AMERICAN COMMUNITY PROPERTIES TRUST
Form 10-Q
November 14, 2007

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**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**
**FORM 10-Q**

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED **SEPTEMBER 30, 2007,** OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission file number **1-14369**

**AMERICAN COMMUNITY PROPERTIES TRUST**
(Exact name of registrant as specified in its charter)

| **MARYLAND** | **52-2058165** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

**222 Smallwood Village Center**
**St. Charles, Maryland 20602**
(Address of principal executive offices)(Zip Code)
**(301) 843-8600**
(Registrant's telephone number, including area code)

**Not Applicable**
(Former name, former address and former fiscal year, if changed since last report)

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 x No o

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

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

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

Yes o No x

**As of November 8, 2007, there were 5,229,954 Common Shares, par value $0.01 per share, issued and outstanding**

**AMERICAN COMMUNITY PROPERTIES TRUST**
**FORM 10-Q**
**SEPTEMBER 30, 2007**
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**AMERICAN COMMUNITY PROPERTIES TRUST**
**CONSOLIDATED STATEMENTS OF INCOME**
**FOR THE NINE MONTHS ENDED SEPTEMBER 30**
(In thousands, except per share amounts)
(Unaudited)

| | 2007 | 2006 |
|---|---|---|
| **Revenues** | | |
| Rental property | **$ 45,249** | $ 39,946 |
| Community development-land sales | **8,032** | 11,317 |
| Homebuilding-home sales | **6,113** | 16,343 |
| Management and other fees, substantially all from related entities | **756** | 885 |
| Reimbursement of expenses related to managed entities | **1,307** | 1,622 |
| Total revenues | **61,457** | 70,113 |
| | | |
| **Expenses** | | |
| Rental property operating expenses | **22,901** | 19,763 |
| Cost of land sales | **5,930** | 6,156 |
| Cost of home sales | **4,399** | 12,310 |
| General, administrative, selling and marketing | **8,600** | 6,703 |
| Depreciation and amortization | **7,009** | 6,239 |
| Expenses reimbursed from managed entities | **1,307** | 1,622 |
| Total expenses | **50,146** | 52,793 |
| | | |
| **Operating Income** | **11,311** | 17,320 |
| | | |
| **Other income (expense)** | | |
| Interest and other income | **1,178** | 838 |
| Equity in earnings from unconsolidated entities | **2,020** | 510 |
| Interest expense | **(14,037)** | (10,915) |
| Minority interest in consolidated entities | **(1,750)** | (2,997) |
| | | |
| **Income (loss) before provision (benefit) for income taxes** | **(1,278)** | 4,756 |
| **Provision (benefit) for income taxes** | **(19)** | 1,754 |
| | | |
| **Net (loss) income** | **$ (1,259)** | $ 3,002 |
| | | |
| **Earnings per share** | | |
| **Basic** | **$ (0.24)** | $ 0.58 |
| **Weighted average shares outstanding** | | |
| **Basic** | **5,205** | 5,199 |
| **Diluted** | **5,212** | 5,199 |

| | | | | |
|---|---|---|---|---|
| **Cash dividends per share** | ***$*** | **0.30** | $ | 0.73 |

*The accompanying notes are an integral part of these consolidated statements.*

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**AMERICAN COMMUNITY PROPERTIES TRUST**
**CONSOLIDATED STATEMENTS OF INCOME**
**FOR THE THREE MONTHS ENDED SEPTEMBER 30**
(In thousands, except per share amounts)
(Unaudited)

| | 2007 | 2006 |
|---|---|---|
| **Revenues** | | |
| Rental property | **$ 15,417** | $ 13,808 |
| Community development-land sales | **2,063** | 4,691 |
| Homebuilding-home sales | **899** | 5,084 |
| Management and other fees, substantially all from related entities | **250** | 320 |
| Reimbursement of expenses related to managed entities | **414** | 518 |
| Total revenues | **19,043** | 24,421 |
| | | |
| **Expenses** | | |
| Rental property operating expenses | **7,787** | 6,947 |
| Cost of land sales | **1,574** | 2,490 |
| Cost of home sales | **583** | 3,789 |
| General, administrative, selling and marketing | **3,232** | 2,169 |
| Depreciation and amortization | **2,428** | 2,165 |
| Expenses reimbursed from managed entities | **414** | 518 |
| Total expenses | **16,018** | 18,078 |
| | | |
| **Operating Income** | **3,025** | 6,343 |
| | | |
| **Other income (expense)** | | |
| Interest and other income | **288** | 620 |
| Equity in earnings from unconsolidated entities | **175** | 167 |
| Interest expense | **(4,700)** | (3,715) |
| Minority interest in consolidated entities | **(193)** | (331) |
| | | |
| **Income (loss) before provision (benefit) for income taxes** | **(1,405)** | 3,084 |
| **Provision (benefit) for income taxes** | **(307)** | 1,040 |
| | | |
| **Net (loss) income** | **$ (1,098)** | $ 2,044 |
| | | |
| **Earnings per share** | | |
| **Basic** | **$ (0.21)** | $ 0.39 |
| **Weighted average shares outstanding** | | |
| **Basic** | **5,207** | 5,201 |
| **Diluted** | **5,214** | 5,201 |

| | | | | |
|---|---|---|---|---|
| **Cash dividends per share** | ***$*** | **0.10** | $ | 0.10 |

*The accompanying notes are an integral part of these consolidated statements.*

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**AMERICAN COMMUNITY PROPERTIES TRUST**
**CONSOLIDATED BALANCE SHEETS**
**(In thousands, except share and per share amounts)**

| | As of September 30, 2007 (Unaudited) | As of December 31, 2006 (Audited) |
|---|---|---|
| **ASSETS** | | |
| **ASSETS:** | | |
| **Investments in real estate:** | | |
| **Operating real estate, net of accumulated depreciation of $149,130 and $142,458 respectively** | $ 165,451 | $ 142,046 |
| **Land and development costs** | 83,243 | 67,993 |
| **Condominiums under construction** | 5,413 | 9,265 |
| **Rental projects under construction or development** | 707 | 24,143 |
| **Investments in real estate, net** | 254,814 | 243,447 |
| | | |
| **Cash and cash equivalents** | 18,643 | 27,459 |
| **Restricted cash and escrow deposits** | 21,518 | 19,677 |
| **Investments in unconsolidated real estate entities** | 6,552 | 6,591 |
| **Receivable from bond proceeds** | 10,425 | 13,710 |
| **Accounts receivable** | 2,514 | 4,320 |
| **Deferred tax assets** | 33,050 | 18,157 |
| **Property and equipment, net of accumulated depreciation** | 1,131 | 1,157 |
| **Deferred charges and other assets, net of amortization of $2,542 and $1,655 respectively** | 11,557 | 12,181 |
| | | |
| **Total Assets** | $ 360,204 | $ 346,699 |
| | | |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **LIABILITIES:** | | |
| **Non-recourse debt** | $ 279,796 | $ 270,720 |
| **Recourse debt** | 25,952 | 29,351 |
| **Accounts payable and accrued liabilities** | 25,709 | 24,191 |
| **Deferred income** | 3,112 | 3,591 |
| **Accrued current income tax liability** | 13,939 | 2,992 |
| **Total Liabilities** | 348,508 | 330,845 |
| | | |
| **SHAREHOLDERS' EQUITY** | | |

| | | |
|---|---|---|
| **Common shares, $.01 par value, 10,000,000 shares authorized,** | | |
| **5,229,954 shares issued and outstanding as of September 30, 2007 and December 31, 2006** | **52** | **52** |
| **Treasury stock, 67,709 shares at cost** | **(376)** | **(376)** |
| **Additional paid-in capital** | **17,345** | **17,238** |
| **Retained (deficit) earnings** | **(5,325)** | **(1,060)** |
| **Total Shareholders' Equity** | **11,696** | **15,854** |
| | | |
| **Total Liabilities and Shareholders' Equity** | **$ 360,204** | **$ 346,699** |

***The accompanying notes are an integral part of these consolidated statements.***

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**AMERICAN COMMUNITY PROPERTIES TRUST**
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**
(In thousands, except share amounts)

| | Common Shares | | Treasury Stock | Additional Paid-in Capital | Retained (Deficit) Earnings | Total |
|---|---|---|---|---|---|---|
| | Number | Par Value | | | | |
| Balance December 31, 2006 (Audited) | 5,229,954 | $ 52 | $ (376) | $ 17,238 | $ (1,060) | $ 15,854 |
| Net income | - | - | - | - | (1,259) | (1,259) |
| Dividends paid | - | - | - | - | (1,548) | (1,548) |
| Cumulative effect of change in accounting for FIN 48 | - | - | - | - | (1,458) | (1,458) |
| Amortization of Trustee Restricted Shares | - | - | - | 107 | - | 107 |
| **Balance September 30, 2007 (Unaudited)** | **5,229,954** | **$ 52** | **$ (376)** | **$ 17,345** | **$ (5,325)** | **$ 11,696** |

*The accompanying notes are an integral part of those consolidated statements.*

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**AMERICAN COMMUNITY PROPERTIES TRUST**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE NINE MONTHS ENDED SEPTEMBER 30**
(In thousands)
(Unaudited)

| | **2007** | 2006 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Net (loss) income | **$ (1,259)** | $ 3,002 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | **7,009** | 6,239 |
| Distribution to minority interests in excess of basis | **1,988** | 2,957 |
| Benefit for deferred income taxes | **(5,019)** | (542) |
| Equity in earnings-unconsolidated entities | **(2,020)** | (510) |
| Distribution of earnings from unconsolidated entities | **521** | 510 |
| Cost of land sales | **5,930** | 6,156 |
| Cost of home sales | **4,399** | 12,310 |
| Stock based compensation expense | **190** | 219 |
| Amortization of deferred loan costs | **643** | 411 |
| Changes in notes and accounts receivable | **1,806** | (71) |
| Additions to community development assets | **(23,180)** | (16,789) |
| Right of way easement | **2,000** | - |
| Homebuilding-construction expenditures | **(547)** | (5,860) |
| Deferred income-joint venture | **(479)** | (75) |
| Changes in accounts payable, accrued liabilities | **1,050** | (2,685) |
| Net cash (used in) provided by operating activities | **(6,968)** | 5,272 |
| | | |
| **CashFlows from Investing Activities** | | |
| Investment in apartment construction | **(452)** | (16,557) |
| Change in investments - unconsolidated entities | **1,538** | 27 |
| Cash from newly consolidated properties | **-** | 4,723 |

| | | |
|---|---|---|
| Change in restricted cash | **(1,841)** | 503 |
| Additions to rental operating properties, net | **(6,298)** | (20,096) |
| Other assets | **(221)** | (1,176) |
| Net cash used in investing activities | **(7,274)** | (32,576) |
| | | |
| **CashFlows from Financing Activities** | | |
| Cash proceeds from debt financing | **23,339** | 51,847 |
| Payment of debt | **(19,678)** | (26,270) |
| County Bonds proceeds, net of undisbursed funds | **5,301** | 2,041 |
| Payments of distributions to minority interests | **(1,988)** | (2,957) |
| Dividends paid to shareholders | **(1,548)** | (3,745) |
| Net cash provided by financing activities | **5,426** | 20,916 |
| | | |
| **Net Decrease in Cash and Cash Equivalents** | **(8,816)** | (6,388) |
| **Cash and Cash Equivalents, Beginning of Period** | **27,459** | 21,156 |
| **Cash and Cash Equivalents, End of Period** | **$ 18,643** | $ 14,768 |

*The accompanying notes are an integral part of these consolidated statements.*

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**AMERICAN COMMUNITY PROPERTIES TRUST**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**SEPTEMBER 30, 2007**
(Unaudited)

## (1) ORGANIZATION

American Community Properties Trust ("ACPT") is a self-managed holding company that is primarily engaged in the investment of rental properties, property management services, community development, and homebuilding. These operations are concentrated in the Washington, D.C. metropolitan area and Puerto Rico and are carried out through American Rental Properties Trust ("ARPT"), American Rental Management Company ("ARMC "), American Land Development U.S., Inc. ("ALD") and IGP Group Corp. ("IGP Group") and their subsidiaries.
ACPT is taxed as a U.S. partnership and its taxable income flows through to its shareholders. ACPT is subject to Puerto Rico taxes on IGP Group's taxable income, generating foreign tax credits that are passed through to ACPT's shareholders. An IRS regulation eliminating the pass through of these tax credits to ACPT's shareholders has been proposed and is expected to become effective in 2007. ACPT's federal taxable income consists of certain passive income from IGP Group, a controlled foreign corporation, distributions from IGP Group, and dividends from ACPT's U.S. subsidiaries. Other than Interstate Commercial Properties ("ICP"), which is taxed as a Puerto Rico corporation, the taxable income from the remaining Puerto Rico operating entities passes through to IGP Group or ALD. Of this taxable income, only the portion of taxable income applicable to the profits, losses or gains on the residential land sold in Parque Escorial passes through to ALD. ALD, ARMC, and ARPT are taxed as U.S. corporations. The taxable income from the U.S. apartment properties flows through to ARPT.

## (2) BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation**
The accompanying consolidated financial statements include the accounts of American Community Properties Trust and its majority owned subsidiaries and partnerships, after eliminating all intercompany transactions. All of the entities included in the consolidated financial statements are hereinafter referred to collectively as the "Company" or "ACPT."
The Company consolidates entities that are not variable interest entities as defined by Financial Accounting Standard Board (“FASB”) Interpretation No. 46 (revised December 2003) (“FIN 46 (R)”) in which it owns, directly or indirectly, a majority voting interest in the entity. In addition, the Company consolidates entities, regardless of ownership percentage, in which the Company serves as the general partner and the limited partners do not have substantive kick-out rights or substantive participation rights in accordance with Emerging Issues Task Force Issue 04-05, "*Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights*," (“EITF 04-05”). The assets of consolidated real estate partnerships not 100% owned by the Company are generally not available to pay creditors of the Company.
The consolidated group includes ACPT and its four major subsidiaries, American Rental Properties Trust, American Rental Management Company, American Land Development U.S., Inc., and IGP Group Corp. In addition, the consolidated group includes the following other entities:

| | |
|---|---|
| Alturas del Senorial Associates Limited Partnership | LDA Group, LLC |
| American Housing Management Company | Milford Station I, LLC |
| American Housing Properties L.P. | Milford Station II, LLC |
| Bannister Associates Limited Partnership | Monserrate Associates Limited Partnership |
| Bayamon Garden Associates Limited Partnership | New Forest Apartments, LLC |
| Carolina Associates Limited Partnership S.E. | Nottingham South, LLC |

Coachman's Apartments, LLC
Colinas de San Juan Associates Limited Partnership
Crossland Associates Limited Partnership
Escorial Office Building I, Inc.
Essex Apartments Associates Limited Partnership
Fox Chase Apartments, LLC
Headen House Associates Limited Partnership
Huntington Associates Limited Partnership
Interstate Commercial Properties, Inc.
Interstate General Properties Limited Partnership, S.E.
Jardines de Caparra Associates Limited Partnership
Lancaster Apartments Limited Partnership
Land Development Associates S.E.
Owings Chase, LLC
Palmer Apartments Associates Limited Partnership
Prescott Square, LLC
St. Charles Community, LLC
San Anton Associates S.E.
Sheffield Greens Apartments, LLC
Torres del Escorial, Inc.
Turabo Limited Dividend Partnership
Valle del Sol Associates Limited Partnership
Village Lake Apartments, LLC
Wakefield Terrace Associates Limited Partnership
Wakefield Third Age Associates Limited Partnership

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The Company's investments in entities that it does not control are recorded using the equity method of accounting. Refer to Note 3 for further discussion regarding Investments in Unconsolidated Real Estate Entities.

**Interim Financial Reporting**

These unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. The Company has no items of other comprehensive income for any of the periods presented. In the opinion of management, these unaudited financial statements reflect all adjustments (which are of a normal recurring nature) necessary to present a fair statement of results for the interim period. While management believes that the disclosures presented are adequate to make the information not misleading, these financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company's Annual Report filed on Form 10-K for the year ended December 31, 2006. The operating results for the nine and three months ended September 30, 2007 and 2006 are not necessarily indicative of the results that may be expected for the full year. Net income per share is calculated based on weighted average shares outstanding.

**Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements, and accompanying notes and disclosures. These estimates and assumptions are prepared using management's best judgment after considering past and current events and economic conditions. Actual results could differ from those estimates and assumptions.

**Implementation of FIN 48**

In July 2006, the FASB issued FASB Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes*" ("FIN 48"). FIN 48 is an interpretation of FASB Statement No. 109, "*Accounting for Income Taxes*," and it seeks to reduce the diversity in practice associated with certain aspects of measurement and recognition in accounting for income taxes. In addition, FIN 48 requires expanded disclosure with respect to the uncertainty in income taxes. The Company implemented FIN 48 as of January 1, 2007. See Note 7 for further discussions.

**Cash Dividends**

On February 28, 2007, the Board of Trustees declared a cash dividend of $0.10 per share, payable on March 28, 2007, to shareholders of record on March 14, 2007. On May 15, 2007, the Board of Trustees declared a cash dividend of $0.10 per share, payable on June 13, 2007, to shareholders of record on May 31, 2007. On August 13, 2007, the Board of Trustees declared a cash dividend of $0.10 per share, payable on September 12, 2007 to shareholders of record on August 28, 2007.

**Impairment of Long-Lived Assets**

ACPT carries its rental properties, homebuilding inventory, land and development costs at the lower of cost or fair value in accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." For real estate assets such as our rental properties which the Company plans to hold and use, which includes property to be developed in the future, property currently under development and real estate projects that are completed or substantially complete, we evaluate whether the carrying amount of each of these assets will be recovered from their undiscounted future cash flows arising from their use and eventual disposition. If the carrying value were to be greater than the undiscounted future cash flows, we would recognize an impairment loss to the extent the carrying amount is not recoverable. Our estimates of the undiscounted operating cash flows expected to be generated by each asset are performed on an individual project basis and based on a number of assumptions that are subject to economic and market uncertainties, including, among others, demand for apartment units, competition, changes in market rental rates, and costs to operate and complete each project. There have been no impairment charges for the nine- and three-month periods ended September 30, 2007 and 2006.

The Company evaluates, on an individual project basis, whether the carrying value of its substantially completed real estate projects, such as our homebuilding inventory that are to be sold, will be recovered based on the fair value less cost to sell. If the carrying value were to be greater than the fair value less costs to sell, we would recognize an impairment loss to the extent the carrying amount is not recoverable. Our estimates of the fair value less costs to sell are based on a number of assumptions that are subject to economic and market uncertainties, including, among others, comparable sales, demand for commercial and residential lots and competition. The Company performed similar reviews for land held for future development and sale considering such factors as the cash flows associated with future development expenditures. Should this evaluation indicate an impairment has occurred, the Company will record an impairment charge equal to the excess of the historical cost over fair value less costs to sell. There have been no impairment charges for the nine- and three-month periods ended September 30, 2007 and 2006.

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**Depreciable Assets and Depreciation**

The Company's operating real estate is stated at cost and includes all costs related to acquisitions, development and construction. The Company makes assessments of the useful lives of our real estate assets for purposes of determining the amount of depreciation expense to reflect on our income statement on an annual basis. The assessments, all of which are judgmental determinations, are as follows:

- Buildings and improvements are depreciated over five to forty years using the straight-line or double-declining balance methods,
  - Furniture, fixtures and equipment are depreciated over five to seven years using the straight-line method,
- Leasehold improvements are capitalized and depreciated over the lesser of the life of the lease or their estimated useful life,
  - Maintenance and other repair costs are charged to operations as incurred.

The table below presents the major classes of depreciable assets as of September 30, 2007 and December 31, 2006 (in thousands):

| | **September 30, 2007 (Unaudited)** | December 31, 2006 (Audited) |
|---|---|---|
| Building | **$ 264,611** | $ 240,264 |
| Building improvements | **10,263** | 8,022 |
| Equipment | **14,195** | 12,569 |
| | **289,069** | 260,855 |
| *Less:* Accumulated depreciation | **149,130** | 142,458 |
| | **139,939** | 118,397 |
| Land | **25,512** | 23,649 |
| Operating properties, net | **$ 165,451** | $ 142,046 |

*Other Property and Equipment*

In addition, the Company owned other property and equipment of $1,131,000 and $1,157,000, net of accumulated depreciation of $2,278,000 and $2,101,000 respectively, as of September 30, 2007, and December 31, 2006, respectively.

*Depreciation*

Total depreciation expense was $7,009,000 and $6,239,000 for the nine months ended September 30, 2007 and 2006, respectively, and $2,428,000 and $2,165,000 for the three months ended September 30, 2007 and 2006, respectively.

**Impact of Recently Issued Accounting Standards**

*SFAS 157 and 159*

In September 2006, the FASB issued SFAS 157, "*Fair Value Measurements*" and in February 2007, the FASB issued SFAS 159, *"The Fair Value Option for Financial Assets and Financial Liabilities."* SFAS 157 defines fair values as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. SFAS 157 applies whenever other standards require assets or liabilities to be measured at fair value and does not expand the use of fair value in any new circumstances. SFAS 157 establishes a hierarchy that prioritizes the information used in developing fair value estimates. The hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, such as the reporting entity's own data. SFAS 157 requires fair value measurements to be disclosed by level within the

fair value hierarchy. SFAS 157 is effective for fiscal years beginning after November 15, 2007.

SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The fair value election is designed to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We have not yet determined the impact that SFAS 157 and SFAS 159 will have on our financial statements.

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*EITF Issue No. 06-08*

In November 2006, the Emerging Issues Task force of the FASB ("EITF") reached a consensus on EITF Issue No. 06-08, "*Applicability of a Buyer's Continuing Investment under FASB Statement No. 66, Accounting for Sales of Real Estate, for Sales of Condominiums*" ("EITF 06-08"). EITF 06-08 will require condominium sales to meet the continuing investment criterion in FAS No. 66 in order for profit to be recognized under the percentage-of-completion method. EITF 06-08 will be effective for annual reporting periods beginning after March 15, 2007. The cumulative effect of applying EITF 06-08, if any, is to be reported as an adjustment to the opening balance of retained earnings in the year of adoption. We are evaluating the impact that EITF 06-08 may have, if any, on our financial statements.

**(3) INVESTMENT IN UNCONSOLIDATED REAL ESTATE ENTITIES**

The Company accounts for investments in unconsolidated real estate entities that are not considered variable interest entities under FIN 46(R) in accordance with SOP 78-9 *"Accounting for Investments in Real Estate Ventures"* and APB Opinion No. 18 *"The Equity Method of Accounting for Investments in Common Stock"*. For entities that are considered variable interest entities under FIN 46(R), the Company performs an assessment to determine the primary beneficiary of the entity as required by FIN 46(R). The Company accounts for variable interest entities in which the Company is not a primary beneficiary and does not bear a majority of the risk of expected loss in accordance with the equity method of accounting.

The Company considers many factors in determining whether or not an investment should be recorded under the equity method, such as economic and ownership interests, authority to make decisions, and contractual and substantive participating rights of the partners. Income and losses are recognized in accordance with the terms of the partnership agreements and any guarantee obligations or commitments for financial support. The Company's investments in unconsolidated real estate entities accounted for under the equity method of accounting currently consists of general partnership interests in two limited partnerships which own apartment properties in the United States; a limited partnership interest in a limited partnership that owns a commercial property in Puerto Rico; and a 50% ownership interest in a joint venture formed as a limited liability company.

*Apartment Partnerships*

The unconsolidated apartment partnerships as of September 30, 2007 and December 31, 2006 included Brookside Gardens Limited Partnership and Lakeside Apartments Limited Partnership that collectively represent 110 rental units. We have determined that these two entities are variable interest entities under FIN 46(R). However, the Company is not required to consolidate the partnerships due to the fact that it is not the primary beneficiary and does not bear the majority of the risk of expected losses. The Company holds an economic interest in Brookside and Lakeside but, as a general partner, we have significant influence over operations of these entities that is disproportionate to our economic ownership. In accordance with SOP 78-9 and APB No. 18, these investments are accounted for under the equity method. The Company is exposed to losses consisting of our net investment, loans and unpaid fees for Brookside of $214,000 and $189,000 and for Lakeside of $166,000 and $172,000 as of September 30, 2007, and December 31, 2006, respectively. All amounts are fully reserved. Pursuant to the partnership agreement for Brookside, the Company, as general partner, is responsible for providing operating deficit loans to the partnership in the event that it is not able to generate sufficient cash flows from its operating activities.

*Commercial Partnerships*

The Company holds a limited partner interest in a commercial property in Puerto Rico that it accounts for under the equity method of accounting. ELI, S.E. ("ELI"), is a partnership formed for the purpose of constructing a building for lease to the State Insurance Fund of the Government of Puerto Rico. ACPT contributed the land in exchange for $700,000 and a 27.82% ownership interest in the partnership's assets, equal to a 45.26% interest in cash flow generated by the thirty-year lease of the building.

On April 30, 2004, the Company purchased a 50% limited partnership interest in El Monte Properties, S.E. ("El Monte") from Insular Properties Limited Partnership ("Insular") for $1,462,500. Insular is owned by the J. Michael

Wilson Family, a related party. In December 2004, a third-party buyer purchased El Monte for $20,000,000; $17,000,000 in cash and $3,000,000 in two notes of $1,500,000 each that bear an interest rate of prime plus 2%, with a ceiling of 9%, and mature on December 3, 2009. The net cash proceeds from the sale of the real estate were distributed to the partners. As a result, the Company received $2,500,000 in cash and recognized $986,000 of income in 2004. The gain on sale was reduced by the amount of the seller's note which is subject to future subordination. In January 2005, El Monte distributed the notes to the partners whereby the Company received a $1,500,000 note. The Company determined that the cost recovery method of accounting was appropriate for this transaction and accordingly, deferred revenue recognition on this note until cash payment was received. In January 2007, the Company received $1,707,000, equal to the full principal amount due plus all accrued interest outstanding and, accordingly, recognized $1,500,000 of equity in earnings from unconsolidated entities and $207,000 of interest income. The Company has no required funding obligations and management expects to wind up El Monte’s affairs in 2007.

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*Land Development Joint Venture*

In September 2004, the Company entered into a joint venture agreement with Lennar Corporation for the development of a 352-unit, active adult community located in St. Charles, Maryland. The Company manages the project's development for a market rate fee pursuant to a management agreement. In September 2004, the Company transferred land to the joint venture in exchange for a 50% ownership interest and $4,277,000 in cash. The Company's investment in the joint venture was recorded at 50% of the historical cost basis of the land with the other 50% recorded within our deferred charges and other assets. The proceeds received are reflected as deferred revenue. The deferred revenue and related deferred costs will be recognized into income as the joint venture sells lots to Lennar. In March 2005, the joint venture closed an $8.0 million non-recourse development loan, which was amended in June 2006, December 2006 and again in October 2007. Included within these amendments, the maximum borrowings outstanding on the facility was reduced to $5.0 million. For the October 2007 amendment, the development loan was modified to provide a one year delay in development of the project, as to date, lot development has outpaced sales. Per the terms of the loan, both the Company and Lennar provided development completion guarantees. In the nine and three months ended September 30, 2007, the joint venture delivered 48 and 18 lots to Lennar, recognizing $1,063,000 and $408,000 in deferred revenue, off-site fees and management fees and $358,000 and $140,000 of deferred costs, respectively.

The following table summarizes the financial data and principal activities of the unconsolidated real estate entities, which the Company accounts for under the equity method. The information is presented to segregate the apartment partnerships from the commercial partnerships as well as our 50% ownership interest in the land development joint venture, which are all accounted for as “investments in unconsolidated real estate entities” on the balance sheet.

| | Apartment Properties | Commercial Property | Land Development Joint Venture | Total |
|---|---|---|---|---|
| | | (in thousands) | | |
| **Summary Financial Position:** | | | | |
| **Total Assets** | | | | |
| September 30, 2007 | $ 4,970 | $ 28,242 | $ 12,491 | $ 45,703 |
| December 31, 2006 | 5,142 | 27,726 | 12,154 | 45,022 |
| **Total Non-Recourse Debt** | | | | |
| September 30, 2007 | 3,205 | 22,960 | 3,861 | 30,026 |
| December 31, 2006 | 3,244 | 22,960 | 3,476 | 29,680 |
| **Total Other Liabilities** | | | | |
| September 30, 2007 | 1,264 | 1,046 | 1,694 | 4,004 |
| December 31, 2006 | 1,242 | 722 | 1,744 | 3,708 |
| **Total Equity** | | | | |
| September 30, 2007 | 501 | 4,236 | 6,936 | 11,673 |
| December 31, 2006 | 656 | 4,044 | 6,934 | 11,634 |
| **Company's Investment, net (1)** | | | | |
| September 30, 2007 | - | 4,724 | 1,828 | 6,552 |
| December 31, 2006 | - | 4,763 | 1,828 | 6,591 |
| | | | | |
| **Summary of Operations:** | | | | |
| **Total Revenue** | | | | |
| Nine Months Ended September 30, 2007 | $ 604 | $ 2,730 | $ 5,560 | $ 8,894 |
| Nine Months Ended September 30, 2006 | 588 | 2,742 | 2,453 | 5,783 |
| Three Months Ended September 30, 2007 | 203 | 909 | 1,951 | 3,063 |
| Three Months Ended September 30, 2006 | 196 | 914 | 2,453 | 3,563 |
| **Net Income (Loss)** | | | | |

| | | | | |
|---|---|---|---|---|
| Nine Months Ended September 30, 2007 | (155) | 1,407 | 2 | 1,254 |
| Nine Months Ended September 30, 2006 | (83) | 1,374 | - | 1,291 |
| Three Months Ended September 30, 2007 | (58) | 470 | - | 412 |
| Three Months Ended September 30, 2006 | (25) | 448 | - | 423 |
| **Company's recognition of equity in earnings** | | | | |
| Nine Months Ended September 30, 2007 | (1) | 521 | - | 520 |
| Nine Months Ended September 30, 2006 | - | 510 | - | 510 |
| Three Months Ended September 30, 2007 | - | 175 | - | 175 |
| Three Months Ended September 30, 2006 | - | 167 | - | 167 |

Notes:
(1) Represents the Company's net investment, including assets and accrued liabilities in the consolidated balance sheet for
unconsolidated real estate entities.

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| | Apartment Partnerships | Commercial Partnerships | Land Development Joint Venture | Total |
|---|---|---|---|---|
| | | (In thousands) | | |
| **Summary of Cash Flows:** | | | | |
| **Cash Flows from Operating Activities** | | | | |
| Nine Months Ended September 30, 2007 | $ 38 | $ 1,710 | $ 5,508 | $ 7,256 |
| Nine Months Ended September 30, 2006 | 93 | 1,606 | 3,333 | 5,032 |
| Three Months Ended September 30, 2007 | (12) | 865 | 2,359 | 3,212 |
| Three Months Ended September 30, 2006 | 16 | 574 | 3,201 | 3,791 |
| **Company's Share of Cash Flows from Operating Activities** | | | | |
| Nine Months Ended September 30, 2007 | - | 774 | 2,754 | 3,528 |
| Nine Months Ended September 30, 2006 | 1 | 727 | 1,666 | 2,394 |
| Three Months Ended September 30, 2007 | - | 392 | 1,179 | 1,571 |
| Three Months Ended September 30, 2006 | - | 260 | 1,600 | 1,860 |
| **Operating Cash Distributions** | | | | |
| Nine Months Ended September 30, 2007 | - | 1,236 | - | 1,236 |
| Nine Months Ended September 30, 2006 | - | 1,185 | - | 1,185 |
| Three Months Ended September 30, 2007 | - | 442 | - | 442 |
| Three Months Ended September 30, 2006 | - | 438 | - | 438 |
| **Company's Share of Operating Cash Distributions** | | | | |
| Nine Months Ended September 30, 2007 | - | 560 | - | 560 |
| Nine Months Ended September 30, 2006 | - | 537 | - | 537 |
| Three Months Ended September 30, 2007 | - | 200 | - | 200 |
| Three Months Ended September 30, 2006 | - | 199 | - | 199 |

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**(4) DEBT**

The Company's outstanding debt is collateralized primarily by land, land improvements, receivables, investment properties, investments in partnerships, and rental properties. The following table summarizes the indebtedness of the Company at September 30, 2007 and December 31, 2006 (in thousands):

| | Maturity Dates From/To | Interest Rates From/To | Outstanding as of **September 30, 2007 (Unaudited)** | December 31, 2006 (Audited) |
|---|---|---|---|---|
| **Recourse Debt** | | | | |
| Community Development (a), (b), (c) | 08-31-08/03-01-22 | 4%/8% | **$ 25,835** | $ 24,694 |
| Investment Properties (d) | PAID | P+1.25%/6.98% | **-** | 4,473 |
| General obligations (e) | 07-29-07/01-01-12 | Non-interest bearing/8.10% | **117** | 184 |
| **Total Recourse Debt** | | | **25,952** | 29,351 |
| | | | | |
| **Non-Recourse Debt** | | | | |
| Community Development (f) | 11-23-07 | Non-interest bearing | **500** | 500 |
| Investment Properties (g) | 04-30-09/08-01-47 | 4.95%/10% | **279,296** | 270,220 |
| **Total Non-Recourse Debt** | | | **279,796** | 270,720 |
| **Total debt** | | | **$ 305,748** | $ 300,071 |

a) As of September 30, 2007, $24,110,000 of the community development recourse debt relates to the general obligation bonds issued by the Charles County government as described in detail under the heading "Financial Commitments" in Note 5.

b) On April 14, 2006, the Company closed a three year $14,000,000 revolving acquisition and development loan (“the Revolver”) secured by a first lien deed of trust on property located in St. Charles, MD. The maximum amount of the loan at any one time is $14,000,000. The facility includes various sub-limits on a revolving basis for amounts to finance apartment project acquisitions and land development in St. Charles. The terms require certain financial covenants to be calculated annually as of December 31, including a tangible net worth to senior debt ratio for ALD and a minimum net worth test for ACPT. As of September 30, 2007, the Company was in compliance with these financial covenants even though no amounts were outstanding on the Revolver.

c) On September 1, 2006, LDA secured a revolving line of credit facility of $15,000,000 to be utilized as follows: (i) to repay its outstanding loan of $800,000; and (ii) to fund development costs of a project in which the Company plans to develop a planned community in Canovanas, Puerto Rico, to fund acquisitions and/or investments mainly in estate ventures, to fund transaction costs and expenses, to fund future payments of interest under the line of credit and to fund any future working capital needs of the Company. The line of credit bears interest at a fluctuating rate equivalent to the LIBOR Rate plus 200 basis points (7.36% at September 30, 2007) and matures on August 31, 2008. The outstanding balance of this facility on September 30, 2007, was $1,725,000.

d) The outstanding recourse debt within the investment properties was comprised of a loan borrowed to finance the acquisition of our properties Village Lake and Coachman's in January 2003, as well as a two-year, $3,000,000 recourse note that the Company obtained in June 2005. Both of these loans were repaid in full in January 2007.

e) The general recourse debt outstanding as of September 30, 2007, is made up of various capital leases outstanding within our U.S. and Puerto Rico operations, as well as installment loans for vehicles and other miscellaneous equipment.

f)

In 2005, the Company purchased 22 residential acres adjacent to the Sheffield Neighborhood for $1,000,000. The Company funded half of the purchase price with cash and signed a two-year note for $500,000 due on November 23, 2007. The Company plans to annex the land into the St. Charles master plan community.

g) The non-recourse debt related to the investment properties is collateralized by the multifamily rental properties and the office building in Parque Escorial. As of September 30, 2007, approximately $73,338,000 of this debt is secured by the Federal Housing Administration ("FHA") or the Maryland Housing Fund. The non-recourse debt related to the investment properties also includes a construction loan for Sheffield Greens Apartments LLC (Sheffield Greens). As of September 30, 2007, the balance of the construction loan was $25,375,000. The construction loan was converted to a 40-year non-recourse mortgage on October 16, 2007.

The Company’s loans contain various financial, cross collateral, cross default, technical and restrictive provisions. As of September 30, 2007, the Company is in compliance with the financial covenants and the other provisions of its loan agreements.

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**(5) COMMITMENTS AND CONTINGENT LIABILITIES**

*Financial Commitments*

Pursuant to an agreement reached between ACPT and the Charles County Commissioners in 2002, the Company agreed to accelerate the construction of two major roadway links to the Charles County (the "County") road system. As part of the agreement, the County agreed to issue general obligation public improvement bonds (the “Bonds”) to finance $20,000,000 of this construction guaranteed by letters of credit provided by Lennar as part of a residential lot sales contract for 1,950 lots in Fairway Village. The Bonds were issued in three installments with the final $6,000,000 installment issued in March 2006. The Bonds bear interest rates ranging from 4% to 8%, for a blended lifetime rate for total Bonds issued to date of 5.1%, and call for semi-annual interest payments and annual principal payments and mature in fifteen years. Under the terms of Bond repayment agreements between the Company and the County, the Company is obligated to pay interest and principal to the County based on the full amount of the Bonds; as such, the Company recorded the full amount of the debt and a receivable from the County representing the remaining Bond proceeds to be advanced to the Company as major infrastructure development within the project occurs. As part of the agreement, the Company will pay the County a monthly payment equal to one-sixth of the semi-annual interest payments and one-twelfth of the annual principal payment. The County will also require ACPT to fund an escrow account from lot sales that will be used to repay these Bonds.

In August 2005, the Company signed a memorandum of understanding ("MOU") with the Charles County Commissioners regarding a land donation that is anticipated to house a planned minor league baseball stadium and entertainment complex. Under the terms of the MOU, the Company donated 42 acres of land in St. Charles to the County on December 31, 2005. The Company also agreed to expedite off-site utilities, storm-water management and road construction improvements that will serve the entertainment complex and future portions of St. Charles so that the improvements will be completed concurrently with the entertainment complex. In return, the County agreed to issue $7,000,000 of general obligation bonds to finance the infrastructure improvements. In March 2006, the County issued $4,000,000 of bonds for this project and in March 2007, the County issued an additional $3,000,000. The funds for this project will be repaid by ACPT over a 15-year period. In addition, the County agreed to issue an additional 100 school allocations a year to St. Charles commencing with the issuance of bonds.

During 2006, the Company reached an agreement with Charles County whereby the Company receives interest payments on any undistributed bond proceeds held in escrow by the County. The agreement covers the period from July 1, 2005 through the last draw made by the Company. For the nine and three months ended September 30, 2007, the Company recognized $458,000 and $159,000 of interest income on these escrowed funds.

As of September 30, 2007, ACPT is guarantor of $22,354,000 of surety bonds for the completion of land development projects with Charles County; substantially all are for the benefit of the Charles County Commissioners.

*Consulting Agreement and Arrangement*

ACPT entered into a consulting and retirement compensation agreement with Interstate General Company L.P.’s (“IGC”) founder and Chief Executive Officer, James J. Wilson, effective October 5, 1998 (the "Consulting Agreement"). IGC was the predecessor company to ACPT. Under the terms of the Consulting Agreement, the Company will pay Mr. Wilson $200,000 per year through October 2008.

*Guarantees*

ACPT and its subsidiaries typically provide guarantees for another subsidiary's loans. In many cases more than one company guarantees the same debt. Since all of these companies are consolidated, the debt or other financial commitment made by the subsidiaries to third parties and guaranteed by ACPT, is included within ACPT's consolidated financial statements. As of September 30, 2007, ACPT has guaranteed $24,110,000 of outstanding debt owed by its subsidiaries. IGP has guaranteed $1,725,000 of its subsidiaries' outstanding debt. The guarantees will remain in effect until the debt service is fully repaid by the respective borrowing subsidiary. The terms of the debt service guarantees outstanding range from one to nine years. In addition to debt service guarantees, both the Company and Lennar provided development completion guarantees related to the St. Charles Active Adult Community Joint Venture. We do not expect any of these guarantees to impair the individual subsidiary or the

Company's ability to conduct business or to pursue its future development plans.

*Legal Matters*

There have been no material changes to the legal proceedings previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2006.

The Company and/or its subsidiaries have been named as defendants, along with other companies, in tenant-related lawsuits. The Company carries liability insurance against certain types of claims that management believes meets industry standards. To date, payments made to the plaintiffs of the settled cases were covered by our insurance policy. The Company believes it has strong defenses to the pending unresolved claims, and intends to continue to defend itself vigorously in these matters.

In the normal course of business, ACPT is involved in various pending or unasserted claims. In the opinion of management, these are not expected to have a material impact on the financial condition or future operations of ACPT.

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**(6) RELATED PARTY TRANSACTIONS**

Certain officers and trustees of ACPT have ownership interests in various entities that conduct business with the Company. The financial impact of the related party transactions on the accompanying consolidated financial statements is reflected below (in thousands):

**CONSOLIDATED STATEMENT OF INCOME:**

| | | Nine Months Ended September 30, | | Three Months Ended September 30, | |
|---|---|---|---|---|---|
| | | **2007** | 2006 | **2007** | 2006 |
| **Management and Other Fees (A)** | | | | | |
| Unconsolidated subsidiaries with third party partners | | **$ 32** | $ 32 | **$ 11** | $ 13 |
| Affiliates of J. Michael Wilson, CEO and Chairman | | **43** | 333 | **-** | 85 |
| | | **$ 75** | $ 365 | **$ 11** | $ 98 |
| **Rental Property Revenues** | (B) | **$ 43** | $ 5 | **$ 15** | $ 5 |
| **Interest and Other Income** | | | | | |
| Unconsolidated real estate entities with third party partners | | **$ 6** | $ 6 | **$ 2** | $ 2 |
| **General and Administrative Expense** | | | | | |
| Affiliates of J. Michael Wilson, CEO and Chairman | (C1) | **$ -** | $ 19 | **$ -** | $ - |
| Reserve additions and other write-offs- | | | | | |
| Unconsolidated real estate entities with third party partners | (A) | **25** | - | **14** | (9) |
| Reimbursement to IBC for ACPT's share of J. Michael Wilson's salary | | **293** | 281 | **98** | 93 |
| Reimbursement of administrative costs- | | | | | |
| Affiliates of J. Michael Wilson, CEO and Chairman | | **(18)** | (16) | **(5)** | (11) |
| Legal fees paid to J. Michael Wilson's attorney | (C4) | **188** | - | **140** | - |
| Consulting Fees - | | | | | |
| James J. Wilson, IGC Chairman and Director | (C2) | **150** | 150 | **50** | 50 |
| Thomas J. Shafer, Trustee | (C3) | **45** | 45 | **15** | 15 |
| | | **$ 683** | $ 479 | **$ 312** | $ 138 |

| **BALANCE SHEET:** | **Balance September 30, 2007** | Balance December 31, 2006 |
|---|---|---|
| **Other Assets** | | |

| | | | | |
|---|---|---|---|---|
| Receivables - All unsecured and due on demand | | | | |
| Affiliate of J. Michael Wilson, CEO and Chairman | **$** | **13** | $ | 128 |

(A) **Management and Other Services**

The Company provides management and other support services to its unconsolidated subsidiaries and other affiliated entities in the normal course of business. The fees earned from these services are typically collected on a monthly basis, one month in arrears. Receivables are unsecured and due on demand. Certain partnerships experiencing cash shortfalls have not paid timely. Generally, receivable balances of these partnerships are fully reserved, until satisfied or the prospect of collectibility improves. The collectibility of management fee receivables is evaluated quarterly. Any increase or decrease in the reserves is reflected accordingly as additional bad debt expenses or recovery of such expenses.

Chastleton Associates, LP, previously owned by an affiliate of J. Michael Wilson, was sold to a third party during April 2007, resulting in a termination of our management agreement. The Company earned an agreed-upon management fee for administrative services through the end of the second quarter 2006. Management fees generated by this property accounted for less than 1% of the Company's total revenue.

At the end of February 2007, G.L. Limited Partnership, which was owned by affiliates of J. Michael Wilson, was sold to a third party. Accordingly, we are no longer the management agent for this property effective March 1, 2007. Management fees generated by this property accounted for less than 1% of the Company's total revenue.

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(B) **Rental Property Revenue**

On September 1, 2006, the Company, through one of its Puerto Rican subsidiaries, Escorial Office Building I, Inc. ("Landlord"), executed a lease with Caribe Waste Technologies, Inc. ("CWT"), a company owned by the J. Michael Wilson Family. The lease provides for 1,842 square feet of office space to be leased by CWT for five years at $19.00 per rentable square foot. The company provided CWT with an allowance of $9,000 in tenant improvements which are being amortized over the life of the lease. In addition, CWT shall have the right to terminate this lease at any time after one year, provided it gives Landlord written notice six (6) months prior to termination. The lease agreement is unconditionally guaranteed by Interstate Business Corporation ("IBC"), a company owned by the J. Michael Wilson Family.

(C) **Other**

Other transactions with related parties are as follows:

1) In 2005, the Company rented executive office space and other property from an affiliate in the United States pursuant to leases that were assigned to the new owners when the property was sold in January 2006. In management's opinion, all leases with affiliated persons were on terms at least as favorable as these generally available from unaffiliated persons for comparable property.
2) Represents fees paid to James J. Wilson pursuant to a consulting and retirement agreement. At Mr. Wilson's request, payments are made to Interstate Waste Technologies, Inc. ("IWT").
3) Represents fees paid to Thomas J. Shafer, a trustee, pursuant to a consulting agreement.
4) The Independent Trustees concluded that certain legal fees and expenses incurred by J. Michael Wilson in connection with the preliminary work being done in seeking a strategic partner to recapitalize the Company are in the best interest of the Company and the minority shareholders. Accordingly, the Independent Trustees authorized the Company to fund up to $225,000 of such costs, $188,000 of which have been incurred as of September 30, 2007.

**Related Party Acquisitions**

*El Monte*

On April 30, 2004, the Company purchased a 50% limited partnership interest in El Monte Properties S.E. ("El Monte") from Insular Properties Limited Partnership ("Insular") for $1,462,500. Insular is owned by the J. Michael Wilson Family. Per the terms of the agreement, the Company was responsible to fund $400,000 of capital improvements and lease stabilization costs, and had a priority on cash distributions up to its advances plus accrued interest at 8%, investment and a 13% cumulative preferred return on its investment. The purchase price was based on a third party appraisal of $16,500,000 dated April 22, 2003. The Company's limited partnership investment was accounted for under the equity method of accounting.

In December 2004, a third party buyer purchased El Monte for $20,000,000: $17,000,000 in cash and $3,000,000 in two notes of $1,500,000 each that bear an interest rate of prime plus 2%, with a ceiling of 9%, and mature on December 3, 2009. The net cash proceeds from the sale of the real estate were distributed to the partners. As a result, the Company received $2,500,000 in cash and recognized $986,000 of income in 2004. El Monte distributed a $1,500,000 note to the Company in January 2005. On January 24, 2007, the Company received $1,707,000 as payment in full of the principal balance and all accrued interest related to the El Monte note receivable. Accordingly, the Company recorded $1,500,000 as equity in earnings and $207,000 as interest income. As previously noted, the Company deferred revenue recognition on this note until the cash was received.

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**(7) INCOME TAXES**

We adopted the provisions of FIN 48 on January 1, 2007. As a result of the implementation of FIN 48, we recorded a $1,458,000 increase in the net liability for unrecognized tax positions, which was recorded as a cumulative effect of a change in accounting principle, reducing the opening balance of retained earnings on January 1, 2007. The total amount of unrecognized tax benefits as of January 1, 2007, was $13,544,000. Included in the balance at January 1, 2007, were $2,605,000 of tax positions that, if recognized, would impact the effective tax rate.

In accordance with our accounting policy, we recognize accrued interest related to uncertain tax positions as a component of interest expense and penalties as a component of tax expense on the Consolidated Statements of Income. This policy did not change as a result of the adoption of FIN 48. Our Consolidated Statements of Income for the nine and three months ended September 30, 2007, and our Consolidated Balance Sheet as of that date included interest of $855,000, $304,000 and $2,485,000, respectively and penalties of $143,000, $71,000 and $740,000, respectively.

The Company currently does not have any tax returns under audit by the United States Internal Revenue Service or the Puerto Rico Treasury Department. However, the tax returns filed in the Unites States for the years ended December 31, 2003 through 2006 remain subject to examination. For Puerto Rico, the tax returns for the years ended December 31, 2003 through 2006 remain subject to examination. On August 31, 2007, the Company reached a closing agreement with the Puerto Rico Treasury Department whereby the company paid $252,000 related to the correction of a special partnership income tax return. The Company does not anticipate any other payments related to settlement of any tax examinations. Additionally, as certain United States and Puerto Rico income tax returns will no longer be subject to examination, and as a result, there is a reasonable possibility that the amount of unrecognized tax benefits will decrease by $27,000 when the related statutes of limitations expire.

**(8) SEGMENT INFORMATION**

ACPT has two reportable segments: U.S. operations and Puerto Rico operations. The Company's chief decision-makers allocate resources and evaluate the Company's performance based on these two segments. The U.S. segment is comprised of different components grouped by product type or service, to include: investments in rental properties, community development and property management services. The Puerto Rico segment entails the following components: investment in rental properties, community development, homebuilding and property management services. The U.S. segment bears substantially all of the corporate costs associated with being a public company and other corporate governance. The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

*Customer Dependence*

Residential land sales to Lennar within our U.S. segment were $5,131,000 for the nine months ended September 30, 2007, which represents 14% of the U.S. segment’s revenue and 8% of our total year-to-date consolidated revenue. No customers accounted for more than 10% of our consolidated revenue for the nine months ended September 30, 2007. In March 2004, the Company executed an agreement with Lennar Corporation to sell 1,950 residential lots (1,359 single family lots and 591 town home lots) in Fairway Village in St. Charles, Maryland. The agreement requires the homebuilder to provide $20,000,000 in letters of credit to secure the purchase of the lots and purchase 200 residential lots per year, provided that they are developed and available for delivery as defined by the development agreement. Although Lennar is contractually obligated to take 200 lots per year, the market is not sufficient to absorb this sales pace. Accordingly, Lennar’s management requested a reduction of the 200 lot requirement and lot price. The Company is in active negotiations with Lennar to reach agreed upon terms that are mutually beneficial to both parties.

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The following presents the segment information for the nine months ended September 30, 2007 and 2006 (in thousands):

| | United States | Puerto Rico | Inter-Segment | Total |
|---|---|---|---|---|
| **Nine Months Ended September 30, 2007 (Unaudited):** | $ | $ | $ | $ |
| Rental property revenues | 28,529 | 16,720 | - | 45,249 |
| Rental property operating expenses | 14,376 | 8,543 | (18) | 22,901 |
| Land sales revenue | 8,032 | - | - | 8,032 |
| Cost of land sales | 5,930 | - | - | 5,930 |
| Home sales revenue | - | 6,113 | - | 6,113 |
| Cost of home sales | - | 4,399 | - | 4,399 |
| Management and other fees | 299 | 479 | (22) | 756 |
| General, administrative, selling and marketing expense | 6,355 | 2,249 | (4) | 8,600 |
| Depreciation and amortization | 4,252 | 2,757 | - | 7,009 |
| Operating income | 5,947 | 5,364 | - | 11,311 |
| Interest income | 843 | 228 | (80) | 991 |
| Equity in earnings from unconsolidated entities | (1) | 2,021 | - | 2,020 |
| Interest expense | 9,436 | 4,681 | (80) | 14,037 |
| Minority interest in consolidated entities | 332 | 1,418 | - | 1,750 |
| Income before provision/(benefit) for income taxes | (2,975) | 1,697 | - | (1,278) |
| Income tax provision/(benefit) | (829) | 810 | - | (19) |
| **Net (loss) income** | **(2,146)** | **887** | **-** | **(1,259)** |
| Gross profit on land sale | 2,102 | - | - | 2,102 |
| Gross profit on home sales | - | 1,714 | - | 1,714 |
| **Total assets** | **260,772** | **101,056** | **(1,624)** | **360,204** |
| Additions to long lived assets | 6,226 | 524 | - | 6,750 |
| | | | | |
| **Nine Months Ended September 30, 2006 (Unaudited):** | $ | $ | $ | $ |
| Rental property revenues | 23,889 | 16,057 | - | 39,946 |
| Rental property operating expenses | 11,591 | 8,187 | (15) | 19,763 |
| Land sales revenue | 11,317 | - | - | 11,317 |
| Cost of land sales | 6,156 | - | - | 6,156 |
| Home sales revenue | - | 16,343 | - | 16,343 |
| Cost of home sales | - | 12,310 | - | 12,310 |
| Management and other fees | 461 | 443 | (19) | 885 |
| General, administrative, selling and marketing expense | 4,648 | 2,059 | (4) | 6,703 |
| Depreciation and amortization | 3,532 | 2,707 | - | 6,239 |
| Operating income | 9,740 | 7,580 | - | 17,320 |
| Interest income | 576 | 95 | (40) | 631 |
| Equity in earnings from unconsolidated entities | (1) | 511 | - | 510 |
| Interest expense | 6,604 | 4,351 | (40) | 10,915 |
| Minority interest in consolidated entities | 610 | 2,387 | - | 2,997 |

| | | | | |
|---|---|---|---|---|
| Income before provision/(benefit) for income taxes | 3,105 | 1,651 | - | 4,756 |
| Income tax provision/(benefit) | 1,284 | 470 | - | 1,754 |
| **Net income** | **1,821** | **1,181** | **-** | **3,002** |
| Gross profit on land sale | 5,161 | - | - | 5,161 |
| Gross profit on home sales | - | 4,033 | - | 4,033 |
| **Total assets** | **220,662** | **106,489** | **-** | **327,151** |
| Additions to long lived assets | 33,801 | 1,192 | - | 34,993 |

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The following presents the segment information for the three months ended September 30, 2007 and 2006 (in thousands):

| | United States | Puerto Rico | Inter-Segment | Total |
|---|---|---|---|---|
| **Three Months Ended September 30, 2007 (Unaudited):** | $ | $ | $ | $ |
| Rental property revenues | 9,823 | 5,594 | - | 15,417 |
| Rental property operating expenses | 4,887 | 2,905 | (5) | 7,787 |
| Land sales revenue | 2,063 | - | - | 2,063 |
| Cost of land sales | 1,574 | - | - | 1,574 |
| Home sales revenue | - | 899 | - | 899 |
| Cost of home sales | - | 583 | - | 583 |
| Management and other fees | 91 | 166 | (7) | 250 |
| General, administrative, selling and marketing expense | 2,432 | 801 | (1) | 3,232 |
| Depreciation and amortization | 1,507 | 921 | - | 2,428 |
| Operating income | 1,577 | 1,449 | (1) | 3,025 |
| Interest income | 252 | 2 | (25) | 229 |
| Equity in earnings from unconsolidated entities | - | 175 | - | 175 |
| Interest expense | 3,210 | 1,515 | (25) | 4,700 |
| Minority interest in consolidated entities | 159 | 34 | - | 193 |
| Income before provision/(benefit) for income taxes | (1,539) | 134 | - | (1,405) |
| Income tax provision/(benefit) | (348) | 41 | - | (307) |
| **Net (loss) income** | **(1,191)** | **93** | **-** | **(1,098)** |
| Gross profit on land sale | 489 | - | - | 489 |
| Gross profit on home sales | - | 316 | - | 316 |
| **Total assets** | **260,772** | **101,056** | **(1,624)** | **360,204** |
| Additions to long lived assets | 1,707 | 102 | - | 1,809 |
| | | | | |
| **Three Months Ended September 30, 2006 (Unaudited):** | $ | $ | $ | $ |
| Rental property revenues | 8,283 | 5,525 | - | 13,808 |
| Rental property operating expenses | 4,219 | 2,743 | (15) | 6,947 |
| Land sales revenue | 4,691 | - | - | 4,691 |
| Cost of land sales | 2,490 | - | - | 2,490 |
| Home sales revenue | - | 5,084 | - | 5,084 |
| Cost of home sales | - | 3,789 | - | 3,789 |
| Management and other fees | 192 | 147 | (19) | 320 |
| General, administrative, selling and marketing expense | 1,469 | 704 | (4) | 2,169 |
| Depreciation and amortization | 1,257 | 908 | - | 2,165 |
| Operating income | 3,731 | 2,612 | - | 6,343 |
| Interest income | 517 | 35 | (22) | 530 |
| Equity in earnings from unconsolidated entities | (1) | 168 | - | 167 |
| Interest expense | 2,556 | 1,181 | (22) | 3,715 |
| Minority interest in consolidated entities | 298 | 33 | - | 331 |

| | | | | |
|---|---|---|---|---|
| Income before provision/(benefit) for income taxes | 1,395 | 1,689 | - | 3,084 |
| Income tax provision/(benefit) | 555 | 485 | - | 1,040 |
| **Net income** | **840** | **1,204** | **-** | **2,044** |
| Gross profit on land sale | 2,201 | - | - | 2,201 |
| Gross profit on home sales | - | 1,295 | - | 1,295 |
| **Total assets** | **220,662** | **106,489** | **-** | **327,151** |
| Additions to long lived assets | 9,593 | 284 | - | 9,877 |

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## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### FORWARD-LOOKING STATEMENTS

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing in this report. Historical results set forth in Management's Discussion and Analysis of Financial Condition and Results of Operation and the Financial Statements should not be taken as indicative of our future operations. This quarterly report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These include statements about our business outlook, market and economic conditions, strategies, future plans, anticipated costs and expenses, capital spending, and any other statements that are not historical. The accuracy of these statements is subject to a number of risks, uncertainties, and other factors that may cause our actual results, performance or achievements of the Company to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Those items are discussed under "Risk Factors" in Part I, Item 1A to the Form 10-K for the year ended December 31, 2006.

### EXECUTIVE SUMMARY OF RESULTS

Consolidated operating revenues are derived primarily from rental revenue, community development land sales and home sales. For the nine and three months ended September 30, 2007, our consolidated rental revenues have increased 13% and 12%, respectively, over the comparable periods of 2006. The increase was primarily attributable to acquisition and construction of new units in our United States segment as well as overall rent increases at comparable properties in both the United States and Puerto Rico segments.

Community development land sales for the nine and three months ended September 30, 2007 decreased 29% and 56%, respectively, from the 2006 periods. Land sales revenue in any one period is affected by the mix of lot sizes and, to a greater extent, the mix between residential and commercial sales. Land sales, currently sourced from the United States segment, result in large part from a sales agreement with Lennar Corporation. In March 2004, the Company executed an agreement with Lennar Corporation to sell 1,950 residential lots (1,359 single family lots and 591 town home lots) in Fairway Village in St. Charles, Maryland. The agreement requires the homebuilder to provide $20,000,000 in letters of credit to secure the purchase of the lots and purchase 200 residential lots per year, provided that they are developed and available for delivery as defined by the development agreement. Although Lennar is contractually obligated to take 200 lots per year, the market is not sufficient to absorb this sales pace. Accordingly, Lennar’s management requested a reduction of the 200 lot requirement and lot price. The Company is in active negotiations with Lennar to reach agreed upon terms that are mutually beneficial to both parties.

Home sales for the nine and three months ended September 30, 2007 decreased 63% and 82%, respectively, from the 2006 periods. Home sales, currently sourced from the Puerto Rico segment, are impacted by the local real estate market. The Puerto Rico real estate market has slowed substantially. The reduction of new contracts and the reduced pace of sales has impacted the Company somewhat, but not to the same extent as the overall Puerto Rico market decline. The Company settled 23 and 3 units for the nine and three months ended September 30, 2007, respectively. As of September 30, 2007, 27 completed units remain within inventory, of which we currently have 5 units under contract. At the current sales pace, the Company anticipates that the remaining units in Torres will continue into 2008. We believe that our current pricing remains competitive.

On a consolidated basis, the Company reported a net loss of $1,259,000 for the nine months ended September 30, 2007. The net loss includes a $19,000 benefit for income taxes, resulting in a consolidated effective tax rate of approximately 1%. The consolidated effective rate was impacted by accrued penalties on uncertain tax positions and certain nondeductible permanent items in the United States segment and double taxation on a certain non-recurring gain for our Puerto Rico segment. For further discussion of these items, see the provision for income taxes discussion within the United States and Puerto Rico segment discussion.

Please refer to the Results of Operations section of Management’s Discussion and Analysis for additional details surrounding the results of each of our operating segments.

### NEW ACCOUNTING PRONOUNCEMENTS AND CHANGE IN BASIS OF PRESENTATION

In July 2006, the FASB issued FASB Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes*" ("FIN 48"). FIN 48 is an interpretation of FASB Statement No. 109, "*Accounting for Income Taxes*," and it seeks to reduce the diversity in practice associated with certain aspects of measurement and recognition in accounting for income taxes. In addition, FIN 48 requires expanded disclosure with respect to the uncertainty in income taxes. We adopted the provisions of FIN 48 on January 1, 2007. As a result of the implementation of FIN 48, we recorded a $1,458,000 increase in the net liability for unrecognized tax positions, which was recorded as a cumulative effect of a change in accounting principle, reducing the opening balance of retained earnings on January 1, 2007. See Note 7 to the consolidated financial statements for further discussion.

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**CRITICAL ACCOUNTING POLICIES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States, which we refer to as GAAP, requires management to use judgment in the application of accounting policies, including making estimates and assumptions. These judgments affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. If our judgment or interpretation of the facts and circumstances relating to various transactions had been different, it is possible that different accounting policies would have been applied resulting in a different presentation of our financial statements.

Refer to the Company's 2006 Annual Report on Form 10-K for a discussion of critical accounting policies, which include sales, profit recognition and cost capitalization, investment in unconsolidated real estate entities, impairment of long-lived assets, depreciation of investments in real estate, income taxes and contingencies. For the nine months ended September 30, 2007, there were no material changes to our policies except as noted above related to the implementation of FIN 48.

**RESULTS OF OPERATIONS**

The following discussion is based on the consolidated financial statements of the Company. It compares the results of operations of the Company for the nine and three months ended September 30, 2007 (unaudited), with the results of operations of the Company for the nine and three months ended September 30, 2006 (unaudited). Historically, the Company's financial results have been significantly affected by the cyclical nature of the real estate industry. Accordingly, the Company's historical financial statements may not be indicative of future results. This discussion should be read in conjunction with the accompanying consolidated financial statements and notes included elsewhere in this report and within our Annual Report on Form 10-K for the year ended December 31, 2006.

**Results of Operations - U.S. Operations:**

For the nine and three months ended September 30, 2007, our U.S. segment generated $5,947,000 and $1,577,000 of operating income compared to $9,740,000 and $3,731,000 of operating income generated by the segment for the same periods in 2006, respectively. Additional information and analysis of the U.S. operations can be found below.

**Rental Property Revenues and Operating Expenses - U.S. Operations:**

As of September 30, 2007, nineteen U.S.-based apartment properties, representing 3,256 units, in which we hold an ownership interest qualified for the consolidation method of accounting. The rules of consolidation require that we include within our financial statements the consolidated apartment properties' total revenue and operating expenses. The portions of net income attributable to the interests of the outside owners of these properties and any losses and distributions in excess of the minority owners' basis in those properties are reflected as minority interest expense.

As of September 30, 2007, thirteen of the consolidated properties were market rent properties, representing 1,856 units, allowing us to determine the appropriate rental rates. Even though we can determine the rents, a portion of our units at some of our market rent properties must be leased to tenants with low to moderate income. HUD subsidizes three of the properties representing 836 units and the three remaining properties are a mix of 137 subsidized units and 427 market rent units. HUD dictates the rents of the subsidized units.

*Apartment Construction and Acquisitions*

On January 31, 2007, we completed the newest addition to our market rate multifamily apartment portfolio located in St. Charles' Fairway Village, the Sheffield Greens Apartments. The 252-unit apartment project consists of nine, 3-story buildings and offers 1 and 2 bedroom units ranging in size from 800 to 1,400 square feet.

On April 28, 2006, the Company acquired two apartment properties, Milford Station I LLC and Milford Station II LLC, in Baltimore, Maryland containing a combined total of 250 units for approximately $14,300,000. All of the acquired properties are operated as market rate properties.

*Nine months ended*

For the nine months ended September 30, 2007, rental property revenues increased $4,640,000 or 19% to $28,529,000 compared to $23,889,000 for the same period in 2006. The increase in rental revenues was primarily the result of additional revenues for Sheffield Greens Apartments, Milford Station I and Milford Station II which accounted for approximately $3,548,000 of the difference. The increase was also attributable to an overall 4% increase in rents between periods.

Rental property operating expenses increased $2,785,000 or 24% for the nine months ended September 30, 2007 to $14,376,000 compared to $11,591,000 for the same period of 2006. The overall increase in rental property operating expenses was primarily the result of additional expenses for Sheffield Greens Apartments, Milford Station I and Milford Station II, which accounted for approximately $1,667,000 of the difference. The remainder of the increase resulted from overall inflationary adjustments as well as specific above inflation increases noted in advertising, security, office and maintenance salaries, utilities, maintenance, rehabilitation, real estate taxes and concessions awarded to residents. We are currently working to reduce all our controllable rental property operating expenses within our US portfolio. Specific emphasis includes reducing advertising and concessions expenses now that Sheffield Greens is leased and occupancy rates at other competing properties are increasing as well as pursuing measures to reduce security expenditures.

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*Three months ended*

For the three months ended September 30, 2007, rental property revenues increased $1,540,000 or 19% to $9,823,000 compared to $8,283,000 for the same period in 2006. The increase in rental revenues was primarily the result of additional revenues for Sheffield Greens Apartments, which accounted for approximately $1,109,000 of the difference. The increase was also attributable to an overall 5% increase in rents between periods.

Rental property operating expenses increased $668,000 or 16% for the third quarter of 2007 to $4,887,000 compared to $4,219,000 for the third quarter of 2006. The overall increase in rental property operating expenses was primarily the result of additional expenses for Sheffield Greens Apartments, which accounted for approximately $454,000 of the difference. The remainder of the increase resulted from overall inflationary adjustments as well as specific above inflation increases in office expenses, security, maintenance supplies, real estate taxes and insurance. These increases were offset in part by expense reduction efforts being implemented.

**Community Development – U.S. Operations:**

Land sales revenue in any one period is affected by the mix of lot sizes and, to a greater extent, the mix between residential and commercial sales. In March 2004, the Company executed an agreement with Lennar Corporation to sell 1,950 residential lots (1,359 single family lots and 591 town home lots) in Fairway Village in St. Charles, Maryland. The agreement requires the homebuilder to provide $20,000,000 in letters of credit to secure the purchase of the lots and purchase 200 residential lots per year, provided that they are developed and available for delivery as defined by the development agreement. Although Lennar is contractually obligated to take 200 lots per year, the market is not sufficient to absorb this sales pace. Accordingly, Lennar's management requested a reduction of the 200 lot requirement and lot price. The Company is in active negotiations with Lennar to reach agreed upon terms that are mutually beneficial to both parties.

Sales are closed on a lot by lot basis at the time when the builder purchases the lot. The ultimate selling price per lot sold to Lennar may exceed the amount recognized at closing since the final lot price is equal to a percentage of the base price of the home sold on the lot. Additional revenue exceeding the price per lot established at takedown will be recognized upon Lennar's settlement with the respective homebuyers. Residential lots can vary in size and location resulting in pricing differences. Gross margins of residential lots are based on the relative sales values estimated within any given village in St. Charles. Current real estate market conditions have resulted in price reductions for our residential lots and, accordingly, adversely impacted our gross margins. Commercial land is typically sold by contract that allows for a study period and delayed settlement until the purchaser obtains the necessary permits for development. The sales prices and gross margins for commercial parcels vary significantly depending on the location, size, extent of development and ultimate use. Commercial land sales are generally cyclical.

Community development land sales revenue decreased $3,285,000 or 29% for the nine months ended September 30, 2007, to $8,032,000 as compared to $11,317,000 for the nine months ended September 30, 2006. The decline in the housing market negatively impacted the number of lots sold in the nine months of 2007. The impact of this reduction was offset in part by an increase in the amount of commercial sales for the period.

Community development land sales revenue decreased $2,628,000 or 56% for the three months ended September 30, 2007, to $2,063,000 as compared to $4,691,000 for the three months ended September 30, 2006. The overall decrease for the three months ended September 30, 2007 as compared to the three months ended September 30, 2006 resulted from a decrease in the number of residential lots delivered as well as the impact of Lennar's reduced home sales on the true-up payments received, offset in part by increased commercial land sales for the period. Further discussion of the components of this variance is as follows:

*Residential Land Sales*

For the nine months ended September 30, 2007, we recognized $2,255,000 related to the delivery of 27 residential lots to Lennar, of which 24 were townhome lots and 3 were single-family lots, as compared to $6,583,000 related to 42 single-family lots and 14 townhome lots delivered in the nine months ended September 30, 2006. For the nine months ended September 30, 2007, we delivered 24 townhome lots to Lennar, recognizing as revenue an average price of $79,226 per lot, which includes the initial recognition of $85,000 per lot for 14 lots and $65,000 per lot for 10 lots plus water and sewer fees, road fees and other off-site fees. The Company also delivered 3 single family lots to

Lennar, recognizing as revenue an average price of $117,860 per lot, which includes the initial recognition of $115,300 per lot plus water and sewer fees, road fees and other off-site fees. For the nine months ended September 30, 2006, we delivered 42 single family lots to Lennar, recognizing as revenue an average price of $127,560 per lot, which includes the initial recognition of $125,000 per lot plus water and sewer fees, road fees and other off-site fees, as well as 14 townhome lots in 2006 at the same initial price as currently being recognized.

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As of September 30, 2007, 1,616 lots remained under contract to Lennar of which 154 single family lots and 29 townhome lots were developed and ready for delivery.

In addition to initial lot settlement, during the nine months ended September 30, 2007 and 2006, we also recognized $1,813,000 and $2,594,000, respectively, of additional revenue for lots that were previously sold to Lennar in 2006 and 2005. During the third quarter of 2007 and 2006, we recognized $727,000 and $887,000, respectively, of additional revenue for lots previously sold to Lennar. This additional revenue is based on the final settlement price of the homes as provided by our agreement with Lennar.

*Commercial Land Sales*

For the nine months ended September 30, 2007, we sold 6.81 commercial acres in St. Charles for $2,717,000 as compared to 10.46 acres for $1,602,000 for the nine months ended September 30, 2006. For the three months ended September 30, 2007, we sold 1.03 acres of commercial land for $180,000 and recognized $61,000 of revenue related to work completed on incomplete parcels previously sold. No commercial contracts were closed in the third quarter of 2006. As of September 30, 2007, our commercial sales backlog contained 94.19 acres under contract for a total of $16,761,000.

*St. Charles Active Adult Community, LLC – Land Joint Venture*

In September 2004, the Company entered into a joint venture agreement with Lennar Corporation for the development of a 352-unit, active adult community located in St. Charles, Maryland. The Company manages the project's development for a market rate fee pursuant to a management agreement. In September 2004, the Company transferred land to the joint venture in exchange for a 50% ownership interest and $4,277,000 in cash. The Company's investment in the joint venture was recorded at 50% of the historical cost basis of the land with the other 50% recorded within our deferred charges and other assets. The proceeds received are reflected as deferred revenue. The deferred revenue and related deferred costs will be recognized into income as the joint venture sells lots to Lennar. In March 2005, the joint venture closed a non-recourse development loan which was amended in September 2006, again in December 2006, and again in October 2007. Most recently, the development loan was modified to provide a one year delay in development of the project, as to date, lot development has outpaced sales. Per the terms of the loan, both the Company and Lennar provided development completion guarantees.

In the nine and three months ended September 30, 2007, the joint venture delivered 48 and 18 lots to Lennar as compared to 25 for both the nine and three months ended September 30, 2006. Accordingly, for the nine and three months ended September 30, 2007, the Company recognized $1,063,000 and $408,000 in deferred revenue and off-site fees and $358,000 and $140,000 of deferred costs, respectively. For the both the nine and three months ended September 30, 2006, the company recognized $538,000 in deferred revenue and off-site fees and $176,000 in deferred costs.

*Gross Margin on Land Sales*

The gross margin on land sales for the nine and three months ended September 30, 2007, were 26% and 24% as compared to 46% and 47% for the same period of 2006. Gross margins differ from period to period depending on the mix of land sold. Land, development and related costs, both incurred and estimated to be incurred in the future, are allocated to the cost of land sold based upon the relative sales values of the villages. Any changes resulting from a change in the estimated number of units to be sold, their related sales values, or changes in the estimated costs are allocated to the remaining unsold land within the respective village. Management reduced the estimated sales value of the remaining lots within Fairway Village in response to current market conditions. As a result, the gross margins on our residential land sales decreased from approximately 50% to 30%. In addition, our commercial acres represented a significant portion of our land sales and the commercial parcels sold generated lower margins than the residential lot sales. For the commercial sales in the nine months ended September 30, 2006, the parcels sold produced higher margins relative to those sold in the same periods of 2007.

*Customer Dependence*

Residential land sales to Lennar within our U.S. segment were $5,131,000 for the nine months ended September 30, 2007, which represents 14% of the U.S. segment's revenue and 8% of our total year-to-date consolidated revenue. No customers accounted for more than 10% of our consolidated revenue for the nine months ended September 30, 2007. However, loss of all or a substantial portion of our land sales, as well as the joint venture's land sales, to Lennar would have a significant adverse effect on our financial results until such lost sales could be replaced.

**Management and Other Fees – U.S. Operations:**

We earn monthly management fees from all of the apartment properties that we own, as well as our management of apartment properties owned by third parties and affiliates of J. Michael Wilson. Effective February 28, 2007, the Company's management agreement with G.L. Limited Partnership was terminated upon the sale of the apartment property to a third party. Effective April 30, 2006, the Company's management agreement with Chastleton Associates LP was also terminated upon the sale of the apartment property to a third party. These properties were previously owned by an affiliate. Management fees generated by each of these properties accounted for less than 1% of the Company's total revenue.

We receive an additional fee from the properties that we manage for their use of the property management computer system that we purchased at the end of 2001 and a fee for vehicles purchased by the Company for use on behalf of the properties. The cost of the computer system and vehicles are reflected within depreciation expense.

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The Company manages the project development of the joint venture with Lennar for a market rate fee pursuant to a management agreement. These fees are based on the cost of the project and a prorated share is earned when each lot is sold.

Amounts presented as management fees only include the fees earned from the non-controlled properties; the fees earned from the controlled properties are eliminated in consolidation. For the nine and three months ended September 30, 2007, management fees decreased $162,000 and $101,000, respectively as compared to the nine and three months ended September 30, 2006. The decrease for the nine and three months periods was attributable to the termination of the management agreements with G.L. Limited Partnership and Chastleton Associates LP as noted above.

**General, Administrative, Selling and Marketing Expense – U.S. Operations:**

The costs associated with the oversight of our U.S. operations, accounting, human resources, office management and technology, as well as corporate and other executive office costs are included in this section. ARMC employs the centralized office management approach for its property management services for our properties located in St. Charles, Maryland, our properties located in the Baltimore, Maryland area and the property in Virginia and, to a lesser extent, the other properties that we manage. Our unconsolidated and managed-only apartment properties reimburse ARMC for certain costs incurred at the central office that are attributable to the operations of those properties. In accordance with EITF Topic 01-14, "*Income Statement Characterization of Reimbursements Received for Out of Pocket Expenses Incurred*," the cost and reimbursement of these costs are not included in general and administrative expenses, but rather they are reflected as separate line items on the consolidated income statement.

General, administrative, selling and marketing costs incurred within our U.S. operations increased $1,707,000 to $6,355,000 for the nine months of 2007 compared to $4,648,000 for the same period of 2006. The 37% increase is primarily attributable to consulting and legal fees related to strategic planning, including fees associated with an evaluation of a recapitalization of the company, consulting services provided for our FIN 48 implementation during the first quarter of 2007, and consulting services for Sarbanes-Oxley Section 404 ("SOX 404") internal control compliance testing. Other increases included salaries and benefits related to the quarterly accrual in 2007 of estimated management bonuses that were expensed in prior years in the fourth quarter, accrual of expense related to new executive retention agreements with our COO and CFO executed in the third quarter of 2007, and increases in share appreciation rights expense resulting from the increase in our share price in the third quarter 2007.

General, administrative, selling and marketing costs incurred within our U.S. operations increased $963,000 to $2,432,000 for the three months ended September 30, 2007, compared to $1,469,000 for the same period of 2006. The 66% increase is primarily attributable to consulting and legal fees related to strategic planning, including fees associated with an evaluation of a recapitalization of the company, and consulting services provided for SOX 404 compliance testing. Other increases included salaries and benefits related to the quarterly accrual in 2007 of estimated management bonuses, accrual of expense related to new executive retention agreements with our COO and CFO executed in the third quarter of 2007 and increases in share appreciation rights expense resulting from the increase in our share price in the third quarter 2007.

We anticipate additional costs will be incurred as part of the company's strategic planning activities noted above. These costs include, but are not limited to, legal fees, consulting fees, and fees paid to the Special Committee to the Board of Trustees.

**Depreciation Expense – U.S. Operations:**

Depreciation expense increased $720,000 to $4,252,000 for the first nine months of 2007 compared to $3,532,000 for the same period in 2006. The depreciation expense also increased $250,000 to $1,507,000 compared to $1,257,000 for the three months ended September 30, 2006. The year to date and quarter to date increases in depreciation are primarily the result of depreciation related to the acquisitions of Milford Station I and Milford Station II and the depreciation related to Sheffield Greens Apartments, all of which accounted for $498,000 and $174,000 of the variances, respectively. The balance of the increases relate to the recent refinancings of several properties at the end of 2006 and beginning of 2007. The Company used part of the proceeds to make significant investments in capital improvements at these properties resulting in increased depreciation expense for both the year to date and quarter to date periods.

**Interest Income – U.S. Operations:**

Interest income increased $267,000 to $843,000 for the nine months ended September 30, 2007, as compared to $576,000 for the nine months ended September 30, 2006. The increase was primarily attributable to additional corporate interest income earned on investments of cash received from the various apartment partnership refinancings at the end of last year and the beginning of this year and has earned interest accordingly.

Interest income decreased $265,000 to $252,000 for the three months ended September 30, 2007, as compared to $517,000 for the three months ended September 30, 2006. The decrease was primarily attributable to a full year interest payment received from Charles County in the third quarter of 2006 totaling $470,000, related to interest income on the undistributed bond proceeds held in escrow by Charles County. Prior to the third quarter of 2006, a formal written agreement was not in place so accrual of interest income was not appropriate. For the third quarter 2007, interest accrued on undistributed bond proceeds was $159,000. This decrease was partially offset by an increase in the amount of corporate interest income earned on investments of cash received from the various apartment partnership refinancings at the end of 2006 year and the beginning of 2007.

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**Interest Expense – U.S. Operations:**

The Company considers interest expense on all U.S. debt available for capitalization to the extent of average qualifying assets for the period. Interest specific to the construction of qualifying assets, represented primarily by our recourse debt, is first considered for capitalization. To the extent qualifying assets exceed debt specifically identified, a weighted average rate including all other debt of the U.S. segment is applied. Any excess interest is reflected as interest expense. For 2007 and 2006, the excess interest primarily relates to the interest incurred on the non-recourse debt from our investment properties.

Interest expense increased $2,832,000 for the nine months ended September 30, 2007, to $9,436,000, as compared to $6,604,000 for the same period of 2006. Interest expense increased $654,000 for the third quarter of 2007 to $3,210,000 as compared to $2,556,000 for the same period of 2006. The year to date and quarter to date increases were primarily attributable to interest expense incurred at new properties, including Sheffield Greens Apartments, Milford Station I and Milford Station II all of which accounted for $1,006,000 and $350,000 of the increase, respectively. In addition, the refinancing of several apartment mortgages during the fourth quarter of 2006 and early first quarter 2007 increased interest expense at Fox Chase Apartments, LLC, New Forest Apartments, LLC, Coachman's Apartments LLC and Village Lake Apartments, LLC $1,168,000 and $404,000 for the nine and three month periods, respectively. Additionally, interest expense increased as a result of accrued interest on uncertain tax positions associated with our implementation of FIN 48 in the first quarter 2007.

For the nine and three months ended September 30, 2007, $926,000 and $325,000 of interest cost was capitalized. During the same period in 2006, $1,355,000 and $623,000 of interest cost was capitalized.

**Provision for Income Taxes – U.S. Operations:**

The effective tax rates for the nine and three months ended September 30, 2007, and September 30, 2006, were 28% and 23% and 41% and 40%, respectively. The statutory rate is 40%. The effective tax rate for the nine and three months ended September 30, 2007 differs from the statutory rate due to accrued penalties on uncertain tax positions and certain nondeductible permanent items, which offset the benefit recorded for the period. The effective tax rates for the nine and three months ended September 30, 2006 did not differ substantially from the effective rate.

**Results of Operations – Puerto Rico Operations:**

For the nine months ended September 30, 2007, our Puerto Rico segment generated $5,364,000 of operating income compared to $7,580,000 of operating income generated by the segment for the same period in 2006. For the three months ended September 30, 2007, our Puerto Rico segment generated $1,449,000 of operating income compared to $2,612,000 of operating income for the same period of 2006. Additional information and analysis of the Puerto Rico operations can be found below.

**Rental Property Revenues and Operating Expenses - Puerto Rico Operations:**

Our rental property revenues and expenses are generated primarily from the 12 multifamily apartment properties located in the San Juan metropolitan area. In addition, the Company operates a commercial rental property in the community of Parque Escorial, known as Escorial Building One ("EBO"), in which it holds a 100% ownership interest. EBO is a three-story building with approximately 56,000 square feet of offices space for lease. The Company moved the Puerto Rico Corporate Office to the new facilities in the third quarter of 2005, and leases approximately 20% of the building.

*Nine Months*

Rental property revenues increased $663,000 or 4% to $16,720,000 for the nine months ended September 30, 2007 compared to $16,057,000 for the same period of 2006. The year to date increase in our rental property revenues was primarily the result of an overall rent increases of 3% from HUD on our multifamily apartment properties. In addition, rents for our commercial rental property, EOB, increased 67% for the year to date period as a result of lease up efforts and new tenants.

Rental property operating expenses increased $356,000 or 4% to $8,543,000 for the nine months ended September 30, 2007 compared to $8,187,000 for the same period of 2006. The year to date increase was the result of a 3% increase

to our multifamily apartment properties operating expenses driven by overall inflationary adjustments as well as specific above inflation increases noted in utilities, repairs and painting. In addition, operating expenses for our commercial rental property, EOB, increased 29% for the year to date period as a result of amortized concessions related to new tenants as well as a reserve for bad debts.

*Three Months*

Rental property revenues increased $69,000 or 1% to $5,594,000 for the three months ended September 30, 2007 compared to $5,525,000 for the same period of 2006. The quarter to date increase in our rental property revenues was nominal and driven by a 1% increase in rents from our multifamily apartment properties and a 33% increase in rents for our commercial rental property as a result of lease up efforts and new tenants.

Rental operating expenses increased $162,000 or 6% to $2,905,000 for the three months ended September 30, 2007 compared to $2,743,000 for the same period in 2006. The quarter to date increase was the result of a 4% increase to our multifamily apartment properties operating expenses driven by overall inflationary adjustments as well as specific above inflation increases noted in utilities, repairs and painting. In addition, operating expenses for our commercial rental property, EOB, increased 32% for the three-month period as a result of amortized concessions related to new tenants, as well as a reserve for bad debts.

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**Community Development – Puerto Rico Operations:**

Total land sales revenue in any one period is affected by commercial sales which are cyclical in nature and usually have a noticeable positive impact on our earnings in the period in which settlement is made.

There were no community development land sales during the nine and three months ended September 30, 2007 and 2006. There were no commercial contracts for commercial sales in backlog at September 30, 2007.

**Homebuilding – Puerto Rico Operations:**

The Company organizes corporations as needed to operate each individual homebuilding project. In April 2004, the Company commenced the construction of a 160-unit mid-rise condominium complex known as Torres del Escorial ("Torres"). The condominium units were offered to buyers in the market in January 2005 and delivery of the units commenced in the fourth quarter of 2005. The condominium units are sold individually from an onsite sales office to pre-qualified homebuyers.

For the nine months ended September 30, 2007, homebuilding revenues decreased $10,230,000 or 63% to $6,113,000 as compared to $16,343,000 for the nine months ended September 30, 2006. The decrease in year to date revenues was impacted by the slow housing market resulting in a decrease in the number of units sold in the respective periods, offset in part by an increase in the per unit selling prices. For the nine months ended September 30, 2007, the company sold 23 units at an average selling price of $266,000 as compared to 65 units at an average selling price of $251,000 per unit for the same period of 2006.

For the three months ended September 30, 2007, homebuilding revenues decreased $4,185,000 or 82% to $899,000 as compared to $5,084,000 for the three months ended September 30, 2006. The decrease in quarter to date revenues was also primarily driven by a decrease in the number of units sold in the respective periods, offset in part by an increase in the per unit selling prices. For the three months ended September 30, 2007, the company sold 3 units at an average selling price of $300,000 as compared to 20 units at an average selling price of $254,000 per unit for the same period of 2006.

The gross margins for the nine months ended September 30, 2007 and 2006 were 28% and 25%, respectively. The gross margins for the three months ended September 30, 2007 and 2006 were 35% and 25%, respectively. The increases in the gross profit margin are attributable to an increase in the sales prices of the units in the third and fourth buildings as well as the units sold in the third quarter of 2007 represent premium penthouse units.

As of September 30, 2007, 5 units of Torres were under contract at an average selling price of $258,000 per unit. Each sales contract is backed by a $6,000 deposit. For the nine months ended September 30, 2007, the Company had 18 new contracts and 5 canceled contracts. For the same period in 2006, the Company had 48 new contracts and 36 canceled contracts. The Puerto Rico real estate market has slowed substantially. The reduction of new contracts and the reduced pace of sales has impacted the Company somewhat, but not to the same extent as the overall Puerto Rico market decline. The Company currently anticipates that the remaining 27 units in Torres will continue into 2008 and that its current pricing remains competitive.

**Management and Other fees – Puerto Rico Operations:**

We earn monthly fees from our management of four non-owned apartment properties and four property-owner associations operating in Parque Escorial. This section includes only the fees earned from the non-owned managed entities. The fees earned from the controlled properties are eliminated in consolidation.

Management fees increased 8% or $36,000 to $479,000 for the nine months ended September 30, 2007, as compared to $443,000 for the same period of 2006. During the three months ended September 30, 2007 management fees increased 13% or $19,000 to $166,000 as compared to $147,000 for the same period of 2006. The year to date and quarter to date increases in our management fees resulted from increases in the annual rents in the non-owned apartment properties and from increases in the managed fees received from Parque Escorial Associations during the respective periods.

**General, Administrative, Selling and Marketing Expenses – Puerto Rico Operations:**

The costs associated with the oversight of our operations, accounting, human resources, office management and technology are included within our general, administrative, selling and marketing expenses. The apartment properties

reimburse IGP for certain costs incurred at IGP's office that are attributable to the operations of those properties. In accordance with EITF 01-14 the costs and reimbursement of these costs are not included within this section but rather, they are reflected as separate line items on the consolidated income statement. Due to the fact that our corporate office is in our office building, EBO, rent expense and parking expenses are eliminated in consolidation.

General, administrative, selling and marketing expenses increased 9% or $190,000 to $2,249,000 during the nine months ended September 30, 2007, as compared to $2,059,000 for the same period of 2006. The increase is primarily attributable to increases in salaries and benefits related to the accrual in 2007 of quarterly management bonuses that were expensed in prior years in the fourth quarter; increases in legal expenses related to the Jalexis matter, described in more detail in the Company's 2006 Form 10-K; and an increase in share appreciation rights expense as a result of the increase in our share price during the third quarter 2007.

During the quarter ended September 30, 2007, general, administrative, selling and marketing increased 14% or $97,000 to $801,000 as compared to $704,000 for the same period of 2006. The increase is primarily attributable to increases in salaries and benefits related to the accrual in 2007 of quarterly management bonuses, with no comparable amounts accrued for the same period of 2006; increases in legal expenses related to the Jalexis matter, described in more detail in the Company's 2006 Form 10-K; and an increase in share appreciation rights expense as a result of the increase in our share price during the third quarter 2007.

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**Depreciation Expense – Puerto Rico Operations:**

Depreciation expense for the nine months ended September 30, 2007 increased $50,000 or 2% to $2,757,000 as compared to $2,707,000 for the nine months ended September 30, 2006. Depreciation expense for the three months ended September 30, 2007 increased $13,000 or 1% to $921,000 as compared to $908,000 for the nine months ended September 30, 2006. The nominal increases in the year to date and quarter to date amounts relate to depreciation expense recorded on the replacement of elevators in select apartment properties. In addition, the depreciation expense increased due to the relocation of our offices primarily related to our corporate office furniture and leasehold improvements.

**Interest Income – Puerto Rico Operations:**

Interest income for the nine months ended September 30, 2007 increased $133,000 to $228,000 as compared to $95,000 for the same period of 2006. The increase in year to date interest income was primarily attributable to the recognition of interest income on the El Monte note receivable. The note originated as part of the sale of the complex in December 2004, at which point the Company determined that the cost recovery method of accounting was appropriate for gain recognition. Accordingly, the interest income on this note was also deferred until the interest payment was received, which occurred in January 2007. Interest income for the three months ended September 30, 2007 decreased $33,000 to $2,000 as compared to $35,000 for the same period of 2006.

**Equity in Earnings from Unconsolidated Entities – Puerto Rico Operations:**

We account for our limited partner investment in the commercial rental property owned by ELI and El Monte under the equity method of accounting. The earnings from our investment in commercial rental property are reflected within this section. The recognition of earnings depends on our investment basis in the property, and where the partnership is in the earnings stream.

Equity in earnings from unconsolidated entities for the nine and three months ended September 30, 2007 was $2,021,000 and $175,000, respectively, compared to $511,000 and $168,000 for the same periods of 2006. The year to date increase of $1,510,000 was related to the payment in full of the $1,500,000 note receivable held by El Monte in January 2007. The note was received as part of the sale of the El Monte facility, at which point the Company determined that the cost recovery method of accounting was appropriate for gain recognition. Accordingly, revenue was deferred until collection of the note receivable, which occurred in January 2007.

**Interest Expense – Puerto Rico Operations:**

The Company considers interest expense on all Puerto Rico debt available for capitalization to the extent of average qualifying assets for the period. Interest specific to the construction of qualifying assets is first considered for capitalization. To the extent qualifying assets exceed debt specifically identified a weighted average rate including all other debt of the Puerto Rico segment is applied. Any excess interest is reflected as interest expense. For 2007 and 2006, the excess interest primarily relates to the interest incurred on the non-recourse debt from our investment properties.

For the nine months ended September 30, 2007, interest expense increased $330,000 or 8% to $4,681,000 as compared to $4,351,000 for the same period of 2006. For the three months ended September 30, 2007, interest expense increased $334,000 or 28% to $1,515,000 as compared to $1,181,000 for the same period of 2006. The year to date and quarter to date increases result from interest expense from our working capital line of credit combined with an overall decrease in the qualified assets available for interest capitalization between the respective periods.

For the nine and three months ended September 30, 2007, $129,000 and $50,000 of interest cost was capitalized. During the same periods in 2006, $710,000 and $214,000 of interest cost was capitalized. The decrease in amounts of interest capitalized was due to the substantial completion of our Torres project at the end of 2006 as completed units are not considered qualifying assets for the purposes of interest capitalization.

**Minority Interest in Consolidated Entities – Puerto Rico Operations:**

The Company records minority interest expense related to the minority partners' share of the consolidated apartment partnerships earnings and distributions to minority partners in excess of their basis in the consolidated

partnership. Losses charged to the minority interest are limited to the minority partners' basis in the partnership. Because the minority interest holders in most of our partnerships have received distributions in excess of their basis, we anticipate volatility in minority interest expense. Although this allows us to recognize 100 percent of the income of the partnerships up to distributions and losses in excess of basis previously required to be recognized as our expense, we will be required to expense 100 percent of future distributions to minority partners and any subsequent losses.

Minority interest for the nine and three months period ended September 30, 2007 were $1,418,000 and $34,000, respectively. Minority interest for the nine and three months period ended September 30, 2006 were $2,387,000 and $33,000, respectively. The $969,000 decrease in minority interest expense for the nine months ended September 30, 2007 as compared to the nine month period ended September 30, 2006 was primarily the result of regular distributions from the surplus cash and refinancing to the minority owners in excess of their basis from our consolidated apartment partnerships. In the second quarter of 2006, the Company made distributions of $1,100,000 to the limited partners of Colinas de San Juan related the mortgage refinancing of the related properties. In the first quarter of 2007, the company made refinancing distributions of $400,000 to the limited partners of Carolina Associates related to the mortgage refinancing of the related properties. The remainder of the difference represents a decrease in the operating cash distributions made between the respective periods.

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**Provision for Income Taxes – Puerto Rico Operations:**

The effective tax rate for the nine and three months ended September 30, 2007 and 2006 were 48% and 31% and 28% and 29%, respectively. The statutory rate is 29%. The difference in the statutory tax rate and the effective tax rate for the nine and three months ended September 30, 2007 is primarily due to the double taxation on the earnings of our wholly owned corporate subsidiary, ICP. As a result of a non-recurring gain recorded in the first quarter 2007 related to its investment in El Monte, ICP's current taxes payable and ACPT's related deferred tax liability on the ICP undistributed earnings experienced a considerable increase for the nine months ended September 30, 2007. In addition, the effective tax rate for the three months ended September 30, 2007 was impacted by the effect of deferred taxes on items for which no current benefit may be recognized off-set in part by non-taxable items, such as the tax-exempt income received from our commercial partnership ELI, SE. The effective rates for the nine and three months ended September 30, 2006 did not differ substantially from the statutory rate.

**LIQUIDITY AND CAPITAL RESOURCES**

*Summary of Cash Flows*

As of September 30, 2007, the Company had cash and cash equivalents totaling $18,643,000 and restricted cash totaling $21,518,000. The following table sets forth the changes in the Company's cash flows ($ in thousands):

| | Nine Months Ended September 30, | |
|---|---|---|
| | **2007** | 2006 |
| Operating Activities | **$ (6,968)** | $ 5,272 |
| Investing Activities | **(7,274)** | (32,576) |
| Financing Activities | **5,426** | 20,916 |
| Net Decrease in Cash | **$ (8,816)** | $ (6,388) |

For the nine months ended September 30, 2007, operating activities used $6,968,000 of cash flows compared to $5,272,000 of cash flows provided by operating activities for the nine months ended September 30, 2006. The $12,240,000 decrease in cash flows from operating activities was primarily related to the $10,230,000 decrease in homebuilding sales between periods and a decrease in community development land sales of $3,285,000. Operating cash flows were also impacted by $23,181,000 of additions to our community development assets for the nine months ended September 30, 2007, $6,392,000 in excess of the additions during the same period of 2006. Pursuant to agreements with the Charles County Commissioners, the company is committed to completing $23 million of infrastructure. We anticipate $11.4 million to be spent over the next twelve months. An additional $3.9 million of development is under contract that is expected to be incurred over the next 36 months. These uses of cash were offset by a decrease of $5,313,000 in our homebuilding expenditures for the nine months ended September 30, 2007, as compared to the same period in 2006. As of September 30, 2007, the Torres project was substantially complete, whereas it was undergoing significant construction during 2006. In addition, the company received a $2,000,000 fee during the second quarter 2007 related to a right of way agreement. From period to period, cash flow from operating activities is also impacted by changes in our net income, as discussed more fully above under "Results of Operations," as well as other changes in our receivables and payables.

For the nine months ended September 30, 2007, net cash used in investing activities was $7,274,000 compared to $32,576,000 for the same period of 2006. Cash provided by or used in investing activities generally relates to increases in our investment portfolio through acquisition, development or construction of rental properties and land held for future use, net of returns on our investments. The $25,302,000 decrease in the cash used in investing activities between periods was primarily the result of $20,096,000 additions to our rental property portfolio in the United States, through acquisition and construction during the nine months ended September 30, 2006, compared to $6,298,000 in the same period of 2007. This decrease primarily related to the acquisition of Milford I and Milford II during the nine months ended September 30, 2006, with no comparable acquisitions in 2007. In addition, we completed the

construction of Sheffield Greens Apartments during the first quarter of 2007, whereas during the first nine months of 2006 we invested $16,577,000 in construction. These differences were partially offset by the 11 additional properties added to our consolidation as of January 1, 2006, under the new provisions of EITF-04-05, at which point we added $4,723,000 to the consolidated cash balance.

For the nine months ended September 30, 2007, net cash provided by financing activities was $5,426,000 as compared to $20,916,000 for the nine months ended September 30, 2006. The decrease in cash provided by financing activities was primarily the result of reduced proceeds from debt financing, related to the mortgages for the Milford I and Milford II acquisition in 2006. In addition, cash flows from financing activities decreased as a result of reduced distribution payments made to minority interests as well as decreased dividends paid to shareholders. Distributions to limited partners decreased as a result of reduced refinancing distributions between periods. Dividends to shareholders during the first nine months of 2007 were consistent with the distributions declared in the same period of 2006 with the exception of a non-recurring special dividend distribution made in the first half of 2006. Partially offsetting these decreases was an increase in draws on the Charles County bond escrow as construction of infrastructure within St. Charles continues and a decrease in debt repayments as the nine months of 2006 included curtailments of the Torres construction loan with no curtailments recorded in 2007 as the facility was repaid in December 2006.

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*Contractual Financial Obligations*

The following chart reflects our contractual financial obligations as of September 30, 2007:

| | Payments Due By Period | | | | |
|---|---|---|---|---|---|
| | Total | Less Than 1 Year | 2-3 Years | 4-5 Years | After 5 Years |
| Recourse debt-community development and homebuilding | $ 25,835 | $ 1,404 | $ 4,708 | $ 3,300 | $ 16,423 |
| Capital lease obligations | 117 | 18 | 57 | 35 | 7 |
| Total Recourse Debt | 25,952 | 1,422 | 4,765 | 3,335 | 16,430 |
| | | | | | |
| Non-recourse debt-community development | 500 | 500 | - | - | - |
| Non-recourse debt-investment properties | 279,296 | 3,779 | 14,953 | 9,202 | 251,362 |
| Total Non-Recourse Debt | 279,796 | 4,279 | 14,953 | 9,202 | 251,362 |
| | | | | | |
| Operating lease obligations | 1,211 | 301 | 718 | 192 | - |
| Purchase obligations | 38,290 | 20,126 | 17,910 | 54 | 200 |
| Total contractual financial obligations | $ 345,249 | $ 26,128 | $ 38,346 | $ 12,783 | $ 267,992 |

Recourse Debt - U.S. Operations

On April 14, 2006, the Company closed a three-year $14,000,000 revolving line of credit loan (“the Revolver”) secured by a first lien deed of trust on property located in St. Charles, MD. The maximum amount of the loan at any one time is $14,000,000. The facility includes various sub-limits on a revolving basis for amounts to finance apartment project acquisitions and land development in St. Charles. The terms require certain financial covenants to be calculated annually as of December 31, including a tangible net worth to senior debt ratio for ALD and a minimum net worth test for ACPT. The Company was in compliance with these financial covenants as of September 30, 2007. As of September 30, 2007, no amounts were outstanding on the Revolver.

Pursuant to an agreement reached between ACPT and the Charles County Commissioners in 2002, the Company agreed to accelerate the construction of two major roadway links to the Charles County (the "County") road system. As part of the agreement, the County agreed to issue general obligation public improvement Bonds (the “Bonds”) to finance $20,000,000 of this construction

guaranteed by letters of credit provided by Lennar as part of a residential lot sales contract for 1,950 lots in Fairway Village. The Bonds were issued in three installments with the final $6,000,000 installment issued in March 2006. The Bonds bear interest rates ranging from 4% to 8%, for a blended lifetime rate for total Bonds issued to date of 5.1%, and call for semi-annual interest payments and annual principal payments and mature in fifteen years. Under the terms of bond repayment agreements between the Company and the County, the Company is obligated to pay interest and principal on the full amount of the Bonds; as such, the Company recorded the full amount of the debt and

a receivable from the County representing the undisbursed Bond proceeds to be advanced to the Company as major infrastructure development within the project occurs. As part of the agreement, the Company will pay the County a monthly payment equal to one-sixth of the semi-annual interest payments and one-twelfth of the annual principal payment due on the Bonds. The County also requires ACPT to fund an escrow account from lot sales that will be used to repay this obligation.

In August 2005, the Company signed a memorandum of understanding ("MOU") with the Charles County Commissioners regarding a land donation that is anticipated to house a planned minor league baseball stadium and entertainment complex. Under the terms of the MOU, the Company donated 42 acres of land in St. Charles to the County on December 31, 2005. The Company also agreed to expedite off-site utilities, storm-water management and road construction improvements that will serve the entertainment

complex and future portions of St. Charles so that the improvements will be completed concurrently with the entertainment complex. The County will be responsible for infrastructure improvements on the site of the complex. In return, the County agreed to issue $7,000,000 of general obligation bonds to finance the infrastructure improvements. In March 2006, $4,000,000 of bonds were issued for this project, with an additional $3,000,000 issued in March 2007. The funds provided by the County for this project will be repaid by ACPT over a 15-year period. In addition, the County agreed to issue an additional 100 school allocations a year to St. Charles commencing with the issuance of bonds.

In December 2006, the Company reached an agreement with Charles County whereby the Company receives interest payments on any undistributed bond proceeds held in escrow by the County. The agreement covers the period from July 1, 2005, through the last draw made by the Company. For the nine and three months ended September 30, 2007, the Company recognized $458,000 and $153,000 of interest income on these escrowed funds.

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Recourse Debt - Puerto Rico Operations

Substantially all of the Company's 490 acres of community development land assets in Parque El Comandante within the Puerto Rico segment are encumbered by recourse debt. The homebuilding and land assets in Parque Escorial are unencumbered as of September 30, 2007. On September 1, 2006, LDA secured a revolving line of credit facility of $15,000,000 to be utilized as follows: (i) to repay its outstanding loan of $800,000; and (ii) to fund development costs of a project in which the Company plans to develop a planned community in Canovanas, Puerto Rico, to fund acquisitions and/or investments mainly in real estate ventures, to fund transaction costs and expenses, to fund future payments of interest under the line of credit and to fund any future working capital needs of the Company. The line of credit bears interest at a fluctuating rate equivalent to the LIBOR Rate plus 200 basis points (7.36% at September 30, 2007) and matures on August 31, 2008. The outstanding balance of this facility on September 30, 2007, was $1,725,000.

Non-Recourse Debt - U.S. Operations

As more fully described in Note 4 to our Consolidated Financial Statements included in this Form 10-Q, the non-recourse apartment properties' debt is collateralized by apartment projects. As of September 30, 2007, approximately 38% of this debt is secured by the Federal Housing Administration ("FHA") or the Maryland Housing Fund.

Non-recourse debt within our U.S. operations also includes a construction loan for a new apartment project in St. Charles. On August 11, 2005, Sheffield Greens Apartments, LLC ("Sheffield Greens"), a wholly owned subsidiary of the Company, obtained a non-recourse construction loan of $27,008,000 to fund the construction costs for a new apartment property in St. Charles' Fairway Village. The construction loan was converted to a permanent mortgage on October 16, 2007. The loan has a fixed interest rate of 5.47%, and requires principal and interest payments until maturity. The loan is subject to a HUD regulatory agreement. The loan documents provide for covenants and events of default that are customary for mortgage loans insured by the Federal Housing Authority.

On January 31, 2007, Coachman’s Apartments, LLC (“Coachman’s”), a majority-owned subsidiary of the Company, secured a non-recourse mortgage of $11,000,000. The ten-year loan, amortized over 30 years, has a fixed interest rate of 5.555%, requires principal and interest payments through maturity and a balloon payment at the maturity date, February 1, 2017. The prior mortgage of $6,020,000 was repaid and the net proceeds from the refinancing will be used for overall apartment property improvements, the repayment of recourse debt, future development efforts and potential acquisitions.

On February 1, 2007, Village Lake Apartments, LLC (“Village Lake”), a majority-owned subsidiary of the Company, secured a non-recourse mortgage of $9,300,000. The ten-year loan, amortized over 30 years, has a fixed interest rate of 5.72%, requires principal and interest payments through maturity and a balloon payment at the maturity date, February 1, 2017. The prior
mortgage of $6,981,000 was repaid and the net proceeds from the refinancing will be used for overall apartment property improvements, the repayment of recourse debt, future development efforts and potential acquisitions.

In the fourth quarter of 2005, the Company purchased 22 residential acres adjacent to the Sheffield Neighborhood in St. Charles for $1,000,000. The Company paid $500,000 in cash and signed a two-year, non-interest bearing, non-recourse note, for $500,000 due on November 23, 2007.

Non-Recourse Debt - Puerto Rico Operations

As more fully described in Note 4 to our Consolidated Financial Statements included in this Form 10-Q, the non-recourse debt is collateralized by the respective multifamily apartment project or commercial building. As of September 30, 2007, approximately 1% of this debt is secured by the Federal Housing Administration ("FHA"). There were no significant changes to our non-recourse debt obligations during the nine months ended September 30, 2007.

Purchase Obligations and Other Contractual Obligations

In addition to our contractual obligations described above, we have other purchase obligations consisting primarily of contractual commitments for normal operating expenses at our apartment properties, recurring corporate expenditures

including employment, consulting and compensation agreements and audit fees, non-recurring corporate expenditures such as improvements at our investment properties, the construction of the new apartment projects in St. Charles, costs associated with our land development contracts for the County's road projects and the development of our land in the U.S. and Puerto Rico. Our U.S. and Puerto Rico land development and construction contracts are subject to increases in cost of materials and labor and other project overruns. Our overall capital requirements will depend upon acquisition opportunities, the level of improvements on existing properties and the cost of future phases of residential and commercial land development.

*Liquidity Requirements*

Our short-term liquidity requirements consist primarily of obligations under capital and operating leases, normal recurring operating expenses, regular debt service requirements, non-recurring expenditures and dividends to common shareholders. The Company has historically met its liquidity requirements from cash flow generated from residential and commercial land sales, home sales, property management fees, and rental property revenue. However, the Company has noted a current reduction in the demand for residential real estate in the St. Charles and Parque Escorial markets. Should this reduced demand result in a significant decline in the prices of real estate in the St. Charles and Parque Escorial markets or defaults on our sales contracts, it could adversely impact our cash flows. Specifically related to St. Charles, although Lennar is contractually obligated to take 200 lots per year, the market is not sufficient to absorb this sales pace. Accordingly, Lennar's management requested a reduction of the 200 lot requirement and the lot price. Related to our commercial land, reduced demand for our commercial property could result in significantly reduced prices of our commercial real estate and adversely impact our cash flows.

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For the remainder of 2007 and into 2008, the Company plans to explore opportunities in Florida while continuing its development activity within the master planned communities in St. Charles and Puerto Rico and may commit to future contractual obligations as needed. Future acquisitions may be financed through a combination of Company equity, third-party equity and market rate mortgages.

The Company anticipates the completion of several large infrastructure projects in 2008 which will open up access to future villages. While much of these costs were funded through bonds issued by Charles County, there remains a difference of approximately $10,000,000 between the cost of the projects and the bonds issued by Charles County. The Company expects to fund the difference out of cash flow and/or financing between now and the end of 2008. Further, we may seek additional development loans and permanent mortgages for continued development and expansion of other parts of St. Charles and Parque Escorial along with other potential rental property opportunities. Anticipated cash flow from operations, existing loans, refinanced or extended loans, and new financing are expected to meet our financial commitments for the next 12 months. However, there are no assurances that these funds will be generated. Accordingly, the Company will be carefully monitoring cash flow requirements over the next 12 months.

The Company will evaluate and determine on a continuing basis, depending upon market conditions and the outcome of events described under the section titled "Forward-Looking Statements," the most efficient use of the Company's capital, including acquisitions and dispositions, purchasing, refinancing, exchanging or retiring certain of the Company's outstanding debt obligations, distributions to shareholders and its existing contractual obligations.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to certain financial market risks, the most predominant being fluctuations in interest rates. Interest rate fluctuations are monitored by the Company's management as an integral part of the Company's overall risk management program, which recognizes the unpredictability of financial markets and seeks to reduce the potentially adverse effect on the Company's results of operations.

As of September 30, 2007, there have been no material changes in the Company's financial market risk since December 31, 2006, as discussed in the Company's Annual Report on Form 10-K.

## ITEM 4. CONTROLS AND PROCEDURES

**Evaluation of Disclosure Controls and Procedures**

In connection with the preparation of this Form 10-Q, as of September 30, 2007, an evaluation was performed under the supervision and with the participation of the Company's management, including the CEO and CFO, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rule 13a-15(e) under the Exchange Act. In performing this evaluation, management reviewed the selection, application and monitoring of our historical accounting policies. Based on that evaluation, the CEO and CFO concluded that these disclosure controls and procedures, because of the material weakness in internal control discussed below, were not effective in ensuring that the information required to be disclosed in our reports filed with the SEC is recorded, processed, summarized and reported on a timely basis.

During the preparation of the Company's 2004 tax returns in the fourth quarter 2005, the Company became aware that certain intercompany interest income was subject to U.S. withholding tax when the interest was paid and certain income from its Puerto Rico operations could be treated as income of ACPT even though it was not distributed to ACPT. The Company determined that neither the obligation to pay the withholding tax or exposure related to the tax status had been previously accrued. Accordingly, the Company announced on November 15, 2005, that the Company would restate financial statements for the periods covered in its Form 10-K for the fiscal year ended December 31, 2004, and the Forms 10-Q for the first two quarters of fiscal 2005 to correct previously reported amounts related to these income tax matters.

The Company determined the accounting errors referenced above indicated a material weakness in internal controls with respect to accounting for income taxes. A material weakness in internal control is a significant deficiency, or

combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements would not be prevented or detected on a timely basis by the Company. The Company has implemented controls and procedures designed to remediate this material weakness. These controls and procedures include hiring a new Director of Tax who will help manage the tax compliance and tax accounting process, retaining international tax advisors to provide the Company with updates related to changes in international tax laws impacting the Company, providing in-house tax professionals and senior financial management with additional training to enhance their awareness of potential international tax matters and implementation of other additional control procedures related to accounting for income taxes. In order to remediate the material weakness, management must ensure that these new controls
and procedures are operating effectively and fully address the risks giving rise to the material weakness. Management believes that once sufficient evidence of the operating effectiveness of these controls exists, the material weakness will be fully remediated.

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## PART II OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

See the information under the heading "Legal Matters" in Note 5 to the consolidated financial statements in this Form 10-Q for information regarding legal proceedings, which information is incorporated by reference in this Item 1.

### ITEM 1A. RISK FACTORS

There has been no material change in the Company's risk factors from those outlined in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

### ITEM 5. OTHER INFORMATION

None.

### ITEM 6. EXHIBITS

(A) Exhibits

| | |
|---|---|
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification of Chairman and Chief Executive Officer |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer |
| 32.1 | Section 1350 Certification of Chairman and Chief Executive Officer |
| 32.2 | Section 1350 Certification of Chief Financial Officer |

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**SIGNATURES**

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AMERICAN COMMUNITY PROPERTIES TRUST
(Registrant)

Dated: November 14, 2007 By: /s/ J. Michael Wilson
J. Michael Wilson
Chairman and Chief Executive Officer

Dated: November 14, 2007 By: /s/ Cynthia L. Hedrick
Cynthia L. Hedrick
Chief Financial Officer

Dated: November 14, 2007 By: /s/ Matthew M. Martin
Matthew M. Martin
Chief Accounting Officer