45,751	\$ 35,409	\$ 133,821	\$ 91,013
Expense reimbursements:				
Related party	17,309	20,096	48,364	40,552
Third party	1,965	1,299	4,690	3,876
Management fees:				
Related party	2,131	1,755	6,271	5,085
Third party	766	611	2,421	2,156
Other fee income-related party	5,616	5,895	15,877	12,849
Other income	110	81	254	248
Total revenue	73,648	65,146	211,698	155,779
Operating Expenses:				
Property operating expenses	27,628	18,906	65,563	41,104
Reimbursed expenses	19,274	21,395	53,054	44,428
Real estate taxes	4,464	3,184	13,042	8,339
Administrative expenses	3,802	2,992	12,102	8,768
Audit Committee and Special Committee expenses	1,822		6,698	
Depreciation and amortization	10,276	8,550	31,340	24,958
Interest	13,147	8,989	35,777	21,247
Total operating expenses	80,413	64,016	217,576	148,844
(Loss) income before equity in earnings of unconsolidated entities, income taxes and minority interest	(6,765)	1,130	(5,878)	6,935
Equity in earnings of unconsolidated entities	460	1,058	2,850	1,999
(Loss) income before income taxes and minority interest	(6,305)	2,188	(3,028)	8,934
Income taxes	1,307	2,254	3,494	4,512
(Loss) income before minority interest	(7,612)	(66)	(6,522)	4,422
Minority interest	(3,320)	(34)	(2,829)	2,183
Net (loss) income	\$ (4,292)	\$ (32)	\$ (3,693)	\$ 2,239
Earnings (loss) per common share basic	\$ (0.10)	\$ (0.00)	\$ (0.09)	\$ 0.07
Earnings (loss) per common share diluted	\$ (0.10)	\$ (0.00)	\$ (0.09)	\$ 0.07
Weighted-average shares outstanding during the period:				
Basic	41,491,841	30,350,989	40,678,959	30,350,989
Diluted	73,116,458	64,413,934	72,304,476	64,085,950
Common share dividend declared per share	\$ 0.2275	\$ 0.2275	\$ 0.6825	\$ 0.6825

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended	
	September 30,	
	2006	2005
Cash flows from operating activities:		
Net income	\$ (3,693)	\$ 2,239
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	26,910	17,878
Amortization:		
Lease intangibles	4,112	7,080
Investment in military housing projects	318	
Notes payable fair value adjustment	(1,879)	(1,637)
Deferred loan costs	1,027	905
Restricted shares	167	78
Allowance for doubtful accounts	2,213	935
Equity in earnings of unconsolidated entities in excess of distributions received	(667)	(716)
Minority interest	(2,829)	2,183
Changes in operating assets and liabilities:		
Restricted cash	(4,791)	(10,262)
Accounts and other receivables	140	(16,602)
Deferred contract costs	(680)	(344)
Deposits and other assets	(8,147)	(1,782)
Accounts payable	(1,388)	(792)