

GMH Communities Trust
Form 10-Q
September 15, 2006

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2006

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 001-32290

GMH COMMUNITIES TRUST

(Exact Name of Registrant as Specified in Its Charter)

Maryland
(State or other Jurisdiction of
Incorporation or Organization)

10 Campus Boulevard, Newtown Square, PA
(Address of Principal Executive Offices)

201181390
(IRS Employer Identification No.)

19073
(Zip Code)

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

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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 September 15, 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-

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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

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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)

	June 30, 2006 (unaudited)	December 31, 2005
ASSETS		
Real estate investments:		
Student housing properties	\$ 1,356,654	\$ 1,210,255
Accumulated depreciation	46,297	29,039
	1,310,357	1,181,216
Corporate assets:		
Corporate assets	8,858	8,178
Accumulated depreciation	738	565
	8,120	7,613
Cash and cash equivalents	4,668	2,240
Restricted cash	13,965	11,625
Accounts and other receivables, net:		
Related party	18,356	19,191
Third party	2,911	2,925
Investments in military housing projects	39,463	37,828
Deferred contracts costs	1,886	1,063
Deferred financing costs, net	3,779	4,088
Lease intangibles, net	1,100	3,201
Deposits	8,081	2,856
Other assets	3,899	4,105
Total assets	\$ 1,416,585	\$ 1,277,951
LIABILITIES AND BENEFICIARIES EQUITY		
Notes payable	\$ 796,414	\$ 692,069
Line of credit	93,000	36,000
Accounts payable	4,593	5,566
Accrued expenses	31,605	21,253
Dividends and distributions payable	16,642	16,227
Other liabilities	20,581	21,337
Total liabilities	962,835	792,452
Minority interest	174,734	188,633
Commitments and contingencies (Note 9)		
Beneficiaries equity:		
Common shares of beneficial interest, \$0.001 par value; 500,000,000 shares authorized, 41,526,198 issued and outstanding at June 30, 2006, and 39,699,843 issued and outstanding at December 31, 2005	40	40
Preferred shares 100,000,000 shares authorized, no shares issued or outstanding		
Additional paid-in capital	325,165	325,455
Unearned share compensation		(320)

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Cumulative earnings	6,909	6,310
Cumulative dividends	(53,098)	(34,619)
Total beneficiaries' equity	279,016	296,866
Total liabilities and beneficiaries' equity	\$ 1,416,585	\$ 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 June 30, 2006		Six Months Ended June 30, 2006	
		2005 (Restated)		2005 (Restated)
Revenue:				
Rent and other property income	\$ 44,033	\$ 29,763	\$ 88,070	\$ 55,604
Expense reimbursements:				
Related party	17,675	12,369	31,055	20,456
Third party	1,389	1,303	2,725	2,577
Management fees:				
Related party	2,101	1,543	4,140	3,330
Third party	647	1,008	1,655	1,545
Other fee income-related party	5,581	3,619	10,261	6,954
Other income	53	56	144	167
Total revenue	71,479	49,661	138,050	90,633
Operating Expenses:				
Property operating expenses	19,730	12,130	37,935	22,198
Reimbursed expenses	19,064	13,672	33,780	23,033
Real estate taxes	4,377	3,143	8,578	5,155
Administrative expenses	4,535	2,834	8,300	5,776
Audit Committee and Special Committee expenses	2,301		4,876	
Depreciation and amortization	10,715	8,683	21,064	16,408
Interest	11,676	6,901	22,630	12,258
Total operating expenses	72,398	47,363	137,163	84,828
(Loss) income before equity in earnings of unconsolidated entities, income taxes and minority interest	(919)	2,298	887	5,805
Equity in earnings of unconsolidated entities	1,174	455	2,390	941
Income before income taxes and minority interest	255	2,753	3,277	6,746
Income taxes	1,214	1,118	2,187	2,258
(Loss) income before minority interest	(959)	1,635	1,090	4,488
Minority interest	(418)	809	491	2,217
Net (loss) income	\$ (541)	\$ 826	\$ 599	\$ 2,271
Earnings (loss) per common share basic	\$ (0.01)	\$ 0.03	\$ 0.01	\$ 0.07
Earnings (loss) per common share diluted	\$ (0.01)	\$ 0.03	\$ 0.01	\$ 0.07
Weighted-average shares outstanding during the period:				
Basic	40,872,036	30,350,989	40,275,829	30,350,989
Diluted	73,097,859	61,878,439	73,537,988	61,806,301
Common share dividend declared per share	\$ 0.2275	\$ 0.2275	\$ 0.4550	\$ 0.4550

See accompanying notes to consolidated financial statements.

GMH COMMUNITIES TRUST
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited and in thousands)

	Six Months Ended June 30,	
	2006	2005 (Restated)
Cash flows from operating activities:		
Net income	\$ 599	\$ 2,271
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	17,431	11,124
Amortization:		
Lease intangibles	3,400	5,230
Investment in military housing projects	233	54
Notes payable fair value adjustment	(1,251)	(1,093)
Deferred loan costs	666	574
Restricted shares	75	46
Allowance for doubtful accounts	957	446
Equity in earnings of unconsolidated entities in excess of distributions received	(1,818)	(477)
Minority interest	491	2,217
Changes in operating assets and liabilities:		
Restricted cash	(2,340)	(6,517)
Accounts and other receivables	(108)	(7,840)
Deferred contract costs	(823)	(708)
Deposits and other assets	(5,019)	(2,882)
Accounts payable	(973)	(734)
Accrued expenses and other liabilities	9,546	10,486
Net cash provided by operating activities	21,066	12,197
Cash flows from investing activities:		
Property acquisitions	(75,429)	(213,697)
Capitalized expenditures	(25,561)	(474)
Distributions received from unconsolidated entities in excess of earnings		3,901
Net cash used in investing activities	(100,990)	(210,270)
Cash flows from financing activities:		