

AMERICAN CAMPUS COMMUNITIES INC  
Form 10-Q  
November 09, 2007

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-Q**

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2007.

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the Transition Period From \_\_\_\_\_ to \_\_\_\_\_.

Commission file number 001-32265

**AMERICAN CAMPUS COMMUNITIES, INC.**  
*(Exact name of registrant as specified in its charter)*

**Maryland**  
*(State or Other Jurisdiction of  
Incorporation or Organization)*  
**805 Las Cimas Parkway, Suite 400**  
**Austin, TX**  
*(Address of Principal Executive Offices)*

**76-0753089**  
*(IRS Employer Identification No.)*  
**78746**  
*(Zip Code)*

**(512) 732-1000**  
*Registrant's telephone number, including area code*

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.  
Large accelerated filer  Accelerated Filer  Non-accelerated filer

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable

date.

There were 27,275,491 shares of American Campus Communities, Inc.'s common stock with a par value of \$0.01 per share outstanding as of the close of business on November 5, 2007.

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**FORM 10-Q**  
**FOR THE QUARTER ENDED SEPTEMBER 30, 2007**

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## AMERICAN CAMPUS COMMUNITIES, INC. AND SUBSIDIARIES

**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share and per share data)

|  | <b>September<br/>30, 2007<br/>(Unaudited)</b> | <b>December<br/>31, 2006</b> |
|--|---|------------------------------|
| <b>Assets</b>  |   |                              |
| Investments in real estate:  |   |                              |
| Owned properties, net  | \$ 903,349                                    | \$ 694,197                   |
| On-campus participating properties, net  | 73,896  | 76,688                       |
| Investments in real estate, net  | 977,245                                       | 770,885                      |
| Cash and cash equivalents  | 10,852  | 79,107                       |
| Restricted cash  | 14,025  | 11,260                       |
| Student contracts receivable, net  | 4,316   | 3,129                        |
| Other assets   | 25,979  | 20,000                       |
| <b>Total assets</b>  | <b>\$ 1,032,417</b>                           | <b>\$ 884,381</b>            |
| <b>Liabilities and stockholders' equity</b>  |   |                              |
| Liabilities:   |   |                              |
| Secured debt   | \$ 543,685                                    | \$ 432,294                   |
| Unsecured revolving credit facility  | 47,900  | -                            |
| Accounts payable and accrued expenses  | 14,424  | 13,616                       |
| Other liabilities  | 45,354  | 29,436                       |
| <b>Total liabilities</b>   | <b>651,363</b>                                | <b>475,346</b>               |
| Minority interests   | 31,648  | 39,561                       |
| Commitments and contingencies (Note 11)  |   |                              |
| Stockholders' equity:  |   |                              |
| Common shares, \$.01 par value, 800,000,000 shares authorized, 23,587,499 and 22,903,073 shares issued and outstanding at September 30, 2007 and December 31, 2006, respectively | 236   | 229                          |
| Additional paid in capital   | 394,883                                       | 382,367                      |
| Accumulated earnings and distributions   | (45,056)                                      | (13,533)                     |
| Accumulated other comprehensive (loss) income  | (657)   | 411                          |
| <b>Total stockholders' equity</b>  | <b>349,406</b>                                | <b>369,474</b>               |
| <b>Total liabilities and stockholders' equity</b>  | <b>\$ 1,032,417</b>                           | <b>\$ 884,381</b>            |

See accompanying notes to consolidated financial statements



## AMERICAN CAMPUS COMMUNITIES, INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited, in thousands, except share and per share data)**

|   | <b>Three Months Ended</b> |                   | <b>Nine Months Ended</b> |                 |
|---|---------------------------|-------------------|--------------------------|-----------------|
|   | <b>September 30,</b>      |                   | <b>September 30,</b>     |                 |
|   | <b>2007</b>               | <b>2006</b>       | <b>2007</b>              | <b>2006</b>     |
| <b>Revenues:</b>  |                           |                   |                          |                 |
| Owned off-campus properties   | \$ 30,045                 | \$ 24,340         | \$ 85,197                | \$ 64,687       |
| On-campus participating properties  | 4,083                     | 3,971             | 14,160                   | 13,450          |
| Third party development services  | 1,347                     | 1,693             | 2,325                    | 4,355           |
| Third party development services – on-campus participating properties     | 36                        | 36                | 109                      | 108             |
| Third party management services   | 627                       | 491               | 1,999                    | 1,844           |
| Resident services   | 380                       | 328               | 1,044                    | 993             |
| <b>Total revenues</b>   | <b>36,518</b>             | <b>30,859</b>     | <b>104,834</b>           | <b>85,437</b>   |
| <b>Operating expenses:</b>  |                           |                   |                          |                 |
| Owned off-campus properties   | 16,368                    | 13,178            | 41,276                   | 31,710          |
| On-campus participating properties  | 2,317                     | 2,455             | 6,842                    | 6,660           |
| Third party development and management services                           | 1,484                     | 1,338             | 3,925                    | 4,402           |
| General and administrative  | 2,286                     | 1,468             | 15,804                   | 4,879           |
| Depreciation and amortization   | 7,797                     | 6,735             | 22,535                   | 18,672          |
| Ground/facility leases  | 473                       | 238               | 1,263                    | 676             |
| <b>Total operating expenses</b>   | <b>30,725</b>             | <b>25,412</b>     | <b>91,645</b>            | <b>66,999</b>   |
| <b>Operating income</b>   | <b>5,793</b>              | <b>5,447</b>      | <b>13,189</b>            | <b>18,438</b>   |
| <b>Nonoperating income and (expenses):</b>                                |                           |                   |                          |                 |
| Interest income   | 221                       | 294               | 1,242                    | 623             |
| Interest expense  | (7,560)                   | (7,445)           | (20,940)                 | (19,847)        |
| Amortization of deferred financing costs                                  | (324)                     | (334)             | (936)                    | (1,078)         |
| <b>Total nonoperating expenses</b>  | <b>(7,663)</b>            | <b>(7,485)</b>    | <b>(20,634)</b>          | <b>(20,302)</b> |
| Loss before income taxes, minority interests, and discontinued operations | (1,870)                   | (2,038)           | (7,445)                  | (1,864)         |
| Income tax provision  | (576)                     | -                 | (696)                    | -               |
| Minority interests  | 77                        | 149               | 309                      | 202             |
| <b>Loss from continuing operations</b>                                    | <b>(2,369)</b>            | <b>(1,889)</b>    | <b>(7,832)</b>           | <b>(1,662)</b>  |
| Discontinued operations:  |                           |                   |                          |                 |
| Income attributable to discontinued operations                            | -                         | 278               | -                        | 1,648           |
| <b>Net loss</b>   | <b>\$ (2,369)</b>         | <b>\$ (1,611)</b> | <b>\$ (7,832)</b>        | <b>\$ (14)</b>  |
| Loss per share – basic:   |                           |                   |                          |                 |
| Loss from continuing operations per share                                 | \$ (0.10)                 | \$ (0.10)         | \$ (0.34)                | \$ (0.09)       |
| Net loss per share  | \$ (0.10)                 | \$ (0.09)         | \$ (0.34)                | \$ -            |
| Loss per share – diluted:   |                           |                   |                          |                 |
| Loss from continuing operations per share                                 | \$ (0.10)                 | \$ (0.10)         | \$ (0.33)                | \$ (0.11)       |
| Net loss per share  | \$ (0.10)                 | \$ (0.09)         | \$ (0.33)                | \$ (0.02)       |

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Weighted average common shares outstanding:

|   |            |            |            |            |
|---|------------|------------|------------|------------|
| Basic                                   | 23,563,651 | 18,218,128 | 23,261,475 | 17,553,627 |
| Diluted                                 | 25,320,144 | 20,535,276 | 25,273,845 | 19,397,571 |
| Distributions declared per common share | \$ 0.3375  | \$ 0.3375  | \$ 1.0125  | \$ 1.0125  |

See accompanying notes to consolidated financial statements

**AMERICAN CAMPUS COMMUNITIES, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

**(Unaudited, in thousands)**

|   | <b>Nine Months Ended</b> |             |
|---|--------------------------|-------------|
|   | <b>September 30,</b>     |             |
|   | <b>2007</b>              | <b>2006</b> |
| <b>Net loss</b>                             | \$ (7,832)               | \$ (14)     |
| Other comprehensive loss:                   |                          |             |
| Change in fair value of interest rate swaps | (917)                    | (43)        |
| <b>Net comprehensive loss</b>               | \$ (8,749)               | \$ (57)     |

See accompanying notes to consolidated financial statements

## AMERICAN CAMPUS COMMUNITIES, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands)

|   | <b>Nine Months Ended</b> |              |
|---|--------------------------|--------------|
|   | <b>September 30,</b>     |              |
|   | <b>2007</b>              | <b>2006</b>  |
| <b>Operating activities</b>   |                          |              |
| Net loss  | \$ (7,832)               | \$ (14)      |
| Adjustments to reconcile net loss to net cash provided by operating activities: |                          |              |
| Minority interests share of loss  | (309)                    | (202)        |
| Depreciation and amortization   | 22,535                   | 19,305       |
| Amortization of deferred financing costs and debt premiums/discounts            | (165)                    | 98           |
| Share-based compensation  | 4,662                    | 568          |
| Amortization of gain on interest rate swap termination                          | (151)                    | -            |
| Income tax provision  | 696                      | -            |
| Changes in operating assets and liabilities:                                    |                          |              |
| Restricted cash   | (2,116)                  | (1,283)      |
| Student contracts receivable, net   | (1,137)                  | (418)        |
| Other assets  | (5,471)                  | (5,697)      |
| Accounts payable and accrued expenses   | (8)                      | 6,517        |
| Other liabilities   | 998                      | 467          |
| Net cash provided by operating activities                                       | 11,702                   | 19,341       |
| <b>Investing activities</b>   |                          |              |
| Cash paid for property acquisitions   | (43,183)                 | (69,633)     |
| Investments in owned properties   | (92,863)                 | (66,209)     |
| Investments in on-campus participating properties                               | (402)                    | (395)        |
| Purchase of corporate furniture, fixtures and equipment                         | (347)                    | (442)        |
| Net cash used in investing activities   | (136,795)                | (136,679)    |
| <b>Financing activities</b>   |                          |              |
| Proceeds from sale of common stock  | -                        | 140,036      |
| Offering costs  | -                        | (6,755)      |
| Proceeds from revolving credit facility, net of paydowns                        | 47,900                   | -            |
| Proceeds from construction loans  | 30,613                   | 33,541       |
| Paydown of construction loan  | -                        | (20,224)     |
| Principal payments on debt  | (6,251)                  | (5,153)      |
| Change in construction accounts payable   | 12,165                   | 4,184        |
| Debt issuance and assumption costs  | (1,638)                  | (1,823)      |
| Distributions to common and restricted stockholders                             | (23,722)                 | (17,524)     |
| Distributions to minority partners  | (2,229)                  | (1,340)      |
| Net cash provided by financing activities                                       | 56,838                   | 124,942      |
| Net change in cash and cash equivalents   | (68,255)                 | 7,604        |
| Cash and cash equivalents at beginning of period                                | 79,107                   | 24,641       |
| Cash and cash equivalents at end of period                                      | \$ 10,852                | \$ 32,245    |
| <b>Supplemental disclosure of non-cash investing and financing activities</b>   |                          |              |
| Loans assumed in connection with property acquisitions                          | \$ (88,307)              | \$ (123,649) |
| Contribution of land from minority partner in development joint venture         | \$ 2,756                 | \$ -         |
| Issuance of Common Units in connection with property acquisitions               | \$ -                     | \$ (49,096)  |

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|  |    |        |    |         |
|--|----|--------|----|---------|
| Issuance of Preferred Units in connection with property acquisitions | \$ | -      | \$ | (3,075) |
| Change in fair value of derivative instruments, net                  | \$ | (917)  | \$ | (43)    |
| <b>Supplemental disclosure of cash flow information</b>              |    |        |    |         |
| Interest paid  | \$ | 22,787 | \$ | 21,771  |

See accompanying notes to consolidated financial statements

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**AMERICAN CAMPUS COMMUNITIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Organization and Description of Business**

American Campus Communities, Inc. (the “Company”) is a real estate investment trust (“REIT”) that was incorporated on March 9, 2004 and commenced operations effective with the completion of an initial public offering (“IPO”) on August 17, 2004. Through the Company’s controlling interest in American Campus Communities Operating Partnership LP (the “Operating Partnership”) and American Campus Communities Services, Inc., (the Company’s taxable REIT subsidiary or “TRS”), the Company is one of the largest owners, managers and developers of high quality student housing properties in the United States in terms of beds owned and under management. The Company is a fully integrated, self-managed and self-administered equity REIT with expertise in the acquisition, design, financing, development, construction management, leasing and management of student housing properties.

As of September 30, 2007, the Company’s property portfolio contained 43 student housing properties with approximately 26,900 beds and approximately 8,900 apartment units, consisting of 39 owned properties that are in close proximities to colleges and universities and four on-campus participating properties operated under ground/facility leases with the related university systems. These communities contain modern housing units, offer resort-style amenities and are supported by a classic resident assistant system and other student-oriented programming.

Through the TRS, the Company also provides construction management and development services for student housing properties owned by colleges and universities, charitable foundations, and others. As of September 30, 2007, the Company provided third party management and leasing services for 13 student housing properties (nine of which the Company served as the third party developer and construction manager) that represented approximately 8,900 beds in approximately 3,100 units. Third party management and leasing services are typically provided pursuant to multi-year management contracts that have initial terms that range from one to five years. As of September 30, 2007, the Company’s total owned and managed portfolio included 56 properties with approximately 35,800 beds in approximately 12,000 units.

**2. Summary of Significant Accounting Policies**

***Principles of Consolidation and Combination***

The accompanying consolidated financial statements include all of the accounts of the Company, the Operating Partnership and the subsidiaries of the Operating Partnership. The Company consolidates entities in which it has an ownership interest and over which it exercises significant control over major operating decisions, such as budgeting, investment and financing decisions. The real estate entities included in the consolidated financial statements have been consolidated only for the periods that such entities were under control by the Company. All significant intercompany balances and transactions have been eliminated in consolidation. All dollar amounts in the tables herein, except share and per share amounts, are stated in thousands unless otherwise indicated.

***Recent Accounting Pronouncements***

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* (“FIN 48”). FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 became effective on January 1, 2007. The Company, or its subsidiaries, files income tax returns in the U.S. Federal jurisdiction and various states’ jurisdictions. Open tax years for federal income tax purposes generally include

tax years 2004-2006 as of the date of adoption. The Company adopted the provisions of FIN 48 on January 1, 2007. The Company does not have any material unrecognized tax benefits; therefore, the adoption of FIN 48 did not have a material impact on the Company's consolidated financial statements.

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company does not expect its adoption to have a material impact on the Company's consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159"), which gives entities the option to measure eligible financial assets, financial liabilities and firm commitments at fair value on an instrument-by-instrument basis (i.e., the fair value option), which are otherwise not permitted to be accounted for at fair value under other accounting standards. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability or upon entering into a firm commitment. Subsequent changes in fair value must be recorded in earnings. Additionally, SFAS No. 159 allows for a one-time election for existing positions upon adoption, with the transition adjustment recorded to beginning retained earnings. This statement is effective for fiscal years beginning after November 15, 2007. The Company does not expect its adoption to have a material impact on the Company's consolidated financial statements.

**AMERICAN CAMPUS COMMUNITIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

***Interim Financial Statements***

The accompanying interim financial statements are unaudited, but have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all disclosures required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting solely of normal recurring matters) necessary for a fair presentation of the financial statements for these interim periods have been included. Because of the seasonal nature of the Company’s operations, the results of operations and cash flows for any interim period are not necessarily indicative of results for other interim periods or for the full year. These financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2006.

***Use of Estimates***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Investments in Real Estate***

Investments in real estate are recorded at historical cost. Major improvements that extend the life of an asset are capitalized and depreciated over the remaining useful life of the asset. The cost of ordinary repairs and maintenance is charged to expense when incurred. Depreciation and amortization are recorded on a straight-line basis over the estimated useful lives of the assets as follows:

|                          |       |  |
|--------------------------|-------|--|
| B u i l d i n g s        | a n d | 7-40 years                             |
| improvements             |       |  |
| Leasehold interest -     |       |  |
| on-campus                |       | 25-34 years (shorter of useful life or |
| participating properties |       | respective lease term)                 |
| Furniture, fixtures and  |       | 3-7 years                              |
| equipment                |       |  |

The cost of buildings and improvements includes the purchase price of the property, including legal fees and acquisition costs. Project costs directly associated with the development and construction of an owned real estate project, which include interest, property taxes, and amortization of deferred finance costs, are capitalized as construction in progress. Upon completion of the project, costs are transferred into the applicable asset category and depreciation commences. Interest totaling approximately \$1.4 million and \$0.8 million was capitalized during the three months ended September 30, 2007 and 2006, respectively, and \$4.0 million and \$2.1 million was capitalized during the nine months ended September 30, 2007 and 2006, respectively. Amortization of deferred financing costs totaling approximately \$0.1 million and \$82,000 was capitalized during the three months ended September 30, 2007 and 2006, respectively, and approximately \$0.3 million and \$0.2 million was capitalized during the nine months ended September 30, 2007 and 2006, respectively.

Management assesses whether there has been an impairment in the value of the Company’s investments in real estate whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is recognized when estimated expected future cash flows (undiscounted and before interest

charges) are less than the carrying value of the property. The estimation of expected future net cash flows is inherently uncertain and relies on assumptions regarding current and future economics and market conditions. If such conditions change, then an adjustment to the carrying value of the Company's long-lived assets could occur in the future period in which the conditions change. To the extent that a property is impaired, the excess of the carrying amount of the property over its estimated fair value is charged to earnings. The Company believes that there were no impairments of the carrying values of its investments in real estate as of September 30, 2007.

**AMERICAN CAMPUS COMMUNITIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The Company allocates the purchase price of acquired properties to net tangible and identified intangible assets based on relative fair values in accordance with Statement of Financial Accounting Standard (“SFAS”) No. 141, *Business Combinations*. Fair value estimates are based on information obtained from a number of sources, including independent appraisals that may be obtained in connection with the acquisition or financing of the respective property and other market data. Information obtained about each property as a result of due diligence, marketing and leasing activities is also considered. The value of in-place leases is based on the difference between (i) the property valued with existing in-place leases adjusted to market rental rates and (ii) the property valued “as-if” vacant. As lease terms are typically one year or less, rates on in-place leases generally approximate market rental rates. Factors considered in the valuation of in-place leases include an estimate of the carrying costs during the expected lease-up period considering current market conditions, nature of the tenancy, and costs to execute similar leases. Carrying costs include estimates of lost rentals at market rates during the expected lease-up period, as well as marketing and other operating expenses. The value of in-place leases is amortized over the remaining initial term of the respective leases, generally less than one year. The purchase price of property acquisitions is not expected to be allocated to tenant relationships, considering the terms of the leases and the expected levels of renewals. The Company’s allocation of purchase price is contingent upon the final true-up of certain prorations.

***Intangible Assets***

In connection with property acquisitions completed during the nine months ended September 30, 2007 and 2006, the Company capitalized approximately \$1.2 million and \$2.3 million, respectively, related to management’s estimate of the fair value of the in-place leases assumed. These intangible assets are amortized on a straight-line basis over a term of approximately six months, which represents the average remaining term of the underlying leases. The amortization is included in depreciation expense in the accompanying consolidated statements of operations. See Note 3 for a detailed discussion of the property acquisitions completed during the nine months ended September 30, 2007.

***Debt Premiums and Discounts***

Debt premiums and discounts represent fair value adjustments to account for the difference between the stated rates and market rates of debt assumed in connection with the Company’s property acquisitions. The debt premiums and discounts are amortized to interest expense over the term of the related loans using the effective-interest method. As of September 30, 2007 and December 31, 2006, unamortized debt premiums were \$5.4 million and \$6.4 million, respectively, and unamortized debt discounts were \$0.7 million and \$0.4 million, respectively. Debt premiums and discounts are included in secured debt on the accompanying consolidated balance sheets.

***Third-Party Development Services Revenue and Costs***

Development revenues are generally recognized based on a proportionate performance method based on contract deliverables, while construction revenues are recognized using the percentage of completion method, as determined by construction costs incurred relative to total estimated construction costs. Costs associated with such projects are deferred and recognized in relation to the revenues earned on executed contracts. For projects where the Company’s fee is based on a fixed price, any cost overruns incurred during construction, as compared to the original budget, will reduce the net fee generated on those projects. Incentive fees are generally recognized when the project is complete and performance has been agreed upon by all parties, or when performance has been verified by an independent third-party.

The Company also evaluates the collectibility of fee income and expense reimbursements generated through the provision of development and construction management services based upon the individual facts and circumstances, including the contractual right to receive such amounts in accordance with the terms of the various projects, and

reserves any amounts that are deemed to be uncollectible.

Pre-development expenditures such as architectural fees, permits and deposits associated with the pursuit of third-party and owned development projects are expensed as incurred, until such time that management believes it is probable that the contract will be executed and/or construction will commence. Because the Company frequently incurs these pre-development expenditures before a financing commitment and/or required permits and authorizations have been obtained, the Company bears the risk of loss of these pre-development expenditures if financing cannot ultimately be arranged on acceptable terms or the Company is unable to successfully obtain the required permits and authorizations. As such, management evaluates the status of third-party and owned projects that have not yet commenced construction on a periodic basis and expenses any deferred costs related to projects whose current status indicates the commencement of construction is unlikely and/or the costs may not provide future value to the Company in the form of revenues. Such write-offs are included in third-party development and management services expenses (in the case of third-party development projects) or general and administrative expenses (in the case of owned development projects) on the accompanying consolidated statements of operations. As of September 30, 2007, the Company has deferred approximately \$8.2 million in pre-development costs related to third-party and owned development projects that have not yet commenced construction. Such costs are included in other assets on the accompanying consolidated balance sheets.

**AMERICAN CAMPUS COMMUNITIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

***Stock-Based Compensation***

The Company accounts for equity based awards in accordance with SFAS No. 123 (R), *Share-Based Payment*. Accordingly, the Company has recognized compensation expense related to certain restricted stock awards (see Note 9) over the underlying vesting periods, which amounted to approximately \$0.3 million and \$0.2 million during the three months ended September 30, 2007 and 2006, respectively, and \$1.0 million and \$0.6 million during the nine months ended September 30, 2007 and 2006, respectively.

The Company's Outperformance Bonus Plan discussed in Note 9 vested on August 17, 2007. Accordingly, the Compensation Committee of the Board of Directors elected to pay a portion of the awards to selected recipients in the form of profits interest units ("PIUs"), which are discussed in more detail in Note 7. Approximately \$3.7 million of the compensation charge recorded during the nine months ended September 30, 2007 reflects the settlement of the Outperformance Bonus Plan through the issuance of PIUs.

***Income Taxes***

The Company has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the "Code"). To qualify as a REIT, the Company must meet a number of organizational and operational requirements, including a requirement that it currently distribute at least 90% of its adjusted taxable income to its stockholders. As a REIT, the Company will generally not be subject to corporate level federal income tax on taxable income it currently distributes to its stockholders. If the Company fails to qualify as a REIT in any taxable year, it will be subject to federal income taxes at regular corporate rates (including any applicable alternative minimum tax) and may not be able to qualify as a REIT for the subsequent four taxable years. Even if the Company qualifies for taxation as a REIT, the Company may be subject to certain state and local income and excise taxes on its income and property, and to federal income and excise taxes on its undistributed income.

The TRS manages the Company's non-REIT activities and is subject to federal, state and local income taxes.

In August 2007, in connection with the vesting of the Company's Outperformance Bonus Plan discussed in Note 9, a portion of the compensation expense associated with the awards was recorded by the TRS. As a result, the Company determined that it was more likely than not that the Company would not realize the benefit of its deferred tax asset and increased its valuation allowance by a discrete item of \$0.5 million, which is reflected in income tax provision in the accompanying consolidated statements of operations.

***Earnings Per Share***

Basic earnings per share is computed using net income (loss) and the weighted average number of shares of the Company's common stock outstanding during the period, including restricted stock units ("RSUs") issued to outside directors. RSUs are included in both basic and diluted weighted average common shares outstanding because they were fully vested on the date of grant and all conditions required in order for the recipients to earn the RSUs have been satisfied. Diluted earnings per share reflects weighted average common shares issuable from the assumed conversion of restricted stock awards ("RSAs") granted to employees, PIUs, and common and preferred units of limited partnership interest in the Operating Partnership ("Common Units" and "Series A Preferred Units," respectively). See Note 7 for a discussion of PIUs, Common Units and Series A Preferred Units.

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The following is a summary of the elements used in calculating basic and diluted earnings per share:

|  | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |             |
|--|---------------------------|-------------|--------------------------|-------------|
|  | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|  | <b>2007</b>               | <b>2006</b> | <b>2007</b>              | <b>2006</b> |
| <b>Basic earnings per share calculation:</b>                     |                           |             |                          |             |
| Loss from continuing operations                                  | \$ (2,369)                | \$ (1,889)  | \$ (7,832)               | \$ (1,662)  |
| Discontinued operations  | -                         | 278         | -                        | 1,648       |
| Net loss   | \$ (2,369)                | \$ (1,611)  | \$ (7,832)               | \$ (14)     |
| Loss from continuing operations – per share                      | \$ (0.10)                 | \$ (0.10)   | \$ (0.34)                | \$ (0.09)   |
| Income from discontinued operations – per share                  | \$ -                      | \$ 0.01     | \$ -                     | \$ 0.09     |
| Net (loss) income – per share                                    | \$ (0.10)                 | \$ (0.09)   | \$ (0.34)                | \$ -        |
| Basic weighted average common shares outstanding                 | 23,563,651                | 18,218,128  | 23,261,475               | 17,553,627  |
| <b>Diluted earnings per share calculation:</b>                   |                           |             |                          |             |
| Loss from continuing operations                                  | \$ (2,369)                | \$ (1,889)  | \$ (7,832)               | \$ (1,662)  |
| Series A Preferred Unit distributions                            | 46                        | 46          | 138                      | 107         |
| Loss from continuing operations allocated to<br>Common Units     | (152)                     | (255)       | (569)                    | (546)       |
| Loss from continuing operations, as adjusted                     | (2,475)                   | (2,098)     | (8,263)                  | (2,101)     |
| Discontinued operations  | -                         | 278         | -                        | 1,648       |
| Income from discontinued operations allocated to<br>Common Units | -                         | 28          | -                        | 130         |
| Income from discontinued operations, as adjusted                 | -                         | 306         | -                        | 1,778       |
| Net loss, as adjusted  | \$ (2,475)                | \$ (1,792)  | \$ (8,263)               | \$ (323)    |
| Loss from continuing operations – per share                      | \$ (0.10)                 | \$ (0.10)   | \$ (0.33)                | \$ (0.11)   |
| Income from discontinued operations – per share                  | \$ -                      | \$ 0.01     | \$ -                     | \$ 0.09     |
| Net loss – per share   | \$ (0.10)                 | \$ (0.09)   | \$ (0.33)                | \$ (0.02)   |
| Basic weighted average common shares outstanding                 | 23,563,651                | 18,218,128  | 23,261,475               | 17,553,627  |
| Common Units/PIUs  | 1,641,530                 | 2,202,185   | 1,897,407                | 1,753,826   |
| Series A Preferred Units   | 114,963                   | 114,963     | 114,963                  | 90,118      |
| Restricted stock awards <sup>(1)</sup>                           | -                         | -           | -                        | -           |
| Diluted weighted average common shares outstanding               | 25,320,144                | 20,535,276  | 25,273,845               | 19,397,571  |

(1) 173,569 and 101,963 weighted average restricted stock awards are excluded from diluted weighted average common shares outstanding for the three months ended September 30, 2007 and 2006, respectively, and 163,724 and 97,600 weighted average restricted stock awards are excluded from diluted weighted average common shares outstanding for the nine months ended September 30, 2007 and 2006, respectively, because they would be anti-dilutive due to the Company's loss position for these periods.

### 3. Property Acquisitions

In January 2007, the Company acquired a 248-unit, 752-bed property (Village on Sixth) located near the campus of Marshall University in Huntington, West Virginia, for a purchase price of \$25.6 million, which excludes \$1.7 million of anticipated transaction costs, initial integration expenses and capital expenditures necessary to bring this property up to the Company's operating standards. As part of the transaction, the Company assumed two fixed-rate mortgage loans, which includes one for \$16.2 million with an annual interest rate of 5.5% and remaining term to maturity of 7.5 years and a second loan for \$1.4 million with an annual interest rate of 6.6% and remaining term to maturity of 9.9 years.

In February 2007, the Company acquired a three property portfolio (the "Edwards Portfolio") for a purchase price of \$102.0 million, which excludes \$3.7 million of anticipated transaction costs, initial integration expenses and capital expenditures necessary to bring these properties up to the Company's operating standards. As part of the transaction, the Company assumed \$70.7 million in fixed-rate mortgage debt with a weighted average annual interest rate of 5.7% and an average remaining term to maturity of 8.5 years. In August 2007, construction was completed on an additional phase at one of these properties. As contemplated in the original transaction, concurrent with the completion of construction in August 2007, the Company purchased this additional phase consisting of 24 units and 84 beds, for approximately \$4.6 million.

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The Edwards Portfolio consists of one property in Lexington, Kentucky located near the campus of the University of Kentucky, one property in Toledo, Ohio located near the campus of the University of Toledo and one property in Ypsilanti, Michigan located near the campus of Eastern Michigan University. Including the purchase of the additional phase discussed above, these three properties contain 764 units and 1,971 beds.

The acquired properties' results of operations have been included in the accompanying consolidated statements of operations since their respective acquisition closing dates. The following pro forma information for the three and nine months ended September 30, 2007 and 2006 presents consolidated financial information for the Company as if the property acquisitions discussed above, the Company's 2006 acquisitions and the Company's September 2006 equity offering had occurred at the beginning of the earliest period presented. The unaudited pro forma information is provided for informational purposes only and is not indicative of results that would have occurred or which may occur in the future:

|                              | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |             |
|------------------------------|---------------------------|-------------|--------------------------|-------------|
|                              | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|                              | <b>2007</b>               | <b>2006</b> | <b>2007</b>              | <b>2006</b> |
| Total revenues               | \$ 36,518                 | \$ 34,449   | \$ 107,072               | \$ 101,340  |
| Net loss                     | \$ (2,105)                | \$ (2,413)  | \$ (6,411)               | \$ (1,881)  |
| Net loss per share – basic   | \$ (0.09)                 | \$ (0.11)   | \$ (0.28)                | \$ (0.08)   |
| Net loss per share – diluted | \$ (0.09)                 | \$ (0.10)   | \$ (0.27)                | \$ (0.08)   |

#### 4. Property Disposition and Discontinued Operations

The Company sold The Village on University, an owned off-campus property, in December 2006 for approximately \$51.0 million, resulting in net cash proceeds of approximately \$50.0 million. As such, the net income attributable to this property is reflected in the accompanying consolidated statements of operations as discontinued operations in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Below is a summary of the results of operations of the aforementioned property for all periods presented:

|                           | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |             |
|---------------------------|---------------------------|-------------|--------------------------|-------------|
|                           | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|                           | <b>2007</b>               | <b>2006</b> | <b>2007</b>              | <b>2006</b> |
| Total revenues            | \$ -                      | \$ 991      | \$ -                     | \$ 3,739    |
| Total operating expenses  | -                         | (716)       | -                        | (2,094)     |
| Operating income          | -                         | 275         | -                        | 1,645       |
| Total nonoperating income | -                         | 3           | -                        | 3           |
| Net income                | \$ -                      | \$ 278      | \$ -                     | \$ 1,648    |

#### 5. Investments in Owned Properties

Owned properties consisted of the following:

|                                   | <b>September</b> | <b>December</b> |
|-----------------------------------|------------------|-----------------|
|                                   | <b>30, 2007</b>  | <b>31, 2006</b> |
| Land                              | \$ 92,087        | \$ 75,263       |
| Buildings and improvements        | 768,322          | 579,906         |
| Furniture, fixtures and equipment | 41,949           | 28,111          |
| Construction in progress          | 64,704           | 56,958          |

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|                               |                   |                   |
|-------------------------------|-------------------|-------------------|
|                               | 967,062           | 740,238           |
| Less accumulated depreciation | (63,713)          | (46,041)          |
| <b>Owned properties, net</b>  | <b>\$ 903,349</b> | <b>\$ 694,197</b> |

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**6. On-Campus Participating Properties**

The Company is a party to ground/facility lease agreements (“Leases”) with certain state university systems and colleges (each, a “Lessor”) for the purpose of developing, constructing, and operating student housing facilities on university campuses. Under the terms of the Leases, title to the constructed facilities is held by the applicable Lessor and such Lessor receives a de minimus base rent paid at inception and 50% of defined net cash flows on an annual basis through the term of the lease. The Leases terminate upon the earlier to occur of the final repayment of the related debt, the amortization period of which is contractually stipulated, or the end of the lease term.

Pursuant to the Leases, in the event the leasehold estates do not achieve Financial Break Even (defined as revenues less operating expenses, excluding management fees, less debt service), the applicable Lessor would be required to make a rental payment, also known as the Contingent Payment, sufficient to achieve Financial Break Even. The Contingent Payment provision remains in effect until such time as any financing placed on the facilities would receive an investment grade rating without the Contingent Payment provision. In the event that the Lessor is required to make a Contingent Payment, future net cash flow distributions would be first applied to repay such Contingent Payments and then to unpaid management fees prior to normal distributions. Beginning in November 1999 and December 2002, as a result of the debt financing on the facilities achieving investment grade ratings without the Contingent Payment provision, the Texas A&M University System is no longer required to make Contingent Payments under either the Prairie View A&M University Village or University College Leases. The Contingent Payment obligation continues to be in effect for the Texas A&M International University and University of Houston Leases.

In the event the Company seeks to sell its leasehold interest, the Leases provide the applicable Lessor with the right of first refusal of a bona fide purchase offer and an option to purchase the lessee’s rights under the applicable Lease.

In conjunction with the execution of each Lease, the Company has entered into separate five-year agreements to manage the related facilities for 5% of defined gross receipts. The five-year terms of the management agreements are not contingent upon the continuation of the Leases. Upon expiration of the initial five year terms, the agreements continue on a month-to-month basis.

On-campus participating properties are as follows:

| Lessor/University   | Lease<br>Commencement | Required Debt<br>Repayment <sup>(1)</sup> | Historical Cost       |                      |
|---|-----------------------|---|-----------------------|----------------------|
|   |                       |   | September<br>30, 2007 | December<br>31, 2006 |
| Texas A&M University System /<br>Prairie View A&M University <sup>(2)</sup> | 2/1/96                | 9/1/23                                    | \$ 38,458             | \$ 38,277            |
| Texas A&M University System /<br>Texas A&M International                    | 2/1/96                | 9/1/23                                    | 6,033                 | 6,009                |
| Texas A&M University System /<br>Prairie View A&M University <sup>(3)</sup> | 10/1/99               | 8/31/25 / 8/31/28                         | 24,011                | 23,872               |
| University of Houston System /<br>University of Houston <sup>(4)</sup>      | 9/27/00               | 8/31/35                                   | 34,686                | 34,628               |
|   |                       |   | 103,188               | 102,786              |
| Less accumulated amortization   |                       |   | (29,292)              | (26,098)             |
| <b>On-campus participating properties,<br/>net</b>                          |                       |   | <b>\$ 73,896</b>      | <b>\$ 76,688</b>     |

(1)

Represents the effective lease termination date. The Leases terminate upon the earlier to occur of the final repayment of the related debt or the end of the contractual lease term.

- (2) Consists of three phases placed in service between 1996 and 1998.
- (3) Consists of two phases placed in service in 2000 and 2003.
- (4) Consists of two phases placed in service in 2001 and 2005.

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## 7. Minority Interests

The Company consolidates the accounts of the Operating Partnership and its subsidiaries into its consolidated financial statements. However, the Company does not own 100% of the Operating Partnership and certain consolidated real estate joint ventures. The amounts reported as minority interests on the Company's consolidated balance sheet reflect the portion of these consolidated entities' equity that the Company does not own. Accordingly, the amounts reported as minority interest on the Company's consolidated statements of operations reflect the portion of these consolidated entities' net income or loss not allocated to the Company.

Equity interests in the Operating Partnership not owned by the Company are held in the form of PIUs, Common Units and Series A Preferred Units. PIUs are a special class of partnership interests in the Operating Partnership and are convertible into an equal number of Common Units upon the occurrence of certain tax-related book-up events. Common Units and Series A Preferred Units are exchangeable into an equal number of shares of the Company's common stock, or, at the Company's election, cash. A PIU, Common Unit and a share of the Company's common stock have essentially the same economic characteristics, as they effectively participate equally in the net income and distributions of the Operating Partnership. Series A Preferred Units have a cumulative preferential per annum cash distribution rate of 5.99%, payable quarterly concurrently with the payment of dividends on the Company's common stock.

Income or loss allocated to minority interests on the Company's consolidated statements of operations includes the Series A Preferred Unit distributions as well as the pro rata share of the Operating Partnership's net income or loss allocated to PIUs and Common Units. The Common Unitholders' minority interest in the Operating Partnership is reported at an amount equal to their ownership percentage of the net equity of the Operating Partnership at the end of each reporting period. Common Units and Series A Preferred Units issued in connection with the 2006 acquisition of the Royal Portfolio became exchangeable into an equal number of shares of the Company's common stock on March 1, 2007. Subsequent to such date, 153,965 and 662,324 Common Units were converted into shares of the Company's common stock during the three and nine months ended September 30, 2007, respectively. Additionally, as partial consideration for the vesting of the Outperformance Bonus Plan, which occurred on August 17, 2007, 132,400 PIUs were issued to certain employees (see Note 9). As of September 30, 2007 and December 31, 2006, approximately 7% and 9%, respectively, of the equity interests of the Operating Partnership was held by persons affiliated with Royal Properties and certain current and former members of management in the form of PIUs, Common Units and Series A Preferred Units.

Minority interests also include the equity interests of unaffiliated joint venture partners in four joint ventures consolidated by the Company for financial reporting purposes. Three of the joint ventures own and operate the Company's Callaway House, University Village at Sweet Home and University Centre owned-off campus properties. The other joint venture was formed to develop, own, and operate the Company's Villas at Chestnut Ridge owned off-campus property, which is scheduled to open for occupancy in August 2008.

## 8. Debt

A summary of the Company's outstanding consolidated indebtedness, including unamortized debt premiums and discounts, is as follows:

|                                   | <b>September<br/>30, 2007</b> | <b>December<br/>31, 2006</b> |
|-----------------------------------|-------------------------------|------------------------------|
| Debt secured by owned properties: |                               |                              |
| Mortgage loans payable            | \$ 398,811                    | \$ 315,044                   |

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|   |                   |                   |
|---|-------------------|-------------------|
| Construction loans payable                          | 52,000            | 21,386            |
|   | 450,811           | 336,430           |
| Debt secured by on-campus participating properties: |                   |                   |
| Mortgage loans payable                              | 33,155            | 16,513            |
| Construction loan payable                           | -                 | 16,710            |
| Bonds payable                                       | 55,030            | 56,675            |
|   | 88,185            | 89,898            |
| Revolving credit facility                           | 47,900            | -                 |
| Unamortized debt premiums/discounts                 | 4,689             | 5,966             |
| <b>Total debt</b>                                   | <b>\$ 591,585</b> | <b>\$ 432,294</b> |

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***Loans Assumed or Entered Into in Conjunction with Property Acquisitions***

In connection with the January 2007 acquisition of Village on Sixth (see Note 3), an owned off-campus property, the Company assumed approximately \$17.6 million of fixed-rate mortgage debt, which is comprised of one \$16.2 million mortgage loan with an annual interest rate of 5.5% and May 2014 maturity date, and a second mortgage loan for \$1.4 million with an annual interest rate of 6.6% and October 2016 maturity date. Upon assumption of this debt, the Company recorded a debt discount of approximately \$0.3 million on the \$16.2 million mortgage loan and a debt premium of approximately \$0.1 million on the \$1.4 million mortgage loan, in each case to reflect the estimated fair value of the debt assumed. These mortgage loans are secured by liens on the related properties.

In connection with the February 2007 acquisition of the Edwards Portfolio (see Note 3), the Company assumed approximately \$70.7 million in fixed-rate mortgage debt. At the time of assumption, the debt had a weighted average interest rate of 5.7% and an average remaining term to maturity of 8.3 years. Upon assumption of these three loans, the Company recorded debt premiums of approximately \$0.1 million to reflect the estimated fair value of the debt assumed. These three mortgage loans are secured by liens on the related properties.

***Construction Loans***

The development and construction of Vista del Sol, an owned on-campus property scheduled to complete construction and open for occupancy in August 2008, is partially financed with a construction loan. The loan amount is \$100.0 million and for each borrowing the Company has the option of choosing the Prime rate or one-, two-, or three-month LIBOR plus 1.45%. The loan requires payments of interest only during the term of the loan and any accrued interest and outstanding borrowings become due on the maturity date of December 27, 2009. The term of the loan can be extended through December 2011 through the exercise of two 12-month extension periods. The Company began making draws under this construction loan during the three months ended September 30, 2007. As of September 30, 2007, the balance outstanding on this construction loan totaled \$5.7 million, bearing interest at a rate of 7.08%.

The development and construction of Villas at Chestnut Ridge, an owned off-campus property scheduled to complete construction and open for occupancy in August 2008, is partially financed with a construction loan. The loan amount is \$31.6 million and for each borrowing the Company has the option of choosing the Prime rate or one-, two-, three-, or six-month LIBOR plus 1.25%. The loan requires payments of interest only during the term of the loan and any accrued interest and outstanding borrowings become due on the maturity date of June 4, 2009. The term of the loan can be extended through June 2010 through the exercise of a 12-month extension period. The Company began making draws under this construction loan during the three months ended September 30, 2007. As of September 30, 2007, the balance outstanding on this construction loan totaled \$2.7 million, bearing interest at a weighted average rate of 6.59%.

***Cullen Oaks Loans***

In addition, in February 2007, the Company extended the maturity date of the Cullen Oaks Phase I and Phase II loans to February 2014. The extended loans bear interest at a rate of LIBOR plus 1.35% and require payments of interest only through May 2008 and monthly payments of principal and interest from May 2008 through the maturity date. In connection with these loan extensions, the Company terminated an existing interest rate swap agreement and entered into a new interest rate swap agreement (see Note 10).

***Revolving Credit Facility***

The Operating Partnership has a \$115 million revolving credit facility, which may be expanded by up to an additional \$110 million upon the satisfaction of certain conditions. The maturity date of the facility is August 17, 2009 and the Company guarantees the Operating Partnership's obligations under the facility.

Availability under the revolving credit facility is limited to an "aggregate borrowing base amount" equal to the lesser of (i) 65% of the value of certain properties, calculated as set forth in the credit facility, and (ii) the adjusted net operating income from these properties divided by a formula amount. The facility bears interest at a variable rate, at the Company's option, based upon a base rate or one-, two-, three-, or six-month LIBOR plus, in each case, a spread based upon the Company's total leverage. Additionally, the Company is required to pay an unused commitment fee ranging from 0.15% to 0.20% per annum, depending on the aggregate unused balance. As of September 30, 2007, the balance outstanding on the revolving credit facility totaled \$47.9 million, bearing interest at a weighted average rate of 6.94%, with remaining availability under the facility (subject to the satisfaction of certain financial covenants) totaling approximately \$66.8 million. In October 2007, the Company paid off the entire balance on the revolving credit facility by using proceeds from an equity offering (See Note 13).

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The terms of the facility include certain restrictions and covenants, which limit, among other items, the incurrence of additional indebtedness, liens, and the disposition of assets. The facility contains customary affirmative and negative covenants and also contains financial covenants that, among other things, require the Company to maintain certain minimum ratios of "EBITDA" (earnings before interest, taxes, depreciation and amortization) to fixed charges. The Company may not pay distributions that exceed 100% of funds from operations for any four consecutive quarters. The financial covenants also include consolidated net worth and leverage ratio tests. As of September 30, 2007, the Company was in compliance with all such covenants.

### 9. Incentive Award Plan

The Company has adopted the 2004 Incentive Award Plan (the "Plan"). The Plan provides for the grant to selected employees and directors of the Company and the Company's affiliates of stock options, RSUs, RSAs, and other stock-based incentive awards. The Company has reserved a total of 1,210,000 shares of the Company's common stock for issuance pursuant to the Plan, subject to certain adjustments for changes in the Company's capital structure, as defined in the Plan. As of September 30, 2007, the Company has issued 484,173 awards under the Plan. A summary of the Company's stock-based incentive awards under the Plan as of September 30, 2007 and changes during the nine months ended September 30, 2007, is presented below:

|                                      | <b>Common<br/>Units /<br/>PIUs</b> | <b>Restricted<br/>Stock Units<br/>(RSUs)</b> | <b>Restricted<br/>Stock<br/>Awards<br/>(RSAs)</b> | <b>Total</b> |
|--------------------------------------|------------------------------------|--|---|--------------|
| Outstanding at<br>December 31, 2006  | 110,000                            | 20,555                                       | 100,047   | 230,602      |
| Granted                              | 132,400 <sup>(1)</sup>             | 5,376 <sup>(2)</sup>                         | 110,890 <sup>(4)</sup>                            | 248,666      |
| Vested / Settled in<br>common shares | -                                  | (4,029) <sup>(3)</sup>                       | (18,073)  | (22,102)     |
| Settled in cash                      |                                    | (3,116) <sup>(3)</sup>                       | -   | (3,116)      |
| Forfeited                            | -                                  | -  | (12,552)  | (12,552)     |
| Converted to common<br>shares        | (1,000)                            | -  | -   | (1,000)      |
| Outstanding at<br>September 30, 2007 | 241,400                            | 18,786                                       | 180,312   | 440,498      |

- <sup>(1)</sup> The Outperformance Bonus Plan was adopted upon consummation of the Company's IPO in August 2004, and consisted of awards to key employees equal to the value of 367,682 shares of the Company's common stock. Such awards vested on the third anniversary of the IPO (August 2007), upon the Company's achievement of specified performance measures. Upon vesting, the Compensation Committee of the Board of Directors exercised its permitted discretion and granted 132,400 of the awards to selected recipients in the form of PIUs, with the remainder of the awards paid in cash in the amount of \$6.7 million. During the three and nine months ended September 30, 2007, the Company recorded a compensation charge of approximately \$0.5 million and \$10.4 million to reflect the value of such awards. As a result of the October 2007 equity offering discussed in Note 13, a book-up event occurred for tax purposes, resulting in the 132,400 PIUs being converted to Common Units of the Operating Partnership.

- (2) In May 2007, one outside member of the Board of Directors was granted RSUs valued at \$35,000 and the remaining outside members were each granted RSUs valued at \$25,000, with the number of RSUs determined based on the fair market value of the company's stock on the date of grant, as defined in the Plan. All awards vested immediately on the date of grant; accordingly, a compensation charge of approximately \$0.2 million was recorded during the nine months ended September 30, 2007 related to these awards.
- (3) On August 17, 2004, in conjunction with the IPO, 7,145 RSUs were granted to certain outside members of the Board of Directors and these awards vested immediately on the date of grant. On August 17, 2007, the third anniversary of the date of grant, as determined by the Compensation Committee of the Board of Directors, 4,029 RSUs were settled through the delivery of shares of common stock and 3,116 RSUs were settled in cash.
- (4) In 2007, the Company granted 110,890 RSAs to its executive officers and certain employees that primarily vest in equal annual installments over five years. Unvested awards are forfeited upon the termination of an individual's employment with the Company. Recipients of RSAs receive dividends, as declared by the Company's Board of Directors, on unvested shares provided that the respective recipient continues to be an employee of the Company.

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**10. Interest Rate Hedges**

In February 2007, the Company extended the maturity date of the Cullen Oaks Phase I and Phase II loans to February 2014. The extended loans bear interest at a rate of LIBOR plus 1.35% and require payments of interest only through May 2008 and monthly payments of principal and interest from May 2008 through the maturity date. In connection with these loan extensions, the Company terminated the existing interest rate swap agreement and received a termination payment from the lender of approximately \$0.4 million. In accordance with SFAS No. 133, the \$0.4 million gain will be amortized from accumulated other comprehensive income to earnings over the remaining term of the terminated interest rate swap agreement (through November 2008).

In addition, the Company entered into an interest rate swap agreement effective February 15, 2007 through February 15, 2014, that is designated to hedge its exposure to fluctuations in interest payments attributed to changes in interest rates associated with payments on the Cullen Oaks Phase I and Phase II loans. Under the terms of the interest rate swap agreement, the Company pays a fixed rate of 6.69% and receives a floating rate of LIBOR plus 1.35%. The interest rate swap had an estimated negative fair value of approximately \$0.9 million at September 30, 2007 and is reflected in other liabilities in the accompanying consolidated balance sheets. Ineffectiveness resulting from the Company's hedges is not material.

**11. Commitments and Contingencies**

*Commitments*

*Development-related guarantees:* The Company commonly provides alternate housing and project cost guarantees, subject to force majeure. These guarantees are typically limited, on an aggregate basis, to the amount of the projects' related development fees or a contractually agreed-upon maximum exposure amount. Alternate housing guarantees typically expire five days after construction is complete and generally require the Company to provide substitute living quarters and transportation for students to and from the university if the project is not complete by an agreed-upon completion date. Under project cost guarantees, the Company is responsible for the construction cost of a project in excess of an approved budget. The budget consists primarily of costs included in the general contractors' guaranteed maximum price contract ("GMP"). In most cases, the GMP obligates the general contractor, subject to force majeure and approved change orders, to provide completion date guarantees and to cover cost overruns and liquidated damages. In addition, the GMP is typically secured with payment and performance bonds. Project cost guarantees expire upon completion of certain developer obligations, which are normally satisfied within one year after completion of the project.

On one completed project, the Company has guaranteed losses up to \$3.0 million in excess of the development fee if the loss is due to any failure of the Company to maintain, or cause its professionals to maintain, required insurance for a period of five years after completion of the project (August 2009).

The Company's estimated maximum exposure amount under the above guarantees is approximately \$10.2 million

At September 30, 2007, management did not anticipate any material deviations from schedule or budget related to third-party development projects currently in progress. The Company has estimated the fair value of guarantees entered into or modified after December 31, 2002, the effective date of FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, to be immaterial.

In the normal course of business, the Company enters into various development-related purchase commitments with parties that provide development-related goods and services. In the event that the Company was to terminate development services prior to the completion of projects under construction, the Company could potentially be committed to satisfy outstanding purchase orders with such parties.

***Contingencies***

*Litigation:* The Company is subject to various claims, lawsuits, and legal proceedings. While it is not possible to ascertain the ultimate outcome of such matters, management believes that the aggregate amount of such liabilities, if any, in excess of amounts provided or covered by insurance, will not have a material adverse effect on the consolidated financial position or results of operations of the Company.

**AMERICAN CAMPUS COMMUNITIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*Letters of Intent:* In the ordinary course of the Company's business, the Company enters into letters of intent indicating a willingness to negotiate for acquisitions, dispositions or joint ventures. Such letters of intent are non-binding, and neither party to the letter of intent is obligated to pursue negotiations unless and until a definitive contract is entered into by the parties. Even if definitive contracts are entered into, the letters of intent relating to the acquisition and disposition of real property and resulting contracts generally contemplate that such contracts will provide the acquirer with time to evaluate the property and conduct due diligence, during which periods the acquiror will have the ability to terminate the contracts without penalty or forfeiture of any deposit or earnest money. There can be no assurance that definitive contracts will be entered into with respect to any matter covered by letters of intent or that the Company will consummate any transaction contemplated by any definitive contract. Furthermore, due diligence periods for real property are frequently extended as needed. An acquisition or disposition of real property becomes probable at the time that the due diligence period expires and the definitive contract has not been terminated. The Company is then at risk under a real property acquisition contract, but only to the extent of any earnest money deposits associated with the contract, and is obligated to sell under a real property sales contract.

*Environmental Matters:* The Company is not aware of any environmental liability with respect to the properties that would have a material adverse effect on the Company's business, assets or results of operations. However, there can be no assurance that such a material environmental liability does not exist. The existence of any such material environmental liability could have an adverse effect on the Company's results of operations and cash flows.

## **12. Segments**

The Company defines business segments by their distinct customer base and service provided. The Company has identified four reportable segments: Owned Off-Campus Properties, On-Campus Participating Properties, Development Services, and Property Management Services. Management evaluates each segment's performance based on operating income before depreciation, amortization, minority interests and allocation of corporate overhead. Intercompany fees are reflected at the contractually stipulated amounts.

**AMERICAN CAMPUS COMMUNITIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

|   | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |             |
|---|---------------------------|-------------|--------------------------|-------------|
|   | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|   | <b>2007</b>               | <b>2006</b> | <b>2007</b>              | <b>2006</b> |
| <b>Owned Off-Campus Properties</b>  |                           |             |                          |             |
| Rental revenues   | \$ 30,425                 | \$ 24,668   | \$ 86,241                | \$ 65,680   |
| Interest income   | 74                        | 79          | 245                      | 127         |
| Total revenues from external customers  | 30,499                    | 24,747      | 86,486                   | 65,807      |
| Operating expenses before depreciation and amortization   | 16,307                    | 13,105      | 41,024                   | 31,402      |
| Interest expense  | 6,464                     | 5,113       | 18,020                   | 13,788      |
| Operating income before depreciation and amortization, minority interests and allocation of corporate overhead        | \$ 7,728                  | \$ 6,529    | \$ 27,442                | \$ 20,617   |
| Depreciation and amortization   | \$ 6,586                  | \$ 5,563    | \$ 18,972                | \$ 15,201   |
| Capital expenditures  | \$ 48,903                 | \$ 26,260   | \$ 92,863                | \$ 66,209   |
| Total segment assets at September 30,   | \$ 935,416                | \$ 710,141  | \$ 935,416               | \$ 710,141  |
| <b>On-Campus Participating Properties</b>   |                           |             |                          |             |
| Rental revenues   | \$ 4,083                  | \$ 3,971    | \$ 14,160                | \$ 13,450   |
| Interest income   | 116                       | 102         | 285                      | 255         |
| Total revenues from external customers  | 4,199                     | 4,073       | 14,445                   | 13,705      |
| Operating expenses before depreciation, amortization, and ground/facility leases                                      | 2,163                     | 2,305       | 6,372                    | 6,217       |
| Ground/facility leases  | 473                       | 238         | 1,263                    | 676         |
| Interest expense  | 1,548                     | 1,638       | 4,683                    | 4,838       |
| Operating income (loss) before depreciation and amortization, minority interests and allocation of corporate overhead | \$ 15                     | \$ (108)    | \$ 2,127                 | \$ 1,974    |
| Depreciation and amortization   | \$ 1,068                  | \$ 1,037    | \$ 3,194                 | \$ 3,083    |
| Capital expenditures  | \$ 175                    | \$ 275      | \$ 402                   | \$ 395      |
| Total segment assets at September 30,   | \$ 86,206                 | \$ 88,735   | \$ 86,206                | \$ 88,735   |
| <b>Development Services</b>   |                           |             |                          |             |
| Development and construction management fees from external customers  | \$ 1,383                  | \$ 1,729    | \$ 2,434                 | \$ 4,463    |
| Intersegment revenues   | -                         | -           | -                        | -           |
| Total revenues  | 1,383                     | 1,729       | 2,434                    | 4,463       |
| Operating expenses  | 1,543                     | 1,150       | 3,978                    | 3,618       |
| Operating (loss) income before depreciation and amortization, minority interests and allocation of corporate overhead | \$ (160)                  | \$ 579      | \$ (1,544)               | \$ 845      |
| Total segment assets at September 30,   | \$ 3,598                  | \$ 6,275    | \$ 3,598                 | \$ 6,275    |
| <b>Property Management Services</b>   |                           |             |                          |             |
| Property management fees from external customers  | \$ 627                    | \$ 491      | \$ 1,999                 | \$ 1,844    |
| Intersegment revenues   | 1,043                     | 862         | 3,084                    | 2,535       |
| Total revenues  | 1,670                     | 1,353       | 5,083                    | 4,379       |
| Operating expenses  | 644                       | 577         | 2,014                    | 1,865       |

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Operating income before depreciation and amortization,  
minority

|  |          |          |          |          |
|--|----------|----------|----------|----------|
| interests and allocation of corporate overhead | \$ 1,026 | \$ 776   | \$ 3,069 | \$ 2,514 |
| Total segment assets at September 30,          | \$ 1,851 | \$ 1,296 | \$ 1,851 | \$ 1,296 |

**Reconciliations**

|   |              |            |              |            |
|---|--------------|------------|--------------|------------|
| Total segment revenues  | \$ 37,751    | \$ 31,902  | \$ 108,448   | \$ 88,354  |
| Unallocated interest income earned on corporate cash  | 31           | 113        | 712          | 241        |
| Elimination of intersegment revenues  | (1,043)      | (862)      | (3,084)      | (2,535)    |
| Total consolidated revenues, including interest income  | \$ 36,739    | \$ 31,153  | \$ 106,076   | \$ 86,060  |
| Segment operating income before depreciation,<br>amortization,<br>minority interests and allocation of corporate overhead | \$ 8,609     | \$ 7,776   | \$ 31,094    | \$ 25,950  |
| Depreciation and amortization, including amortization of<br>deferred<br>financing costs                                   | (8,121)      | (7,069)    | (23,471)     | (19,750)   |
| Net unallocated expenses relating to corporate overhead   | (2,358)      | (2,745)    | (15,068)     | (8,064)    |
| Income tax provision  | (576)        | -          | (696)        | -          |
| Minority interests  | 77           | 149        | 309          | 202        |
| Loss from continuing operations   | \$ (2,369)   | \$ (1,889) | \$ (7,832)   | \$ (1,662) |
| Total segment assets at September 30,   | \$ 1,027,071 | \$ 806,447 | \$ 1,027,071 | \$ 806,447 |
| Unallocated corporate assets and assets held for sale   | 5,346        | 57,982     | 5,346        | 57,982     |
| Total assets at September 30,   | \$ 1,032,417 | \$ 864,429 | \$ 1,032,417 | \$ 864,429 |

**AMERICAN CAMPUS COMMUNITIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**13. Subsequent Events**

*October 2007 Equity Offering:*

On October 10, 2007, the Company completed an equity offering, consisting of the sale of 3,500,000 shares of the Company's common stock at a price of \$28.29 per share, resulting in gross proceeds of approximately \$99.0 million. The company received approximately \$98.7 million in net proceeds after deducting estimated expenses of approximately \$0.3 million. The Company used \$47.9 million to repay the outstanding balance on its revolving credit facility and \$43.9 million to repay the outstanding balance on the University Centre construction loan.

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

### ***Forward-looking Statements***

This report contains forward-looking statements within the meaning of the federal securities laws. We caution investors that any forward-looking statements presented in this report, or which management may make orally or in writing from time to time, are based on management’s beliefs and assumptions made by, and information currently available to, management. When used, the words “anticipate,” “believe,” “expect,” “intend,” “may,” “might,” “plan,” “e,” “project,” “should,” “will,” “result” and similar expressions, which do not relate solely to historical matters, are intended to identify forward-looking statements. Such statements are subject to risks, uncertainties and assumptions and may be affected by known and unknown risks, trends, uncertainties and factors that are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected. We caution you that while forward-looking statements reflect our good faith beliefs when we make them, they are not guarantees of future performance and are impacted by actual events when they occur after we make such statements. We expressly disclaim any responsibility to update forward-looking statements, whether as a result of new information, future events or otherwise. Accordingly, investors should use caution in relying on past forward-looking statements, which are based on results and trends at the time they were made, to anticipate future results or trends.

Some of the risks and uncertainties that may cause our actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements include, among others, the following: general risks affecting the real estate industry (including, without limitation, the inability to enter into or renew leases, dependence on tenants’ financial condition, and competition from other developers, owners and operators of real estate); risks associated with changes in University admission or housing policies; risks associated with the availability and terms of financing and the use of debt to fund acquisitions and developments; failure to manage effectively our growth and expansion into new markets or to integrate acquisitions successfully; risks and uncertainties affecting property development and construction (including, without limitation, construction delays, cost overruns, inability to obtain necessary permits and public opposition to such activities); risks associated with downturns in the national and local economies, increases in interest rates, and volatility in the securities markets; costs of compliance with the Americans with Disabilities Act and other similar laws; potential liability for uninsured losses and environmental contamination; risks associated with our potential failure to qualify as a REIT under the Internal Revenue Code of 1986 (the “Code”), as amended, and possible adverse changes in tax and environmental laws; and risks associated with our dependence on key personnel whose continued service is not guaranteed.

The risks included here are not exhaustive, and additional factors could adversely affect our business and financial performance, including factors and risks included in other sections of this report. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

### ***Our Company and Our Business***

American Campus Communities, Inc. (referred to herein as “the Company,” “us,” “we,” and “our”) is a real estate investment trust (“REIT”) that was incorporated on March 9, 2004 and commenced operations effective with the completion of our initial public offering (“IPO”) on August 17, 2004. Through our controlling interest in American Campus Communities Operating Partnership LP (the “Operating Partnership”) and American Campus Communities Services, Inc., (our taxable REIT subsidiary or “TRS”), we are one of the largest owners, managers and developers of high quality student housing properties in the United States in terms of beds owned and under management. We are a fully integrated,

self-managed and self-administered equity REIT with expertise in the acquisition, design, financing, development, construction management, leasing and management of student housing properties.

As of September 30, 2007, our property portfolio contained 43 student housing properties with approximately 26,900 beds and approximately 8,900 apartment units, consisting of 39 owned properties that are in close proximities to colleges and universities and four on-campus participating properties operated under ground/facility leases with the related university systems. These communities contain modern housing units, offer resort-style amenities and are supported by a resident assistant system and other student-oriented programming.

Through the TRS, we also provide construction management and development services for student housing properties owned by colleges and universities, charitable foundations, and others. As of September 30, 2007, we provided third party management and leasing services for 13 student housing properties (nine of which we served as the third party developer and construction manager) that represented approximately 8,900 beds in approximately 3,100 units. Third party management and leasing services are typically provided pursuant to multi-year management contracts that have initial terms that range from one to five years. As of September 30, 2007, our total owned and managed portfolio included 56 properties with approximately 35,800 beds in approximately 12,000 units.

### ***Third-Party Development Services***

Our third-party development and construction management services as of September 30, 2007 consisted of four projects under contract and currently in progress with fees ranging from \$0.2 million to \$3.1 million. As of September 30, 2007, fees of approximately \$1.6 million remained to be earned by us with respect to these projects, which have scheduled completion dates of October 2007 through July 2009.

We recently completed two projects with a total of approximately 1,100 beds in approximately 338 units, with total fees of approximately \$2.2 million.

While we believe that our third party development/construction management and property management services allow us to develop strong and key relationships with colleges and universities, revenue from this area has over time become a smaller portion of our operations due to the continued focus on and growth of our owned property portfolio. Nevertheless, we believe these services continue to provide synergies with respect to our ability to identify, acquire or develop, and successfully operate, student housing properties.

### ***Acquisitions***

In January 2007, we acquired a 248-unit, 752-bed property (Village on Sixth) located near the campus of Marshall University in Huntington, West Virginia, for a purchase price of \$25.6 million, which excludes \$1.7 million of anticipated transaction costs, initial integration expenses and capital expenditures necessary to bring this property up to our operating standards. As part of the transaction, we assumed two fixed-rate mortgage loans, which includes one for \$16.2 million with an annual interest rate of 5.5% and remaining term to maturity of 7.5 years and a second loan for \$1.4 million with an annual interest rate of 6.6% and remaining term to maturity of 9.9 years.

In February 2007, we acquired a three property portfolio (the "Edwards Portfolio") for a purchase price of \$102.0 million, which excludes \$3.7 million of anticipated transaction costs, initial integration expenses and capital expenditures necessary to bring these properties up to our operating standards. As part of the transaction, we assumed \$70.7 million in fixed-rate mortgage debt with a weighted average annual interest rate of 5.7% and an average remaining term to maturity of 8.5 years. In August 2007, construction was completed on an additional phase at one of these properties. As contemplated in the original transaction, concurrent with the completion of construction in August 2007, we purchased this additional phase consisting of 24 units and 84 beds, for approximately \$4.6 million.

The Edwards Portfolio consists of one property in Lexington, Kentucky located near the campus of the University of Kentucky, one property in Toledo, Ohio located near the campus of the University of Toledo and one property in Ypsilanti, Michigan located near the campus of Eastern Michigan University. Including the purchase of the additional phase discussed above, these three properties contain 763 units and 1,970 beds.

### ***Owned Development Activities***

*University Centre:* In August 2007, we completed the final stages of construction on this owned off-campus property located in Newark, New Jersey, which contains 838 beds in 234 units and serves students attending Newark and metro New York area colleges and universities. Total development costs incurred for the project were approximately \$77.8 million.

*Vista del Sol:* As of September 30, 2007, our Vista del Sol (formerly Arizona State University – South Campus Residential Community) owned on-campus property was under construction with total development costs estimated to be approximately \$137.5 million. The project, which is located in Tempe, Arizona, is scheduled to complete construction and open for occupancy in August 2008 and serves students attending Arizona State University. As of September 30, 2007, the project was approximately 42% complete, and we estimate that remaining development costs

will be approximately \$86.0 million. As of September 30, 2007, we have funded \$37.5 million of the project's development costs internally, with the remaining development costs to be funded through a construction loan. We began drawing under this construction loan during the third quarter 2007.

*Villas at Chestnut Ridge:* As of September 30, 2007, our Villas at Chestnut Ridge owned off-campus property was under construction with total development costs estimated to be approximately \$34.8 million. The project, which is located in Amherst, New York, is scheduled to complete construction and open for occupancy in August 2008, and serves students attending State University of New York - Buffalo. As of September 30, 2007, the project was approximately 44% complete, and we estimate that remaining development costs will be approximately \$18.8 million. As of September 30, 2007, we have funded \$3.2 million of the project's development costs internally, with the remaining development costs to be funded through a construction loan. We began drawing under this construction loan during the third quarter 2007.

**Property Operations**

As of September 30, 2007, our property portfolio consisted of the following:

| <b>PROPERTY</b>                           | <b>YEAR<br/>ACQUIRED /<br/>DEVELOPED<br/>(1)</b> | <b>LOCATION</b>                  | <b>PRIMARY<br/>UNIVERSITY<br/>SERVED</b>                     | <b>UNITS</b> | <b>BEDS</b> |
|---|--|----------------------------------|--|--------------|-------------|
| <b>Owned properties:</b>                  |  |                                  |  |              |             |
| 1. Villas on Apache                       | 1999   | Tempe, AZ                        | Arizona State<br>University Main<br>Campus                   | 111          | 288         |
| 2. The Village at<br>Blacksburg           | 2000   | Blacksburg,<br>VA                | Virginia<br>Polytechnic<br>Institute and<br>State University | 288          | 1,056       |
| 3. River Club<br>Apartments               | 1999   | Athens, GA                       | The University of<br>Georgia–Athens                          | 266          | 792         |
| 4. River Walk<br>Townhomes                | 1999   | Athens, GA                       | The University of<br>Georgia–Athens<br>College               | 100          | 336         |
| 5. The Callaway<br>House                  | 2001   | Station, TX                      | Texas A&M<br>University                                      | 173          | 538         |
| 6. The Village at<br>Alafaya Club         | 2000   | Orlando, FL                      | The University of<br>Central Florida                         | 228          | 839         |
| 7. The Village at<br>Science Drive        | 2001   | Orlando, FL                      | The University of<br>Central Florida                         | 192          | 732         |
| 8. University Village<br>at Boulder Creek | 2002   | Boulder, CO                      | The University of<br>Colorado at<br>Boulder                  | 82           | 309         |
| 9. University Village<br>at Fresno        | 2004   | Fresno, CA                       | California State<br>University, Fresno                       | 105          | 406         |
| 10. University Village<br>at TU           | 2004   | Philadelphia,<br>PA              | Temple University  | 220          | 749         |
| 11. University Club<br>Tallahassee        | 2005   | Tallahassee,<br>FL               | Florida State<br>University                                  | 152          | 608         |
| 12. The Grove at<br>University Club       | 2005   | Tallahassee,<br>FL               | Florida State<br>University                                  | 64           | 128         |
| 13. College Club<br>Tallahassee           | 2005   | Tallahassee,<br>FL               | Florida A&M<br>University                                    | 96           | 384         |
| 14. The Greens at<br>College Club         | 2005   | Tallahassee,<br>FL               | Florida A&M<br>University                                    | 40           | 160         |
| 15. University Club<br>Gainesville        | 2005   | Gainesville,<br>FL               | University of<br>Florida                                     | 94           | 376         |
| 16. City Parc at Fry<br>Street            | 2005   | Denton, TX<br>Gainesville,<br>FL | University of<br>North Texas<br>University of<br>Florida     | 136          | 418         |
| 17. The Estates                           | 2005   | FL                               | Florida  | 396          | 1,044       |
| 18. University Village<br>at Sweet Home   | 2005   | Amherst, NY                      | State University of<br>New York -                            | 269          | 828         |

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|  |      |                        |  |       |        |
|--|------|------------------------|--|-------|--------|
| 19. Entrada Real                               | 2006 | Tucson, AZ             | Buffalo<br>University of<br>Arizona          | 98    | 363    |
| 20. Royal Oaks                                 | 2006 | Tallahassee,<br>FL     | Florida State<br>University                  | 82    | 224    |
| 21. Royal Pavilion                             | 2006 | Tallahassee,<br>FL     | Florida State<br>University                  | 60    | 204    |
| 22. Royal Village<br>Tallahassee               | 2006 | Tallahassee,<br>FL     | Florida State<br>University                  | 75    | 288    |
| 23. Royal Village<br>Gainesville               | 2006 | Gainesville,<br>FL     | University of<br>Florida                     | 118   | 448    |
| 24. Northgate Lakes                            | 2006 | Orlando, FL            | The University of<br>Central Florida         | 194   | 710    |
| 25. Royal Lexington                            | 2006 | Lexington,<br>KY       | University of<br>Kentucky                    | 94    | 364    |
| 26. The Woods at<br>Greenland                  | 2006 | Murfreesboro,<br>TN    | Middle Tennessee<br>State University         | 78    | 276    |
| 27. Raiders Crossing                           | 2006 | Murfreesboro,<br>TN    | Middle Tennessee<br>State University         | 96    | 276    |
| 28. Raiders Pass                               | 2006 | Lubbock, TX            | Texas Tech<br>University                     | 264   | 828    |
| 29. Aggie Station                              | 2006 | College<br>Station, TX | Texas A&M<br>University                      | 156   | 450    |
| 30. The Outpost San<br>Marcos                  | 2006 | San Marcos,<br>TX      | Texas State<br>University - San<br>Marcos    | 162   | 486    |
| 31. The Outpost San<br>Antonio                 | 2006 | San Antonio,<br>TX     | University of<br>Texas - San<br>Antonio      | 276   | 828    |
| 32. Callaway Villas                            | 2006 | College<br>Station, TX | Texas A&M<br>University                      | 236   | 704    |
| 33. Village on Sixth                           | 2007 | Huntington,<br>WV      | Marshall<br>University                       | 248   | 752    |
| 34. Newtown<br>Crossing <sup>(2)</sup>         | 2007 | Lexington,<br>KY       | University of<br>Kentucky                    | 356   | 942    |
| 35. Olde Towne<br>University Square            | 2007 | Toledo, OH             | University of<br>Toledo                      | 224   | 550    |
| 36. Peninsular Place                           | 2007 | Ypsilanti, MI          | Eastern Michigan<br>University               | 183   | 478    |
| 37. University<br>Centre <sup>(3)</sup>        | 2007 | Newark, NJ             | Rutgers<br>University, NJIT,<br>Essex CCC    | 234   | 838    |
| 38. Vista del Sol <sup>(4)</sup>               | 2008 | Tempe, AZ              | Arizona State<br>University                  | 613   | 1,866  |
| 39. Villas at Chestnut<br>Ridge <sup>(4)</sup> | 2008 | Amherst, NY            | State University of<br>New York -<br>Buffalo | 196   | 552    |
| Total owned<br>properties                      |      |                        |  | 7,055 | 22,418 |



| <b>PROPERTY</b>                            | <b>YEAR<br/>ACQUIRED /<br/>DEVELOPED<br/>(1)</b> | <b>LOCATION</b>  | <b>PRIMARY<br/>UNIVERSITY<br/>SERVED</b> | <b>UNITS</b> | <b>BEDS</b>   |
|--|--|------------------|--|--------------|---------------|
| <b>On-campus participating properties:</b> |  |                  |  |              |               |
| 40. University Village—PVAMU               | 1996 / 97 / 98                                   | Prairie View, TX | Prairie View A&M University              | 612          | 1,920         |
| 41. University College—PVAMU               | 2000 / 2003                                      | Prairie View, TX | Prairie View A&M University              | 756          | 1,470         |
| 42. University Village—TAMIU               | 1997   | Laredo, TX       | Texas A&M International University       | 84           | 250           |
| 43. Cullen Oaks – Phase I and II           | 2001 / 2006                                      | Houston, TX      | The University of Houston                | 411          | 879           |
| Total on-campus participating properties   |  |                  |  | 1,863        | 4,519         |
| <b>Total – all properties</b>              |  |                  |  | <b>8,918</b> | <b>26,937</b> |

(1) As of September 30, 2007, the average age of our operating properties was approximately 7.2 years.

(2) In August 2007, construction was completed on an additional phase at this property. As contemplated in the original transaction, concurrent with the completion of construction, we purchased this additional phase consisting of 24 units and 84 beds, for approximately \$4.6 million.

(3) Construction was completed and the property commenced operations in August 2007.

(4) Currently under development with a scheduled completion date of August 2008.

*Results of Operations**Comparison of the Three Months Ended September 30, 2007 and September 30, 2006*

The following table presents our results of operations for the three months ended September 30, 2007 and 2006, including the amount and percentage change in these results between the two periods:

|   | Three Months Ended<br>September 30, |                   |                 | Change<br>(%) |
|---|-------------------------------------|-------------------|-----------------|---------------|
|   | 2007                                | 2006              | Change (\$)     |               |
| <b>Revenues:</b>  |                                     |                   |                 |               |
| Owned off-campus properties   | \$ 30,045                           | \$ 24,340         | \$ 5,705        | 23.4%         |
| On-campus participating properties  | 4,083                               | 3,971             | 112             | 2.8%          |
| Third party development services  | 1,383                               | 1,729             | (346)           | (20.0%)       |
| Third party management services   | 627                                 | 491               | 136             | 27.7%         |
| Resident services   | 380                                 | 328               | 52              | 15.9%         |
| <b>Total revenues</b>   | <b>36,518</b>                       | <b>30,859</b>     | <b>5,659</b>    | <b>18.3%</b>  |
| <b>Operating Expenses:</b>  |                                     |                   |                 |               |
| Owned off-campus properties   | 16,368                              | 13,178            | 3,190           | 24.2%         |
| On-campus participating properties  | 2,317                               | 2,455             | (138)           | (5.6%)        |
| Third party development and management services                           | 1,484                               | 1,338             | 146             | 10.9%         |
| General and administrative  | 2,286                               | 1,468             | 818             | 55.7%         |
| Depreciation and amortization   | 7,797                               | 6,735             | 1,062           | 15.8%         |
| Ground/facility leases  | 473                                 | 238               | 235             | 98.7%         |
| <b>Total operating expenses</b>   | <b>30,725</b>                       | <b>25,412</b>     | <b>5,313</b>    | <b>20.9%</b>  |
| <b>Operating income</b>   | <b>5,793</b>                        | <b>5,447</b>      | <b>346</b>      | <b>6.4%</b>   |
| <b>Nonoperating income and (expenses):</b>                                |                                     |                   |                 |               |
| Interest income   | 221                                 | 294               | (73)            | (24.8%)       |
| Interest expense  | (7,560)                             | (7,445)           | (115)           | 1.5%          |
| Amortization of deferred financing costs                                  | (324)                               | (334)             | 10              | (3.0%)        |
| <b>Total nonoperating expenses</b>  | <b>(7,663)</b>                      | <b>(7,485)</b>    | <b>(178)</b>    | <b>2.4%</b>   |
| Loss before income taxes, minority interests, and discontinued operations | (1,870)                             | (2,038)           | 168             | (8.2%)        |
| Income tax provision  | (576)                               | -                 | (576)           | 100.0%        |
| Minority interests  | 77                                  | 149               | (72)            | (48.3%)       |
| <b>Loss from continuing operations</b>                                    | <b>(2,369)</b>                      | <b>(1,889)</b>    | <b>(480)</b>    | <b>25.4%</b>  |
| Income attributable to discontinued operations                            | -                                   | 278               | (278)           | (100.0%)      |
| <b>Net loss</b>   | <b>\$ (2,369)</b>                   | <b>\$ (1,611)</b> | <b>\$ (758)</b> | <b>47.1%</b>  |

*Owned Properties Operations*

Revenues from our owned properties for the three months ended September 30, 2007 compared with the same period in 2006 increased by \$5.7 million primarily due to the acquisition of four properties during the first quarter of 2007 and the completion of construction and opening of an owned development project in August 2006 and another owned development project in August 2007. Operating expenses increased approximately \$3.2 million for the three months

ended September 30, 2007 compared with the same period in 2006, primarily due to the same factors which affected the increase in revenues.

*New Property Operations.* In January 2007, we acquired a 752-bed property (Village on Sixth) located near the campus of Marshall University in Huntington, West Virginia, and in February and August 2007, we acquired a three-property portfolio consisting of 1,970 beds serving students attending The University of Kentucky, the University of Toledo, and Eastern Michigan University (the “Edwards Portfolio”). In addition, in August 2006, we completed construction of and opened Callaway Villas, a 704-bed property serving students attending Texas A&M University and in August 2007 we completed construction of and opened University Centre, an 838-bed property serving students attending Newark and metro New York area colleges and universities. These new properties contributed \$4.8 million of additional revenues and \$3.2 million of additional operating expenses during the three months ended September 30, 2007 as compared to the three months ended September 30, 2006.

*Same Store Property Operations (Excluding New Property Activity).* We had 31 properties containing 15,736 beds which were operating during both the three months ended September 30, 2007 and 2006. These properties produced revenues of \$25.0 million and \$24.0 million during the three months ended September 30, 2007 and 2006, respectively, an increase of \$1.0 million. This increase was primarily due to an increase in average rental rates during the three months ended September 30, 2007 as compared to the same period in 2006, as well as the improved lease up for the 2007/2008 academic year, which resulted in average occupancy rates increasing to 96.8% during the three months ended September 30, 2007 from 95.3% during the three months ended September 30, 2006. Future revenues will be dependent on, among other items, our ability to maintain our current leases in effect for the 2007/2008 academic year and our ability to obtain appropriate rental rates and desired occupancy for the 2008/2009 academic year at our various properties during our leasing period, which typically begins in January and ends in August.

At these existing properties, operating expenses remained relatively constant at \$12.9 and \$13.0 million during the three months ended September 30, 2007 and 2006, respectively. We anticipate that operating expenses for the full year 2007 will increase slightly as compared with 2006 as a result of expected increases in insurance costs, utility costs, property taxes and general inflation.

#### ***On-Campus Participating Properties (“OCPP”) Operations***

*Same Store OCPP Operations.* We had four participating properties containing 4,519 beds which were operating during both the three month periods ended September 30, 2007 and 2006. Revenues from our same store on-campus participating properties increased to \$4.1 million during the three months ended September 30, 2007 from \$4.0 million for the three months ended September 30, 2006, an increase of \$0.1 million. This increase was primarily due to an increase in average occupancy from 66.8% during the three months ended September 30, 2006 to 70.0% for the three months ended September 30, 2007, as well as an increase in average rental rates during the three months ended September 30, 2007 as compared to the same period in 2006. Occupancy at our on-campus participating properties is typically low in the second and third quarter of each calendar year due to the expiration of the 9 month leases at these properties concurrent with the end of the spring semester.

At these existing properties, operating expenses remained relatively constant at \$2.3 million and \$2.4 million during the three months ended September 30, 2007 and 2006, respectively. We anticipate that operating expenses for the full year 2007 will increase slightly as compared with 2006 as a result of expected increases in insurance costs, utility costs and general inflation.

#### ***Third Party Development Services Revenue***

Third party development services revenue decreased by \$0.3 million from \$1.7 million during the three months ended September 30, 2006 to \$1.4 million for the three months ended September 30, 2007. This decrease was primarily due to fewer projects in progress as well as a lower average contractual fee per project during the three months ended September 30, 2007 as compared to the same period in 2006. We had six projects in progress during the three months ended September 30, 2007 with an average contractual fee of approximately \$1.4 million, as compared to the three months ended September 30, 2006 in which we had seven projects in progress with an average contractual fee of approximately \$1.8 million.

Development services revenues are dependent on our ability to successfully be awarded such projects, the amount of the contractual fee related to the project and the timing and completion of the development and construction of the project. In addition, to the extent projects are completed under budget, we may be entitled to a portion of such savings, which are recognized as revenue when performance has been agreed upon by all parties, or when performance has been verified by an independent third-party. It is possible that projects for which we have deferred pre-development costs will not close and that we will not be reimbursed for such costs. The pre-development costs associated therewith will ordinarily be charged against income for the then-current period.

#### ***Third Party Management Services Revenue***

Third party management services revenue increased by \$0.1 million for the three months ended September 30, 2007 as compared to the same period in 2006. This increase was primarily the result of the commencement of four management contracts in August 2006. We anticipate that revenues in our third party management segment for the full year 2007 will increase as compared with 2006 as a result of the four management contracts discussed above and the recent award of four management assignments that will commence in the fourth quarter of 2007.

*General and Administrative*

General and administrative expenses increased approximately \$0.8 million, from \$1.5 million during the three months ended September 30, 2006, to \$2.3 million for the three months ended September 30, 2007. This increase was primarily due to a compensation charge of \$0.5 million recorded during the three months ended September 30, 2007 related to the Company's 2004 Outperformance Bonus Plan, which is more fully discussed in Note 9 to the accompanying Notes to Consolidated Financial Statements contained in Item 1 herein. In addition, we experienced an increase in payroll and other related costs as a result of overall increases in corporate staffing levels due to the recent growth in our owned property portfolio from the property acquisitions completed in 2007 and the increased owned development activity for the three months ended September 30, 2007 as compared to the same period in 2006.

We anticipate general and administrative expenses to increase substantially in 2007 as a result of the \$10.4 million compensation charge recorded to reflect the August 2007 vesting of the 2004 Outperformance Bonus Plan, upon the Company's achievement of specified performance measures. In addition, we anticipate increases in payroll and other related costs for the full year 2007 due to increases in corporate staffing levels experienced as a result of the recent growth of our owned portfolio.

### ***Depreciation and Amortization***

Depreciation and amortization increased by \$1.1 million, from \$6.7 million during the three months ended September 30, 2006 to \$7.8 million for the three months ended September 30, 2007. This increase was due to the acquisition of four properties during the first quarter of 2007 and the completion of construction and opening of one owned off-campus property in August 2006 and another owned off-campus property in August 2007. In conjunction with the acquisition of the four properties during the first quarter of 2007 and the 13-property Royal Portfolio on March 1, 2006, a valuation was assigned to in-place leases which was amortized over the remaining lease terms of the acquired leases (generally less than one year). This contributed \$0.3 million and \$0.6 million of additional depreciation and amortization expense for the three months ended September 30, 2007 and 2006, respectively, a decrease of \$0.3 million. We expect depreciation and amortization for the full year 2007 to increase significantly from 2006 levels primarily due to 2007 acquisitions, additional depreciation on the owned off-campus property that opened in August 2007 and a full year of depreciation on properties acquired and placed into service in 2006.

### ***Ground Lease Expense***

Ground lease expense increased by \$0.2 million, from \$0.2 million during the three months ended September 30, 2006 to \$0.4 million for the three months ended September 30, 2007. This increase was primarily the result of the refinancing of the Cullen Oaks loans in February 2007, which reduced debt service expense and therefore increased the amount of cash flow available for distribution.

### ***Interest Expense***

Interest expense increased \$0.1 million, from \$7.5 million during the three months ended September 30, 2006, to \$7.6 million for the three months ended September 30, 2007. This increase was primarily due to additional interest incurred during the three months ended September 30, 2007 associated with debt assumed or incurred in connection with the previously mentioned 2007 property acquisitions, net of the amortization of debt premiums and discounts recorded to reflect the market value of debt assumed. This increase was offset by a \$0.7 million decrease in interest expense on our revolving credit facility as a result of a decrease in the weighted average balance from \$70.6 million to \$26.3 million for the three months ended September 30, 2006 and 2007, respectively. In addition, capitalized interest increased by \$0.4 million as a result of more owned properties being under development during the three months ended September 30, 2007 as compared to the same period in 2006. We anticipate that interest expense in 2007 will increase from 2006 levels due to interest expense assumed or incurred in connection with property acquisitions and increases in potential borrowing rates that may impact our floating rate on our credit facility.

### ***Income Taxes***

The income tax provision of \$0.6 million for the three months ended September 30, 2007 is primarily the result of the write-off of the Company's deferred tax asset. In August 2007, in connection with the vesting of the Company's Outperformance Bonus Plan discussed in Note 9 in the accompanying Notes to Consolidated Financial Statements contained in Item 1 herein, a portion of the compensation expense associated with the awards was recorded by the TRS. As a result, it was determined that it was more likely than not that we would not realize the benefit of the deferred tax asset and increased the valuation allowance by a discrete item of \$0.5 million.



***Discontinued Operations***

Statement of Financial Accounting Standards (“SFAS”) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, requires, among other items, that the operating results of real estate properties sold or classified as held for sale be included in discontinued operations in the statements of operations for all periods presented. The Village on University, an owned off-campus property, was sold in December 2006. As such, the net income attributable to this property is included in discontinued operations for the three months ended September 30, 2006. Refer to Note 4 in the accompanying Notes to Consolidated Financial Statements contained in Item 1 herein for a more detailed description of discontinued operations.

*Comparison of the Nine Months Ended September 30, 2007 and September 30, 2006*

The following table presents our results of operations for the nine months ended September 30, 2007 and 2006, including the amount and percentage change in these results between the two periods:

|  | <b>Nine Months Ended<br/>September 30,</b> |                 |                    | <b>Change<br/>(%)</b> |
|--|--|-----------------|--------------------|-----------------------|
|  | <b>2007</b>                                | <b>2006</b>     | <b>Change (\$)</b> |                       |
| <b>Revenues:</b>   |  |                 |                    |                       |
| Owned off-campus properties  | \$ 85,197                                  | \$ 64,687       | \$ 20,510          | 31.7%                 |
| On-campus participating properties                                       | 14,160                                     | 13,450          | 710                | 5.3%                  |
| Third party development services   | 2,434                                      | 4,463           | (2,029)            | (45.5%)               |
| Third party management services  | 1,999                                      | 1,844           | 155                | 8.4%                  |
| Resident services  | 1,044                                      | 993             | 51                 | 5.1%                  |
| <b>Total revenues</b>  | <b>104,834</b>                             | <b>85,437</b>   | <b>19,397</b>      | <b>22.7%</b>          |
| <b>Operating Expenses:</b>   |  |                 |                    |                       |
| Owned off-campus properties  | 41,276                                     | 31,710          | 9,566              | 30.2%                 |
| On-campus participating properties                                       | 6,842                                      | 6,660           | 182                | 2.7%                  |
| Third party development and management services                          | 3,925                                      | 4,402           | (477)              | (10.8%)               |
| General and administrative   | 15,804                                     | 4,879           | 10,925             | 223.9%                |
| Depreciation and amortization  | 22,535                                     | 18,672          | 3,863              | 20.7%                 |
| Ground/facility leases   | 1,263                                      | 676             | 587                | 86.8%                 |
| <b>Total operating expenses</b>  | <b>91,645</b>                              | <b>66,999</b>   | <b>24,646</b>      | <b>36.8%</b>          |
| <b>Operating income</b>  | <b>13,189</b>                              | <b>18,438</b>   | <b>(5,249)</b>     | <b>(28.5%)</b>        |
| <b>Nonoperating income and (expenses):</b>                               |  |                 |                    |                       |
| Interest income  | 1,242                                      | 623             | 619                | 99.4%                 |
| Interest expense   | (20,940)                                   | (19,847)        | (1,093)            | 5.5%                  |
| Amortization of deferred financing costs                                 | (936)                                      | (1,078)         | 142                | (13.2%)               |
| <b>Total nonoperating expenses</b>                                       | <b>(20,634)</b>                            | <b>(20,302)</b> | <b>(332)</b>       | <b>1.6%</b>           |
| Loss before income taxes, minority interests and discontinued operations | (7,445)                                    | (1,864)         | (5,581)            | 299.4%                |
| Income tax provision   | (696)                                      | -               | (696)              | 100.0%                |
| Minority interests   | 309  | 202             | 107                | 53.0%                 |
| <b>Loss from continuing operations</b>                                   | <b>(7,832)</b>                             | <b>(1,662)</b>  | <b>(6,170)</b>     | <b>371.2%</b>         |
| Income attributable to discontinued operations                           | -  | 1,648           | (1,648)            | (100.0%)              |
| <b>Net loss</b>  | <b>\$ (7,832)</b>                          | <b>\$ (14)</b>  | <b>\$ (7,818)</b>  | <b>55,842.9%</b>      |

*Owned Off-Campus Properties Operations*

Revenues from our owned off-campus properties for the nine months ended September 30, 2007 compared with the same period in 2006 increased by \$20.5 million primarily due to the acquisition of four properties during the first quarter of 2007, the acquisition of a 13-property portfolio (the "Royal Portfolio") in March 2006, and the completion of construction and opening of an owned development project in August 2006 and another owned development project in August 2007. Operating expenses increased approximately \$9.6 million for the nine months ended September 30, 2007 compared with the same period in 2006, primarily due to the same factors which affected the increase in

revenues.

*New Property Operations.* In January 2007 we acquired Village on Sixth and in February and August 2007 we acquired the Edwards Portfolio. In March 2006, we also acquired the 13-property Royal Portfolio, consisting of 5,745 beds. Finally, in August 2006, we completed construction of and opened Callaway Villas and in August 2007 we completed construction of and opened University Centre. These new properties contributed \$18.8 million of additional revenues and \$9.2 million of additional operating expenses during the nine months ended September 30, 2007 as compared to the nine months ended September 30, 2006.

*Same Store Property Operations (Excluding New Property Activity).* We had 18 properties containing 9,991 beds which were operating during both the nine month periods ended September 30, 2007 and 2006. These properties produced revenues of \$49.3 million and \$47.5 million during the nine month periods ended September 30, 2007 and 2006, respectively, an increase of \$1.8 million. This increase was primarily due to an increase in average rental rates and other income during the nine months ended September 30, 2007 as compared to the same period in 2006, which was offset by a slight decrease in average occupancy rates from 96.7% during the nine months ended September 30, 2006 to 96.6% during the nine months ended September 30, 2007.

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At these existing properties, operating expenses increased by \$0.4 million, to \$22.6 million during the nine months ended September 30, 2007 as compared to \$22.2 million during the nine months ended September 30, 2006. This increase was primarily the result of an increase in maintenance costs, payroll and bad debt expense, offset by utility savings and marketing cost savings related to our early lease-up for the 2007/2008 academic year.

### ***On-Campus Participating Properties (“OCPP”) Operations***

*Same Store OCPP Operations.* We had four participating properties containing 4,519 beds which were operating during both the nine month periods ended September 30, 2007 and 2006. Revenues from our same store on-campus participating properties increased to \$14.2 million during the nine months ended September 30, 2007 from \$13.5 million for the nine months ended September 30, 2006, an increase of \$0.7 million. This increase was primarily due to an increase in average occupancy from 65.9% during the nine months ended September 30, 2006 to 72.1% for the nine months ended September 30, 2007, as well as an increase in average rental rates during the nine months ended September 30, 2007 as compared to the same period in 2006. Occupancy at our on-campus participating properties is typically low in the second and third quarter of each calendar year due to the expiration of the 9 month leases at these properties concurrent with the end of the spring semester.

At these existing properties, operating expenses increased to \$6.8 million for the nine months ended September 30, 2007 from \$6.6 million for the nine months ended September 30, 2006, an increase of \$0.2 million. This increase was primarily the result of an increase in maintenance costs incurred at one of our on-campus participating properties and an increase in bad debt expense at all of our on-campus participating properties.

### ***Third Party Development Services Revenue***

Third party development services revenue decreased by \$2.0 million from \$4.4 million during the nine months ended September 30, 2006 to \$2.4 million for the nine months ended September 30, 2007. This decrease was primarily due to fewer projects in progress as well as a lower average contractual fee per project during the nine months ended September 30, 2007 as compared to the same period in 2006. In addition, a lower percentage of the total contractual fees was recognized during the nine months ended September 30, 2007 as compared to the same period in 2006. We had six projects in progress during the nine months ended September 30, 2007 with an average contractual fee of approximately \$1.4 million, as compared to the nine months ended September 30, 2006 in which we had eight projects in progress with an average contractual fee of approximately \$1.8 million.

### ***Third Party Development and Management Services Expenses***

Third party development and management services expenses decreased by \$0.5 million, from \$4.4 million during the nine months ended September 30, 2006, to \$3.9 million for the nine months ended September 30, 2007. This decrease was primarily due to a decrease in payroll and related costs of \$0.4 million as a result of fewer projects in progress during the respective periods.

### ***General and Administrative***

General and administrative expenses increased by \$10.9 million, from \$4.9 million during the nine months ended September 30, 2006, to \$15.8 million for the nine months ended September 30, 2007. This increase was primarily due to a compensation charge of \$10.4 million recorded during the nine months ended September 30, 2007 related to the Company's 2004 Outperformance Bonus Plan, which is more fully discussed in Note 9 to the accompanying Notes to Consolidated Financial Statements contained in Item 1 herein. In addition, we experienced an increase in payroll and other related costs as a result of overall increases in corporate staffing levels due to the recent growth in our owned property portfolio from the property acquisitions completed in 2007 and 2006 and the increased owned development activity for the nine months ended September 30, 2007 as compared to the same period in 2006.

***Depreciation and Amortization***

Depreciation and amortization increased by \$3.8 million, from \$18.7 million during the nine months ended September 30, 2006 to \$22.5 million for the nine months ended September 30, 2007. This increase was due to the acquisition of four properties during the first quarter of 2007, the acquisition of a 13-property Royal Portfolio in March 2006, the completion of construction and opening of an owned development project in August 2006 and the completion of construction and opening of another owned development project in August 2007. In conjunction with the acquisition of the four properties during the first quarter of 2007 and the 13-property Royal Portfolio on March 1, 2006, a valuation was assigned to in-place leases which was amortized over the remaining lease terms of the acquired leases (generally less than one year). This contributed \$1.2 million and \$2.3 million of additional depreciation and amortization expense for the nine months ended September 30, 2007 and 2006, respectively, a decrease of \$1.1 million.

### ***Ground Lease Expense***

Ground lease expense increased by \$0.6 million, from \$0.7 million during the nine months ended September 30, 2006 to \$1.3 million for the nine months ended September 30, 2007. This increase was primarily the result of the refinancing of the Cullen Oaks loans in February 2007, which reduced debt service expense and therefore increased the amount of cash flow available for distribution. In addition, we experienced a significant decrease in vacancies at one of our other on-campus participating properties which increased the amount of cash flow available for distribution.

### ***Interest Income***

Interest income increased by \$0.6 million, from \$0.6 million during the nine months ended September 30, 2006 to \$1.2 million for the nine months ended September 30, 2007. This increase was primarily due to interest earned during the nine months ended September 30, 2007 on the remaining proceeds from our September 2006 equity offering and net proceeds from the disposition of an owned property in December 2006.

### ***Interest Expense***

Interest expense increased \$1.1 million, from \$19.8 million during the nine months ended September 30, 2006, to \$20.9 million for the nine months ended September 30, 2007. This increase was primarily due to additional interest incurred during the nine months ended September 30, 2007 associated with debt assumed or incurred in connection with the previously mentioned 2007 and 2006 property acquisitions, net of the amortization of debt premiums and discounts recorded to reflect the market value of debt assumed. This increase was offset by a \$2.2 million decrease in interest expense on our revolving credit facility as a result of a decrease in the weighted average balance from \$55.0 million to \$9.5 million for the nine months ended September 30, 2006 and 2007, respectively. In addition, capitalized interest increased by \$0.8 million as a result of more owned properties being under development during the nine months ended September 30, 2007 as compared to the same period in 2006.

### ***Income Taxes***

The income tax provision of \$0.7 million for the nine months ended September 30, 2007 is primarily the result of the write-off of the Company's deferred tax asset. In August 2007, in connection with the vesting of the Company's Outperformance Bonus Plan discussed in Note 9 in the accompanying Notes to Consolidated Financial Statements contained in Item 1 herein, a portion of the compensation expense associated with the awards was recorded by the TRS. As a result, it was determined that it was more likely than not that we would not realize the benefit of the deferred tax asset and increased the valuation allowance by a discrete item of \$0.5 million.

### ***Minority Interests***

The variance in minority interests is primarily due to an increase in the Company's net loss position for the nine months ended September 30, 2007 as compared to the same period in 2006. Minority interests represent external partners in our Operating Partnership as well as certain third-party partners in joint ventures consolidated by us for financial reporting purposes. Accordingly, these external partners are allocated their share of income/loss during the respective reporting periods.

### ***Discontinued Operations***

Statement of Financial Accounting Standards ("SFAS") No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, requires, among other items, that the operating results of real estate properties sold or classified as held for sale be included in discontinued operations in the statements of operations for all periods presented. The

Village on University, an owned off-campus property, was sold in December 2006. As such, the net income attributable to this property is included in discontinued operations for the nine months ended September 30, 2006.

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**Cash Flows****Comparison of Nine Months Ended September 30, 2007 and September 30, 2006****Operating Activities**

For the nine months ended September 30, 2007, net cash provided by operating activities was approximately \$11.7 million, as compared to \$19.3 million for the nine months ended September 30, 2006, a decrease of \$7.6 million. This decrease was primarily due to the \$6.7 million cash payment of awards under the 2004 Outperformance Bonus Plan. In addition, we made a partial payment in 2007 of secured promissory notes and cash retained by us related to the acquisition of the Royal Portfolio in March 2006.

**Investing Activities**

Investing activities utilized \$136.8 million and \$136.7 million for the nine months ended September 30, 2007 and 2006, respectively. The slight increase in cash utilized in investing activities during the nine months ended September 30, 2007 related primarily to a \$26.9 million increase in cash used to fund the construction of our owned development properties. During the nine months ended September 30, 2007, three owned properties were under development, of which one was completed and opened for occupancy in August 2007. During the nine months ended September 30, 2006, two owned properties were under development, of which one was completed and opened for occupancy in August 2006. This increase was offset by a \$26.5 million decrease in the use of cash to acquire properties. We acquired the 13-property Royal Portfolio during the first quarter of 2006 as compared to four properties acquired during February and August 2007. For the nine months ended September 30, 2007 and 2006, our cash utilized in investing activities was comprised of the following:

|   | <b>Nine Months Ended September<br/>30,</b> |              |
|---|--|--------------|
|   | <b>2007</b>                                | <b>2006</b>  |
| Property acquisitions                                       | \$ (43,183)                                | \$ (69,633)  |
| Capital expenditures for on-campus participating properties | (402)                                      | (395)        |
| Capital expenditures for owned properties                   | (7,097)                                    | (5,690)      |
| Renovation expenditures for owned property                  | -  | (1,611)      |
| Investment in owned properties under development            | (85,766)                                   | (58,908)     |
| Purchase of corporate furniture, fixtures, and equipment    | (347)                                      | (442)        |
| Total   | \$ (136,795)                               | \$ (136,679) |

**Financing Activities**

Cash provided by financing activities totaled \$56.8 million and \$124.9 million for the nine months ended September 30, 2007 and 2006, respectively. The decrease in cash provided by financing activities was primarily the result of our September 2006 equity offering which raised \$133.3 million, net of offering costs. In addition, there was a \$7.1 million increase in distributions to common and restricted stockholders and minority partners as a result of the September 2006 equity offering and the issuance of common and preferred units in the Operating Partnership as partial consideration for the purchase of the Royal Portfolio. These decreases were offset by a \$47.9 million increase in proceeds received from our revolving credit facility, net of paydowns. During the nine months ended September 30, 2006, we used a portion of the proceeds from our September 2006 equity offering to pay down the entire balances on our revolving credit facility and a construction loan. In addition, there was an \$8.0 million increase in the change of our construction accounts payable balance as a result of an increase in owned development activity financed with construction loans.

***Structure of On-campus Participating Properties***

At our on-campus participating properties, the subject universities own both the land and improvements. We then have a leasehold interest under a ground/facility lease. Under the lease, we receive an annual distribution representing 50% of these properties' net cash available for distribution after payment of operating expenses (which includes our management fees), debt service (which includes repayment of principal) and capital expenditures. We also manage these properties under multi-year management agreements and are paid a management fee representing 5% of receipts.

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We do not have access to the cash flows and working capital of these participating properties except for the annual net cash distribution as described above. Additionally, a substantial portion of these properties' cash flow is dedicated to capital reserves required under the applicable property indebtedness and to the amortization of such indebtedness. These amounts do not increase our economic interest in these properties since our interest, including our right to share in the net cash available for distribution from the properties, terminates upon the amortization of their indebtedness. Our economic interest in these properties is therefore limited to our interest in the net cash flow and management and development fees from these properties, as reflected in our calculation of Funds from Operations modified for the operational performance of on-campus participating properties ("FFOM") contained herein. Accordingly, when considering these properties' contribution to our operations, we focus upon our share of these properties' net cash available for distribution and the management fees that we receive from these properties, rather than upon their contribution to our gross revenues and expenses for financial reporting purposes.

The following table reflects the amounts included in our consolidated financial statements for the three and nine months ended September 30, 2007 and 2006:

|  | <b>Three Months Ended</b> |                   | <b>Nine Months Ended</b> |                   |
|--|---------------------------|-------------------|--------------------------|-------------------|
|  | <b>September 30,</b>      |                   | <b>September 30,</b>     |                   |
|  | <b>2007</b>               | <b>2006</b>       | <b>2007</b>              | <b>2006</b>       |
| Revenues                                 | \$ 4,083                  | \$ 3,971          | \$ 14,160                | \$ 13,450         |
| Direct operating expenses <sup>(1)</sup> | (2,163)                   | (2,305)           | (6,372)                  | (6,217)           |
| Amortization                             | (1,068)                   | (1,037)           | (3,194)                  | (3,083)           |
| Amortization of deferred financing costs | (48)                      | (46)              | (141)                    | (197)             |
| Ground/facility leases <sup>(2)</sup>    | (473)                     | (238)             | (1,263)                  | (676)             |
| Net operating income                     | 331                       | 345               | 3,190                    | 3,277             |
| Interest income                          | 116                       | 102               | 285                      | 255               |
| Interest expense <sup>(3)</sup>          | (1,549)                   | (1,638)           | (4,683)                  | (4,838)           |
| <b>Net loss</b>                          | <b>\$ (1,102)</b>         | <b>\$ (1,191)</b> | <b>\$ (1,208)</b>        | <b>\$ (1,306)</b> |

(1) Excludes property management fees of \$0.2 million for both the three month periods ended September 30, 2007 and 2006, and \$0.7 million and \$0.6 million for the nine months ended September 30, 2007 and 2006, respectively. This expense and the corresponding fee revenue we recognized have been eliminated in consolidation. Also excludes allocation of expenses related to corporate management and oversight.

(2) Represents the universities' 50% share of the properties' net cash available for distribution after payment of operating expenses, debt service (including payment of principal) and capital expenditures.

(3) Debt service expenditures for these properties totaled \$2.1 million and \$2.3 million for the three months ended September 30, 2007 and 2006, respectively, and \$6.3 million for both the nine month periods ended September 30, 2007 and 2006.

### ***Liquidity and Capital Resources***

#### ***Cash Balances and Liquidity***

As of September 30, 2007, excluding our on-campus participating properties, we had \$18.3 million in cash and cash equivalents and restricted cash as compared to \$83.5 million in cash and cash equivalents and restricted cash as of December 31, 2006. This decrease was primarily due to the use of the remaining proceeds from our September 2006 equity offering and December 2006 disposition of an owned off-campus property, The Village on University, to fund our recent property acquisitions and the construction of our owned development projects. Restricted cash primarily consists of escrow accounts held by lenders and resident security deposits, as required by law in certain

states. Additionally, restricted cash as of September 30, 2007 also included \$0.1 million of funds held in escrow in connection with potential development opportunities.

As of September 30, 2007, our short-term liquidity needs included, but were not limited to, the following: (i) anticipated distribution payments to our common and restricted stockholders totaling approximately \$36.8 million based on an anticipated annual distribution of \$1.35 per share based on the number of our shares outstanding subsequent to our October 2007 equity offering, including those distributions required to maintain our REIT status and satisfy our current distribution policy, (ii) anticipated distribution payments to our Operating Partnership unitholders totaling approximately \$2.4 million based on an anticipated annual distribution of \$1.35 per Common Unit and a cumulative preferential per annum cash distribution rate of 5.99% on our Series A Preferred Units based on the number of units outstanding as of September 30, 2007, (iii) funds for other potential future acquisitions and development projects, including development expenditures for component II and III of the Arizona State University project which are estimated to range from \$55.0 to \$60.0 million. We expect to meet our short-term liquidity requirements generally through net cash provided by operations, borrowings under our revolving credit facility, and offerings under a shelf registration statement under which we may offer up to \$261 million of debt securities, preferred stock, common stock and securities warrants (subsequent to our October 2007 equity offering).

We may seek additional funds to undertake initiatives not contemplated by our business plan or obtain additional cushion against possible shortfalls. We also may pursue additional financing as opportunities arise. Future financings may include a range of different sizes or types of financing, including the sale of additional debt or equity securities. While we believe we will be able to obtain such funds, these funds may not be available on favorable terms or at all. Our ability to obtain additional financing depends on several factors, including future market conditions, our success or lack of success in penetrating our markets, our future creditworthiness, and restrictions contained in agreements with our investors or lenders, including the restrictions contained in the agreements governing our revolving credit facility. These financings could increase our level of indebtedness or result in dilution to our equity holders.

### ***Revolving Credit Facility***

The Operating Partnership has a \$115 million revolving credit facility, which may be expanded by up to an additional \$110 million upon the satisfaction of certain conditions. The maturity date of the facility is August 17, 2009 and we guarantee the Operating Partnership's obligations under the facility.

Availability under the revolving credit facility is limited to an "aggregate borrowing base amount" equal to the lesser of (i) 65% of the value of certain properties, calculated as set forth in the credit facility, and (ii) the adjusted net operating income from these properties divided by a formula amount. The facility bears interest at a variable rate, at the Company's option, based upon a base rate or one-, two-, three-, or six-month LIBOR plus, in each case, a spread based upon the Company's total leverage. Additionally, we are required to pay an unused commitment fee ranging from 0.15% to 0.20% per annum, depending on the aggregate unused balance. As of September 30, 2007, the balance outstanding on the revolving credit facility totaled \$47.9 million, bearing interest at a weighted average rate of 6.94%, with remaining availability under the facility (subject to the satisfaction of certain financial covenants) totaling approximately \$66.8 million. In October 2007, we paid off the entire balance on the revolving credit facility by using proceeds from an equity offering. See Note 13 in the accompanying Notes to Consolidated Financial Statements contained in Item 1 herein for a detailed discussion of our October 2007 equity offering.

The terms of the facility include certain restrictions and covenants, which limit, among other items, the incurrence of additional indebtedness, liens, and the disposition of assets. The facility contains customary affirmative and negative covenants and also contains financial covenants that, among other things, require us to maintain certain minimum ratios of "EBITDA" (earnings before interest, taxes, depreciation and amortization) to fixed charges. We may not pay distributions that exceed 100% of funds from operations for any four consecutive quarters. The financial covenants also include consolidated net worth and leverage ratio tests. As of September 30, 2007, we were in compliance with all such covenants.

### ***Distributions***

We are required to distribute 90% of our REIT taxable income (excluding capital gains) on an annual basis in order to qualify as a REIT for federal income tax purposes. Accordingly, we intend to make, but are not contractually bound to make, regular quarterly distributions to common stockholders and unit holders. Distributions to common stockholders are at the discretion of the Board of Directors. We may be required to use borrowings under the credit facility, if necessary, to meet REIT distribution requirements and maintain our REIT status. The Board of Directors considers market factors and our Company's performance in addition to REIT requirements in determining distribution levels.

### ***Pre-Development Expenditures***

Our third-party and owned development activities have historically required us to fund pre-development expenditures such as architectural fees, permits and deposits. The closing and/or commencement of construction of these development projects is subject to a number of risks such as our inability to obtain financing on favorable terms and

delays or refusals in obtaining necessary zoning, land use, building, and other required governmental permits and authorizations. As such, we cannot always predict accurately the liquidity needs of these activities. We frequently incur these pre-development expenditures before a financing commitment and/or required permits and authorizations have been obtained. Accordingly, we bear the risk of the loss of these pre-development expenditures if financing cannot ultimately be arranged on acceptable terms or we are unable to successfully obtain the required permits and authorizations. Historically, our third-party and owned development projects have been successfully structured and financed; however, these developments have at times been delayed beyond the period initially scheduled, causing revenue to be recognized in later periods. As of September 30, 2007, we had deferred approximately \$8.2 million in pre-development costs related to third-party and owned development projects that have not yet commenced construction.

### *Indebtedness*

As of September 30, 2007, we had approximately \$586.9 million of outstanding consolidated indebtedness (excluding unamortized debt premiums/discounts of approximately \$4.7 million), comprised of a \$47.9 million balance on our unsecured revolving credit facility, \$398.8 million in mortgage loans secured by 30 of our owned properties, \$52.0 million in construction loans secured by three of our owned properties, \$33.2 million in mortgage loans secured by two phases of an on-campus participating property, and \$55.0 million in bond issuances secured by three of our on-campus participating properties. The weighted average interest rate on our consolidated indebtedness as of September 30, 2007 was 6.55%. As of September 30, 2007, approximately 17.0% of our total consolidated indebtedness was variable rate debt, comprised of our revolving credit facility and our University Centre, Vista del Sol and Villas at Chestnut Ridge construction loans discussed below.

### *Owned Properties*

The weighted average interest rate of the \$398.8 million of owned off-campus mortgage debt was 6.34% as of September 30, 2007. Each of the mortgage loans is a non-recourse obligation subject to customary exceptions. Each of these mortgages has a 30-year amortization, and none are cross-defaulted or cross-collateralized to any other indebtedness. The loans generally may not be prepaid prior to maturity, although in certain cases prepayment is allowed, subject to prepayment penalties.

In August 2007, we completed the final stages of construction on University Centre, an owned off-campus property. The development and construction of University Centre was partially financed with a \$45.5 million construction loan. For each borrowing we have the option of choosing the Prime rate or one-, two-, or three-month LIBOR plus 1.50%. The loan requires payments of interest only during the term of the loan and any accrued interest and outstanding borrowings become due on the maturity date of October 1, 2008. As of September 30, 2007, the balance outstanding on the construction loan totaled \$43.6 million, bearing interest at a weighted average rate of 6.70%. In October 2007, we paid off the entire balance of this construction loan using proceeds from our equity offering. See Note 13 in the accompanying Notes to Consolidated Financial Statements contained in Item 1 herein for a detailed discussion of the October 2007 equity offering.

The development and construction of Vista del Sol, an owned on-campus property scheduled to complete construction and open for occupancy in August 2008, is partially financed with a \$100.0 million construction loan. For each borrowing we have the option of choosing the Prime rate or one-, two-, or three-month LIBOR plus 1.45%. The loan requires payments of interest only during the term of the loan and any accrued interest and outstanding borrowings become due on the maturity date of December 27, 2009. The term of the loan can be extended through December 2011 through the exercise of two 12-month extension periods. As of September 30, 2007, the balance outstanding on the construction loan totaled \$5.7 million, bearing interest at a rate of 7.08%.

The development and construction of Villas at Chestnut Ridge, an owned off-campus property scheduled to complete construction and open for occupancy in August 2008, is partially financed with a \$31.6 million construction loan. For each borrowing we have the option of choosing the Prime rate or one-, two-, three-, or six-month LIBOR plus 1.25%. The loan requires payments of interest only during the term of the loan and any accrued interest and outstanding borrowings become due on the maturity date of June 4, 2009. The term of the loan can be extended through June 2010 through the exercise of a 12-month extension period. As of September 30, 2007, the balance outstanding on the construction loan totaled \$2.7 million, bearing interest at a weighted average rate of 6.59%.

### *On-Campus Participating Properties*

Three of our on-campus participating properties are 100% financed with \$55.0 million of outstanding project-based taxable bonds. Under the terms of these financings, one of our special purpose subsidiaries publicly issued three

series of taxable bonds and loaned the proceeds to three special purpose subsidiaries that each hold a separate leasehold interest. Although a default in payment by these special purpose subsidiaries could result in a default under one or more series of bonds, the indebtedness of any of these special purpose subsidiaries is not cross-defaulted or cross-collateralized with indebtedness of the Company, the Operating Partnership or other special purpose subsidiaries. Repayment of principal and interest on these bonds is insured by MBIA, Inc. The loans encumbering the leasehold interests are non-recourse, subject to customary exceptions.

Cullen Oaks Phase I and Phase II loans are currently encumbered by mortgage loans with balances as of September 30, 2007 of approximately \$16.5 million and \$16.7 million, respectively. In February 2007, we extended the maturity date of these loans to February 2014. The loans bear interest at a rate of LIBOR plus 1.35% and require payments of interest only through May 2008 and monthly payments of principal and interest from May 2008 through the maturity date. In connection with these loan extensions, we terminated the existing interest rate swap agreement on the Cullen Oaks Phase I loan and entered into a new interest rate swap agreement effective February 15, 2007 through February 15, 2014, that is designated to hedge our exposure to fluctuations on interest payments attributed to changes in interest rates associated with payments on the Cullen Oaks Phase I and Phase II loans. Under the terms of the interest rate swap agreement, we pay a fixed rate of 6.69% and receive a floating rate of LIBOR plus 1.35%. Pursuant to the Leases, in the event the leasehold estate does not achieve Financial Break Even (defined as revenues less operating expenses, excluding management fees, less debt service), the applicable Lessor would be required to make a rental payment, also known as the Contingent Payment, sufficient to achieve Financial Break Even. The Contingent Payment provision remains in effect until such time as any financing placed on the facilities would receive an investment grade rating without the Contingent Payment provision. In the event that the Lessor is required to make a Contingent Payment, future net cash flow distributions would be first applied to repay such Contingent Payments and then to unpaid management fees prior to normal distributions. We have guaranteed payment of this property's indebtedness.

The weighted average interest rate of the indebtedness encumbering our on-campus participating properties was 7.17% at September 30, 2007.

#### ***Off Balance Sheet Items***

We do not have any off-balance sheet arrangements.

#### ***Funds From Operations***

As defined by NAREIT, FFO represents income (loss) before allocation to minority interests (computed in accordance with GAAP), excluding gains (or losses) from sales of property, plus real estate related depreciation and amortization (excluding amortization of loan origination costs) and after adjustments for unconsolidated partnerships and joint ventures. We present FFO because we consider it an important supplemental measure of our operating performance and believe it is frequently used by securities analysts, investors and other interested parties in the evaluation of REITs, many of which present FFO when reporting their results. FFO is intended to exclude GAAP historical cost depreciation and amortization of real estate and related assets, which assumes that the value of real estate diminishes ratably over time. Historically, however, real estate values have risen or fallen with market conditions. Because FFO excludes depreciation and amortization unique to real estate, gains and losses from property dispositions and extraordinary items, it provides a performance measure that, when compared year over year, reflects the impact to operations from trends in occupancy rates, rental rates, operating costs, development activities and interest costs, providing perspective not immediately apparent from net income.

We compute FFO in accordance with standards established by the Board of Governors of NAREIT in its March 1995 White Paper (as amended in November 1999 and April 2002), which may differ from the methodology for calculating FFO utilized by other equity REITs and, accordingly, may not be comparable to such other REITs. Further, FFO does not represent amounts available for management's discretionary use because of needed capital replacement or expansion, debt service obligations or other commitments and uncertainties. FFO should not be considered as an alternative to net income (loss) (computed in accordance with GAAP) as an indicator of our financial performance or to cash flow from operating activities (computed in accordance with GAAP) as an indicator of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to pay dividends or make distributions.



The following table presents a reconciliation of our FFO to our net income:

|   | <b>Three Months Ended</b> |                 | <b>Nine Months Ended</b> |                  |
|---|---------------------------|-----------------|--------------------------|------------------|
|   | <b>September 30,</b>      |                 | <b>September 30,</b>     |                  |
|   | <b>2007</b>               | <b>2006</b>     | <b>2007</b>              | <b>2006</b>      |
| Net loss  | \$ (2,369)                | \$ (1,611)      | \$ (7,832)               | \$ (14)          |
| Minority interests  | (77)                      | (149)           | (309)                    | (202)            |
| Real estate related depreciation and amortization:        |                           |                 |                          |                  |
| Total depreciation and amortization                       | 7,797                     | 6,853           | 22,535                   | 19,306           |
| Corporate furniture, fixtures, and equipment depreciation | (122)                     | (142)           | (391)                    | (397)            |
| <b>Funds from operations <sup>(1)</sup></b>               | <b>\$ 5,229</b>           | <b>\$ 4,951</b> | <b>\$ 14,003</b>         | <b>\$ 18,693</b> |
| <b>FFO per share – diluted<sup>(1)</sup></b>              | <b>\$ 0.21</b>            | <b>\$ 0.24</b>  | <b>\$ 0.55</b>           | <b>\$ 0.96</b>   |
| Weighted average common shares outstanding - diluted      | 25,493,713                | 20,637,239      | 25,437,569               | 19,495,171       |

- (1) During the three and nine months ended September 30, 2007, we recorded a compensation charge and related tax impact of approximately \$1.0 million and \$10.9 million, or \$0.04 and \$0.43 per fully diluted share, respectively, related to the 2004 Outperformance Bonus Plan. Excluding this compensation charge and related tax impact, FFO for the three and nine months ended September 30, 2007 would have been \$6.2 million and \$24.9 million, or \$0.24 and \$0.98 per fully diluted share, respectively. For a detailed discussion of the 2004 Outperformance Bonus Plan, refer to Note 9 in the accompanying Notes to Consolidated Financial Statements contained in Item 1 herein.

While our on-campus participating properties contributed \$4.1 million and \$4.0 to our revenues for the three months ended September 30, 2007 and 2006, respectively, and \$14.2 million and \$13.5 million to our revenues for the nine months ended September 30, 2007 and 2006, respectively, under our participating ground leases, we and the participating university systems each receive 50% of the properties' net cash available for distribution after payment of operating expenses, debt service (which includes significant amounts towards repayment of principal) and capital expenditures. A substantial portion of our revenues attributable to these properties is reflective of cash that is required to be used for capital expenditures and for the amortization of applicable property indebtedness. These amounts do not increase our economic interest in these properties or otherwise benefit us since our interest in the properties terminates upon the repayment of the applicable property indebtedness.

As noted above, FFO excludes GAAP historical cost depreciation and amortization of real estate and related assets because these GAAP items assume that the value of real estate diminishes over time. However, unlike the ownership of our owned off-campus properties, the unique features of our ownership interest in our on-campus participating properties cause the value of these properties to diminish over time. For example, since the ground/facility leases under which we operate the participating properties require the reinvestment from operations of specified amounts for capital expenditures and for the repayment of debt while our interest in these properties terminates upon the repayment of the debt, such capital expenditures do not increase the value of the property to us and mortgage debt amortization only increases the equity of the ground lessor. Accordingly, when considering our FFO, we believe it is also a meaningful measure of our performance to modify FFO to exclude the operations of our on-campus participating properties and to consider their impact on performance by including only that portion of our revenues from those properties that are reflective of our share of net cash flow and the management fees that we receive, both of which increase and decrease with the operating measure of the properties, a measure referred to herein as FFOM.



## Funds From Operations—Modified for Operational Performance of On-Campus Participating Properties:

|  | <b>Three Months Ended</b> |                 | <b>Nine Months Ended</b> |                  |
|--|---------------------------|-----------------|--------------------------|------------------|
|  | <b>September 30,</b>      |                 | <b>September 30,</b>     |                  |
|  | <b>2007</b>               | <b>2006</b>     | <b>2007</b>              | <b>2006</b>      |
| Funds from operations  | \$ 5,229                  | \$ 4,951        | \$ 14,003                | \$ 18,693        |
| Elimination of operations of on-campus participating properties:   |                           |                 |                          |                  |
| Net loss from on-campus participating properties   | 1,102                     | 1,191           | 1,208                    | 1,306            |
| Amortization of investment in on-campus participating properties   | (1,068)                   | (1,037)         | (3,194)                  | (3,083)          |
|  | 5,263                     | 5,105           | 12,017                   | 16,916           |
| Modifications to reflect operational performance of on-campus participating properties:  |                           |                 |                          |                  |
| Our share of net cash flow <sup>(1)</sup>  | 473                       | 238             | 1,263                    | 676              |
| Management fees  | 189                       | 171             | 652                      | 615              |
| On-campus participating properties development fees <sup>(2)</sup>   | -                         | -               | -                        | 305              |
| Impact of on-campus participating properties   | 662                       | 409             | 1,915                    | 1,596            |
| <b>Funds from operations – modified for operational performance of on-campus participating properties (“FFOM”<sup>(3)</sup>)</b> | <b>\$ 5,925</b>           | <b>\$ 5,514</b> | <b>\$ 13,932</b>         | <b>\$ 18,512</b> |
| <b>FFOM per share – diluted<sup>(3)</sup></b>  | <b>\$ 0.23</b>            | <b>\$ 0.27</b>  | <b>\$ 0.55</b>           | <b>\$ 0.95</b>   |
| Weighted average common shares outstanding – diluted   | 25,493,713                | 20,637,239      | 25,437,569               | 19,495,171       |

(1) 50% of the properties’ net cash available for distribution after payment of operating expenses, debt service (including repayment of principal) and capital expenditures. Represents amounts accrued for the interim periods.

(2) Development and construction management fees, including construction savings earned under the general construction contract, related to Cullen Oaks Phase II on-campus participating property, which was completed in August 2005.

(3) During the three and nine months ended September 30, 2007, we recorded a compensation charge and related tax impact of approximately \$1.0 million and \$10.9 million, or \$0.04 and \$0.43 per fully diluted share, respectively, related to the 2004 Outperformance Bonus Plan. Excluding this compensation charge and related tax impact, FFOM for the three and nine months ended September 30, 2007 would have been \$6.9 million and \$24.8 million, or \$0.27 and \$0.98 per fully diluted share, respectively. For a detailed discussion of the 2004 Outperformance Bonus Plan, refer to Note 9 in the accompanying Notes to Consolidated Financial Statements contained in Item 1 herein.

This narrower measure of performance measures our profitability for these properties in a manner that is similar to the measure of our profitability from our services business where we similarly incur no initial or ongoing capital investment in a property and derive only consequential benefits from capital expenditures and debt amortization. We believe, however, that this narrower measure of performance is inappropriate in traditional real estate ownership structures where debt amortization and capital expenditures enhance the property owner’s long-term profitability from its investment.

Our FFOM may have limitations as an analytical tool because it reflects the unique contractual calculation of net cash flow from our on-campus participating properties, which is different from that of our off campus owned properties. Additionally, FFOM reflects features of our ownership interests in our on-campus participating properties that are unique to us. Companies that are considered to be in our industry may not have similar ownership structures; and therefore those companies may not calculate a FFOM in the same manner that we do, or at all, limiting its usefulness as a comparative measure. We compensate for these limitations by relying primarily on our GAAP and FFO results and using our modified FFO only supplementally.

***Inflation***

Our leases do not typically provide for rent escalations. However, they typically do not have terms that extend beyond 12 months. Accordingly, although on a short term basis we would be required to bear the impact of rising costs resulting from inflation, we have the opportunity to raise rental rates at least annually to offset such rising costs. However, a weak economic environment or declining student enrollment at our principal universities may limit our ability to raise rental rates.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Market risk is the risk of loss from adverse changes in market prices and interest rates. Our future earnings and cash flows are dependent upon prevailing market rates. Accordingly, we manage our market risk by matching projected cash inflows from operating, investing and financing activities with projected cash outflows for debt service, acquisitions, capital expenditures, distributions to stockholders and unitholders, and other cash requirements. The majority of our outstanding debt has fixed interest rates, which minimizes the risk of fluctuating interest rates. Our exposure to market risk includes interest rate fluctuations in connection with our revolving credit facility and variable rate construction loans and our ability to incur more debt without stockholder approval, thereby increasing our debt service obligations, which could adversely affect our cash flows. No material changes have occurred in relation to market risk since our Annual Report on Form 10-K for the year ended December 31, 2006.

### **Item 4. Controls and Procedures**

#### *Evaluation of Disclosure Controls and Procedures*

As required by SEC Rule 13a-15(b), we have carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the quarter covered by this report. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures for the quarter covered by this report were effective at the reasonable assurance level.

There has been no change in our internal controls over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

**PART II. OTHER INFORMATION**

**Item 6. Exhibits**

| Exhibit<br>Number | Description of Document  |
|-------------------|--|
| 31.1              | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 31.2              | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 32.1              | Certification of Chief Executive Officer Pursuant to 18 U. S. C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2              | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |

**SIGNATURES**

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

Dated: November 9, 2007

**AMERICAN CAMPUS COMMUNITIES,  
INC.**

**By: /s/ William C. Bayless, Jr.**

**William C. Bayless, Jr.  
President and Chief  
Executive  
Officer**

**By: /s/ Jonathan A. Graf**

**Jonathan A. Graf  
Executive Vice President,  
Chief  
Financial Officer and  
Treasurer**