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)	**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 o No x

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

Large accelerated filer o Accelerated filer x Non-accelerated filer o

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

Yes o No x

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-

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, v 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)

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	Three Months Ended June 30, 2005 (Restated)	Six Months Ended June 30, 2006	Six Months Ended June 30, 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:		
Owner distributions	(32,454)	(23,200)
Redemption of unit holders	(45)	
Proceeds from line of credit	93,000	143,000
Repayment of line of credit	(36,000)	(72,000)
Proceeds from notes payable	60,389	129,704
Repayment of notes payable	(2,181)	(22,553)
Payment of financing costs	(357)	(1,400)
Net cash provided by financing activities	82,352	153,551
Net increase (decrease) in cash and cash equivalents	2,428	(44,522)
Cash and cash equivalents, beginning of period	2,240	60,926
Cash and cash equivalents, end of period	$ 4,668	$ 16,404
Supplemental information:		
Real estate acquired by assuming debt including debt premium	$ 46,963	$ 76,768
Issuance of units of limited partnership interest for purchase of student housing properties	$	$ 28,528
Property distributed at net book value	$	$ 3,854
Debt distributed at net book value	$	$ 4,208
Cash paid for interest, net of amounts capitalized of $1,377 during 2006	$ 22,258	$ 12,074
Cash paid for taxes	$ 2,270	$ 661

See accompanying notes to consolidated financial statements.

GMH COMMUNITIES TRUST

Notes to Consolidated Financial Statements

June 30, 2006

(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, 2006, the Operating Partnership had 73,150,815 units of partnership interest outstanding, of which the Trust owned 40,945,029 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, 2006, there were 31,624,617 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, 2005, which has been derived from audited data, pursuant to the rules and regulations of the United States Securities and Exchange Commission. 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, 2006, the results of its operations for the three-month and six-month periods ended June 30, 2006 and June 30, 2005 and its cash flows for the six-month periods ended June 30, 2006 and June 30, 2005 have been included. The June 30, 2005 financial statements have been restated as disclosed in the Company s Annual Report on Form 10-K for the year ended December 31, 2005 (see Note 13). 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, 2005.

2. Summary of Significant Accounting Policies

Use of Estimates

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

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 Statement of Financial Accounting Standards (SFAS) No. 141 (SFAS 141), *Business Combinations*. 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.

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 $6.6 million at June 30, 2006 and $3.2 million at December 31, 2005.

We expense routine repair and maintenance expenditures that do not improve the value of an asset and 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. 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 or September to coincide with the beginning of the academic year. Accordingly, the Company expects to incur a majority of its repair and maintenance costs in the third quarter to prepare for new residents.

In accordance with Statement of Financial Accounting Standards No. 144 (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 and reported at the lower of the carrying amount or fair value less costs to sell, and no longer would be depreciated.

Cash Equivalents

All highly-liquid investments with an original maturity of three months or less are considered to be cash equivalents.

Restricted Cash

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

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.

Accounts receivable are presented net of the allowance for doubtful accounts of $624,000 at June 30, 2006 and $710,000 at December 31, 2005.

Deferred Contract Costs

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.

Deferred Financing Costs

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 $1.9 million at June 30, 2006 and $1.2 million at December 31, 2005.

Deposits

Deposits primarily consist of amounts paid to third parties in connection with planned acquisitions and amounts paid to lenders that provide related financing or the refinancing of existing loans. At June 30, 2006, deposits for planned acquisitions totaled $7.5 million, deposits related to financings totaled $0.1 million, and other deposits not related to acquisitions or financings totaled $0.5 million. At December 31, 2005, deposits for planned acquisitions totaled $2.1 million, deposits related to financings totaled $0.2 million and other deposits not related to acquisitions or financings totaled $0.6 million.

Fair Value of Financial Instruments

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.

The carrying value and fair value of fixed-rate notes payable at June 30, 2006 was $742.5 million and $727.8 million, respectively. Fair value was estimated using rates the Company believed were available to it as of June 30, 2006 for debt with similar terms. The carrying value of variable-rate notes payable approximates fair value at June 30, 2006.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense was $533,000 and $540,000 for the three months ended June 30, 2006 and June 30, 2005, respectively, and $997,000 and $881,000 for the six months ended June 30, 2006 and June 30, 2005, respectively.

Revenue Recognition

Student Housing Segment

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 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.

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 was 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

Standard and incentive management fees, which are based on a percentage of effective gross revenue generated by the military housing 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 responses, 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 $1.0 million are included in accounts receivable related party at each of June 30, 2006 and December 31, 2005.

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 housing units 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 $2.5 million and $2.7 million are included in accounts receivable related party at June 30, 2006 and December 31, 2005, respectively.

In addition, 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 paid in proportion to the amount of pre-construction/renovation costs incurred by us for the project, and recognized as revenue upon performance of the pre-construction/renovation services.

Revenues on fixed-price 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. These fees are received in connection with pursuing and coordinating the completion of 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 may 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 the Company as the related services are provided to our military housing projects by our business partners.

The Company earns equity returns on its investments in military housing projects. During the initial development period for a project, the equity returns are a fixed percentage of our investment and subsequent to the initial development period 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, 2006, only the Fort Carson project had passed its initial development period.

Expense reimbursements are comprised primarily of renovation expenses and property management expenses, the costs of which are reimbursed by the military privatization 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 activities. The Company accrues expense reimbursements as the related expenses are incurred.

Minority Interest

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 the warrant to Vornado Realty Trust, 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 unit 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

The Company s current military housing projects are joint ventures entered into between the Company and 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 military housing 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. 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 then 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, 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.

The Company entered into a joint venture in the third quarter of 2005 to develop and construct two student housing properties. The Company is accounting for the transaction as a financing arrangement because the Company originally owned the land and contributed it to the joint venture and the Company has the option to purchase the joint venture partner s interest in the joint venture within one year of completion of the properties and because the Company has provided certain guarantees for the completion of construction and for a portion of the construction loans. Therefore, the Company accounts for its investment in the joint venture by including the joint venture s assets and liabilities in the Company s consolidated financial statements.

Income Taxes

The Company elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, commencing with its taxable year ended December 31, 2004. To continue to qualify as a REIT, the Company 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.

Share-Based Compensation

On January 1, 2006, the Company adopted SFAS No. 123R, as revised, *Share-Based Payment.* SFAS No. 123R replaces SFAS No. 123, *Accounting for Stock-Based Compensation* and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees.* The scope of SFAS No. 123R includes a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, stock appreciation rights, and employee stock purchase plans. SFAS No. 123R requires companies to recognize in their financial statements the compensation expense relating to share-based payment transactions. There was no material impact as of and for the three and six-month periods ended June 30, 2006.

In November 2004, the Company established an equity incentive plan (the Plan) that provides for the issuance of up to 2,000,000 common shares pursuant to options, restricted share awards, share appreciation rights, performance units and other equity based awards. During the six-month period ended June 30, 2006 and the year ended December 31, 2005, the Company issued 9,108 and 33,854 restricted common shares, respectively, under the Plan to non-employee members of the Company s Board of Trustees. The restricted common shares vest over a three-year period from the grant date. The restricted common shares are entitled to the same dividend and voting rights during the vesting period as the issued and outstanding common shares. The fair value of the awards was calculated based on the closing market price of the Company s common shares on the grant date and is expensed on a straight-line basis over the vesting period. The Company recognized non-cash stock-based compensation expense related to the restricted common shares of $38,000 and $21,000, for the three months ended June 30, 2006 and 2005, respectively, and $75,000 and $46,000 for the six months ended June 30, 2006 and 2005, respectively.

3. Real Estate Investments and Acquisitions

As of June 30, 2006, the Company owned 61 student housing properties located near 43 colleges and universities in 24 states. These properties contain an aggregate of 11,494 units and 37,014 beds. The Company s investment in student housing properties at June 30, 2006 and December 31, 2005, which includes construction in progress relating to two student housing properties under development pursuant to a joint venture with an institutional partner, was as follows (in thousands):

		June 30, 2006		December 31, 2005
Land	$	129,671	$	110,634
Building and improvements		1,159,774		1,055,157
Residential furniture and appliances		30,749		26,159
Construction in progress		36,460		18,305
	$	1,356,654	$	1,210,255

During the three months ended June 30, 2006, the Company acquired one student housing property located in Columbia, South Carolina and serving the University of South Carolina, containing 264 units and 924 beds, for a purchase price of approximately $36.9 million. The Company estimated $396,000 of the purchase price to be the fair value of in-place leases.

During the three months ended March 31, 2006, the Company acquired six student housing properties located near six colleges and universities in six states with an aggregate of 994 units and 2,750 beds for an aggregate purchase price of approximately $82.6 million. The Company estimated $904,000 of the aggregate purchase price to be the fair value of in-place leases.

The purchase accounting has been recorded on a preliminary basis pending results of the final allocation. The results of operations of these properties are included in the accompanying statements of operations from the respective acquisition dates.

4. Investments in Military Housing Projects

The acquisition of our ownership interests in the joint venture that initially owned the rights relating to our Fort Carson and Fort Eustis/Story military housing projects 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 $0.1million for the three months ended June 30, 2006, and less than $0.1 million for the three months ended June 30, 2005. Amortization expense was $0.2 million and $0.1 million for the six months ended June 30, 2006 and 2005, respectively. The accumulated amortization of the excess purchase price was $0.5

million and $0.3 million at June 30, 2006 and December 31, 2005, respectively.

During the six months ended June 30, 2006, the Company received $0.6 million of equity distributions from Fort Carson Family Housing LLC. The carrying value of this investment was $27.3 million at June 30, 2006 and $26.1 million at December 31, 2005. The Company earns a preferred return on its investment in Fort Carson Family Housing LLC, plus 30% of the project s Available Cash (defined as net operating income minus debt service and general reserves) until June 2015, and 10% of the project s Available Cash thereafter. For the six months ended June 30, 2006, the preferred return plus 30% of

Available Cash earned was $2.0 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.

In November 2004, the Company and Benham Military Communities, LLC formed a joint venture known as GMH/Benham Military Communities LLC for the purpose of investing in the Navy Northeast Region military housing project. 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 earns a preferred return on its investment in Northeast Housing LLC. The preferred return will accrue, but not be paid, until the end of the initial development period for the project in October 2010. The carrying value of this investment was $12.2 million at June 30, 2006 and $11.7 million at December 31, 2005.

Effective May 1, 2006, the Company officially partnered with the U.S. Department of the Army, to be the private sector partner for the design, development, construction/renovation and management of the military family housing communities at Fort Gordon located near Augusta, Georgia. The 50-year term of the Fort Gordon project includes a six-year Initial Development Period with project costs of approximately $110.0 million.

On May 1, 2006, the Company also acquired an ownership position and commenced property management and maintenance services for the U.S. Department of the Army s military family housing at Carlisle Barracks and Picatinny Arsenal, located in Carlisle, PA and Dover, NJ, respectively. The Company commenced providing property management and maintenance services at the two installations on May 1, 2006, when one of the Company s subsidiaries entered into agreements with the Army, including a 50-year ground lease for the purpose of owning and managing the housing inventory at the two installations. Under the agreements, the Company will receive fees for the provision of management and maintenance services at these installations. On July 21, 2006, financing was secured for the Carlisle/Picatinny project, and as of the date of this report, construction and renovation agreements were in the process of being completed to permit the commencement of construction/renovation activities. The housing project at the two installations covers an aggregate of 348 end-state housing units and has a five-year Initial Development Period.

5. Income Taxes

The Company has elected Taxable REIT Subsidiary (TRS) status for certain of its corporate subsidiaries. The following table summarizes the Company s provisions for income taxes for the three and six month periods ended June 30, 2006 and 2005 (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
Federal taxes	$ 1,027	$ 946	$ 1,850	$ 1,910
State taxes	187	172	337	348
Total provision	$ 1,214	$ 1,118	$ 2,187	$ 2,258

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6. Notes Payable

During the three months ended June 30, 2006, a fixed-rate note payable, bearing interest at 5.57%, in the amount of $28.0 million was assumed relating to the acquisition of a student housing property. This note requires monthly interest-only payments through December 2006. Thereafter, monthly principal and interest payments of approximately $160,000 are due until the loan matures in November 2014, with a balloon payment of $24.7 million due at maturity. In conjunction with the purchase accounting for this property, the net carrying value of the assumed note payable was decreased by $0.7 million to record the note at its estimated fair value. The fair value of the note was calculated as the difference between the present value of the note using a current estimated market rate of interest and the outstanding principal amount. This amount is being amortized as an adjustment to interest expense over the term of the related debt.

At June 30, 2006, notes payable totaling $766.9 million were secured by 54 student housing properties with a cost basis of $1,145.2 million. In addition, as of June 30, 2006, we had $23.8 million in construction loan indebtedness outstanding that was secured by two student housing properties under development through a joint venture. This indebtedness had a weighted average interest rate of 6.97%, matures in 2008, and requires monthly payments of interest only. Such interest will be capitalized until the end of the construction period in August/September 2006.

On January 12, 2006, the Company placed new mortgage debt on the corporate headquarters in the amount of $5.7 million. The new mortgage debt has a term of 10 years with a fixed interest rate of 5.58%, and requires monthly payments of interest only.

7. Line of Credit

In November 2004, the Company entered into a $150 million three-year unsecured revolving credit facility, subject to increase to $250 million (the Credit Facility), with a consortium of banks. The Credit Facility provides for the issuance of up to $20 million of letters of credit, which is included in the $150 million available under the Credit Facility. The Company s availability under the Credit Facility, as amended, is limited to a borrowing base amount equal to the sum of 60% of the value of an unencumbered asset pool as of the end of the previous quarter (which as of June 30, 2006 consisted of seven student housing properties, and in no event may contain fewer than five student housing properties) and 50% of the value of the Company s cash flow from the management, development and renovation of military housing projects and student housing properties in the previous quarter, provided that the total cash flow attributable to annualized management fees does not exceed 50% of the borrowing base.

As of June 30, 2006, the Company had $93.0 million outstanding under the Credit Facility, bearing interest at a Eurodollar rate based on 30-day LIBOR and 60-day LIBOR ranging from 5.13% to 5.29%, plus 2.125%, resulting in total interest rates ranging from 7.26% to 7.42%. As of June 30, 2006, there were no letters of credit outstanding under the Credit Facility, and the Company had an additional $57.0 million in total borrowings available under the Credit Facility.

The Company may elect to have amounts outstanding under the Credit Facility bear interest at a Eurodollar rate based on LIBOR or the prime rate, plus an applicable rate, ranging from 1.625% to 2.375% for Eurodollar rate loans or 0.75% to 1.75% for prime rate loans. The applicable rate is determined by the leverage ratio of total liabilities to total asset value of the Company, as defined in the Credit Facility. In addition, the Company pays fees for unused availability on the Credit Facility.

The Credit Facility contains affirmative and negative covenants and also contains financial covenants which, among other things, (i) require the Company to maintain a total leverage ratio equal to or less than 60%, (ii) limit the aggregate amount of outstanding variable-rate indebtedness to 30% of total indebtedness commencing February 8, 2005, (iii) limit the payment of dividends by the Company to its shareholders to 95% (110% for the year ended December 31, 2005) of funds from operations, as defined in the Credit Facility, (iv) limit the amount of recourse debt, exclusive of amounts outstanding under the Credit Facility, to $25 million, and in no event greater than $150 million in total, and (v) require the

Company to maintain a consolidated tangible net worth, as defined in the Credit Facility, of at least $275 million plus an amount equal to 75% of the net proceeds from any equity issuances subsequent to the closing date of the Credit Facility in November 2004. The financial covenants also require the Company to operate in compliance with the following ratios as defined by the terms of the Credit Facility: (i) fixed charge coverage ratio equal to or greater than 1.75x; (ii) interest coverage ratio equal to or greater than 2.00x; and (iii) unsecured interest coverage ratio equal to or greater than 2.25x.

In January 2006, the Company paid a dividend to its shareholders in excess of the 110% of funds from operations for the year ended December 31, 2005. The Company received a waiver of this instance of noncompliance with the financial covenant.

Given that the Company s compliance with debt covenants under the Credit Facility is determined as of the end of each fiscal quarter, the Company cannot determine at this time whether it will be in compliance with each of the debt covenants throughout 2006. If the Company is deemed to be in noncompliance with any of its debt covenants, and the Company is unable to obtain a waiver from the syndicate lenders and therefore is restricted from drawing additional borrowings from the Credit Facility, it has several alternatives to it. In addition to its cash flows from operations, the Company can finance unencumbered properties or refinance existing debt, sell assets or reduce its dividend to shareholders. The Company would evaluate each of these alternatives upon an event of noncompliance with the debt covenants under the Credit Facility and will take action necessary to ensure that the Company has adequate financial resources available to it to operate as a going concern.

During the three months ended June 30, 2006, as a result of the ongoing delay in the filing of the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2005 and Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2006, the Company obtained waivers of the covenant under its Credit Facility that requires the Company to deliver audited financial statements for the 2005 fiscal year no later than 90 days after the fiscal year end, and unaudited quarterly financial statements no later than 45 days after each fiscal quarter. These waivers extended the period by which the Company may deliver the financial statements relating to the year ended December 31, 2005 and the quarter ended March 31, 2006 until August 15, 2006, and the financial statements for the three months ended June 30, 2006 until September 15, 2006. The Company has paid an aggregate of $470,000 in fees in connection with obtaining these waivers, $240,000 of which was charged to expense in the second quarter.

As of June 30, 2006, the Company failed to comply with the financial covenants under the Credit Facility that required maintenance of an interest coverage ratio equal to or greater than 2.00x, and a fixed charge coverage ratio equal to or greater than 1.75x. On September 1, 2006, the Company entered into a Third Amendment and Waiver to Credit Agreement with the lender syndicate under the Credit Facility. Under the agreement, the lender syndicate provided waivers of the Company s noncompliance with these financial covenants as of the end of the quarter ended June 30, 2006. In addition, the agreement provided for amendments to the definitions of the terms consolidated EBITDA and funds from operations to permit the Company to add back the non-recurring expenses relating to the special investigation performed by the Audit Committee and to the formation and operations of the Company s Special Committee in connection with its review of strategic alternatives. In addition, the agreement included an amendment to the Company s total leverage ratio, commencing with the quarter ended June 30, 2006, from 60% to 70%. Under the terms of the amendment, the 70% total leverage ratio will be in effect through December 31, 2006, and thereafter will revert to 60%. Commencing with the quarter ended June 30, 2006 and through December 31, 2006, the applicable rate on all amounts outstanding under the credit facility, as amended, when the Company s leverage ratio exceeds 65% will be 2.625% and 2.00% for Eurodollar rate loans and prime rate loans, respectively. The Company incurred $540,000 in fees in connection with obtaining this waiver and amendment.

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. These relationships and related transactions are summarized below.

In connection with the Company s initial public offering, Mr. Holloway, and various entities wholly-owned by Mr. Holloway, entered into a Contribution Agreement, dated October 18, 2004, with the Operating Partnership. Pursuant to the Contribution Agreement, Mr. Holloway contributed to the Operating Partnership all of the partnership interests of GH 353 Associates, L.P., which entity s sole asset was the corporate headquarters building located in Newtown Township, Pennsylvania. The Commonwealth of Pennsylvania and Newtown Township each impose a 1% transfer tax on the transfer of these partnership interests. Mr. Holloway paid the Company approximately $61,000 as reimbursement for one-half of the aggregate transfer tax that was originally paid by the Company in connection with transfer tax assessed against the transfer of the partnership interests. The amount was received by the Company in 2006 from Mr. Holloway, and was recorded as a reduction to corporate assets on the Company balance sheet as of December 31, 2005.

The Company provided certain functions to entities affiliated with Gary M. Holloway, Sr., including human resources, legal and information technology. Such costs totaled $42,000 and $93,000 during the three months ended June 30, 2006 and June 30, 2005, respectively, and $85,000 and $191,000 during the six months ended June 30, 2006 and June 30, 2005, respectively, and are included in expense reimbursement from related parties in the accompanying consolidated statements of operations.

The Company leases space in its corporate headquarters to entities wholly-owned by Gary M. Holloway, Sr. Rental income from these entities totaled $39,000 and $78,000 during the three and six months ended June 30, 2006, respectively, and $61,000 and $122,000 during the three and six months ended June 30, 2005, respectively, and are included in rent and other property income in the accompanying consolidated statements of operations.

The Company provided property management consulting services to GMH Capital Partners Asset Services, LP, an entity wholly-owned by Mr. Holloway, in connection with property management services that GMH Capital Partners Asset Services, LP performed related to five student housing properties containing a total of 2,172 beds. The Company earned consulting fees equal to 80% of the management fees that GMH Capital Partners Asset Services, LP earned for providing the property management services. For the three and six months ended June 30, 2005, such fees totaled $73,000 and $134,000, respectively. As of January 1, 2006, the management agreements relating to four of these properties were assigned from GMH Capital Partners Asset Services, LP to a subsidiary of the Company, and the management agreement relating to the fifth property was terminated. As a result, no such consulting fees were earned by the Company during the three or six months ended June 30, 2006. In addition, the Company earned management fees from an additional property in which Mr. Holloway is an investor. During the three and six months ended June 30, 2006, such income totaled $17,000 and $37,000, respectively, and $197,000 during the six months ended June 30, 2005. No such income was received during the three months ended June 30, 2005.

The Company is reimbursed by joint ventures relating to certain military housing projects in which the Company has an ownership interest, as well as student housing properties under the Company s management in which Mr. Holloway was an investor through March 2005, for the cost of certain employees engaged in the daily operation of those military housing projects and student housing properties. The reimbursement of these costs is reflected as expense reimbursements from related parties in the accompanying consolidated statements of operations. During the three and six months ended June 30, 2006, such reimbursed costs totaled $17.5 million and $30.9 million, respectively. During the three and six months ended June 30, 2005, such reimbursed costs totaled $12.2 million and $20.2 million, respectively. In addition, included in accrued expenses is a liability of $2.0 million due back to the joint venture that owns the Navy Northeast Region project that primarily relates to an overfunding of reimbursable expenses.

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. $39,000 and $183,000 during the three and six months ended June 30, 2005, respectively, for the provision of title abstract services, and $187,000 during the three and six months ended June 30, 2006.

Mr. Holloway owns GMH Capital Partners Commercial Realty LP, an entity that has provided real estate consulting and brokerage services for real estate transactions. During the six months ended June 30, 2005, GMH Capital Partners Commercial Realty LP received aggregate commissions of $284,000, respectively, and no such payments were made during the three months ended June 30, 2005 or during the three and six months ended June 30, 2006.

In February 2005, the Company transferred its interest in Corporate Flight Services, LLC, including the corporate aircraft and associated debt initially contributed to the Operating Partnership at the time of the initial public offering, back to Mr. Holloway. Corporate Flight Services, LLC had a net deficit of $171,000, net of $180,000 tax expense related to a taxable gain upon the transfer to Mr. Holloway, on the date it was transferred back to Mr. Holloway. This transfer was accounted for as a capital contribution to additional paid-in capital. During the three and six months ended June 30, 2006, the Company paid to Corporate Flight Services, LLC $266,000 and $500,000, respectively, in connection with use of the aircraft for student housing and military housing related travel. During the three and six months ended June 30, 2005, the Company paid to Corporate Flight Services LLC $157,000 for use of the aircraft.

Gary M. Holloway, Sr., an executive officer of the Company, a former executive officer of the Company, another employee of the Company, and an employee of an entity wholly-owned by Mr. Holloway, each held an ownership interest in two student housing properties that were acquired by the Company during the first quarter of 2005 for a total purchase price of $38.2 million. The Company paid $36.5 million in cash to investors in the selling entity not affiliated with the Company and issued a total of 141,549 units of limited partnership interest in the Operating Partnership to Mr. Holloway and these individuals with an aggregate fair value of $1.7 million in connection with the purchase.

9. Commitments and Contingencies

As of June 30, 2006, we had agreements to acquire five student housing properties, a portfolio that contains up to 13 student housing properties, and eight undeveloped parcels of land for the development of four future student housing properties, for an aggregate purchase price of $340.5 million and had placed deposits related to such acquisitions totaling approximately $7.5 million.

With regard to military housing projects at Army bases, the Company is typically required to fund its portion of the equity commitment to the project s joint venture after all other sources of funding for the project have been expended. With respect to the Company s Navy Northeast Region project, however, the Company was required to fund the equity commitment at commencement of the project. 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, 2006 (in thousands):

2006	$	2,000
2007		5,900
2010		6,600
2011 and thereafter		18,800
Total	$	33,300

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 guarantees 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 guarantees cannot be determined at this time. Management believes that these guarantees will not have a material adverse impact on the Company s financial position or results of operations.

In 2004, the Company entered into employment agreements with three of its executive officers. Each employment agreement is for an initial three-year term beginning on November 2, 2004 and provides for base salaries aggregating $975,000 in each of the three years. The base salaries increase annually effective January 1 of each year by a minimum amount equal to at least the percentage increase in the Consumer Price

Index. On December 31, 2005, the Company and one of its executive officers entered into a separation agreement, pursuant to which the executive resigned from his position as an officer of the Company and effectively terminated his employment agreement with the Company. Under the terms of the separation agreement, the executive remained eligible for an incentive bonus award for the fiscal year 2005, which was paid to the executive in June 2006. In addition, the executive has agreed to remain subject to certain restrictive covenants contained in the employment agreement, including non-disclosure of confidential information, non-competition and non-solicitation of employees, assignment of intellectual property rights, and on-going cooperation with the Company in connection with pending matters. The Company and the executive separately executed a Consulting Agreement, dated January 1, 2006, pursuant to which the executive has agreed to provide consulting services to the Company for an initial term through May 31, 2007. The Company is paying the former executive $25,000 per month during the term of the Consulting Agreement as compensation for his services, which payments are being charged to expense as incurred.

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, 2006 and December 31, 2005.

On April 5, 2006, the Company, Gary M. Holloway Sr., our Chairman, President and Chief Executive Officer, and Bradley W. Harris, our former Chief Financial Officer, were named as defendants in a class action complaint filed in United States District Court for the Eastern District of Pennsylvania, or the Court. The complaint provides that the Plaintiff has filed a federal class action on behalf of purchasers of the publicly traded securities of the Company between October 28, 2004 and March 10, 2006, referred to as the Class Period, seeking to pursue remedies under the Securities Act of 1933 and the Securities Exchange Act of 1934. Plaintiff alleges that defendants issued a series of false and misleading financial results regarding the Company to the market during the Class Period, and more specifically, failed to disclose: (1) that the Company s earnings, net income and revenues were materially inflated and expenses were materially understated; (2) that the Company s funds from operations were materially inflated; (3) that the Company lacked adequate internal controls; (4) that the Company s reported financial results were in violation of generally accepted accounting principles, or GAAP; and (5) that as a result of the foregoing, the Company s financial results were materially inflated at all relevant times. Plaintiff alleges claims under Section 11 of the Securities Act with respect to all of the defendants; Section 12(a)(2) of the Securities Act with respect to the Company; Section 15 of the Securities Act with respect to Mr. Holloway and Mr. Harris; Section 10(b) and Rule 10b-5 of the Exchange Act with respect to all of the defendants; and Section 20(a) of the Exchange Act with respect to Mr. Holloway and Mr. Harris.

On April 11, 2006, April 20, 2006, April 27, 2006 and May 15, 2006, four additional class action complaints were filed with the Court against the defendants by separate law firms, and the Company anticipates that additional complaints may be filed in the near future until a class has been certified by the Court and a lead plaintiff has been named. Each of these additional filed complaints alleges the same claims against the defendants as described above with respect to the complaint filed on April 5, 2006, except that the complaint filed on April 20, 2006 restricts the class period to purchasers of the publicly traded securities of the Company to the time period between May 5, 2005 and March 10, 2006.

The defendants have not yet responded to these complaints. 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. The Company is not presently able to reasonably estimate potential losses, if any, related to these lawsuits.

Therefore, the Company has not established a reserve for these claims. An adverse outcome could have a material adverse effect on our consolidated financial statements and results of operations.

The Company is subject to routine litigation, claims and administrative proceedings arising in the ordinary course of business. The maximum exposure to the Company relating to these matters cannot be determined at this time. Management believes that the disposition of these matters will not have a material adverse impact on the Company s financial position or results of operations.

10. Segment Reporting

The Company is managed as individual entities that comprise three reportable segments: (1) student housing (2) military housing and (3) corporate. 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.

	Three Months Ended June 30,							
	2006				2005 (Restated)			
	Student Housing	Military Housing	Corporate	Total	Student Housing	Military Housing	Corporate	Total
	(dollars in thousands)							
Revenue:								
Rent and other property income	$ 43,994	$	$ 39	$ 44,033	$ 29,702	$	$ 61	$ 29,763
Expense reimbursements:								
Related party	103	17,457	115	17,675		12,247	122	12,369
Third party	1,389			1,389	1,303			1,303
Management fees:								
Related party	17	2,084		2,101		1,543		1,543
Third party	647			647	1,008			1,008
Other fee income, related party		5,581		5,581		3,619		3,619
Other income	32	14	7	53	22		34	56
Total revenue	46,182	25,136	161	71,479	32,035	17,409	217	49,661
Operating Expenses:								
Property operating expense	18,217	1,513		19,730	10,844	1,286		12,130
Reimbursed expenses	1,492	17,457	115	19,064	1,303	12,247	122	13,672
Real estate taxes	4,353		24	4,377	3,143			3,143
Administrative expenses			4,535	4,535			2,834	2,834
Audit Committee and Special Committee expenses			2,301	2,301				
Depreciation and amortization	10,507	130	78	10,715	8,565	19	99	8,683
Interest	11,235		441	11,676	6,681		220	6,901
Total operating expenses	45,804	19,100	7,494	72,398	30,536	13,552	3,275	47,363
Income (loss) before equity in earnings of unconsolidated entities, income taxes and minority interest	378	6,036	(7,333)	(919)	1,499	3,857	(3,058)	2,298
Equity in earnings of unconsolidated entities		1,174		1,174		455		455
	378	7,210	(7,333)	255	1,499	4,312	(3,058)	2,753

Income (loss) before income taxes and minority interest								
Income tax (benefit) expense	(232)	1,446		1,214	15	1,103		1,118
Income (loss) before minority interest	610	5,764	(7,333)	(959)	1,484	3,209	(3,058)	1,635
Minority interest	266	2,514	(3,198)	(418)	734	1,587	(1,512)	809
Net (loss) income	$ 344	$ 3,250	$ (4,135)	$ (541)	$ 750	$ 1,622	$ (1,546)	$ 826

	Six Months Ended June 30, 2006 Student Housing	2006 Military Housing	2006 Corporate	2006 Total	2005 (Restated) Student Housing	2005 (Restated) Military Housing	2005 (Restated) Corporate	2005 (Restated) Total
	(dollars in thousands)							
Revenue:								
Rent and other property income	$ 87,992	$	$ 78	$ 88,070	$ 55,482	$	$ 122	$ 55,604
Expense reimbursements:								
Related party	189	30,694	172	31,055	186	20,060	210	20,456
Third party	2,725			2,725	2,577			2,577
Management fees:								
Related party	37	4,103		4,140	197	3,133		3,330
Third party	1,655			1,655	1,545			1,545
Other fee income, related party		10,261		10,261		6,884	70	6,954
Other income	83	23	38	144	75	24	68	167
Total revenue	92,681	45,081	288	138,050	60,062	30,101	470	90,633
Operating Expenses:								
Property operating expense	34,883	3,052		37,935	20,208	1,990		22,198
Reimbursed expenses	2,914	30,694	172	33,780	2,763	20,060	210	23,033
Real estate taxes	8,530		48	8,578	5,155			5,155
Administrative expenses			8,300	8,300			5,776	5,776
Audit Committee special investigation expenses			4,876	4,876				
Depreciation and amortization	20,659	249	156	21,064	16,044	54	310	16,408
Interest	21,671		959	22,630	11,793		465	12,258
Total operating expenses	88,657	33,995	14,511	137,163	55,963	22,104	6,761	84,828
Income (loss) before equity in earnings of unconsolidated entities, income taxes and minority interest	4,024	11,086	(14,223)	887	4,099	7,997	(6,291)	5,805
Equity in earnings of unconsolidated entities		2,390		2,390		941		941
Income (loss) before income taxes and minority interest	4,024	13,476	(14,223)	3,277	4,099	8,938	(6,291)	6,746
Income tax (benefit) expense	(232)	2,419		2,187	15	2,243		2,258
Income (loss) before minority interest	4,256	11,057	(14,223)	1,090	4,084	6,695	(6,291)	4,488
Minority interest	1,883	4,862	(6,254)	491	2,017	3,307	(3,107)	2,217
Net income (loss)	$ 2,373	$ 6,195	$ (7,969)	$ 599	$ 2,067	$ 3,388	$ (3,184)	$ 2,271

	Student Housing	Military Housing	Corporate	Total
	(in thousands)			
As of June 30, 2006:				
Total assets	$ 1,341,102	$ 58,761	$ 16,722	$ 1,416,585
Total liabilities	$ 888,895	$ (10,739)	$ 84,679	$ 962,835
As of December 31, 2005:				
Total assets	$ 1,206,555	$ 59,242	$ 12,154	$ 1,277,951
Total liabilities	$ 769,469	$ (3,682)	$ 26,665	$ 792,452

11. Earnings Per Common Share

The following table details the number of shares and net income used to calculate basic and diluted earnings per share for the three and six months ended June 30, 2006 and June 30, 2005 (in thousands, except share and per share amounts):

	Three Months Ended June 30, 2006		Three Months Ended June 30, 2005 (Restated)	
	Basic	**Diluted**	**Basic**	**Diluted**
Net income (loss)	$ (541)	$ (541)	$ 826	$ 826
Minority interest		(418)		809
Income (loss) available to common shareholders	$ (541)	$ (959)	$ 826	$ 1,635
Weighted-average common shares outstanding	40,872,036	40,872,036	30,350,989	30,350,989
Warrant		601,206		1,818,030
Units of limited partnership held by minority interest holders		31,624,617		29,708,356
Restricted common shares				1,064
Total weighted-average shares outstanding	40,872,036	73,097,859	30,350,989	61,878,439
Earnings (loss) per common share	$ (0.01)	$ (0.01)	$ 0.03	$ 0.03

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005 (Restated)