

GMH Communities Trust  
Form 424B3  
November 09, 2007

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Filed pursuant to 424(b)(3)  
Registration No. 333-142395

**PROSPECTUS SUPPLEMENT NO. 2**  
**(To Prospectus dated June 8, 2007)**

**GMH COMMUNITIES TRUST**

**34,141,864 Common Shares of Beneficial Interest**

This Prospectus Supplement No. 2 supplements the prospectus dated June 8, 2007, and the prospectus supplement dated August 15, 2007 ("Prospectus Supplement No. 1"), relating to the registration of 34,141,864 common shares of beneficial interest under Form S-11 (333-142395) that certain selling shareholders named in the prospectus may offer for sale from time to time. This prospectus supplement includes the attached Quarterly Report on Form 10-Q of GMH Communities Trust for the quarter ended September 30, 2007 filed by us with the Securities and Exchange Commission. This prospectus supplement is incorporated by reference into the prospectus.

The information contained in this prospectus supplement supplements and supercedes, in part, the information contained in the prospectus and Prospectus Supplement No. 1. This prospectus supplement should be read in conjunction with the prospectus and Prospectus Supplement No. 1, and is qualified by reference to those documents except to the extent that the information in this prospectus supplement supercedes the information contained in those documents.

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**Investing in our common shares involves a high degree of risk. You should carefully consider the risk factors described under the heading "Risk Factors" beginning on page 6 of the prospectus before investing in our common shares.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

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**The date of this prospectus supplement is November 9, 2007**

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**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, 2007

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 001-32290

**GMH COMMUNITIES TRUST**

(Exact Name of Registrant as Specified in Its Charter)

**Maryland**

(State or other Jurisdiction of  
Incorporation or Organization)

**201181390**

(IRS Employer Identification No.)

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

(Address of Principal Executive Offices)

**19073**

(Zip Code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

On November 8, 2007, 41,621,594 of the registrant's common shares of beneficial interest, \$0.001 par value, were outstanding.

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**GMH COMMUNITIES TRUST  
INDEX TO FORM 10-Q**

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**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

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

our ability to successfully implement our 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 student housing acquisitions or development projects, or commencement of operations for any of our pending military housing privatization 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 real estate investment trust, or REIT, for federal income tax purposes;

our understanding of our competition, market opportunities and trends;

projected timing and amounts of capital expenditures;

the impact of technology on our properties, operations and business.

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

the factors referenced in the sections of this report titled "Our Business," "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations";

changes in our business strategy, including acquisition, sales, and development activities;

availability, terms and deployment of capital, including equity and debt financing;

availability of qualified and/or sufficient personnel;

failure to identify significant deficiencies or material weaknesses in our disclosure controls and procedures and internal control over financial reporting that could occur in the future, and failure to effectively remediate any significant deficiencies

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or material weaknesses in our disclosure controls and procedures and internal control over financial reporting once identified;

the adverse effects of pending material litigation;

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

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the effects of military base realignment and closures, or deployments, on installations covered by our military housing privatization projects;

high leverage on the entities that own our 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 markets where our properties or development projects are located;

changes in the student and military housing industries, 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 intend to identify forward-looking statements. You should not place undue reliance on these forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent otherwise required by law.

## PART I FINANCIAL INFORMATION

## Item 1. Financial Statements

**GMH COMMUNITIES TRUST**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except par value and number of shares)

|  | September 30,<br>2007 | December 31,<br>2006 |
|--|-----------------------|----------------------|
|  | (unaudited)           |                      |
| <b>ASSETS</b>                                |                       |                      |
| Real estate investments:                     |                       |                      |
| Student housing properties                   | \$ 1,413,790          | \$ 1,659,422         |
| Accumulated depreciation                     | 85,406                | 66,855               |
|  | <u>1,328,384</u>      | <u>1,592,567</u>     |
| Corporate assets:                            |                       |                      |
| Corporate assets                             | 9,408                 | 9,427                |
| Accumulated depreciation                     | 1,396                 | 1,002                |
|  | <u>8,012</u>          | <u>8,425</u>         |
| Cash and cash equivalents                    | 6,710                 | 22,539               |
| Restricted cash                              | 20,805                | 16,955               |
| Accounts and other receivables, net:         |                       |                      |
| Related party                                | 18,565                | 17,131               |
| Third party                                  | 6,560                 | 2,762                |
| Investments in joint ventures                |                       |                      |
| Military housing projects                    | 51,666                | 37,987               |
| Student housing properties                   | 1,457                 |                      |
| Deferred contract costs                      | 6,361                 | 2,344                |
| Deferred financing costs, net                | 4,686                 | 5,103                |
| Lease intangibles, net                       | 50                    | 2,468                |
| Deposits                                     | 7,419                 | 907                  |
| Other assets                                 | 6,951                 | 4,802                |
|  | <u>1,467,626</u>      | <u>1,713,990</u>     |
| <b>Total assets</b>                          | <b>\$ 1,467,626</b>   | <b>\$ 1,713,990</b>  |
| <b>LIABILITIES AND BENEFICIARIES' EQUITY</b> |                       |                      |
| Notes payable                                | \$ 962,913            | \$ 1,028,290         |
| Note facility and line of credit             | 32,905                | 199,435              |
| Accounts payable                             | 7,851                 | 3,213                |
| Accrued expenses                             | 30,754                | 27,257               |
| Dividends and distributions payable          | 11,759                | 12,077               |
| Other liabilities                            | 11,207                | 28,446               |
|  | <u>1,057,389</u>      | <u>1,298,718</u>     |
| <b>Total liabilities</b>                     | <b>1,057,389</b>      | <b>1,298,718</b>     |
| Minority interest                            | 139,192               | 157,972              |
| Commitments and contingencies (Note 10)      |                       |                      |
| Beneficiaries' equity:                       | 42                    | 42                   |

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|   | September 30,<br>2007 | December 31,<br>2006 |
|---|-----------------------|----------------------|
| Common shares of beneficial interest, \$0.001 par value; 500,000,000 shares authorized, 41,621,594 and 41,567,146 issued and outstanding at September 30, 2007, and December 31, 2006, respectively |                       |                      |
| Preferred shares 100,000,000 shares authorized, no shares issued or outstanding   |                       |                      |
| Additional paid-in capital  | 331,099               | 325,347              |
| Cumulative earnings   | 29,908                | 1,324                |
| Cumulative dividends  | (90,004)              | (69,413)             |
|   | <hr/>                 | <hr/>                |
| Total beneficiaries' equity   | 271,045               | 257,300              |
|   | <hr/>                 | <hr/>                |
| Total liabilities and beneficiaries' equity   | \$ 1,467,626          | \$ 1,713,990         |
|   | <hr/>                 | <hr/>                |

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, |                |
|---|----------------------------------|----------------|---------------------------------|----------------|
|   | 2007                             | 2006           | 2007                            | 2006           |
| <b>Revenue:</b>   |                                  |                |                                 |                |
| Rent and other property income  | \$ 45,157                        | \$ 39,995      | \$ 141,828                      | \$ 118,543     |
| Expense reimbursements:   |                                  |                |                                 |                |
| Related party   | 18,286                           | 17,309         | 52,324                          | 48,364         |
| Third party   | 2,459                            | 3,270          | 6,971                           | 6,857          |
| Management fees:  |                                  |                |                                 |                |
| Related party   | 2,866                            | 2,131          | 7,903                           | 6,271          |
| Third party   | 828                              | 766            | 2,163                           | 2,421          |
| Other fee income-related party  | 9,202                            | 5,616          | 22,775                          | 15,877         |
| Other income  | 176                              | 110            | 601                             | 250            |
| <b>Total revenue</b>  | <b>78,974</b>                    | <b>69,197</b>  | <b>234,565</b>                  | <b>198,583</b> |
| <b>Operating Expenses:</b>  |                                  |                |                                 |                |
| Property operating expenses   | 25,995                           | 23,553         | 68,052                          | 56,862         |
| Reimbursed expenses   | 20,745                           | 20,579         | 59,295                          | 55,221         |
| Real estate taxes   | 3,929                            | 3,869          | 13,324                          | 11,529         |
| Administrative expenses   | 3,834                            | 4,123          | 12,610                          | 13,134         |
| Securities litigation and Audit/Special Committee expenses  | 1,638                            | 1,822          | 2,227                           | 6,698          |
| Depreciation and amortization   | 10,798                           | 9,632          | 33,911                          | 28,756         |
| Interest  | 14,072                           | 12,129         | 47,292                          | 33,271         |
| <b>Total operating expenses</b>   | <b>81,011</b>                    | <b>75,707</b>  | <b>236,711</b>                  | <b>205,471</b> |
| Gain on sales to joint ventures   | 1,094                            |                | 22,868                          |                |
| Income (loss) from continuing operations before equity in earnings of unconsolidated entities, income taxes and minority interest | (943)                            | (6,510)        | 20,722                          | (6,888)        |
| Equity in earnings of unconsolidated entities   | 890                              | 460            | 3,149                           | 2,850          |
| Income (loss) from continuing operations before income taxes and minority interest  | (53)                             | (6,050)        | 23,871                          | (4,038)        |
| Income taxes  | 2,339                            | 1,307          | 5,191                           | 3,494          |
| Income (loss) from continuing operations before minority interest   | (2,392)                          | (7,357)        | 18,680                          | (7,532)        |
| Minority interest (income) loss attributable to continuing operations   | 1,022                            | 3,209          | (8,082)                         | 3,285          |
| <b>Net Income (loss) from continuing operations</b>   | <b>(1,370)</b>                   | <b>(4,148)</b> | <b>10,598</b>                   | <b>(4,247)</b> |
| <b>Discontinued Operations:</b>   |                                  |                |                                 |                |
| Income (loss) from discontinued operations before minority interest   | 60                               | (255)          | 2,224                           | 1,010          |
| Gain on sale of student housing properties  | 9,965                            |                | 29,355                          |                |
| Minority interest (income) loss attributable to discontinued operations   | (4,282)                          | 111            | (13,593)                        | (456)          |
| <b>Income (loss) from discontinued operations</b>   | <b>5,743</b>                     | <b>(144)</b>   | <b>17,986</b>                   | <b>554</b>     |

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|   | Three Months Ended September 30, |            | Nine Months Ended September 30, |            |
|---|----------------------------------|------------|---------------------------------|------------|
|   |                                  |            |                                 |            |
| Net income (loss)   | \$ 4,373                         | \$ (4,292) | \$ 28,584                       | \$ (3,693) |
| <b>Earnings (loss) per common share-basic</b>                 |                                  |            |                                 |            |
| Continuing operations   | \$ (0.03)                        | \$ (0.10)  | \$ 0.26                         | \$ (0.10)  |
| Discontinued operations                                       | \$ 0.14                          | \$ 0.00    | \$ 0.43                         | \$ 0.01    |
|   | \$ 0.11                          | \$ (0.10)  | \$ 0.69                         | \$ (0.09)  |
| <b>Earnings (loss) per common share-diluted</b>               |                                  |            |                                 |            |
| Continuing operations   | \$ (0.03)                        | \$ (0.10)  | \$ 0.26                         | \$ (0.10)  |
| Discontinued operations                                       | \$ 0.14                          | \$ 0.00    | \$ 0.43                         | \$ 0.01    |
|   | \$ 0.11                          | \$ (0.10)  | \$ 0.69                         | \$ (0.09)  |
| <b>Weighted-average shares outstanding during the period:</b> |                                  |            |                                 |            |
| Basic   | 41,552,942                       | 41,491,841 | 41,517,441                      | 40,678,959 |
| Diluted   | 72,589,218                       | 73,127,527 | 72,940,859                      | 73,408,044 |
| Common share dividend declared per share                      | \$ 0.165                         | \$ 0.2275  | \$ 0.495                        | \$ 0.6825  |

See accompanying notes to consolidated financial statements.

**GMH COMMUNITIES TRUST**  
**CONSOLIDATED STATEMENT OF BENEFICIARIES' AND OWNER'S EQUITY**  
(in thousands, except number of shares and per share information)

|  | Common<br>Shares | Par Value<br>of<br>Common<br>Shares | Additional<br>Paid-in<br>Capital | Cumulative<br>Earnings | Cumulative<br>Dividends |
|--|------------------|-------------------------------------|----------------------------------|------------------------|-------------------------|
| Balance at December 31, 2006                               | 41,567,146       | \$ 42                               | \$ 325,347                       | \$ 1,324               | \$ (69,413)             |
| Dividends (\$0.495 per common share)                       |                  |                                     |                                  |                        | (20,591)                |
| Shares issued to non-employee trustees                     | 14,448           |                                     |                                  |                        |                         |
| Shares issued upon conversion of limited partnership units | 40,000           |                                     | 212                              |                        |                         |
| Redemption of limited partnership units                    |                  |                                     | 5,248                            |                        |                         |
| Amortization of share compensation                         |                  |                                     | 292                              |                        |                         |
| Net income for nine months ended September 30, 2007        |                  |                                     |                                  | 28,584                 |                         |
| Balance at September 30, 2007                              | 41,621,594       | \$ 42                               | \$ 331,099                       | \$ 29,908              | \$ (90,004)             |

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

|  | Nine Months Ended<br>September 30, |                  |
|--|------------------------------------|------------------|
|  | 2007                               | 2006             |
| <b>Cash flows from operating activities:</b>   |                                    |                  |
| Net income   | \$ 28,584                          | \$ (3,693)       |
| Minority interest  | 21,675                             | (2,829)          |
| Adjustments to reconcile net income to net cash provided by operating activities from continuing operations: |                                    |                  |
| Gain on sales to joint ventures  | (22,868)                           |                  |
| Gain on sale of student housing properties   | (29,355)                           |                  |
| Depreciation   | 31,223                             | 24,630           |
| Amortization:  |                                    |                  |
| Lease intangibles  | 2,257                              | 4,416            |
| Investment in military housing projects  | 411                                | 318              |
| Notes payable fair value adjustment  | (2,394)                            | (1,879)          |
| Deferred loan costs  | 2,610                              | 1,027            |
| Restricted shares  | 292                                | 167              |
| Allowance for doubtful accounts  | 1,284                              | 2,213            |
| Equity in earnings of unconsolidated entities in excess of distributions received                            | (953)                              | (667)            |
| Changes in operating assets and liabilities from continuing operations:                                      |                                    |                  |
| Restricted cash  | (3,850)                            | (5,597)          |
| Accounts and other receivables   | (6,546)                            | 39               |
| Deferred contract costs  | (4,017)                            | (696)            |
| Deposits and other assets  | (2,290)                            | (8,143)          |
| Accounts payable   | 4,790                              | (1,434)          |
| Accrued expenses and other liabilities   | (2,395)                            | 18,684           |
| Net cash provided by discontinued operations   | (515)                              | 1,699            |
|  | <b>17,943</b>                      | <b>28,255</b>    |
| <b>Cash flows from investing activities:</b>   |                                    |                  |
| Property acquisitions  | (5,965)                            | (119,035)        |
| Property dispositions  | 133,717                            |                  |
| Capitalized expenditures   | (10,187)                           | (38,983)         |
| Distributions received in excess of earnings of unconsolidated entities                                      | 1,124                              | 871              |
| Investments and deposits in military housing projects  | (20,600)                           |                  |
| Investment in student housing joint venture  | (2,805)                            |                  |
| Discontinued operations  | (101)                              | (345)            |
|  | <b>95,183</b>                      | <b>(157,492)</b> |
| <b>Cash flows from financing activities:</b>   |                                    |                  |
| Owner distributions  | (36,229)                           | (49,177)         |
| Redemption of unitholders  | (19,674)                           | (45)             |
| Proceeds from note facility/line of credit   | 136,405                            | 128,000          |
| Repayment of note facility/line of credit  | (302,935)                          | (36,000)         |
| Proceeds from notes payable  | 144,297                            | 95,567           |
| Repayment of notes payable   | (48,061)                           | (3,355)          |
| Payment of financing costs   | (2,572)                            | (844)            |
| Discontinued operations  | (186)                              | (42)             |
|  | <b>(128,955)</b>                   | <b>134,104</b>   |
| Net increase (decrease) in cash and cash equivalents   | (15,829)                           | 4,867            |
| Cash and cash equivalents, beginning of period   | 22,539                             | 2,240            |
| Cash and cash equivalents, end of period   | \$ 6,710                           | \$ 7,107         |

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Nine Months Ended  
September 30,

**Supplemental information:**

|   | Nine Months Ended<br>September 30, |           |
|---|------------------------------------|-----------|
|   | \$                                 | \$        |
| Real estate acquired by assuming debt, including debt premium | \$                                 | 83,341    |
| Cash paid for interest  | \$ 49,656                          | \$ 20,846 |
| Cash paid for taxes   | \$ 3,757                           | \$ 2,272  |

See accompanying notes to consolidated financial statements.

**GMH COMMUNITIES TRUST**  
**Notes to Consolidated Financial Statements**  
**September 30, 2007**  
**(Unaudited)**

**1. Organization and Basis of Presentation**

*Organization*

GMH Communities Trust (the "Trust," the "Company," or sometimes referred to as "we") conducts substantially all of its operations through its operating partnership, GMH Communities, LP, a Delaware limited partnership (the "Operating Partnership"). As of September 30, 2007, the Operating Partnership had 71,265,929 units of partnership interest outstanding, of which the Trust owned 41,040,425 units of limited partnership interest; and through a wholly-owned subsidiary, GMH Communities GP Trust, the Trust owned 581,169 units of general partnership interest, which represents 100% of the general partnership interest in the Operating Partnership. As of September 30, 2007, there were 29,644,335 units of limited partnership interest outstanding that were not owned by the Company.

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

*Basis of Presentation*

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

**2. Summary of Significant Accounting Policies**

*Use of Estimates*

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 SFAS No. 141, *Business Combinations* ("SFAS 141"). We estimate fair value based on information obtained from a number of sources, including our due diligence, marketing and leasing activities, independent appraisals that may be obtained in connection with the acquisition or financing of the respective property, and other market data.

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 \$10,000 at September 30, 2007 and \$2.0 million at December 31, 2006.

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

In accordance with SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, long-lived assets, such as real estate investments and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. These circumstances may include, but are not limited to, operational performance, market conditions and competition from other off-campus properties and on-campus housing, legal and environmental concerns, and results of appraisals or other information obtained as part of a financing or disposition strategy. When required, we review recoverability of assets to be held and used through a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized in an amount by which the carrying value of the asset exceeds the fair value of the asset determined using customary valuation

techniques, such as the present value of expected future cash flows. Assets to be disposed of would be separately presented in the balance sheet as assets held for sale and reported at the lower of the carrying amount or fair value less costs to sell, and no longer would be depreciated.

***Cash Equivalents***

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

***Restricted Cash***

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 \$229,000 and \$331,000 at September 30, 2007 and December 31, 2006, respectively.

***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 \$1.6 million and \$2.9 million at September 30, 2007 and December 31, 2006, respectively.

***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.

***Deposits***

Deposits primarily consist of amounts paid to third parties in connection with planned acquisitions or joint venture transactions, amounts paid to lenders that provide related financing or the refinancing of existing loans and deposits paid to utility companies. At September 30, 2007, deposits consisted of \$6.75 million held in escrow for the Company's equity contribution in its Navy Southeast Region military housing privatization project, which funds were released in connection with the project's commencement of operations on October 1, 2007; \$320,000 for other planned acquisitions; and other deposits totaling \$349,000. At December 31, 2006, deposits for other planned acquisitions totaled \$155,000 and other deposits totaled \$752,000.

***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.

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

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

***Advertising Costs***

Advertising costs are expensed as incurred.

***Revenue Recognition***

**Student Housing Owned Properties 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, utility reimbursements and activity fees is recognized as earned throughout the course of the year. The timing of these fees typically fluctuates in relation to the academic year leasing cycle.

### **Student Housing Managed Properties Segment**

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

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

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

### **Military Housing Segment**

Standard and incentive management fees, which are based on a percentage of effective gross revenue generated by the military housing privatization projects from the basic allowance for housing (BAH) provided by the government to service members are recognized when the revenue is earned by the military housing projects. Incentive management fees are based upon the satisfaction of certain criteria including, among other things, satisfying designated benchmarks relating to emergency work order response, occupancy rates, home turnover and resident satisfaction surveys. Incentive management fees are recognized when the various criteria stipulated in the management contract have been satisfied. Accrued and unbilled incentive management fees of \$1.7 million and \$1.0 million are included in accounts receivable related party at September 30, 2007 and December 31, 2006, respectively.

Standard and incentive development and construction/renovation fees, which are based on a percentage of development and construction/renovation costs incurred by the military housing projects, including hard and soft costs and financing costs, are recognized on a monthly basis as the costs are incurred by the military housing projects. Incentive development and construction/renovation fees are based upon the satisfaction of certain criteria including, among other things, completing a number of houses according to schedule, achieving specific safety records and implementing small business or minority subcontracting plans. Incentive development and construction/renovation fees are recognized when the various criteria stipulated in the contract have been satisfied. Accrued and unbilled incentive development and construction/renovation fees of \$3.5 million and \$2.3 million are included in accounts receivable related party at September 30, 2007 and December 31, 2006, respectively. In addition, the Company may receive fees relating to the performance of pre-construction/renovation services. These pre-construction/renovation fees are determined on a project-by-project basis, and are (i) paid in proportion to the amount of pre-construction/renovation costs incurred by us for the project, and (ii) recognized as revenue upon performance of the pre-construction/renovation services.

Revenues on our renovation contracts are recorded on the percentage-of-completion method. When the percentage-of-completion method is used, contract revenue is recognized in the ratio that

costs incurred to date bear to estimated costs at completion. Adjustments to cost estimates are made in the period in which the facts requiring such revisions become known. When the revised estimates indicate a loss, such loss is currently provided for in its entirety.

Business development fees are earned from one of the Company's construction partners in connection with its military housing projects. These fees consist of an (i) annual base fee, and (ii) additional fee which is paid on a monthly basis. The fees are recognized on a straight-line basis over the term of the agreement, which is generally one year.

The Company earns equity returns on its investments in military housing projects. During the initial development period ("IDP") for certain of our projects, the equity returns are a fixed percentage of our investment and subsequent to the IDP for a project, the equity returns are based on a fixed percentage of our investment and on the project's net operating income, subject to cash distribution caps, as defined in the operating agreements related to the particular project. As of September 30, 2007, only the Fort Carson project had passed its IDP.

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

#### ***Minority Interest***

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

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

The Company owns equity interests in the joint ventures that own our military housing projects with the U.S. military to design, develop, construct/renovate and manage the military family housing located on or near various bases throughout the United States. In addition the Company also owns equity interests in two joint ventures that own student housing properties. The Company evaluates its

investments in these 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 joint ventures in which it has a variable interest is a VIE and that the Company is not the primary beneficiary of any of these VIEs. The Company records its investments in joint ventures in accordance with the equity method of accounting. The Company's investment is initially recorded at cost, and then subsequently adjusted at each balance sheet date to an amount equal to what the Company would receive from the joint venture in the event that the project were liquidated at net book value as of that date, and assuming that the proceeds from the liquidation are distributed in accordance with the terms of, and priority of returns set forth under, the joint venture's operating agreement. The Company has exposure to loss to the extent of its investments, if any, and any receivables due from the military projects or joint ventures.

#### *Income Taxes*

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

#### *Securities Litigation and Audit/ Special Committee Expenses*

##### *2007*

In April 2006, a class action lawsuit was filed against the Company and certain current and former executive officers of the Company, which claims were brought on behalf of purchasers of the Company's common shares of beneficial interest between May 5, 2005 and March 10, 2006. The class action suit was initiated following the Company's announcement of the restatement of its financial statements for the first three quarters of 2005. In addition, in March 2007, certain holders of units of limited partnership interest in the Operating Partnership filed a lawsuit against the Company and certain current and former executive officers of the Company alleging securities claims similar to those under the class action lawsuit. The Company has reached a final settlement with the plaintiffs in both of these litigation matters, provided that the settlement terms relating to the class action lawsuit are subject to final approval by the Eastern District Court of Pennsylvania. (See Note 10) Settlement charges and related legal expenses for the three and nine months ended September 30, 2007 were approximately \$1.6 million and \$2.2 million, respectively, and are reported in Securities Litigation and Audit/Special Committee expenses on the accompanying consolidated statements of operations.

**2006**

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

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

The Company incurred significant legal, accounting, financial advisory as well as committee fees in connection with the securities litigation, and both the Audit Committee investigation and activities of the Special Committee. All costs have been expensed as incurred and are reported in Securities Litigation and Audit/Special Committee expenses on the accompanying consolidated statements of operations. There were no costs incurred during 2007 relating to the Audit and Special Committees.

***Adoption of Recent Accounting Pronouncements***

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

***Recent Accounting Pronouncements***

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

In February 2007, the FASB issued SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities*" ("SFAS 159"). SFAS 159 provides entities with an option to measure many financial assets and liabilities and certain other items at fair value as determined on an instrument-by-instrument

basis. The Company has not yet evaluated the impact, if any, this standard might have on the Company's consolidated financial statements once it becomes effective on January 1, 2008.

### *Reclassifications*

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

### **3. Real Estate Investments**

Included in real estate investments as of September 30, 2007, are 64 student housing properties that the Company owns, located near 41 colleges and universities in 23 states. These 64 properties contain an aggregate of 38,510 beds. At December 31, 2006, included in real estate investments were 77 student housing properties, which included two student housing properties we had an ownership interest in. The Company's investment in student housing properties at September 30, 2007 and December 31, 2006 was as follows (in thousands):

|                                      | September 30,<br>2007 | December 31,<br>2006 |
|--------------------------------------|-----------------------|----------------------|
| Land                                 | \$ 149,136            | \$ 168,579           |
| Building and improvements            | 1,218,440             | 1,444,349            |
| Residential furniture and appliances | 44,339                | 44,902               |
| Construction in progress             | 1,875                 | 1,592                |
|                                      | <u>\$ 1,413,790</u>   | <u>\$ 1,659,422</u>  |

### **4. 2007 Acquisitions and Dispositions**

#### *2007 Third Quarter Acquisitions*

On August 1, 2007, the Company completed the acquisition of a 264-bed student housing property for an aggregate purchase price of \$11.2 million. This property is located in Valdosta, GA adjacent to one of the Company's existing student housing properties. The Company paid \$4.7 million from previously escrowed cash and the remaining purchase price was financed through the placement of new mortgage debt on both properties aggregating \$29.0 million. The combined net proceeds after closing costs of approximately \$22.4 million from acquisition and mortgage financing were used to repay outstanding indebtedness under the Company's Note Facility (see Footnote 8) and for general working capital purposes. The Company ascribed \$60,000 of the aggregate purchase price to the fair value of in-place leases acquired.

#### *2007 Third Quarter Dispositions*

On July 3, 2007, the Company completed the sale of the fifth and final property covered under an agreement with SCI Real Estate Investments LLC to sell a total of five student housing properties. The initial four property sales were completed during the second quarter of 2007, as referenced below. The Company received net proceeds of approximately \$12.4 million from this fifth property sale, after the

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buyer's assumption of existing mortgage debt on the property totaling approximately \$11.4 million, and recognized a gain of approximately \$6.0 million.

On July 12, 2007, the Company completed the sale of a student housing property to Horizon Realty Advisors and received net proceeds of approximately \$9.9 million, after the buyer's assumption of existing mortgage debt on the property totaling approximately \$16.1 million, and recognized a gain of approximately \$4.0 million.

The Company used the net proceeds from these two sale transactions for repayment of debt under its Note Facility and for general working capital purposes.

### *2007 Second Quarter Dispositions*

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

Also during the second quarter of 2007, the Company completed the sale of the initial four student housing properties covered under its agreement with SCI Real Estate Investments LLC, as described above. The Company received an aggregate of approximately \$45.1 million in net proceeds from these initial sales, after the repayment of existing mortgage debt on the properties totaling approximately \$57.3 million, and recognized a gain of \$19.4 million. The sales agreement contains certain contingent purchase price considerations that can be earned based on certain net rental income targets being met as defined in the agreement. Total amount of potential contingent consideration is \$1.5 million and can be earned through August 2009. A portion of the net proceeds was used to repay indebtedness outstanding under the Company's Note Facility.

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

We record our investments in joint ventures under our military housing projects in accordance with the equity method of accounting. Our investment is initially recorded at cost, and subsequently adjusted at each balance sheet date to an amount equal to what we would receive from the joint venture in the

event that it were liquidated at net book value as of that date, assuming that the proceeds from the liquidation are distributed in accordance with the terms of, and the priority of returns set forth under, the joint venture's operating agreement. The terms of the various agreements generally provide for the payment to the Company of an agreed upon return on the Company's invested capital and a return of the Company's invested capital prior to the distribution of any amounts to the government entity that is a member of the joint venture.

As of September 30, 2007, of the Company's joint venture entities in which it had ownership interests relating to military housing projects in operation as of that date, the Company had invested capital in the joint ventures as discussed below.

On February 6, 2007, the Company closed on the Air Education and Training Command ("AETC") Group I project with the Department of the Air Force. This military housing privatization project covers four bases and 2,875 end-state housing units. The AETC Group I project represents the Company's first military housing project with the Department of the Air Force. The 50-year term of the project commences over a five-year IDP that includes the design, construction and/or renovation of, as well as the overall management and operational responsibilities over the end-state housing units. The Company invested \$8.0 million for its 80% interest in the partnership that owns the rights to the AETC Group I project. The Company has concluded that this joint venture is a variable interest entity (VIE) as defined under FIN 46(R) and that the Company is not the primary beneficiary. The primary beneficiary is a non-equity partner in the joint venture that is more closely associated with the VIE. The Company earns a preferred return on its investment in AETC Group I. The preferred return will accrue, but not be paid, until the end of the IDP for the project which is in January 2012. The carrying value of this investment was \$8.6 million at September 30, 2007.

In November 2004, the Company contributed \$9.5 million to GMH/Benham Military Communities LLC in return for a 90% interest and Benham Military Communities, LLC invested \$1.1 million for the remaining 10% interest. The Company consolidates GMH/Benham Military Communities LLC as it has a 90% economic interest and controls a majority of the voting interests. Benham Military Communities, LLC's 10% interest is accounted for as minority interest and is included in other liabilities. In November 2004, GMH/Benham Military Communities, LLC invested \$10.6 million in Northeast Housing LLC, which owns and operates the Navy Northeast Region military housing project. GMH/Benham Military Communities LLC is entitled to a preferred return on its investment in Northeast Housing LLC. The preferred return will accrue, but not be paid, until the end of the IDP for the project in October 2010. The carrying value of this investment was \$13.4 million at September 30, 2007 and \$12.7 million at December 31, 2006.

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



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voting interests. The 10% interest held by Benham Military Communities, LLC is accounted for as minority interest and is included in other liabilities. The carrying value of this investment was \$5.9 million at September 30, 2007.

The acquisition of our ownership interests in the joint venture that owns a 10% interest in Fort Carson Family, LLC and has the rights to exclusively negotiate the Fort Eustis/Fort Story military housing project was recorded at the fair value of the consideration paid in the amount of \$31.0 million. The underlying book value of the equity on the acquisition date was approximately \$11.5 million. The remaining \$19.5 million of this investment is being amortized based on the then current fiscal year revenue as a percentage of the estimated revenue to be earned over the remaining lives of the projects, which are 45 years for the Fort Carson project and 50 years for the Fort Eustis/Story project. Amortization expense was \$154,000 and \$84,000 for the three months ended September 30, 2007 and 2006, respectively, and \$412,000 and \$318,000 during the nine months ended September 30, 2007 and 2006, respectively. The accumulated amortization of the excess purchase price was \$1.1 million and \$0.7 million at September 30, 2007 and December 31, 2006, respectively. The carrying value of this investment was \$23.8 million at September 30, 2007 and \$25.3 million at December 31, 2006. The Company is entitled to a preferred return on its investment in Fort Carson Family Housing LLC, plus 50% of the project's net operating income, which will decrease to 30% and 15% in 2012 and 2016, respectively. After 2016 and through 2025, the Company's returns on its investments are subject to an annual maximum amount of \$1.75 million. The project began repaying the Company's initial investment in Fort Carson Family Housing LLC in July 2005. The equity is expected to be completely repaid by 2015. During the three months ended September 30, 2007 and 2006, the Company received \$1.0 million and \$2.5 million, respectively; and during the nine months ended September 30, 2007 and 2006, the Company received \$3.3 million and \$3.1 million, respectively of equity distributions from Fort Carson Family Housing LLC.

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

|                           | <b>September 30,<br/>2007</b> | <b>December 31<br/>2006</b> |
|---------------------------|-------------------------------|-----------------------------|
| Net Property              | \$ 177,257                    | \$ 162,106                  |
| Other Assets              | \$ 113,865                    | \$ 132,020                  |
| Notes Payable             | \$ 258,955                    | \$ 260,730                  |
| Other Liabilities         | \$ 7,036                      | \$ 5,160                    |
| Equity                    | \$ 25,131                     | \$ 28,236                   |
| Company's Share of Equity | \$ 5,355                      | \$ 6,479                    |

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

|                               | Three months ended<br>September 30, |            | Nine months ended<br>September 30, |           |
|-------------------------------|-------------------------------------|------------|------------------------------------|-----------|
|                               | 2007                                | 2006       | 2007                               | 2006      |
| Revenue                       | \$ 7,973                            | \$ 7,117   | \$ 23,189                          | \$ 22,964 |
| Operating Expenses            | \$ 2,694                            | \$ 3,462   | \$ 9,138                           | \$ 9,508  |
| Interest Expense, net         | \$ 3,309                            | \$ 2,834   | \$ 8,843                           | \$ 8,463  |
| Depreciation and amortization | \$ 1,840                            | \$ 1,834   | \$ 5,519                           | \$ 5,518  |
| Net Income (loss)             | \$ 130                              | \$ (1,103) | \$ (311)                           | \$ (525)  |

### 6. Investment in Student Housing Joint Ventures

In April 2007, the Company entered into a joint venture with Fidelity Real Estate Group, pursuant to which the Company transferred its 100% interest in six student housing properties into the joint venture in exchange for cash and a 10% interest in the joint venture. As part of the transaction, the Company recorded a deferred gain of approximately \$2.4 million. The carrying value of this investment, net of the deferred gain is approximately \$213,000 at September 30, 2007.

In August 2005, the Company entered into a joint venture with an institutional investor to develop and construct two student housing properties which were completed in August 2006. The Company contributed land to the joint venture in exchange for its 10% interest and cash. The Company had an option to acquire the properties which expired in August 2007. As a result of the purchase option, the initial sales transaction did not qualify for sale treatment under SFAS No. 66, "Accounting for Sales of Real Estate". The initial transaction had been previously accounted for as a financing arrangement, whereby the Company recorded the real estate as an asset, depreciated the property, and recorded a financing obligation. Upon the expiration of the purchase option, during the third quarter of 2007, the Company recognized sale treatment on the recorded assets, which resulted in a gain of \$1.1 million. The gain is included in the gain on sales to joint ventures on the accompanying consolidated statement of operations, and the Company also recognized its 10% investment in the joint venture. In addition, upon the recognition of the sale the Company also recognized \$1.7 million of previously deferred development fees relating to the development activities of the joint venture, as well as approximately \$192,000 of deferred management fees. The carrying value of this investment at September 30, 2007 was approximately \$1.3 million.

### 7. Notes Payable

At September 30, 2007, notes payable totaling \$963 million were secured by 62 student housing properties, and our corporate office. The net carrying value of these encumbered properties was \$1.3 billion at September 30, 2007. These notes payable had a weighted average interest rate of 5.37%, a weighted average maturity of 6.92 years, mature at various dates between May 2008 and June 2024 and require monthly payments of principal and interest or monthly payments of interest only.

### 8. Note Facility

On May 7, 2007, the Company entered into a note facility structured through a Note Purchase Agreement (Note Facility) with Merrill Lynch, Pierce, Fenner and Smith Incorporated, which allows the Company, through the Operating Partnership, to borrow up to a maximum of \$100 million on a revolving basis, subject to an increase to \$125 million if certain conditions are met. The Company initially issued a note to Merrill Lynch representing borrowings equal to approximately \$90.7 million under the Note Facility, and used these proceeds to pay approximately \$1.5 million in transaction costs

associated with the Note Facility, and to repay all remaining principal and interest under, and to simultaneously terminate, its former \$250 million revolving credit facility with Wachovia Bank.

The notes have a term through April 30, 2010 and bear interest at LIBOR plus 1.75%. The notes require monthly payments of interest only, and are secured solely by the fees and equity returns the Company receives in connection with the military housing projects in operation as of the effective date of the Note Facility, as well as the Company's Navy Southeast Region project and Fort Jackson project that were under exclusive negotiations as of the date of commencement of the Note Facility. As of September 30, 2007, the Company had approximately \$32.9 million in principal amount of notes outstanding under the Note Facility, bearing interest at 6.88%.

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

### **9. Transactions with Related Parties**

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

Shared costs for human resources, information technology, office equipment and furniture, and certain management personnel are allocated to the various entities owned or controlled by Mr. Holloway, using assumptions based on headcount that management believes are reasonable. The allocation of such costs to other entities owned or controlled by Mr. Holloway during the three months and nine months ended September 30, 2007 totaled \$39,000 and \$135,000 respectively, and totaled \$40,000 and \$124,000 during the three and nine months ended September 30, 2006 and are reflected as expense reimbursements from related parties in the accompanying consolidated statements of operations.

The Company leases space in its corporate headquarters to entities wholly-owned by Mr. Holloway. Rental income from these entities totaled \$39,000 and \$35,000 during the three months ended September 30, 2007 and 2006 and \$117,000 and \$113,000 during the nine months ended September 30, 2007 and 2006 respectively. These amounts are included in other property income in the accompanying consolidated statements of operations.

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. \$162,000 during the nine months ended September 30, 2007 and \$39,000 and \$226,000 during the three and nine months ended September 30, 2006, respectively, for providing title abstract services. There were no fees paid during the three months ended September 30, 2007.

Mr. Holloway owns Corporate Flight Services, LLC, an entity that provides private aircraft services. The Company paid Corporate Flight Services, LLC for use of its aircraft equal to approximately \$230,000 and \$817,000 during the three and nine months ended September 30, 2007, respectively, and \$371,000 and \$871,000, respectively, during the three and nine months ended September 30, 2006.

The Company earned management fees from properties in which Mr. Holloway was an investor until December 2006. During the three months and nine months ended September 30, 2006 such income totaled \$37,000 and \$74,000 respectively.

The Company earned management fees during 2007 from eight student housing properties held in a joint venture in which the Company retains an ownership interest. During the three and nine month periods ended September 30, 2007 such income totaled \$372,000 and \$489,000 respectfully, after elimination of our ownership interest.

The Company received \$800,000 of structuring fees during the nine months ended September 30, 2007, relating to the formation of a joint venture in which the Company has a 10% interest. The Company has recognized \$720,000 of fee income in other fee income related party in the accompanying consolidated statement of operations, after elimination of its 10% interest.

The Company recognized \$1.7 million during the three and nine months ended September 30, 2007 of previously deferred development fees earned on its development activities on two properties held in a joint venture. Such income is included in other fee income-related party in the accompanying consolidated statement of operations.

The Company is reimbursed by the joint ventures relating to certain of its military housing projects, and student housing properties, in which the Company has an ownership interest, for the cost of certain employees engaged in the daily operation of those military housing projects and student housing properties. In addition, during 2006, the Company also received reimbursements for similar costs relating to student housing properties under the Company's management in which Mr. Holloway was an investor through December 2006. The reimbursement of these costs is included in expense reimbursements related party in the accompanying consolidated and combined statements of operations. Such expense reimbursements relating to these military housing projects and student housing properties totaled \$18.2 million and \$52.2 million, respectively, during the three and nine months ended September 30, 2007, and \$17.3 million and \$48.2 million during the three and nine months ended September 30, 2006.

#### **10. Commitments and Contingencies**

As of September 30, 2007, the Company had agreements to acquire 13 parcels of land for the development of a future student housing property for an aggregate purchase price of \$6.7 million and had placed deposits related to such acquisitions totaling approximately \$320,000.

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

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housing projects, the Company has committed to contribute the following aggregate amounts as of September 30, 2007 (in thousands):

|       |    |        |
|-------|----|--------|
| 2007  | \$ | 1,980  |
| 2010  |    | 6,600  |
| 2011  |    | 12,510 |
| 2012  |    | 6,300  |
|       |    | <hr/>  |
| Total | \$ | 27,390 |
|       |    | <hr/>  |

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

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

On October 1, 2007 the Company contributed \$6.75 million and Balfour Beatty Realty Construction LLC contributed \$750,000 to their joint venture, GMH Military Housing-Navy Southeast LLC. The joint venture then used these funds to make a required \$7.5 million equity contribution to Southeast Housing LLC, which began operating the Navy Southeast Region Project on October 1, 2007. The Company expects that financing for the construction, development and renovation of end-state housing units under the project will be completed during the fourth quarter of 2007, at which time the project will enter into agreements covering the final construction/development and renovation terms for the project and will commence provision of construction/development and renovation services. On July 20, 2007, the Company entered into an agreement with Balfour Beatty Construction, LLC, under which the parties have agreed to share costs incurred during the exclusive negotiations period, and for the Company to share costs incurred by Balfour Beatty for architectural, engineering, and other site services in preparation for the project's commencement. In the event that the project fails to achieve final closing on the financing for the project, while not anticipated, the Company estimates that its commitment to reimburse Balfour Beatty for these costs would be approximately \$2.6 million.

As of November 2, 2007, the Company entered into a settlement agreement with the lead plaintiffs in connection with a class action lawsuit alleging violations of Sections 11, 12(a)(2) and 15 of the Securities Act of 1933 and Sections 10(b) and 20 of the Securities Exchange Act of 1934, and Rule 10b-5. The class action lawsuit had been filed in the United States District Court for the Eastern District of Pennsylvania, naming as defendants GMH Communities Trust, Gary M. Holloway, Sr., and

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Bradley W. Harris and purported to bring claims on behalf of a class of purchasers of GMH securities between May 5, 2005 and March 10, 2006 based upon the Company's restatement of certain financial results. The settlement agreement has been submitted with the Court for approval. Under the terms of the settlement agreement, all claims against the Company and related defendants would be dismissed without admission or presumption of liability or wrongdoing. The settlement agreement is contingent upon various conditions, including, but not limited to, final approval by the Court after notice to the class. The Company can provide no assurance that the settlement agreement will be approved by the Court; and in the event the settlement is not approved, the Company would be required to continue to defend itself against the action. The Company recognized a charge of \$900,000 during the third quarter of 2007 in connection with the terms of this settlement, which amount represents the portion of the settlement amount paid by the Company and is reflected in accrued liabilities in the accompanying consolidated balance sheet.

On September 4, 2007, the Company entered into a settlement and mutual release agreement in connection with a lawsuit that had been brought by Stone Gate I LLC, Southview LLC, The Commons LLC, Seminole Ride LLC, LB&J Limited, Bruce Forbes, Lois Forbes and Jeff Forbes. The plaintiffs had filed the original complaint on March 12, 2007 in the United States District Court for the Eastern District of Pennsylvania against GMH Communities Trust, GMH Communities, L.P., College Park Investments, LLC, Peach Grove Associates, LLC, Neff Avenue Associates, LLC, Gary M. Holloway, Sr., Bradley W. Harris and John DeRiggi. The complaint alleged violations of Sections 10(b), 18 and 20(a) of the Securities Exchange Act of 1934, Section 522(a) and 522(c) of the Virginia Securities Act and Sections 1-401 and 1-501 of the Pennsylvania Securities Act, as well as common law claims for fraud, fraud in the inducement, negligent misrepresentation and breach of contract. The claims arose from the Company's restatement of certain financial results upon which plaintiffs purportedly relied in selling properties to certain defendants. In connection with the acquisition of the properties, Company entities purchased four student housing properties in exchange for a combination of cash, assumption of debt and the issuance of 1,940,282 units of limited partnership interests in the Operating Partnership valued at a total of approximately \$76.8 million. The units of limited partnership interest were issued for a total value of approximately \$27.5 million or \$14.17 per unit of limited partnership interest. On May 25, 2007, Stone Gate I, LLC and Southview LLC each also had filed a Memorandum of Lis Pendens in the Commonwealth of Virginia, Circuit Court of Rockingham County against the defendants (excluding the individual defendants, Messrs. Holloway, Harris and DeRiggi, who were not named in either Memorandum). Under the terms of the settlement and release, the action has been dismissed with prejudice, the lis pendens has been marked as satisfied, and the plaintiffs have agreed to a full release of the Company and all other defendants. Also as part of the settlement terms, the Company's operating partnership has completed the redemption of all of the plaintiffs' units of limited partnership interest in exchange for a cash payment calculated in accordance with the redemption terms set forth under the Company's operating partnership agreement. The Company recognized a charge of \$184,000 during the third quarter of 2007 in connection with the final settlement, which amount represents the portion of the settlement amount paid by the Company that was above the cash redemption price otherwise due to plaintiffs upon redemption of their units under the terms of the Operating Partnership agreement.

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

**11. Segment Reporting**

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

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Three Months Ended September 30, 2007

|   | Student<br>Housing-<br>Owned<br>Properties | Student<br>Housing-<br>Management | Military<br>Housing | Corporate    | Elimination    | Total         |
|---|--|-----------------------------------|---------------------|--------------|----------------|---------------|
| <b>Revenue</b>  |  |                                   |                     |              |                |               |
| Rent and other property income  | \$ 45,118                                  |                                   |                     | \$ 39        |                | \$ 45,157     |
| <b>Expense reimbursements:</b>  |  |                                   |                     |              |                |               |
| Related party   |  | 461                               | 17,774              | 51           |                | 18,286        |
| Third party   | 691  | 1,768                             |                     |              |                | 2,459         |
| <b>Management fees:</b>   |  |                                   |                     |              |                |               |
| Owned properties  |  | 1,905                             |                     |              | (1,905)        |               |
| Related party   |  | 372                               | 2,494               |              |                | 2,866         |
| Third party   |  | 828                               |                     |              |                | 828           |
| Other fee income related party  |  | 1,738                             | 7,464               |              |                | 9,202         |
| Other income  | 30   |                                   | 20                  | 126          |                | 176           |
| <b>Total revenue</b>  | <b>45,839</b>                              | <b>7,072</b>                      | <b>27,752</b>       | <b>216</b>   | <b>(1,905)</b> | <b>78,974</b> |
| <b>Operating Expenses:</b>  |  |                                   |                     |              |                |               |
| Property operating expense  | 22,648                                     | 1,192                             | 2,155               |              |                | 25,995        |
| Intercompany management fee   | 1,905                                      |                                   |                     |              | (1,905)        |               |
| Reimbursed expenses   | 691  | 2,229                             | 17,774              | 51           |                | 20,745        |
| Real estate taxes   | 3,905                                      |                                   |                     | 24           |                | 3,929         |
| Administrative expenses   |  |                                   |                     | 3,834        |                | 3,834         |
| Securities litigation and Audit/Special<br>Committee expenses   |  |                                   |                     | 1,638        |                | 1,638         |
| Depreciation and amortization   | 10,355                                     | 141                               | 170                 | 132          |                | 10,798        |
| Interest  | 13,748                                     |                                   |                     | 324          |                | 14,072        |
| <b>Total operating expenses</b>   | <b>53,252</b>                              | <b>3,562</b>                      | <b>20,099</b>       | <b>6,003</b> | <b>(1,905)</b> | <b>81,011</b> |
| Gain on sales to joint ventures   | 1,094                                      |                                   |                     |              |                | 1,094         |
| Income (loss) from continuing operations<br>before equity in earnings of unconsolidated<br>entities, income taxes and minority interest | (6,319)                                    | 3,510                             | 7,653               | (5,787)      |                | (943)         |
| Equity in earnings (loss) of unconsolidated<br>entities   | (175)                                      |                                   | 1,065               |              |                | 890           |
| Income (loss) from continuing operations<br>before income taxes and minority interest   | (6,494)                                    | 3,510                             | 8,718               | (5,787)      |                | (53)          |
| Income tax expense  |  | 249                               | 2,090               |              |                | 2,339         |
| Income (loss) before minority interest  | (6,494)                                    | 3,261                             | 6,628               | (5,787)      |                | (2,392)       |
| Minority interest (income) loss attributable<br>to continuing operations  |  |                                   |                     | 1,022        |                | 1,022         |
| Net income (loss) from continuing<br>operations   | (6,494)                                    | 3,261                             | 6,628               | (4,765)      |                | (1,370)       |
| <b>Discontinued Operations:</b>   |  |                                   |                     |              |                |               |
| Income from discontinued operations<br>before minority interest   | 56   | 4                                 |                     |              |                | 60            |
| Gain on sale of student housing<br>properties   | 9,965                                      |                                   |                     |              |                | 9,965         |
| Minority interest (income) loss attributable<br>to discontinued operations  |  |                                   |                     | (4,282)      |                | (4,282)       |



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Three Months Ended September 30, 2007

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|                                     |          |          |          |            |          |
|-------------------------------------|----------|----------|----------|------------|----------|
| Income from discontinued operations | 10,021   | 4        | (4,282)  | 5,743      |          |
| Net income (loss)                   | \$ 3,527 | \$ 3,265 | \$ 6,628 | \$ (9,047) | \$ 4,373 |

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Three Months Ended September 30, 2006

|   | Student<br>Housing-<br>Owned<br>Properties | Student<br>Housing-<br>Management | Military<br>Housing | Corporate      | Elimination    | Total          |
|---|--|-----------------------------------|---------------------|----------------|----------------|----------------|
| <b>Revenue</b>  |  |                                   |                     |                |                |                |
| Rent and other property income  | \$ 39,960                                  |                                   |                     | \$ 35          |                | \$ 39,995      |
| <b>Expense reimbursements:</b>  |  |                                   |                     |                |                |                |
| Related party   |  | 46                                | 17,273              | (10)           |                | 17,309         |
| Third party   | 1,305                                      | 1,965                             |                     |                |                | 3,270          |
| <b>Management fees:</b>   |  |                                   |                     |                |                |                |
| Owned properties  |  | 1,753                             |                     |                | (1,753)        |                |
| Related party   |  | 37                                | 2,094               |                |                | 2,131          |
| Third party   |  | 766                               |                     |                |                | 766            |
| Other fee income related party  |  |                                   | 5,616               |                |                | 5,616          |
| Other income  | 39   | 7                                 | 23                  | 41             |                | 110            |
| <b>Total revenue</b>  | <b>41,304</b>                              | <b>4,574</b>                      | <b>25,006</b>       | <b>66</b>      | <b>(1,753)</b> | <b>69,197</b>  |
| <b>Operating Expenses:</b>  |  |                                   |                     |                |                |                |
| Property operating expense  | 20,276                                     | 1,760                             | 1,517               |                |                | 23,553         |
| Intercompany management fee   | 1,753                                      |                                   |                     |                | (1,753)        |                |
| Reimbursed expenses   | 1,305                                      | 2,011                             | 17,273              | (10)           |                | 20,579         |
| Real estate taxes   | 3,845                                      |                                   |                     | 24             |                | 3,869          |
| Administrative expenses   |  |                                   |                     | 4,123          |                | 4,123          |
| Securities litigation and Audit/Special<br>Committee expenses                               |  |                                   |                     | 1,822          |                | 1,822          |
| Depreciation and amortization   | 9,455                                      |                                   | 93                  | 84             |                | 9,632          |
| Interest  | 11,609                                     |                                   |                     | 520            |                | 12,129         |
| <b>Total operating expenses</b>   | <b>48,243</b>                              | <b>3,771</b>                      | <b>18,883</b>       | <b>6,563</b>   | <b>(1,753)</b> | <b>75,707</b>  |
| Gain on sales to joint venture  |  |                                   |                     |                |                |                |
| <b>Income (loss) from continuing operations</b>   |  |                                   |                     |                |                |                |
| before equity in earnings of unconsolidated<br>entities, income taxes and minority interest | (6,939)                                    | 803                               | 6,123               | (6,497)        |                | (6,510)        |
| Equity in earnings of unconsolidated entities   |  |                                   | 460                 |                |                | 460            |
| <b>Income (loss) from continuing operations</b>   | <b>(6,939)</b>                             | <b>803</b>                        | <b>6,583</b>        | <b>(6,497)</b> |                | <b>(6,050)</b> |
| before income taxes and minority interest   | (6,939)                                    | 803                               | 6,583               | (6,497)        |                | (6,050)        |
| Income tax (benefit)expense   |  | (140)                             | 1,447               |                |                | 1,307          |
| <b>Income (loss) before minority interest</b>   | <b>(6,939)</b>                             | <b>943</b>                        | <b>5,136</b>        | <b>(6,497)</b> |                | <b>(7,357)</b> |
| Minority interest (income) loss attributable<br>to continuing operations                    |  |                                   |                     | 3,209          |                | (3,209)        |
| <b>Net income (loss) from continuing<br/>operations</b>                                     | <b>(6,939)</b>                             | <b>943</b>                        | <b>5,136</b>        | <b>(3,288)</b> |                | <b>(4,148)</b> |
| <b>Discontinued Operations:</b>   |  |                                   |                     |                |                |                |
| Income (loss) from discontinued<br>operations before minority interest                      | (428)                                      | 173                               |                     |                |                | (255)          |
| Gain on sale of student housing<br>properties   |  |                                   |                     |                |                |                |
| Minority interest (income) loss<br>attributable to discontinued operations                  |  |                                   |                     | 111            |                | 111            |

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Three Months Ended September 30, 2006

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|  |            |          |          |            |            |
|--|------------|----------|----------|------------|------------|
| Income (loss) from discontinued operations | (428)      | 173      | 111      | (144)      |            |
| Net income (loss)                          | \$ (7,367) | \$ 1,116 | \$ 5,136 | \$ (3,177) | \$ (4,292) |

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Nine Months Ended September 30, 2007

|   | Student<br>Housing-<br>Owned<br>Properties | Student<br>Housing-<br>Management | Military<br>Housing | Corporate     | Elimination    | Total          |
|---|--|-----------------------------------|---------------------|---------------|----------------|----------------|
| <b>Revenue</b>  |  |                                   |                     |               |                |                |
| Rent and other property income  | \$ 141,711                                 |                                   |                     | \$ 117        |                | \$ 141,828     |
| Expense reimbursements:   |  |                                   |                     |               |                |                |
| Related party   |  | 808                               | 51,343              | 173           |                | 52,324         |
| Third party   | 2,400                                      | 4,571                             |                     |               |                | 6,971          |
| Management fees:  |  |                                   |                     |               |                |                |
| Owned properties  |  | 5,496                             |                     |               | (5,496)        |                |
| Related party   |  | 489                               | 7,414               |               |                | 7,903          |
| Third party   |  | 2,163                             |                     |               |                | 2,163          |
| Other fee income related party  |  | 2,458                             | 20,317              |               |                | 22,775         |
| Other income  | 90   | 11                                | 46                  | 454           |                | 601            |
| <b>Total revenue</b>  | <b>144,201</b>                             | <b>15,996</b>                     | <b>79,120</b>       | <b>744</b>    | <b>(5,496)</b> | <b>234,565</b> |
| <b>Operating Expenses:</b>  |  |                                   |                     |               |                |                |
| Property operating expense  | 56,909                                     | 4,789                             | 6,354               |               |                | 68,052         |
| Intercompany management fee   | 5,496                                      |                                   |                     |               | (5,496)        |                |
| Reimbursed expenses   | 2,400                                      | 5,379                             | 51,343              | 173           |                | 59,295         |
| Real estate taxes   | 13,251                                     |                                   |                     | 73            |                | 13,324         |
| Administrative expenses   |  |                                   |                     | 12,610        |                | 12,610         |
| Securities litigation and Audit/Special<br>Committee expenses   |  |                                   |                     | 2,227         |                | 2,227          |
| Depreciation and amortization   | 32,943                                     | 141                               | 456                 | 371           |                | 33,911         |
| Interest  | 44,469                                     |                                   |                     | 2,823         |                | 47,292         |
| <b>Total operating expenses</b>   | <b>155,468</b>                             | <b>10,309</b>                     | <b>58,153</b>       | <b>18,277</b> | <b>(5,496)</b> | <b>236,711</b> |
| Gain on sales to joint venture  | 22,868                                     |                                   |                     |               |                | 22,868         |
| Income (loss) from continuing operations before equity in earnings of unconsolidated entities, income taxes and minority interest |  |                                   |                     |               |                |                |
|   | 11,601                                     | 5,687                             | 20,967              | (17,533)      |                | 20,722         |
| Equity in earnings (loss) of unconsolidated entities  |  |                                   |                     |               |                |                |
|   | (250)                                      |                                   | 3,399               |               |                | 3,149          |
| Income (loss) from continuing operations before income taxes and minority interest  |  |                                   |                     |               |                |                |
|   | 11,351                                     | 5,687                             | 24,366              | (17,533)      |                | 23,871         |
| Income tax expense  |  |                                   |                     |               |                |                |
|   |  | 296                               | 4,895               |               |                | 5,191          |
| Income (loss) before minority interest from continuing operations   |  |                                   |                     |               |                |                |
|   | 11,351                                     | 5,391                             | 19,471              | (17,533)      |                | 18,680         |
| Minority interest (income) loss attributable to continuing operations   |  |                                   |                     |               |                |                |
|   |  |                                   |                     | (8,082)       |                | (8,082)        |
| Net income (loss) from continuing operations  |  |                                   |                     |               |                |                |
|   | 11,351                                     | 5,391                             | 19,471              | (25,615)      |                | 10,598         |
| <b>Discontinued Operations</b>  |  |                                   |                     |               |                |                |
| Income from discontinued operations before minority interest  |  |                                   |                     |               |                |                |
|   | 1,904                                      | 320                               |                     |               |                | 2,224          |
| Gain of sale of student housing properties.   |  |                                   |                     |               |                |                |
|   | 29,355                                     |                                   |                     |               |                | 29,355         |
| Minority interest (income) loss   |  |                                   |                     |               |                |                |
|   |  |                                   |                     | (13,593)      |                | (13,593)       |

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Nine Months Ended September 30, 2007

|  |           |          |           |             |
|--|-----------|----------|-----------|-------------|
| Income (loss) from discontinued operations | 31,259    | 320      | (13,593)  | 17,986      |
| Net income (loss)                          | \$ 42,610 | \$ 5,711 | \$ 19,471 | \$ (39,208) |
|  |           |          |           | \$ 28,584   |

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Nine Months Ended September 30, 2006

|   | <b>Student<br/>Housing-<br/>Owned<br/>Properties</b> | <b>Student<br/>Housing-<br/>Management</b> | <b>Military<br/>Housing</b> | <b>Corporate</b> | <b>Elimination</b> | <b>Total</b>   |
|---|--|--|-----------------------------|------------------|--------------------|----------------|
| <b>Revenue</b>  |  |  |                             |                  |                    |                |
| Rent and other property income  | \$ 118,430   | \$   | \$                          | \$ 113           | \$                 | \$ 118,543     |
| <b>Expense reimbursements:</b>  |  |  |                             |                  |                    |                |
| Related party   |  | 235  | 47,967                      | 162              |                    | 48,364         |
| Third party   | 2,167  | 4,690                                      |                             |                  |                    | 6,857          |
| <b>Management fees:</b>   |  |  |                             |                  |                    |                |
| Owned properties  |  | 4,714                                      |                             |                  | (4,714)            |                |
| Related party   |  | 74   | 6,197                       |                  |                    | 6,271          |
| Third party   |  | 2,421                                      |                             |                  |                    | 2,421          |
| Other fee income related party  |  |  | 15,877                      |                  |                    | 15,877         |
| Other income  | 100  | 25   | 46                          | 79               |                    | 250            |
| <b>Total revenue</b>  | <b>120,697</b>                                       | <b>12,159</b>                              | <b>70,087</b>               | <b>354</b>       | <b>(4,714)</b>     | <b>198,583</b> |
| <b>Operating Expenses:</b>  |  |  |                             |                  |                    |                |
| Property operating expenses   | 47,391   | 4,902                                      | 4,569                       |                  |                    | 56,862         |
| Intercompany management fee   | 4,714  |  |                             |                  | (4,714)            |                |
| Reimbursed expenses   | 2,167  | 4,925                                      | 47,967                      | 162              |                    | 55,221         |
| Real estate taxes   | 11,457   |  |                             | 72               |                    | 11,529         |
| Administrative expenses   |  |  |                             | 13,134           |                    | 13,134         |
| Securities litigation and Audit/Special Committee expenses  |  |  |                             | 6,698            |                    | 6,698          |
| Depreciation and amortization   | 28,174   |  | 342                         | 240              |                    | 28,756         |
| Interest  | 31,792   |  |                             | 1,479            |                    | 33,271         |
| <b>Total operating expenses</b>   | <b>125,695</b>                                       | <b>9,827</b>                               | <b>52,878</b>               | <b>21,785</b>    | <b>(4,714)</b>     | <b>205,471</b> |
| Gain on sales to joint venture  |  |  |                             |                  |                    |                |
| Income (loss) before equity in earnings of unconsolidated subsidiaries, income taxes and minority interest from continuing operations | (4,998)  | 2,332                                      | 17,209                      | (21,431)         |                    | (6,888)        |
| Equity in earnings of unconsolidated entities   |  |  | 2,850                       |                  |                    | 2,850          |
| Income (loss) from continuing operations before income taxes and minority interest  | (4,998)  | 2,332                                      | 20,059                      | (21,431)         |                    | (4,038)        |
| Income tax(benefit) expense   |  | (372)                                      | 3,866                       |                  |                    | 3,494          |
| Income (loss) from continuing operations before minority interest   | (4,998)  | 2,704                                      | 16,193                      | (21,431)         |                    | (7,532)        |
| Minority interest (income) loss attributable to continuing operations   |  |  |                             | 3,285            |                    | 3,285          |
| Income from continuing operations   | (4,998)  | 2,704                                      | 16,193                      | (18,146)         |                    | (4,247)        |
| <b>Discontinued Operations</b>  |  |  |                             |                  |                    |                |
| Income from discontinued operations   | 510  | 500  |                             |                  |                    | 1,010          |
| Gain on sale of student housing properties  |  |  |                             |                  |                    |                |
| Minority interest (income) loss attributable to discontinued operations   |  |  |                             | (456)            |                    | (456)          |

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Nine Months Ended September 30, 2006

|                                     | 2005       |          | 2004      |             | 2003       |  |
|-------------------------------------|------------|----------|-----------|-------------|------------|--|
| Income from discontinued operations | 510        | 500      | (456)     |             | 554        |  |
| Net income (loss)                   | \$ (4,488) | \$ 3,204 | \$ 16,193 | \$ (18,602) | \$ (3,693) |  |

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|  | Student<br>Housing<br>Owned<br>Properties | Student<br>Housing-<br>Management | Military<br>Housing | Corporate | Total |
|--|---|-----------------------------------|---------------------|-----------|-------|
|--|---|-----------------------------------|---------------------|-----------|-------|

(in thousands)

**As of September 30, 2007:**

|                   |              |          |           |           |              |
|-------------------|--------------|----------|-----------|-----------|--------------|
| Total assets      | \$ 1,365,994 | \$ 5,854 | \$ 81,961 | \$ 13,817 | \$ 1,467,626 |
| Total liabilities | \$ 989,892   | \$ 1,295 | \$ 10,660 | \$ 55,542 | \$ 1,057,389 |

**As of December 31, 2006**

|                   |              |          |           |            |              |
|-------------------|--------------|----------|-----------|------------|--------------|
| Total assets      | \$ 1,619,776 | \$ 2,560 | \$ 58,714 | \$ 32,940  | \$ 1,713,990 |
| Total liabilities | \$ 1,066,927 | \$ 1,275 | \$ 9,026  | \$ 221,490 | \$ 1,298,718 |

**12. 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 months and nine months ended September 30, 2007 and September 30, 2006 (in thousands, except share and per share amounts):

|  | Three Months Ended<br>September 30, 2007 |            | Three Months Ended<br>September 30, 2006 |            |
|--|--|------------|--|------------|
|  | Basic                                    | Diluted    | Basic                                    | Diluted    |
| Net income (loss) from continuing operations                         | \$ (1,370)                               | \$ (1,370) | \$ (4,148)                               | \$ (4,148) |
| Minority interest in continuing operations                           |  | (1,022)    |  | \$ (3,209) |
| Income from continuing operations available to common shareholders   | \$ (1,370)                               | \$ (2,392) | \$ (4,148)                               | \$ (7,357) |
| Net income (loss) from discontinued operations                       | \$ 5,743                                 | \$ 5,743   | \$ (144)                                 | \$ (144)   |
| Minority Interest in discontinued operations                         |  | 4,282      |  | (111)      |
| Income from discontinued operations available to common shareholders | \$ 5,743                                 | \$ 10,025  | \$ (144)                                 | \$ (255)   |
| Weighted-average common shares outstanding                           | 41,552,942                               | 41,552,942 | 41,491,841                               | 41,491,841 |
| Restricted shares  |  |            |  | 11,068     |
| Units of limited partnership held by minority interest holders       |  | 31,036,276 |  | 31,624,617 |
| Total weighted-average shares outstanding                            | 41,552,942                               | 72,589,218 | 41,491,841                               | 73,127,522 |
| Earnings (loss) per common share                                     |  |            |  |            |
| Continuing operations  | \$ (0.03)                                | \$ (0.03)  | \$ (0.10)                                | \$ (0.10)  |
| Discontinued operations  | \$ 0.14                                  | \$ 0.14    | \$ 0.00                                  | \$ 0.00    |
|  | \$ 0.11                                  | \$ 0.11    | \$ (0.10)                                | \$ (0.10)  |



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|  | Nine Months Ended<br>September 30, 2007 |            | Nine Months Ended<br>September 30, 2006 |            |
|--|---|------------|---|------------|
|  | Basic                                   | Diluted    | Basic                                   | Diluted    |
| Net income (loss) from continuing operations                         | \$ 10,598                               | \$ 10,598  | \$ (4,247)                              | \$ (4,247) |
| Minority interest in continuing operations                           |   | 8,082      |   | (3,285)    |
| Income available to common shareholders                              | \$ 10,598                               | \$ 18,680  | \$ (4,247)                              | \$ (7,532) |
| Net income (loss) from discontinued operations                       | \$ 17,986                               | \$ 17,986  | \$ 554                                  | \$ 554     |
| Minority interest in discontinued operations                         |   | 13,593     |   | 456        |
| Income from discontinued operations available to common shareholders | \$ 17,986                               | \$ 31,579  | \$ 554                                  | \$ 1,010   |
| Weighted-average common shares outstanding                           | 41,517,441                              | 41,517,441 | 40,678,959                              | 40,678,959 |
| Warrants   |   |            |   | 1,090,800  |
| Restricted shares  |   |            |   | 12,768     |
| Units of limited partnership held by minority interest holders       |   | 31,423,418 |   | 31,625,517 |
| Total weighted-average shares outstanding                            | 41,517,441                              | 72,940,859 | 40,678,959                              | 73,408,044 |
| Earnings per common share  |   |            |   |            |
| Continuing operations  | \$ 0.26                                 | \$ 0.26    | \$ (0.10)                               | \$ (0.10)  |
| Discontinued operations  | \$ 0.43                                 | \$ 0.43    | \$ 0.01                                 | \$ 0.01    |
|  | \$ 0.69                                 | \$ 0.69    | \$ (0.09)                               | \$ (0.09)  |

The computation of diluted earnings per share for the three and nine months ended September 30, 2007 did not include the effect of the Company's restricted stock as their inclusion had an anti-dilutive effect.

On September 13, 2007, the Company declared a quarterly dividend of \$0.165 per outstanding common share to shareholders of record as of the close of business on September 27, 2007. The aggregate amount of dividends of approximately \$11.8 million was paid on October 15, 2007, of which approximately \$6.9 million and approximately \$4.9 million, was paid to common shareholders and unit holders of the Operating Partnership, respectively.

## 12. Discontinued Operations

For the three month and nine month periods ended September 30, 2007 and 2006, income from discontinued operations relates to six of the 12 properties that the Company sold during the second and third quarters of 2007. The other six properties have been placed into a joint venture in which the Company has retained a 10% interest and have not been presented as discontinued operations because the Company (i) expects to receive significant continuing cash flows generated by earning management fees from the Company's ongoing management of the properties, in addition to the cash flows resulting from the Company's 10% equity ownership in the joint venture that owns and operates the properties, and (ii) continue to have significant involvement in the on-going operations through its continuing management of the properties and its 10% equity ownership in the joint venture that owns the properties.

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The following table summarizes the revenue and expense information for discontinued operations for the three and nine months ended September 30, 2007 and 2006 (in thousands):

|  | Three months ended |                    | Nine months ended  |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | September 30, 2007 | September 30, 2006 | September 30, 2007 | September 30, 2006 |
| <b>Revenue:</b>  |                    |                    |                    |                    |
| Rent and other operating income  | \$ 98              | \$ 4,451           | \$ 9,466           | \$ 13,111          |
| Other Income   | 31                 |                    | 37                 | 4                  |
| <b>Total Revenue</b>   | <b>129</b>         | <b>4,451</b>       | <b>9,503</b>       | <b>13,115</b>      |
| <b>Expenses:</b>   |                    |                    |                    |                    |
| Property operating expenses  | 88                 | 2,449              | 3,321              | 5,502              |
| Real estate taxes  |                    | 595                | 1,042              | 1,513              |
| Depreciation and amortization  |                    | 644                | 1,009              | 2,584              |
| Interest expense   | (19)               | 1,018              | 1,907              | 2,506              |
| <b>Total operating expenses</b>  | <b>69</b>          | <b>4,706</b>       | <b>7,279</b>       | <b>12,105</b>      |
| Income (loss) from discontinued operations before gain on sale of student housing properties and minority interest | 60                 | (255)              | 2,224              | 1,010              |
| Gain on sale of student housing properties   | 9,965              |                    | 29,355             |                    |
| Minority interest (income) loss  | (4,282)            | 111                | (13,593)           | (456)              |
| <b>Income from discontinued operations</b>   | <b>\$ 5,743</b>    | <b>\$ (144)</b>    | <b>\$ 17,986</b>   | <b>\$ 554</b>      |

### 13. Subsequent Events

On October 1, 2007, the Company acquired a joint ownership interest, together with the Department of the Navy, in Southeast Housing LLC, the project entity in connection with the Navy Southeast Region military housing privatization project, referred to as the Navy Southeast Region project. On that date, the Company made a \$6.75 million equity contribution into Southeast Housing, LLC and the project entity began providing property management and maintenance services to the project. The Company will receive fees for the provision of these management and maintenance services, and continues to work with the Department of the Navy to complete financing for the construction/development/renovation of the end-state housing units to be covered by the project. The Navy Southeast Region project covers 11 Naval bases located in five states throughout the Southeastern region of the United States. Once financing of the project has been obtained, which is anticipated to occur during the fourth quarter of 2007, the Company also will commence earning construction/renovation and development fees, as well as an equity return, after the IDP, on its initial capital investment in the project.

On November 1, 2007, the Company announced that it has finalized its agreements with the Department of the Air Force to be the private sector developer for the Vandenberg Air Force military housing privatization project located in Lompoc, CA. On that date, the Company made an equity contribution of \$7.0 million into the project entity. The 50-year term of the project commences with a five-year IDP that includes the design, construction and/or renovation as well as the overall management, maintenance and operational responsibilities for an estimated 867 end-state housing units with project costs of approximately \$163 million.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### *Overview*

We 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.

As of September 30, 2007, we owned, or had ownership interests in, 72 student housing properties containing a total of 13,232 units and 42,670 beds and seven undeveloped or partially developed parcels of land held for development as student housing properties. Of this portfolio, we hold a 10% interest in joint ventures that own eight of these student housing properties, covering a total of 1,140 units and 4,160 beds and provided management services for all of these properties. In addition to properties held through joint ventures, we managed a total of 19 student housing properties owned by others, containing a total of 3,534 units and 11,683 beds, including 48 units and 262 beds currently under construction. In our military housing segment, as of September 30, 2007, our operating partnership had an ownership interest in, and through various wholly-owned subsidiaries operated, 10 military housing privatization projects, comprising an aggregate of 19,021 end-state housing units on 25 military bases, to provide development, construction, renovation and management services to our military housing privatization projects through our taxable REIT subsidiaries, (other than our AETC Group I project with the U.S. Air Force). In addition, we provide management and consulting services with respect to the management of certain student housing properties owned by others, including colleges, universities, and other private owners through our taxable REIT subsidiaries. In order to comply with the applicable requirements under the REIT provisions of the Code, we must limit the operations of taxable REIT subsidiaries so that the fair value of securities issued to us by our taxable REIT subsidiaries do not represent more than 20% of our total assets as of the close of any quarter in our taxable year and so that dividends from our taxable REIT subsidiaries, together with our other non-qualifying gross income, do not exceed 25% of our gross income for any taxable year.

Currently, our operations are managed within three operating segments that are separately reported: (1) student housing-owned properties (2) student-housing management and (3) military housing. This structure provides an effective platform for maximizing market penetration and optimizing operating economies of scale. In addition, we separately report the activities of certain departments from a corporate level, which includes personnel that service GMH Communities Trust as a whole and support our overall operations.

### *Student Housing Owned Properties*

The student housing owned properties segment reflects the revenues and expenses of off-campus student housing properties acquired and owned through the REIT ownership structure which are strategically located near college or university campuses. During the years ended December 31, 2004, 2005 and 2006, our rental revenue (including continuing and discontinuing operations) increased substantially as a result of the acquisition of an aggregate of 75 properties (excluding two properties in which we hold a 10% interest together with a joint venture partner) over that period. During the year ended December 31, 2006, we acquired 21 of these properties. Although our acquisition activity has slowed during 2007, we continue to experience increases in, operating expenses, real estate taxes and depreciation and amortization as a result of these prior acquisitions. Further, interest expense has increased related to the financing of the properties we have acquired.

Historically, we have found certain property revenues and operating expenses to be cyclical in nature, and therefore not incurred ratably over the course of the year. As our properties are leased predominantly on an academic-year basis, certain of our operating revenues and expenses will vary from quarter to quarter depending on the leasing cycle. For example, we experience significant turnover costs commencing towards the end of the second quarter and more significantly during the third

quarter of our fiscal year, in connection with preparing our properties for new residents prior to commencement of the new academic-year lease period, which typically begins in August or September. In addition, we also typically incur higher lease-up costs during the first two quarters of our fiscal year, as this is the period during which we heavily target students for leases that will commence for the next academic year. Property revenues and expenses may differ from expected results in the year of acquisition, depending on the timing of the acquisition in relation to the leasing cycle. With respect to our lease-up and physical occupancy results for the start of the 2007/2008 academic year, our occupancy levels on a portfolio-wide basis were lower than levels achieved for the start of the 2006/2007 academic year. While our net rental rates have increased for the 2007/2008 academic year over the prior academic year, this revenue growth would be offset by lower occupancy levels at our properties.

We expect to continue to place less emphasis on the acquisition of additional student housing properties relative to prior years, and continue to focus on the operational performance of our existing student housing properties and development projects. To the extent our operational performance meets or exceeds management's expectations going forward, and the Company has sufficient working capital or financing sources for additional acquisitions, we may determine that it is appropriate to place greater emphasis on acquisitions in the Company's student housing segment and seek to acquire properties located in our targeted markets that meet management's underwriting criteria for creating long-term growth potential. If we seek to acquire student housing properties, we will consider funding the acquisitions through joint venture structures similar to the joint venture terms that we have entered into with respect to our current joint venture properties. The timing of any additional acquisitions or development projects will be dependent upon various factors, including the ability to complete satisfactory due diligence, to find suitable joint venture partners and agree upon mutually acceptable joint venture terms, to obtain appropriate debt financing on the properties, and the availability of capital. We would consider funding our equity portion of any joint ventures by using funds from available cash from operations or borrowings. We also may determine that it is appropriate to purchase additional student housing properties outright, as opposed to with a joint venture partner, depending upon many factors which may include, but are not limited to, the applicable purchase price, available capital, and projected returns with respect to the property.

In addition, in recognition of the fact that certain of our student housing properties have not performed in line with internal projections, management is in the process of analyzing the Company's owned student housing portfolio as a whole, and determining whether there are properties in certain markets that should be positioned for sale or transferred into a joint venture similar to the Company's joint venture structure with Fidelity Real Estate Group. In performing this analysis, our management is taking into consideration a number of factors, including, but not limited to, current and anticipated future supply and demand issues, projected enrollment growth at colleges and universities within the market, and an assessment of potential economies of scale in markets where the Company has multiple assets. Management cannot provide any assurance that it will determine to reposition any of the Company's student housing properties, or that the Company would be successful in any effort to complete such transactions if attempted. Any such plans to sell or place properties into a joint venture also would be subject to approval by our Board of Trustees.

During the three months ended September 30, 2007, we completed the following transactions relating to our student housing owned properties:

On July 3, 2007, we completed the sale of a fifth student housing property, University Crossing in Manhattan, KS, to SCI Real Estate Investments, LLC, pursuant to an agreement to sell a total of five student housing properties. We received aggregate net proceeds of approximately \$12.4 million from this fifth property sale, after the buyer's assumption of existing mortgage debt on the property totaling approximately \$11.4 million.

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On July 12, 2007, we completed the sale of Campus Commons, a student housing property located in Eugene, OR, to Horizon Realty Advisors of Seattle, WA. The Company received approximately \$9.9 million in net proceeds from the sale, after the buyer's assumption of existing mortgage debt on the property totaling approximately \$16.1 million.

On August 1, 2007, we completed the acquisition of a student housing property, Blanton Commons Phase II in Valdosta, GA for an aggregate purchase price of \$11.2 million. In addition, we simultaneously placed new mortgage debt on both Blanton Commons Phase II and our currently owned Blanton Commons Phase I property for an aggregate of \$29.0 million, which has a 10- year term, with interest-only monthly payments for the initial five years at a fixed rate of 6.335%. The combined net proceeds of approximately \$17.7 million from acquisition and mortgage financing were used to repay outstanding indebtedness under the Company's note facility and for general working capital purposes.

As of September 30, 2007, we had agreements to acquire 13 parcels of land for the development of a future student housing property for an aggregate purchase price of \$6.7 million. As of the date of this report, we had placed deposits related to such acquisitions totaling approximately \$337,500.

### *Student Housing Management*

The student housing-management segment provides the on-site management function for, and generally oversees the management of, all off-campus student housing properties for the Company and for properties we manage that are owned by third parties. Also included in this segment, are activities relating to development and joint venture structuring activities. Third parties may be related parties or parties unaffiliated with the Company. The properties are strategically located near college or university campuses. Total revenues from management activities, excluding reimbursement of expenses, increased by approximately 89.0% and 46.8% from the three months and nine months ended September 30, 2007, respectively, as compared to the same periods in 2006, including management fees earned from the properties managed for the Company.

We earn management fees from managing properties for third parties. These fees are typically equal to a percentage of cash receipts or gross rental revenues generated by the managed properties, or equal to a fixed monthly amount, according to the respective management agreements. We also have the ability to earn incentive management fees by achieving specified property-level performance criteria for certain properties we manage for third parties. Further, certain operating expenses incurred related to properties we manage for others are reimbursed by the owners of the properties managed. We expect to continue generating fee revenue and operating expense reimbursements from the properties that we manage for others, although the amounts are expected to become less significant as a percentage of our overall revenues as rental income increases from the properties we own and to the extent our managed property portfolio does not correspondingly increase. During the remainder of 2007 and into 2008, we expect to continue to pursue new third-party management agreements by utilizing relationships in the student housing market and providing our significant operational economies of scale as a savings mechanism for other third-party owners, including institutional owners and individual student housing owners. In addition, we continue to manage (i) the six properties that were transferred into our joint venture with Fidelity Real Estate Group, which joint venture was formed during the second quarter of 2007, and (ii) the five properties that were sold to SCI Real Estate Investments during the second and third quarters of 2007.

### *Military Housing*

Our military housing segment develops, constructs, renovates and manages military housing privatization projects in which we acquire equity interests. Revenue from our military housing segment is comprised primarily of fee income for providing development, construction/renovation and

management services to our military housing privatization projects. We also are entitled to returns on the equity we invest in the projects. In addition, we earn business development fees from certain of our business partners in connection with our military housing privatization projects, such as our construction and architectural/engineering partners. We seek these fees as payment for our business development efforts incurred by us in connection with pursuing and coordinating the completion of military housing privatization projects that benefit these business partners. We also receive expense reimbursements, consisting primarily of payroll and related expenses, closing costs and transition costs we incur for the project in the periods preceding the initiation of our management of the project. Typically, at the time we initiate management on a project, the project reimburses us for these amounts from the proceeds of the debt securities issued by the military housing privatization project.

As of September 30, 2007, we owned equity interests in the joint ventures that owned 10 military housing privatization projects in operation, encompassing 25 military bases totaling 19,021 end-state housing units. During the three months and nine months ended September 30, 2007, we earned fees for providing development, construction/renovation and management services to these 10 military housing privatization projects.

The following developments in our military housing segment occurred during the three months ended September 30, 2007:

On July 26, 2007, we restructured the terms and debt financing for our Navy Northeast Region project as a result of (i) the anticipated closure of the Naval Air Station in Brunswick, Maine in connection with the Base Realignment and Closure (BRAC) regulations, which represented approximately 723 end-state housing units, and (ii) changes in housing market conditions that affected occupancy rates for the project, which represented an overall decrease of approximately 620 end-state housing units. In connection with this restructuring, the original taxable bonds that were issued by the project entity to finance the project upon commencement of the initial commencement of operations were redeemed and the project entity issued new taxable bonds in an amount commensurate with the financing needs of the remainder of the initial development period, or IDP, of the project based on the reduced scope.

On July 30, 2007, we announced that we were selected by the U.S. Air Force as the highest ranked offeror (HRO) for the privatization of family housing at Vandenberg Air Force Base.

Subsequent to the third quarter of 2007, effective as of October 1, 2007, we acquired an interest, together with the Department of the Navy, in Southeast Housing LLC, the project entity in connection with the Navy Southeast Region military housing privatization project, referred to as the Navy Southeast Region project. As of that date, we commenced the provision of property management and maintenance services to the project and will receive fees for the provision of these management and maintenance services. In addition, we will continue to work with the Department of the Navy to complete financing for the construction, development and renovation of the end-state housing units to be covered by the project. It is currently expected that the project financing will be completed during the fourth quarter of 2007 and the total IDP costs are expected to be approximately \$690.0 million and cover an estimated 5,269 end-state housing units. The Navy Southeast Region project covers 11 naval bases located in five states throughout the Southeastern region of the United States. Once financing of the project has been obtained, which is anticipated to occur during the fourth quarter of 2007, the Company also will commence earning construction/renovation and development fees, as well as an equity return, after the initial development period (IDP), on its initial capital investment in the project.

On October 31, 2007, we announced our selection by the Department of the Air Force as the highest ranked offeror (HRO) for the privatization of family housing under the AMC West Housing Privatization Project. The project includes three Air Force bases, including Fairchild AFB located near Spokane, WA; Travis AFB, located near Fairfield, CA; and Tinker AFB, near Oklahoma City, OK. As a result of the HRO selection, the Company will participate in exclusive negotiations with the

Department of the Air Force for the development, management, construction and renovation of high-quality homes and other ancillary facilities and amenities to meet the community housing needs at each of the three bases. The 50-year project is expected to have a seven-year IDP, with estimated project costs valued in excess of \$400 million and covering an estimated 2,435 end-state housing units. This project is expected to close during the first half of 2008.

In addition, on November 1, 2007, we announced that we finalized our agreements with the Department of the Air Force to be the private sector developer for the Vandenberg Air Force military housing privatization project located in Lompac, CA. The 50-year term of the project commences with a five-year IDP that includes the design, construction and/or renovation as well as the overall management, maintenance and operational responsibilities for an estimated 867 end-state housing units with project costs of approximately \$163 million.

As of the date of this report, we continue our exclusive negotiations with the Department of the Army regarding (i) the family housing privatization projects for the U.S. Military Academy in West Point, New York and Fort Jackson in Columbia, South Carolina, both of which we expect to commence operations for during 2008, and (ii) the unaccompanied housing associated with the Army's Fort Bliss and Fort Stewart project, both of which we expect to commence operations during the fourth quarter of 2007.

Our management team also had under review, as of November 8, 2007, four potential additional military housing privatization projects, and opportunities to acquire additional projects or project rights from our competitors, and will continue to pursue opportunities to acquire projects or project rights from our competitors, as well as opportunities to participate in pilot housing programs for unaccompanied military personnel.

### ***Critical Accounting Policies***

Our "Management's Discussion and Analysis of Financial Condition and Results of Operations" discusses the Company's consolidated financial statements which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. While the estimates and judgments associated with the application of these accounting principles may be affected by different assumptions or conditions, we believe the estimates and judgments associated with the reported amounts are appropriate under the circumstances in which they were made. In addition, other companies in similar businesses may utilize different estimation policies and methodologies, which may impact the comparability of our results of operations and financial condition to those companies.

The following policies require significant judgments and estimates on our part in preparing the Company's consolidated financial statements. Changes in these judgments and estimates could have a material effect on these financial statements.

### **Revenue Recognition**

#### *Student Housing-Owned Properties 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.

*Student Housing Managed Properties Segment*

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*

We earn military housing revenues for providing services to our military housing privatization projects, including the following:

standard and incentive management fees, which are based on a percentage of revenue generated by the military housing privatization projects from the basic allowance for housing provided by the government to service members, referred to as BAH, are recognized when the revenue is earned by the military housing projects. Incentive management fees are based upon the satisfaction of certain criteria including, among other things, satisfying designated benchmarks relating to emergency work order response, occupancy rates, home turnover and resident satisfaction surveys. Incentive management fees are recognized when the various criteria stipulated in the management contract have been satisfied;

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 privatization 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. The incentive development and construction/renovation fees are recognized when the various criteria stipulated in the contract have been satisfied. In addition, in certain instances, we 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 our renovation contracts are recorded on the percentage-of-completion method. When the percentage-of-completion method is used, contract revenue is recognized in the ratio that costs incurred to date bear to estimated costs at completion. Adjustments to cost estimates are made in the period in which the facts requiring such revisions become known. When the revised estimates indicate a loss, such loss is provided for currently in its entirety.

business development fees are earned from a construction partner in connection with our military housing projects. These fees consist of an (i) annual base fee, and (ii) additional fee which is paid on a monthly basis. The fees are recognized on a straight-line basis over the term of the agreement, which is generally one year.



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equity returns are earned on our 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 September 30, 2007, only the Fort Carson project had passed its initial development period.

### *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 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.

We expense routine repair and maintenance costs that do not improve the value of an asset or extend its useful life, including turnover costs. We capitalize expenditures that improve the value and extend the useful life of an asset. We compute depreciation using the straight-line method over the estimated useful lives of the assets, which is generally 40 years for buildings including student housing properties and the commercial office building, and three to five years for residential furniture and appliances. Commencing towards the end of the second quarter and more significantly during the third quarter of each fiscal year, we 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. Our student housing lease terms generally commence in August or September to coincide with the beginning of the academic year. Accordingly, we expect to incur a majority of its repair and maintenance costs during the second and third quarters 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 the 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.

***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 privatization projects based upon the individual facts and circumstances, and record a reserve for specific amounts, if necessary.

***Minority Interest***

Minority interest as initially recorded at the date of our initial public offering represented the net equity of our operating partnership, including the proceeds received from the sale of the warrant to Vornado, multiplied by the ownership percentage of holders of limited partnership units in our operating partnership other than the Company. Our 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 our option, subject to adjustments for share splits, dividends, recapitalizations or similar events; except that Gary M. Holloway, Sr. has the right to require our 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 our outstanding common shares. If the minority interest unit holders' share of a current year loss would cause the minority interest balance to be less than zero, the minority interest balance will be reported as zero unless there is an obligation of the minority interest holders to fund those losses. Any losses in excess of the minority interest will be charged against equity. If future earnings materialize, equity will be credited for all earnings up to the amount of those losses previously absorbed. Distributions to limited partnership unit holders other than us are recorded as a reduction to minority interest.

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

The Company owns equity interests in the joint ventures that own our military housing projects with the U.S. military to design, develop, construct/renovate and manage the military family housing located on or near various bases throughout the United States. In addition the Company also owns equity interests in two joint ventures that own student housing properties. The Company evaluates its investments in these 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 joint ventures in which it has a variable interest is a VIE and that the Company is not the primary beneficiary of any of these VIEs. The Company records its investments in joint ventures in accordance with the equity method of accounting. The Company's investment is initially recorded at cost, and then subsequently adjusted at each balance sheet date to an amount equal to what the Company would receive from the joint venture in the event that the project were liquidated at net book value as of that date, and assuming that the proceeds from the liquidation are distributed in accordance with the terms of, and priority of returns set forth under, the joint venture's operating agreement. The Company has exposure to loss to the extent of its investments, if any, and any receivables due from the military projects or joint ventures.

***Income Taxes***

We elected to be taxed as a REIT under the Code commencing with our taxable year ended December 31, 2004. To continue to qualify as a REIT, we must meet a number of organizational and operational requirements, including a requirement that we currently distribute at least 90% of our adjusted taxable income to our shareholders. We believe we are organized and operate in a manner that allows us to qualify for taxation as a REIT under the Code, and it is our intention to adhere to these requirements and maintain our 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 our taxable REIT subsidiaries.

**Results of Operations**

The results of operations for the three months and nine months ended September 30, 2007 and 2006 presented below reflect the results of operations of the Company. The eliminations column represents the management fees that are charged to our student housing owned properties segment from our student-housing management segment. Such amounts have been eliminated in consolidation.

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Comparison of the Three Months Ended September 30, 2007 to the Three Months Ended September 30, 2006

Three Months Ended September 30, 2007

|  | Student<br>Housing-<br>Owned<br>Properties | Student<br>Housing-<br>Management | Military<br>Housing | Corporate      | Elimination    | Total          |
|--|--|-----------------------------------|---------------------|----------------|----------------|----------------|
| <b>Revenue</b>   |  |                                   |                     |                |                |                |
| Rent and other property income   | \$ 45,118                                  |                                   |                     | \$ 39          |                | \$ 45,157      |
| <b>Expense reimbursements:</b>   |  |                                   |                     |                |                |                |
| Related party  |  | 461                               | 17,774              | 51             |                | 18,286         |
| Third party  | 691  | 1,768                             |                     |                |                | 2,459          |
| <b>Management fees:</b>  |  |                                   |                     |                |                |                |
| Owned properties   |  | 1,905                             |                     |                | (1,905)        |                |
| Related party  |  | 372                               | 2,494               |                |                | 2,866          |
| Third party  |  | 828                               |                     |                |                | 828            |
| Other fee income related party   |  | 1,738                             | 7,464               |                |                | 9,202          |
| Other income   | 30   |                                   | 20                  | 126            |                | 176            |
| <b>Total revenue</b>   | <b>45,839</b>                              | <b>7,072</b>                      | <b>27,752</b>       | <b>216</b>     | <b>(1,905)</b> | <b>78,974</b>  |
| <b>Operating Expenses:</b>   |  |                                   |                     |                |                |                |
| Property operating expense   | 22,648                                     | 1,192                             | 2,155               |                |                | 25,995         |
| Intercompany management fee  | 1,905                                      |                                   |                     |                | (1,905)        |                |
| Reimbursed expenses  | 691  | 2,229                             | 17,774              | 51             |                | 20,745         |
| Real estate taxes  | 3,905                                      |                                   |                     | 24             |                | 3,929          |
| Administrative expenses  |  |                                   |                     | 3,834          |                | 3,834          |
| Securities litigation and Audit/Special Committee expenses   |  |                                   |                     | 1,638          |                | 1,638          |
| Depreciation and amortization  | 10,355                                     | 141                               | 170                 | 132            |                | 10,798         |
| Interest   | 13,748                                     |                                   |                     | 324            |                | 14,072         |
| <b>Total operating expenses</b>  | <b>53,252</b>                              | <b>3,562</b>                      | <b>20,099</b>       | <b>6,003</b>   | <b>(1,905)</b> | <b>81,011</b>  |
| Gain on sales to joint ventures  | 1,094                                      |                                   |                     |                |                | 1,094          |
| <b>Income (loss) from continuing operations before equity in earnings of unconsolidated entities, income taxes and minority interest</b> | <b>(6,319)</b>                             | <b>3,510</b>                      | <b>7,653</b>        | <b>(5,787)</b> |                | <b>(943)</b>   |
| <b>Equity in earnings (loss) of unconsolidated entities</b>  | <b>(175)</b>                               |                                   | <b>1,065</b>        |                |                | <b>890</b>     |
| <b>Income (loss) from continuing operations before income taxes and minority interest</b>  | <b>(6,494)</b>                             | <b>3,510</b>                      | <b>8,718</b>        | <b>(5,787)</b> |                | <b>(53)</b>    |
| Income tax expense   |  | 249                               | 2,090               |                |                | 2,339          |
| <b>Income (loss) before minority interest</b>  | <b>(6,494)</b>                             | <b>3,261</b>                      | <b>6,628</b>        | <b>(5,787)</b> |                | <b>(2,392)</b> |
| Minority interest (income) loss attributable to continuing operations  |  |                                   |                     | 1,022          |                | 1,022          |
| <b>Net income (loss) from continuing operations</b>  | <b>(6,494)</b>                             | <b>3,261</b>                      | <b>6,628</b>        | <b>(4,765)</b> |                | <b>(1,370)</b> |
| <b>Discontinued Operations:</b>  |  |                                   |                     |                |                |                |
| Income from discontinued operations before minority interest   | 56   | 4                                 |                     |                |                | 60             |
| Gain on sale of student housing properties   | 9,965                                      |                                   |                     |                |                | 9,965          |
| Minority interest (income) loss attributable to discontinued operations  |  |                                   |                     | (4,282)        |                | (4,282)        |
| <b>Income from discontinued operations</b>   | <b>10,021</b>                              | <b>4</b>                          |                     | <b>(4,282)</b> |                | <b>5,743</b>   |

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Three Months Ended September 30, 2007

Net income (loss)

|    |       |    |       |    |       |    |         |    |       |
|----|-------|----|-------|----|-------|----|---------|----|-------|
| \$ | 3,527 | \$ | 3,265 | \$ | 6,628 | \$ | (9,047) | \$ | 4,373 |
|----|-------|----|-------|----|-------|----|---------|----|-------|

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Three Months Ended September 30, 2006

|   | Student<br>Housing-<br>Owned<br>Properties | Student<br>Housing-<br>Management | Military<br>Housing | Corporate    | Elimination    | Total         |
|---|--|-----------------------------------|---------------------|--------------|----------------|---------------|
| <b>Revenue</b>  |  |                                   |                     |              |                |               |
| Rent and other property income  | \$ 39,960                                  |                                   |                     | \$ 35        |                | \$ 39,995     |
| Expense reimbursements:   |  |                                   |                     |              |                |               |
| Related party   |  | 46                                | 17,273              | (10)         |                | 17,309        |
| Third party   | 1,305                                      | 1,965                             |                     |              |                | 3,270         |
| Management fees:  |  |                                   |                     |              |                |               |
| Owned properties  |  | 1,753                             |                     |              | (1,753)        |               |
| Related party   |  | 37                                | 2,094               |              |                | 2,131         |
| Third party   |  | 766                               |                     |              |                | 766           |
| Other fee income related party  |  |                                   | 5,616               |              |                | 5,616         |
| Other income  | 39   | 7                                 | 23                  | 41           |                | 110           |
| <b>Total revenue</b>  | <b>41,304</b>                              | <b>4,574</b>                      | <b>25,006</b>       | <b>66</b>    | <b>(1,753)</b> | <b>69,197</b> |
| <b>Operating Expenses:</b>  |  |                                   |                     |              |                |               |
| Property operating expense  | 20,276                                     | 1,760                             | 1,517               |              |                | 23,553        |
| Intercompany management fee   | 1,753                                      |                                   |                     |              | (1,753)        |               |
| Reimbursed expenses   | 1,305                                      | 2,011                             | 17,273              | (10)         |                | 20,579        |
| Real estate taxes   | 3,845                                      |                                   |                     | 24           |                | 3,869         |
| Administrative expenses   |  |                                   |                     | 4,123        |                | 4,123         |
| Securities litigation and Audit/Special Committee expenses  |  |                                   |                     | 1,822        |                | 1,822         |
| Depreciation and amortization   | 9,455                                      |                                   | 93                  | 84           |                | 9,632         |
| Interest  | 11,609                                     |                                   |                     | 520          |                | 12,129        |
| <b>Total operating expenses</b>   | <b>48,243</b>                              | <b>3,771</b>                      | <b>18,883</b>       | <b>6,563</b> | <b>(1,753)</b> | <b>75,707</b> |
| Gain on sales to joint venture  |  |                                   |                     |              |                |               |
| Income (loss) from continuing operations before equity in earnings of unconsolidated entities, income taxes and minority interest |  |                                   |                     |              |                |               |
|   | (6,939)                                    | 803                               | 6,123               | (6,497)      |                | (6,510)       |
| Equity in earnings of unconsolidated entities   |  |                                   |                     |              |                |               |
|   |  |                                   | 460                 |              |                | 460           |
| Income (loss) from continuing operations before income taxes and minority interest  |  |                                   |                     |              |                |               |
|   | (6,939)                                    | 803                               | 6,583               | (6,497)      |                | (6,050)       |
| Income tax (benefit) expense  |  |                                   |                     |              |                |               |
|   |  | (140)                             | 1,447               |              |                | 1,307         |
| Income (loss) before minority interest  |  |                                   |                     |              |                |               |
|   | (6,939)                                    | 943                               | 5,136               | (6,497)      |                | (7,357)       |
| Minority interest (income) loss attributable to continuing operations   |  |                                   |                     |              |                |               |
|   |  |                                   |                     | 3,209        |                | (3,209)       |
| Net income (loss) from continuing operations  |  |                                   |                     |              |                |               |
|   | (6,939)                                    | 943                               | 5,136               | (3,288)      |                | (4,148)       |
| <b>Discontinued Operations:</b>   |  |                                   |                     |              |                |               |
| Income (loss) from discontinued operations before minority interest   |  |                                   |                     |              |                |               |
|   | (428)                                      | 173                               |                     |              |                | (255)         |
| Gain on sale of student housing properties  |  |                                   |                     |              |                |               |
| Minority interest (income) loss attributable to discontinued operations   |  |                                   |                     |              |                |               |
|   |  |                                   |                     | 111          |                | 111           |
| Income (loss) from discontinued operations  |  |                                   |                     |              |                |               |
|   | (428)                                      | 173                               |                     | 111          |                | (144)         |
| Net income (loss)   |  |                                   |                     |              |                |               |
|   | \$ (7,367)                                 | \$ 1,116                          | \$ 5,136            | \$ (3,177)   |                | \$ (4,292)    |

***Student Housing***

*Student Housing Owned Properties*

*Revenue.* Of the 64 wholly-owned properties included in our results from continuing operations for the three months ended September 30, 2007, we acquired one of the properties during the third

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quarter of 2007. We acquired 20 of the student housing properties during 2006, two of which were acquired during the third quarter of 2006. Rent and other property income increased to \$45.1 million during the three months ended September 30, 2007 from \$40.0 million during the three months ended September 30, 2006. The increase in rent and other property income experienced during the three months ended September 30, 2007 primarily relates to (i) the acquisition of one property during the third quarter of 2007 and an additional 11 properties acquired during the last quarter of 2006. In future periods, our net income will be negatively affected to the extent property operating expenses are higher than those projected by our management for such period prior to lease execution for the applicable academic year, offset by the presentation of a full quarter of operations during 2007 with respect to the two properties acquired during the third quarter of 2006.

We owned 50 properties which are included in our results from continuing operations during both the three months ended September 30, 2007 and 2006, referred to herein as our same store properties. Our revenues from rent and other property income at the same store properties increased \$0.7 million, or 2.0%, to \$36.4 million for the three months ended September 30, 2007, as compared to \$35.7 million during the three months ended September 30, 2006. For the 2007/2008 academic year, revenues from rent and other property income will remain relatively flat as a result of increases in average rental rates being offset by a decrease in occupancy throughout our portfolio.

Other income, consisting of interest income on invested cash, remained relatively consistent during the three months ended September 30, 2007 and 2006.

*Expenses.* Property operating expenses from continuing operations increased to \$22.6 million for the three months ended September 30, 2007 from \$20.3 million for prior year period, primarily due to expenses attributable to the one property acquired during the third quarter of 2007 and the eleven properties acquired during the last quarter of 2006 and our ownership and operation for a full quarter during 2007 of the two properties acquired during the third quarter of 2006. The increase of \$2.3 million is attributable to the following: a \$0.9 million increase in utilities expenses; a \$0.1 million increase in insurance expense; a \$0.9 million increase in turnover and maintenance costs at the property level; a \$0.2 million increase in security expenses; and a \$0.2 million increase in other property expenses, consisting of marketing, landscaping, office and other similar property operating expenses.

With respect to our same store properties, we experienced a decrease in property operating expenses of approximately \$0.3 million, or 0.1%, in the three months ended September 30, 2007, as compared to prior year period. This decrease was primarily attributable to the following: a \$0.4 million decrease in payroll expense at the property level; a \$0.1 million decrease in turnover and maintenance costs at the property level; a \$0.1 million decrease in property marketing expenses; and a \$0.4 million decrease in total property office expenses. These decreases were offset by an increase of \$0.3 million in utilities expense; a \$0.3 million increase in security expenses; and a \$0.1 million increase in bad debt.

Real estate taxes from continuing operations increased to \$3.9 million for the three months ended September 30, 2007 from \$3.8 million for the prior year period, primarily due to the acquisition of 11 properties during the last quarter of the 2006 and the full quarter of real estate taxes with respect to the two properties acquired during the third quarter of 2006, offset by favorable tax assessment appeals. With respect to same store properties, real estate tax expense decreased \$0.3 million, primarily due to favorable real estate tax assessment appeals. We expect an overall increase in real estate taxes during 2007 due to a full year of operations for the 20 properties acquired during 2006, offset by a decrease of these expenses relating to properties that were transferred into a joint venture with Fidelity Real Estate Group during the second quarter of 2007 and the properties that were sold during the second and third quarters of 2007.

Depreciation and amortization from continuing operations increased to \$10.4 million for the three months ended September 30, 2007, as compared to \$9.5 million for the three months ended September 30, 2006, primarily as a result of acquiring 11 properties during the last quarter of 2006 for



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an aggregate purchase price of \$224.7 million, as well as the inclusion of a full quarter of depreciation expense relating to the two properties acquired during the third quarter of 2006, offset by the properties that were either transferred into a joint venture or sold during the second and third quarters of 2007. The \$10.4 million in 2007 is comprised of \$10.1 million of depreciation and \$0.3 million of lease intangible amortization. We expect a decrease in amortization expense going forward as lease intangibles related to acquisitions during 2006 are completely amortized.

Interest expense from continuing operations increased to \$13.7 million for the three months ended September 30, 2007 from \$11.6 million for the three months ended September 30, 2006, as a result of additional debt incurred subsequent to the third quarter of 2006, including the placement of mortgage debt. This increase is offset by repayments and assumptions of mortgage debt in conjunction with the properties that were transferred into a joint venture or sold during the second and third quarters of 2007, as well as repayments on our note facility.

### *Student Housing-Management*

*Revenue.* Expense reimbursements from related parties increased to \$0.5 million for the three months ended September 30, 2007 from \$46,000 for the three months ended September 30, 2006, primarily due to the commencement of management contracts we entered into during the second quarter of 2007 in connection with the properties that we transferred into a joint venture or sold during the second and third quarters of 2007.

Expense reimbursements from third parties decreased to \$1.8 million for the three months ended September 30, 2007 from \$2.0 million for the three months ended September 30, 2006. Reimbursed expenses are comprised of payroll expenses for on-site employees. We expect total expense reimbursements to continue to increase during the remainder of 2007 as a result of our management agreements relating to the six properties transferred into a joint venture with Fidelity Real Estate Group during the second quarter of 2007 and the properties sold to SCI Real Estate Investments since the commencement of the second quarter of 2007; and as we continue to pursue new third-party management agreements during the remainder of 2007 and into 2008.

Management fees from related parties increased to \$372,000 for the three months ended September 30, 2007 from \$37,000 for the three months ended September 30, 2006, primarily due to the management fees received during the three months ended September 30, 2007 from the eight properties held in joint ventures in which we retain a 10% interest, as well as the recognition of previously deferred management fees for the two properties in our joint venture with AEW Capital Management, L.P.

Management fee income from third parties increased to \$828,000 during the three months ended September 30, 2007 from \$766,000 during the three months ended September 30, 2006. This increase is due to an increase in the number of management contracts over the prior year period. We expect management fee income to increase during the remainder of 2007 from the management agreements covering the five properties sold to SCI Real Estate Investments, and as we continue to pursue new third-party management agreements throughout the remainder of 2007.

Other fee income from related parties was \$1.7 million during the three months ended September 30, 2007, as compared to no fee income from related parties for the prior year period. The fee income in 2007 related to the recognition of deferred development fees associated with development activities for our two properties held in a joint venture with AEW Capital Management, L.P., in which we hold a 10% interest.

*Expenses.* Property operating expenses decreased to \$1.2 million during the three months ended September 30, 2007 from \$1.8 million during the three months ended September 30, 2006. These expenses are comprised of payroll and general and administrative expenses directly associated with the

operation of the Company's owned and managed portfolios. While those employees who are directly responsible for the oversight of specific properties are charged directly to the student housing-owned properties segment, the student housing-management department includes those employees responsible for portfolio oversight, which includes regional vice presidents, regional property managers, regional leasing specialists and the associated expenses such as travel directly related to those employees who perform this function.

Reimbursed expenses, which includes related-party and third-party managed properties increased to \$2.2 million for the three months ended September 30, 2007 from \$2.0 million during the prior year period, as a result of the properties that we transferred into a joint venture or sold during the second and third quarters of 2007 and which we currently manage. Reimbursed expenses are comprised mostly of payroll expenses for on-site employees.

Income taxes for the three months ended September 30, 2007 amounted to a \$249,000 expense versus a \$140,000 benefit for the same period in the prior year. Income taxes consist primarily of taxes (benefits) associated with the operations of our student housing taxable REIT subsidiary, which manages properties for third parties.

#### *Military Housing*

*Revenue.* Expense reimbursements increased to \$17.8 million for the three months ended September 30, 2007 as compared to \$17.3 million for the three months ended September 30, 2006. The increase is due primarily to increases in renovation activity and operations expenses reimbursed at the AETC Group I, Fort Gordon, Fort Hamilton and Carlisle/Picatunny projects. These were offset by delays and or rescheduling of renovation activities at our Navy Northeast Region project, Fort Eustis/Fort Story project and Fort Bliss/White Sands Missile Range project, as well as scheduled decreases in renovations activities at our Fort Stewart/Hunter Army Airfield project. We expect renovations activities to increase with respect to our Navy Northeast Region project and our Fort Eustis/Fort Story project during the fourth quarter of 2007. The table below sets forth certain information regarding the revenue from expense reimbursements for each of our military housing projects for the three months ended September 30, 2007 and 2006.

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| Project  | Three months ended September 30, |         |
|--|----------------------------------|---------|
|  | 2007                             | 2006    |
|  | (in millions)                    |         |
| <b>Expense Reimbursements</b>                            |                                  |         |
| Fort Stewart and Hunter Army Airfield Project            | \$ 0.7                           | \$ 1.1  |
| Fort Carson Project                                      | 0.7                              | 0.8     |
| Fort Hamilton Project                                    | 0.4                              | 0.2     |
| Walter Reed Army Medical Center and Fort Detrick Project | 0.2                              | 0.2     |
| Fort Eustis/Fort Story Project                           | 1.0                              | 1.2     |
| Navy Northeast Region Project                            | 4.7                              | 9.5     |
| Fort Bliss/White Sands Missile Range Project             | 2.3                              | 2.9     |
| Fort Gordon Project                                      | 1.1                              | 0.5     |
| Carlisle/Picatunny Project(1).                           | 2.2                              | 0.9     |
| AETC Group I Project(2)                                  | 4.5                              |         |
| Total expense reimbursements                             | \$ 17.8                          | \$ 17.3 |

(1) The Fort Gordon project commenced operations in the second quarter of 2006 and we commenced management operations for the Carlisle/Picatunny project in the second quarter of 2006.

(2) The AETC Group I project commenced operations in the first quarter of 2007.

Management fees from related parties increased to \$2.5 million for the three months ended September 30, 2007 compared to \$2.1 million for the three months ended September 30, 2006. The amount of management fees from related parties that we receive during a fiscal period is affected by the number of housing units that we manage under our military housing projects during that period, which may fluctuate based on occupancy rates and the number of housing units that we construct/renovate or demolish during that period. Management fees from related parties increased during the three months ended September 30, 2007 as compared to the three months ended September 30, 2006, primarily due to increased occupancy and rental activity at our Fort Stewart/Hunter Army Airfield and Fort Eustis/Fort Story projects and the commencement of our AETC Group I project in the first quarter of 2007. The table below sets forth certain information regarding the revenue from

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management fees from related parties for each of our military housing projects for the three months ended September 30, 2007 and 2006.

| Project  | Three months<br>ended September 30, |               |
|--|-------------------------------------|---------------|
|  | 2007                                | 2006          |
|  | (in millions)                       |               |
| Fort Stewart and Hunter Army Airfield Project            | \$ 0.4                              | \$ 0.3        |
| Fort Carson Project                                      | 0.3                                 | 0.3           |
| Fort Hamilton Project                                    | 0.1                                 | 0.1           |
| Walter Reed Army Medical Center and Fort Detrick Project | 0.1                                 | 0.1           |
| Fort Eustis/Fort Story Project                           | 0.2                                 | 0.1           |
| Navy Northeast Region Project                            | 0.8                                 | 0.8           |
| Fort Bliss/White Sands Missile Range Project             | 0.3                                 | 0.3           |
| Fort Gordon Project(1)                                   | 0.1                                 | 0.1           |
| Carlisle/Picatunny Project(1)                            |                                     |               |
| AETC Group I Project(2)                                  | 0.2                                 |               |
| <b>Total</b>   | <b>\$ 2.5</b>                       | <b>\$ 2.1</b> |

- (1) The Fort Gordon project commenced operations in the second quarter of 2006 and we commenced management operations for the Carlisle/Picatunny project in the second quarter of 2006.
- (2) The AETC Group I project commenced in the first quarter of 2007.

Other fee income from related parties, which includes development and construction/renovation fees and business development fees, totaled \$7.5 million for the three months ended September 30, 2007, as compared to \$5.6 million for the same period in 2006. Of the 2007 amount, \$6.3 million related to development and construction/renovation fees, and \$1.2 million related to business development fees. The amount of other fee income from related parties that we receive during a fiscal period is affected by the number of housing units that we construct or renovate under our military housing projects during that period, which will fluctuate based on the point at which we are during the initial development period for the project. Generally, the majority of new construction work is completed during the beginning years of an initial development period while renovation work is completed throughout the initial development period. Other fee income from related parties increased during the three months ended September 30, 2007 as compared to the three months ended September 30, 2006, primarily due to increases in construction activities at our Fort Eustis/Fort Story, Fort Bliss/White Sands Missile Range, Fort Gordon, Carlisle/Picatunny and Fort Carson projects, and the commencement of our AETC Group I project in the first quarter of 2007, which was offset by decreases due to delays in the renovation and construction activity at our Navy Northeast Region project, scheduled decreases in development activity at our Fort Stewart/Hunter project, and a rescheduling of development activity at our Fort Hamilton project. The table below sets forth certain

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information regarding the revenue from other fee income from related parties for each of our military housing projects for the three months ended September 30, 2007 and 2006.

| Project   | Three months<br>ended September 30, |        |
|---|-------------------------------------|--------|
|   | 2007                                | 2006   |
|   | (in millions)                       |        |
| <b>Development and Construction/Renovation Fees</b>       |                                     |        |
| Fort Stewart and Hunter Army Airfield Project             | \$ 0.1                              | \$ 0.4 |
| Fort Carson Project                                       | 0.5                                 | 0.1    |
| Fort Hamilton Project                                     | (0.2)                               | 0.1    |
| Walter Reed Army Medical Center and Fort Detrick Project  | 0.1                                 | 0.1    |
| Fort Eustis/Fort Story Project                            | 0.7                                 | 0.4    |
| Navy Northeast Region Project                             | 1.3                                 | 2.0    |
| Fort Bliss/White Sands Missile Range Project              | 1.2                                 | 1.0    |
| Fort Gordon Project(1)                                    | 0.7                                 | 0.1    |
| Carlisle/Picatiny Project(1)                              | 0.5                                 | 0.2    |
| AETC Group I Project(2)                                   | 1.4                                 |        |
| <b>Total Development and Construction/Renovation Fees</b> | <b>\$ 6.3</b>                       |        |