AMERICAN COMMUNITY PROPERTIES TRUST
Form 10-Q
May 15, 2007

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

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED **MARCH 31, 2007,** OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM _______________ TO _________________
Commission file number **1-14369**

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

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

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

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

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

Yes o No x

As of May 7, 2007, there were 5,229,954 Common Shares, par value $0.01 per share, issued and outstanding

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AMERICAN COMMUNITY PROPERTIES TRUST
CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31,
(In thousands, except per share amounts)
(Unaudited)

	2007	2006
Revenues		
Rental property revenues	$ 14,410	$ 12,791
Community development-land sales	3,755	3,944
Homebuilding-home sales	3,088	4,025
Management and other fees, substantially all from related entities	263	290
Reimbursement of expenses related to managed entities	471	572
Total revenues	21,987	21,622
Expenses		
Rental property operating expenses	7,356	6,188
Cost of land sales	2,916	2,236
Cost of home sales	2,286	3,034
General, administrative, selling and marketing	2,463	2,432
Depreciation and amortization	2,184	1,973
Expenses reimbursed from managed entities	471	572
Total expenses	17,676	16,435
Operating income	**4,311**	**5,187**
Other income (expense)		
Interest and other income	552	129
Equity in earnings from unconsolidated entities	1,673	170
Interest expense	(4,617)	(3,501)
Minority interest in consolidated entities	(1,372)	(1,065)
Income before provision for income taxes	**547**	**920**
Provision for income taxes	523	419
Net income	**$ 24**	**$ 501**
Earnings per share		

Basic and Diluted	**$**	**0.00**	**$**	**0.10**
Weighted average shares outstanding				
Basic and Diluted		**5,208**		**5,198**
Cash dividends per share	**$**	**0.10**	**$**	**0.53**

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

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

	As of March 31, 2007 (Unaudited)	As of December 31, 2006 (Audited)
ASSETS		
ASSETS:		
Investments in real estate:		
Operating real estate, net of accumulated depreciation	**$ 166,821**	$ 142,046
of $144,541 and $142,458, respectively		
Land and development costs	**71,368**	67,993
Condominiums under construction	**7,075**	9,265
Rental projects under construction or development	**311**	24,143
Investments in real estate, net	**245,575**	243,447
Cash and cash equivalents	**33,081**	27,459
Restricted cash and escrow deposits	**21,067**	19,677
Investments in unconsolidated real estate entities	**6,578**	6,591
Receivable from bond proceeds	**13,736**	13,710
Accounts receivable	**2,310**	4,320
Deferred tax assets	**28,324**	18,157
Property and equipment, net of accumulated depreciation	**1,135**	1,157
Deferred charges and other assets, net of amortization of		
$2,101 and $1,655 respectively	**10,795**	12,181
Total Assets	**$ 362,601**	$ 346,699
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Non-recourse debt	**$ 281,290**	$ 270,720
Recourse debt	**27,567**	29,351
Accounts payable and accrued liabilities	**22,230**	24,191
Deferred income	**3,606**	3,591
Accrued current income tax liability	**13,972**	2,992
Total Liabilities	**348,665**	330,845
SHAREHOLDERS' EQUITY:		
	52	52

Common shares, $.01 par value, 10,000,000 shares authorized, 5,229,954 shares issued and outstanding as of March 31, 2007 and December 31, 2006		
Treasury stock, 67,709 shares at cost	**(376)**	(376)
Additional paid-in capital	**17,270**	17,238
Retained Deficit	**(3,010)**	(1,060)
Total Shareholders' Equity	**13,936**	15,854
Total Liabilities and Shareholders' Equity	**$ 362,601**	$ 346,699

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

	Common Shares Number	Common Shares Par Value	Treasury Stock	Additional Paid-in Capital	Retained Deficit	Total
Balance December 31, 2006 (Audited)	5,229,954	$ 52	$ (376)	$ 17,238	$ (1,060)	$15,854
Net income	-	-	-	-	24	24
Dividends paid	-	-	-	-	(516)	(516)
Cumulative effect of change in accounting for FIN 48	-	-	-	-	(1,458)	(1,458)
Amortization of Trustee Restricted Shares	-	-	-	32	-	32
Balance March 31, 2007 (Unaudited)	**5,229,954**	**$ 52**	**$ (376)**	**$ 17,270**	**$ (3,010)**	**$13,936**

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

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AMERICAN COMMUNITY PROPERTIES TRUST
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31,
(In thousands)
(Unaudited)

	2007	2006
Cash Flows from Operating Activities		
Net income	**$ 24**	$ 501
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**2,184**	1,973
Distribution to minority interests in excess of basis	**1,648**	1,043
Benefit for deferred income taxes	**(293)**	(217)
Equity in earnings-unconsolidated entities	**(1,673)**	(170)
Distribution of earnings from unconsolidated entities	**173**	163
Cost of land sales	**2,916**	2,236
Cost of home sales	**2,286**	3,034
Stock based compensation expense	**(1)**	195
Amortization of deferred loan costs	**292**	139
Changes in notes and accounts receivable	**2,010**	199
Additions to community development assets	**(5,661)**	(3,351)
Homebuilding-construction expenditures	**(726)**	(2,310)
Deferred income-joint venture	**15**	100
Changes in accounts payable, accrued liabilities	**(2,280)**	(1,948)
Net cash provided by operating activities	**$ 914**	$ 1,587
Cash Flows from Investing Activities		
Investment in apartment construction	**(56)**	(3,464)
Change in investments - unconsolidated entities	**1,513**	-
Cash from newly consolidated properties	**-**	4,723
Change in restricted cash	**(1,390)**	(721)
Additions to rental operating properties, net	**(2,997)**	(1,119)
Other assets	**1,042**	578
Net cash used in investing activities	**$ (1,888)**	$ (3)

Cash Flows from Financing Activities				
Cash proceeds from debt financing		**23,116**		3,832
Payment of debt		**(17,032)**		(4,801)
County Bonds proceeds, net of undisbursed funds		**2,676**		180
Payments of distributions to minority interests		**(1,648)**		(1,043)
Dividends paid to shareholders		**(516)**		-
Net cash provided by (used in) financing activities	**$**	**6,596**	$	(1,832)
Net Increase (Decrease) in Cash and Cash Equivalents		**5,622**		(248)
Cash and Cash Equivalents, Beginning of Period		**27,459**		21,156
Cash and Cash Equivalents, End of Period	**$**	**33,081**	$	20,908

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AMERICAN COMMUNITY PROPERTIES TRUST
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007
(Unaudited)

(1) ORGANIZATION

American Community Properties Trust ("ACPT") is a self-managed holding company that is primarily engaged in the investment of rental properties, property management services, community development, and homebuilding. These operations are concentrated in the Washington, D.C. metropolitan area and Puerto Rico and are carried out through American Rental Properties Trust ("ARPT"), American Rental Management Company ("ARMC "), American Land Development U.S., Inc. ("ALD") and IGP Group Corp. ("IGP Group") and their subsidiaries.

ACPT is taxed as a U.S. partnership and its taxable income flows through to its shareholders. ACPT is subject to Puerto Rico taxes on IGP Group's taxable income, generating foreign tax credits that are passed through to ACPT's shareholders. An IRS regulation eliminating the pass through of these tax credits to ACPT's shareholders has been proposed and is expected to become effective in 2007. ACPT's federal taxable income consists of certain passive income from IGP Group, a controlled foreign corporation, distributions from IGP Group, and dividends from ACPT's U.S. subsidiaries. Other than Interstate Commercial Properties ("ICP"), which is taxed as a Puerto Rico corporation, the taxable income from the remaining Puerto Rico operating entities passes through to IGP Group or ALD. Of this taxable income, only the portion of taxable income applicable to the profits, losses or gains on the residential land sold in Parque Escorial passes through to ALD. ALD, ARMC, and ARPT are taxed as U.S. corporations. The taxable income from the U.S. apartment properties flows through to ARPT.

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

Basis of Presentation

The accompanying consolidated financial statements include the accounts of American Community Properties Trust and its majority owned subsidiaries and partnerships, after eliminating all intercompany transactions. All of the entities included in the consolidated financial statements are hereinafter referred to collectively as the "Company" or "ACPT."

The Company consolidates entities which are not variable interest entities as defined by FASB Interpretation No. 46 (revised December 2003) ("FIN 46 (R)") in which it owns, directly or indirectly, a majority voting interest in the entity. In addition, the Company consolidates entities, regardless of ownership percentage, in which the Company serves as the general partner and the limited partners do not have substantive kick-out rights or substantive participation rights in accordance with Emerging Issues Task Force Issue 04-05, "*Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights*," ("EITF 04-05"). The assets of consolidated real estate partnerships not 100% owned by the Company are generally not available to pay creditors of the Company.

The consolidated group includes ACPT and its four major subsidiaries, American Rental Properties Trust, American Rental Management Company, American Land Development U.S., Inc., and IGP Group Corp. In addition, the consolidated group includes the following other entities:

American Housing Management Company	Owings Chase, LLC
American Housing Properties L.P.	Palmer Apartments Associates Limited Partnership

St. Charles Community, LLC	Prescott Square, LLC
Interstate General Properties Limited Partnership, S.E.	Sheffield Greens Apartments, LLC
Land Development Associates S.E.	Village Lake Apartments, LLC
LDA Group, LLC	Wakefield Terrace Associates Limited Partnership
Torres del Escorial, Inc.	Wakefield Third Age Associates Limited Partnership
Escorial Office Building I, Inc.	Alturas del Senorial Associates Limited Partnership
Interstate Commercial Properties, Inc.	Bayamon Garden Associates Limited Partnership
Bannister Associates Limited Partnership	Carolina Associates Limited Partnership S.E.
Coachman's Apartments, LLC	Colinas de San Juan Associates Limited Partnership
Crossland Associates Limited Partnership	Essex Apartments Associates Limited Partnership
Fox Chase Apartments, LLC	Huntington Associates Limited Partnership
Headen House Associates Limited Partnership	Jardines de Caparra Associates Limited Partnership
Lancaster Apartments Limited Partnership	Monserrate Associates Limited Partnership
Milford Station I, LLC	San Anton Associates S.E.
Milford Station II, LLC	Turabo Limited Dividend Partnership
New Forest Apartments, LLC	Valle del Sol Associates Limited Partnership
Nottingham South, LLC	

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

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Interim Financial Reporting

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

Use of Estimates

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

Implementation of FIN 48

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

Cash Dividends

On February 28, 2007, the Board of Trustees declared a cash dividend of $0.10 per share, payable on March 28, 2007, to shareholders of record on March 14, 2007.

Impairment of Long-Lived Assets

ACPT carries its rental properties, homebuilding inventory, land and development costs at the lower of cost or fair value in accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." For real estate assets such as our rental properties which the Company plans to hold and use, which includes property to be developed in the future, property currently under development and real estate projects that are completed or substantially complete, we evaluate whether the carrying amount of each of these assets will be recovered from their undiscounted future cash flows arising from their use and eventual disposition. If the carrying value were to be greater than the undiscounted future cash flows, we would recognize an impairment loss to the extent the carrying amount is not recoverable. Our estimates of the undiscounted operating cash flows expected to be generated by each asset are performed on an individual project basis and based on a number of assumptions that are subject to economic and market uncertainties, including, among others, demand for apartment units, competition, changes in market rental rates, and costs to operate and complete each project. There have been no impairment charges for the three months ended March 31, 2007 and 2006.

The Company evaluates, on an individual project basis, whether the carrying value of its substantially completed real estate projects, such as our homebuilding inventory that are to be sold, will be recovered based on the fair value less cost to sell. If the carrying value were to be greater than the fair value less costs to sell, we would recognize an impairment loss to the extent the carrying amount is not recoverable. Our estimates of the fair value less costs to sell are based on a number of assumptions that are subject to economic and market uncertainties, including, among others, comparable sales, demand for commercial and residential lots and competition. The Company performed similar reviews for land held for future development and sale considering such factors as the cash flows associated with future development expenditures. Should this evaluation indicate an impairment has occurred, the Company will record an impairment charge equal to the excess of the historical cost over fair value less costs to sell. There have been no impairment charges for the three months ended March 31, 2007 and 2006.

Depreciable Assets and Depreciation

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

- Buildings and improvements are depreciated over five to forty years using the straight-line or double declining balance methods,

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

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

		March 31, 2007 (Unaudited)		December 31, 2006 (Audited)
Building	**$**	**264,299**	$	240,264
Building improvements		**8,429**		8,022
Equipment		**13,134**		12,569
		285,862		260,855
Less: Accumulated depreciation		**144,541**		142,458
		141,321		118,397
Land		**25,500**		23,649
Operating properties, net	**$**	**166,821**	$	142,046

Other Property and Equipment
In addition, the Company owned other property and equipment of $1,135,000 and $1,157,000, net of accumulated depreciation of $2,156,000 and $2,101,000 respectively, as of March 31, 2007 and December 31, 2006 respectively.

Depreciation
Total depreciation expense was $2,184,000 and $1,973,000 for the three months ended March 31, 2007 and 2006, respectively.

Impact of Recently Issued Accounting Standards

SFAS 157
In September 2006, the FASB issued SFAS 157, *Fair Value Measurements.* SFAS 157 defines fair values as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. SFAS 157 applies whenever other standards require assets or liabilities to be measured at fair value and does not expand the use of fair value in any new circumstances. SFAS 157 establishes a hierarchy that prioritizes the information used in developing fair value estimates. The hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, such as the reporting entity's own data. SFAS 157 requires fair value measurements to be disclosed by level within the fair value hierarchy. SFAS 157 is effective for fiscal years beginning after November 15, 2007. We have not yet determined the impact that SFAS 157 will have on our financial statements.

EITF Issue No. 06-08, "Applicability of the Assessment of a Buyer's Continuing Investment under FASB Statement No. 66 for Sales of Condominiums"

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

(3) INVESTMENT IN UNCONSOLIDATED REAL ESTATE ENTITIES

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

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

Apartment Partnerships

The unconsolidated apartment partnerships as of March 31, 2007 and 2006 included Brookside Gardens Limited Partnership and Lakeside Apartments Limited Partnership which collectively represent 110 rental units. We have determined that these two entities are variable interest entities under FIN 46(R). However, the Company is not required to consolidate the partnerships due to the fact that it is not the primary beneficiary and does not bear the majority of the risk of expected losses. The Company holds a nominal (1% or less) economic interest in Brookside and Lakeside but, as a general partner, we have significant influence over operations of these entities that is disproportionate to our economic ownership. In accordance with SOP 78-9 and APB No. 18, these investments are accounted for under the equity method. The Company is exposed to losses consisting of our net investment, loans and unpaid fees for Brookside of $196,000 and $189,000 and for Lakeside of $170,000 and $172,000 as of March 31 2007 and December 31, 2006, respectively. All amounts are fully reserved. Pursuant to the partnership agreement for Brookside, the Company, as general partner, is responsible for providing operating deficit loans to the partnership in the event that it is not able to generate sufficient cash flows from its operating activities.

Commercial Partnerships

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

On April 30, 2004, the Company purchased a 50% limited partnership interest in El Monte Properties, S.E. ("El Monte") from Insular Properties Limited Partnership ("Insular") for $1,462,500. Insular is owned by the J. Michael Wilson Family, a related party. In December 2004, a third party buyer purchased El Monte for $20,000,000, $17,000,000 in cash and $3,000,000 in notes. The net cash proceeds from the sale of the real estate were distributed to the partners. As a result, the Company received $2,500,000 in cash and recognized $986,000 of income in 2004. The gain on sale was reduced by the amount of the seller's note which is subject to future subordination. In January 2005, El Monte distributed the notes to the partners whereby the Company received a $1,500,000 note. The Company determined that the cost recovery method of accounting was appropriate for this transaction and accordingly, deferred revenue recognition on this note until cash payment was received. In January 2007, the Company received $1,707,000, equal to the full principal amount due plus all accrued interest outstanding and, accordingly, recognized $1,500,000 of equity in earnings from unconsolidated entities and $207,000 of interest income. The Company has no required funding obligations and management expects to wind up El Monte’s affairs in 2007.

Land Development Joint Venture

In September 2004, the Company entered into a joint venture agreement with Lennar Corporation for the development of a 352-unit, active adult community located in St. Charles, Maryland. The Company manages the project's development for a market rate fee pursuant to a management agreement. In September 2004, the Company transferred land to the joint venture in exchange for a 50% ownership interest and $4,277,000 in cash. The Company's investment in the joint venture was recorded at 50% of the historical cost basis of the land with the other 50% recorded within our deferred charges and other assets. The proceeds received are reflected as deferred revenue. The deferred revenue and related deferred costs will be recognized into income as the joint venture sells lots to Lennar. In March 2005, the joint venture closed a non-recourse development loan, which was amended in June 2006 and again in December 2006. Per the amended terms of the loan, both the Company and Lennar provided development completion guarantees. In the first quarter of 2007, the joint venture sold 14 lots to Lennar. As a result, the Company recognized $292,000 in deferred revenue, off-site fees and management fees and $93,000 of deferred costs.

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

	Apartment Properties	Commercial Property	Land Development Joint Venture	Total
		(in thousands)		
Summary Financial Position:				
Total Assets				
March 31, 2007	$ 5,116	$ 28,133	$ 12,763	$ 46,012
December 31, 2006	5,142	27,726	12,154	45,022
Total Non-Recourse Debt				
March 31, 2007	3,230	22,960	4,600	30,790
December 31, 2006	3,244	22,960	3,476	29,680
Total Other Liabilities				
March 31, 2007	1,269	1,051	1,229	3,549
December 31, 2006	1,242	722	1,744	3,708
Total Deficit/Equity				
March 31, 2007	617	4,122	6,934	11,673
December 31, 2006	656	4,044	6,934	11,634
Company's Investment, net (1)				
March 31, 2007	-	4,750	1,828	6,578
December 31, 2006	-	4,763	1,828	6,591
Summary of Operations:				
Total Revenue				
Three Months Ended March 31, 2007	$ 170	$ 909	$ 1,874	$ 2,953
Three Months Ended March 31, 2006	199	913	-	1,112
Net Income				
Three Months Ended March 31, 2007	(39)	468	-	429
Three Months Ended March 31, 2006	(27)	458	-	431
Company's recognition of equity in earnings				
Three Months Ended March 31, 2007	-	173	-	173
Three Months Ended March 31, 2006	-	170	-	170
Summary of Cash Flows:				
Cash flows from operating activities				
Three Months Ended March 31, 2007	$ 34	$ 862	$ 1,358	$ 2,254
Three Months Ended March 31, 2006	53	859	(589)	323
Company's share of cash flows from operating activities				
Three Months Ended March 31, 2007	-	390	679	1,069
Three Months Ended March 31, 2006	1	389	(295)	95
Operating cash distributions				

Three Months Ended March 31, 2007	-	411	-	411
Three Months Ended March 31, 2006	-	359	-	359
Company's share of operating cash distributions				
Three Months Ended March 31, 2007	-	186	-	186
Three Months Ended March 31, 2006	-	163	-	163

Notes:

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

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(4) DEBT

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

	Maturity Dates From/To	Interest Rates From/To	Outstanding as of **March 31, 2007 (Unaudited)**	December 31, 2006 (Audited)
Recourse Debt				
Community Development (a), (b), (c)	08-31-08/03-01-22	4%/8%	$ **27,396**	$ 24,694
Investment Properties (d)	PAID	PAID	**-**	4,473
General obligations (e)	07-29-07/01-01-12	Non-interest bearing/8.10%	**171**	184
Total Recourse Debt			**27,567**	29,351
Non-Recourse Debt				
Community Development (f)	11-23-07	Non-interest bearing	**500**	500
Investment Properties (g)	04-30-09/08-01-47	4.95%/10%	**280,790**	270,220
Total Non-Recourse Debt			**281,290**	270,720
Total debt			$ **308,857**	$ 300,071

a) As of March 31, 2007, $24,796,000 of the community development recourse debt relates to the general obligation bonds issued by the Charles County government as described in detail under the heading "Financial Commitments" in Note 5.

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

c) On September 1, 2006, LDA secured a revolving line of credit facility of $15,000,000 to be utilized as follows: (i) to repay its outstanding loan of $800,000; and (ii) to fund development costs of a project in which the Company plans to develop a planned community in Canovanas, Puerto Rico, to fund acquisitions and/or investments mainly in estate ventures, to fund transaction costs and expenses, to fund future payments of interest under the line of credit and to fund the working capital needs of the Company. The line of credit bears interest at a fluctuating rate equivalent to the LIBOR Rate plus 200 basis points (7.36% at March 31, 2007) and matures on August 31, 2008. The outstanding balance of this facility on March 31, 2007, was $2,600,000.

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

e) The general recourse debt outstanding as of March 31, 2007, is made up of various capital leases outstanding within our U.S. and Puerto Rico operations, as well as installment loans for vehicles and other miscellaneous equipment.

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

g) The non-recourse debt related to the investment properties is collateralized by the multifamily rental properties and the office building in Parque Escorial. As of March 31, 2007, approximately $73,536,000 of this debt is secured by the Federal Housing Administration ("FHA") or the Maryland Housing Fund. The non-recourse debt related to the investment properties also includes a construction loan for Sheffield Greens Apartments LLC (Sheffield Greens). As of March 31, 2007, the balance of the construction loan was $25,167,000. The construction loan will convert to a 40 year non-recourse permanent mortgage not later than September of 2007.

The Company's loans contain various financial, cross collateral, cross default, technical and restrictive provisions. As of March 31, 2007, the Company is in compliance with the financial covenants and the other provisions of its loan agreements.

(5) COMMITMENTS AND CONTINGENT LIABILITIES

Financial Commitments

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

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

During 2006, the Company reached an agreement with Charles County whereby the Company receives interest payments on any undistributed bond proceeds held in escrow by the County. The agreement covers the period from July 1, 2005 through the last draw made by the Company.

As of March 31, 2007, ACPT is guarantor of $28,263,000 of surety bonds for the completion of land development projects with Charles County; substantially all are for the benefit of the Charles County Commissioners.

Consulting Agreement and Arrangement

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

Guarantees

ACPT and its subsidiaries typically provide guarantees for another subsidiary's loans. In many cases more than one company guarantees the same debt. Since all of these companies are consolidated, the debt or other financial commitment made by the subsidiaries to third parties and guaranteed by ACPT, is included within ACPT's consolidated financial statements. As of March 31, 2007, ACPT has guaranteed $24,796,000 of outstanding debt owed by its subsidiaries. IGP has guaranteed $2,600,000 of its subsidiaries' outstanding debt. The guarantees will remain in effect until the debt service is fully repaid by the respective borrowing subsidiary. The terms of the debt service guarantees outstanding range from one to nine years. In addition to debt service guarantees, both the Company and Lennar provided development completion guarantees related to the St. Charles Active Adult Community Joint Venture. We do not expect any of these guarantees to impair the individual subsidiary or the Company's ability to conduct business or to pursue its future development plans.

Legal Matters

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

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

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

(6) RELATED PARTY TRANSACTIONS

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

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CONSOLIDATED STATEMENT OF INCOME:		Three Months Ended March 31, 2007	2006
Management and Other Fees			
Unconsolidated subsidiaries with third party partners	(A)	$ 10	$ 10
Affiliates of J. Michael Wilson, CEO and Chairman		43	131
		$ 53	$ 141
Rental Property Revenues	(B)	$ **14**	$ -
Interest and Other Income			
Unconsolidated real estate entities with third party partners		$ **2**	$ 2
General and Administrative Expense			
Affiliates of J. Michael Wilson, CEO and Chairman	(C1)	$ **-**	$ 19
Reserve additions and other write-offs-			
Unconsolidated real estate entities with third party partners	(A)	**2**	6
Reimbursement to IBC for ACPT's share of J. Michael Wilson's salary		**98**	94
Reimbursement of administrative costs-			
Affiliates of J. Michael Wilson, CEO and Chairman		**(6)**	(3)
Consulting Fees			
James J. Wilson, IGC Chairman and Director	(C2)	**50**	50
Thomas J. Shafer, Trustee	(C3)	**15**	15
		$ **159**	$ 181
BALANCE SHEET:		**Balance March**	Balance December

		31, 2007		31, 2006
Other Assets				
Receivables - All unsecured and due on demand				
Affiliate of J. Michael Wilson, CEO and Chairman	$	**6**	$	128

(A) **Management and Other Services**
The Company provides management and other support services to its unconsolidated subsidiaries and other affiliated entities in the normal course of business. The fees earned from these services are typically collected on a monthly basis, one month in arrears. Receivables are unsecured and due on demand. Certain partnerships experiencing cash shortfalls have not paid timely. Generally, receivable balances of these partnerships are fully reserved, until satisfied or the prospect of collectibility improves. The collectibility of management fee receivables is evaluated quarterly. Any increase or decrease in the reserves is reflected accordingly as additional bad debt expenses or recovery of such expenses.
Effective April 30, 2006, ARMC's management agreement with Chastleton Associates LP terminated due to the fact that the apartment property was sold to a third party. The property was previously owned by an affiliate. Management fees generated by this property accounted for less than 1% of the Company's total revenue. The Company earned an agreed-upon management fee for administrative services through the end of the second quarter 2006.
At the end of February 2007, G.L. Limited Partnership, which was owned by affiliates of J. Michael Wilson, was sold to a third party. Accordingly, we are no longer the management agent for this property effective March 1, 2007. Management fees generated by this property accounted for less than 1% of the Company's total revenue.

(B) **Rental Property Revenue**
On September 1, 2006, the Company, through one of its Puerto Rican subsidiaries, Escorial Office Building I, Inc. ("Landlord"), executed a lease with Caribe Waste Technologies, Inc. ("CWT"), a company owned by the J. Michael Wilson Family. The lease provides for 1,842 square feet of office space to be leased by CWT for five years at $19.00 per rentable square foot. The

company provided CWT with an allowance of $9,000 in tenant improvements which are being amortized over the life of the lease. In addition, CWT shall have the right to terminate this lease at any time after one year, provided it gives Landlord written notice six (6) months prior to termination. The lease agreement is unconditionally guaranteed by Interstate Business Corporation ("IBC"), a company owned by the J. Michael Wilson Family.

(C) **Other**
Other transactions with related parties are as follows:

1) In 2005, the Company rented executive office space and other property from an affiliate in the United States pursuant to a lease that expires in 2010. In management's opinion, all leases with affiliated persons were on terms at least as favorable as these generally available from unaffiliated persons for comparable property. Effective January 27, 2006, the office building was sold to a third party who assumed the Company's lease agreements.
2) Represents fees paid to James J. Wilson pursuant to a consulting and retirement agreement. At Mr. Wilson's request, payments are made to IGC.
3) Represents fees paid to Thomas J. Shafer, a trustee, pursuant to a consulting agreement.

Related Party Acquisitions

El Monte
On April 30, 2004, the Company purchased a 50% limited partnership interest in El Monte Properties S.E. ("El Monte") from Insular Properties Limited Partnership ("Insular") for $1,462,500. Insular is owned by the J. Michael Wilson Family. Per the terms of the agreement, the Company was responsible to fund $400,000 of capital improvements and lease stabilization costs, and had a priority on cash distributions up to its advances plus accrued interest at 8%, investment and a 13% cumulative preferred return on its investment. The purchase price was based on a third party appraisal of $16,500,000 dated April 22, 2003. The Company's limited partnership investment was accounted for under the equity method of accounting.
In December 2004, a third party buyer purchased El Monte for $20,000,000 - $17,000,000 in cash and $3,000,000 in notes. The net cash proceeds from the sale of the real estate were distributed to the partners. As a result, the Company received $2,500,000 in cash and recognized $986,000 of income in 2004. El Monte distributed the note, $1,500,000, to the Company in January 2005. The note bears interest at a rate of prime plus 2% with a ceiling rate of 9% and matures on December 3, 2009. The note was payable in three installments, the first installment of $250,000 was due on December 3, 2007, the second installment of $250,000 was due on December 3, 2008 and the balance was due on December 3, 2009. On January 24, 2007, the Company received $1,707,000 as payment in full of the principal balance and all accrued interest related to the El Monte note receivable. Accordingly, the Company recorded $1,500,000 as equity in earnings and $207,000 as interest income. As previously noted, the Company deferred revenue recognition on this note until the cash was received.

(7) INCOME TAXES

We adopted the provisions of FIN 48 on January 1, 2007. As a result of the implementation of FIN 48, we recorded a $1,458,000 increase in the net liability for unrecognized tax positions, which was recorded as a cumulative effect of a change in accounting principle, reducing the opening balance of retained earnings on January 1, 2007. The total amount of unrecognized tax benefits as of January 1, 2007, was $13,544,000. Included in the balance at January 1, 2007, were $2,317,000 of tax positions that, if recognized, would affect the effective tax rate.

In accordance with our accounting policy, we recognize accrued interest related to unrecognized tax benefits as a component of interest expense and penalties as a component of tax expense on the Consolidated Statements of Income. This policy did not change as a result of the adoption of FIN 48. Our Consolidated Statement of Income for the quarter ended March 31, 2007, and our Consolidated Balance Sheet as of that date included interest of $179,000 and $1,244,000, respectively and penalties of $58,000 and $655,000, respectively.

The Company currently does not have any tax returns under audit by the United States Internal Revenue Service or the Puerto Rico Treasury Department. However, the tax returns filed in the Unites States for the years ended December 31, 2003 through 2006 remain subject to examination. For Puerto Rico, the tax returns for the years ended December 31, 2002 through 2006 remain subject to examination. Within the next twelve months, the Company does not anticipate any payments related to settlement of any tax examinations. Additionally, as certain United States and Puerto Rico income tax returns will no longer be subject to examination, and as a result, there is a reasonable possibility that the amount of unrecognized tax benefits will decrease by $25,000.

(8) SEGMENT INFORMATION

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

Customer Dependence
Residential land sales to Lennar within our U.S. segment were $1,219,000 for the three months ended March 31, 2007 which represents 10% of the U.S. segment's revenue and 6% of our total year-to-date consolidated revenue. No customers accounted for more than 10% of our consolidated revenue for the three months ended March 31, 2007. Residential land sales to Lennar within our U.S. segment were $3,144,000 for the three months ended March 31, 2006 which represents 27% of the U.S. segment's revenue and 15% of our total consolidated revenue for the year. No other customers accounted for more than 10% of our consolidated revenue for the three months ended March 31, 2006.

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The following presents the segment information for the three months ended March 31, 2007 and 2006 (in thousands):

	United States	Puerto Rico	Inter-Segment	Total
Three Months Ended March 31, 2007 (Unaudited):				
Rental property revenues	$ 8,905	$ 5,505	$ -	$ 14,410
Rental property operating expenses	4,625	2,731	-	7,356
Land sales revenue	3,755	-	-	3,755
Cost of land sales	2,916	-	-	2,916
Home sales revenue	-	3,088	-	3,088
Cost of home sales	-	2,286	-	2,286
Management and other fees	110	153	-	263
General, administrative, selling and marketing expense	1,747	716	-	2,463
Depreciation and amortization	1,271	913	-	2,184
Operating income	2,211	2,100	-	4,311
Interest income	297	215	(30)	482
Equity in earnings from unconsolidated entities	-	1,673	-	1,673
Interest expense	3,066	1,581	(30)	4,617
Minority interest in consolidated entities	-	1,372	-	1,372
(Loss) income before provision for income taxes	(557)	1,104	-	547
Income tax provision	(75)	598	-	523
Net (loss) income	(482)	506	-	24
Gross profit on land sale	839	-	-	839
Gross profit on home sales	-	802	-	802
Total assets	257,772	106,424	(1,595)	362,601
Additions to long lived assets	2,826	227	-	3,053
Three Months Ended March 31, 2006 (Unaudited):				
Rental property revenues	$ 7,547	$ 5,244	$ -	$ 12,791
Rental property operating expenses	3,539	2,649	-	6,188
Land sales revenue	3,944	-	-	3,944
Cost of land sales	2,226	10	-	2,236
Home sales revenue	-	4,025	-	4,025
Cost of home sales	-	3,034	-	3,034
Management and other fees	141	149	-	290
General, administrative, selling and marketing expense	1,682	750	-	2,432
Depreciation and amortization	1,076	897	-	1,973
Operating income	3,109	2,078	-	5,187
Interest income	25	45	-	70
Equity in earnings from unconsolidated entities	-	170	-	170

Interest expense	1,933	1,568	-	3,501
Minority interest in consolidated entities	8	1,057	-	1,065
Income before provision/(benefit) for income taxes	1,195	(275)	-	920
Income tax provision/(benefit)	501	(82)	-	419
Net income	694	(193)	-	501
Gross profit on land sale	1,718	(10)	-	1,708
Gross profit on home sales	-	991	-	991
Total assets	187,029	116,848	(369)	303,508
Additions to long lived assets	3,980	66	-	4,046