

AMERICAN COMMUNITY PROPERTIES TRUST

Form 10-Q

August 12, 2005

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED **JUNE 30, 2005**, OR

☐ 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 report, and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes // No /X/

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

As of August 5, 2005, there were 5,197,954 Common Shares outstanding

AMERICAN COMMUNITY PROPERTIES TRUST
FORM 10-Q

JUNE 30, 2005
TABLE OF CONTENTS

	<u>Page Number</u>
PART I	
FINANCIAL INFORMATION	
Item 1. Consolidated Financial Statements	
Consolidated Statements of Income for the Six Months Ended June 30, 2005 (Unaudited) and June 30, 2004 (Unaudited & Restated)	3
Consolidated Statements of Income for the Three Months Ended June 30, 2005 (Unaudited) and June 30, 2004 (Unaudited & Restated)	4
Consolidated Balance Sheets as of June 30, 2005 (Unaudited) and December 31, 2004 (Audited)	5
Consolidated Statement of Changes in Shareholders' Equity for the Six Months Ended June 30, 2005 (Unaudited)	7
Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2005 (Unaudited) and June 30, 2004 (Unaudited & Restated)	8
Notes to Consolidated Financial Statements (Unaudited)	9
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations for the Six and Three Month Periods Ended June 30, 2005 and 2004	26
Item 3. Qualitative and Quantitative Disclosures about Market Risk	40
Item 4. Controls and Procedures	41
PART II	
OTHER INFORMATION	
Item 1. Legal Proceedings	41

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Item 2	Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities	41
Item 3.	Defaults Upon Senior Securities	41
Item 4.	Submission of Matters to a Vote of Security Holders	42
Item 5.	Other Information	42
Item 6.	Exhibits	42
	Signatures	43

AMERICAN COMMUNITY PROPERTIES TRUST			
CONSOLIDATED STATEMENTS OF INCOME			
FOR THE SIX MONTHS ENDED JUNE 30,			
(In thousands, except per share amounts)			
(Unaudited)			
	2005		2004
			(Restated)
Revenues			
Community development-land sales	\$ 12,721		\$ 4,914
Homebuilding-home sales	-		9,309
Rental property revenues	10,828		8,998
Management and other fees, substantially all from related entities	1,697		1,936
Reimbursement of expenses related to managed entities	3,227		3,394
Total revenues	28,473		28,551
Expenses			
Cost of land sales	8,880		3,459

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Cost of home sales	21		7,042
Rental property operating expenses	4,374		3,735
General, administrative, selling and marketing	5,415		4,887
Depreciation and amortization	1,950		1,522
Expenses reimbursed from managed entities	3,227		3,394
Total expenses	23,867		24,039
Operating income	4,606		4,512
Other income (expense)			
Interest and other income	646		226
Equity in earnings from unconsolidated entities	628		937
Interest expense	(3,257)		(2,768)
Minority interest in consolidated entities	(238)		(447)
Income before provision for income taxes	2,385		2,460
Provision for income taxes	480		592
Net income	\$ 1,905		\$ 1,868
Earnings per share			
Basic and diluted	\$ 0.37		\$ 0.36
Weighted average shares outstanding			
Basic and diluted	5,192		5,192
Cash dividends per share	\$ 0.20		\$ 0.15
The accompanying notes are an integral part of these consolidated statements.			

AMERICAN COMMUNITY PROPERTIES TRUST			
CONSOLIDATED STATEMENTS OF INCOME			
FOR THE THREE MONTHS ENDED JUNE 30,			
(In thousands, except per share amounts)			
(Unaudited)			
	2005		2004
			(Restated)
Revenues			
Community development-land sales	\$ 8,973		\$ 4,786
Homebuilding-home sales	-		3,960
Rental property revenues	5,487		4,587
Management and other fees, substantially all from related entities	970		943
Reimbursement of expenses related to managed entities	1,650		1,759
Total revenues	17,080		16,035
Expenses			
Cost of land sales	6,236		3,155
Cost of home sales	11		2,969
Rental property operating expenses	2,281		1,899
General, administrative, selling and marketing	2,711		2,520
Depreciation and amortization	942		761
Expenses reimbursed from managed entities	1,650		1,759
Total expenses	13,831		13,063
Operating income	3,249		2,972

Other income (expense)			
Interest and other income	521		145
Equity in earnings from unconsolidated entities	283		223
Interest expense	(1,555)		(1,119)
Minority interest in consolidated entities	(212)		(119)
Income before provision for income taxes	2,286		2,102
Provision for income taxes	608		665
Net income	\$ 1,678		\$ 1,437
Earnings per share			
Basic and diluted	\$ 0.32		\$ 0.28
Weighted average shares outstanding			
Basic and diluted	5,192		5,192
Cash dividends per share	\$ 0.10		\$ 0.05
The accompanying notes are an integral part of these consolidated statements.			

AMERICAN COMMUNITY PROPERTIES TRUST			
CONSOLIDATED BALANCE SHEETS			
(In thousands, except share and per share amounts)			
<u>ASSETS</u>			
	As of		As of
	June 30,		December 31,
	2005		2004

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	(Unaudited)		(Audited)
Cash and Cash Equivalents			
Unrestricted	\$ 18,602		\$ 16,138
Restricted	2,555		2,667
	21,157		18,805
Assets Related to Investment Properties			
Operating real estate, net of accumulated depreciation			
of \$45,273 and \$43,464, respectively	67,118		65,071
Other operating assets, net of amortization of \$715			
and \$412, respectively	8,332		7,844
Investment in unconsolidated apartment partnerships	3,082		3,942
Investment in unconsolidated commercial property partnerships	4,888		4,872
Other receivables	388		641
Development cost and construction	11,009		9,052
	94,817		91,422
Assets Related to Community Development			
Land and development costs			
Puerto Rico	18,616		25,078
St. Charles, Maryland	32,240		24,444
Receivable from bond proceeds	9,391		4,810
Notes receivable on lot sales and other	318		301
Investment in joint venture	4,465		5,625
	65,030		60,258
Assets Related to Homebuilding			

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Condominiums under construction	16,630		10,675
Other Assets			
Deferred tax assets	4,857		1,362
Receivables and other	808		873
Property, plant and equipment, less accumulated depreciation			
of \$1,672 and \$1,580, respectively	848		632
	6,513		2,867
Total Assets	\$ 204,147		\$ 184,027
The accompanying notes are an integral part of these consolidated statements.			

AMERICAN COMMUNITY PROPERTIES TRUST			
CONSOLIDATED BALANCE SHEETS			
(In thousands, except share and per share amounts)			
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>			
	As of		As of
	June 30,		December 31,
	2005		2004
	(Unaudited)		(Audited)
Liabilities Related to Investment Properties			
Recourse debt	\$ 4,867		\$ 1,896
Non-recourse debt	107,273		98,879
Accounts payable and accrued liabilities	8,419		7,617
Deferred income	495		417

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	121,054		108,809
Liabilities Related to Community Development			
Recourse debt	1,000		8,709
Recourse debt-County Bonds	13,590		7,795
Accounts payable and accrued liabilities	5,588		4,485
Deferred income related to joint venture	4,277		4,277
	24,455		25,266
Liabilities Related to Homebuilding			
Recourse debt	13,533		8,792
Accounts payable and accrued liabilities	2,691		1,998
	16,224		10,790
Other Liabilities			
Accounts payable and accrued liabilities	3,572		3,171
Notes payable and capital leases	194		202
Accrued income tax liability-current	3,498		1,622
	7,264		4,995
Total Liabilities	168,997		149,860
Shareholders' Equity			
Common shares, \$.01 par value, 10,000,000 shares authorized,			
5,197,954 and 5,191,554 shares issued and outstanding as of			
June 30, 2005 and December 31, 2004, respectively	52		52
Treasury stock, 67,709 shares at cost	(376)		(376)
Additional paid-in capital	17,066		16,964
Retained earnings	18,408		17,527

Total Shareholders' Equity	35,150		34,167
Total Liabilities and Shareholders' Equity	\$ 204,147		\$ 184,027
The accompanying notes are an integral part of these consolidated statements.			

AMERICAN COMMUNITY PROPERTIES TRUST						
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY						
(In thousands, except share amounts)						
	Common Shares			Additional		
		Par	Treasury	Paid-in	Retained	
	Number	Value	Stock	Capital	Earnings	Total
Balance December 31, 2004 (Audited)	5,191,554	\$ 52	\$ (376)	\$ 16,964	\$ 17,527	\$ 34,167
Net income	-	-	-	-	1,905	1,905
Dividends declared	-	-	-	-	(1,024)	(1,024)
Issuance of shares to Trustees	6,400	-	-	102	-	102
Balance June 30, 2005 (Unaudited)	5,197,954	\$ 52	\$ (376)	\$ 17,066	\$ 18,408	\$ 35,150
The accompanying notes are an integral part of these consolidated statements.						

AMERICAN COMMUNITY PROPERTIES TRUST
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30,

(In thousands)			
(Unaudited)			
	2005		2004
			(Restated)
Cash Flows from Operating Activities			
Net income	\$ 1,905		\$ 1,868
Adjustments to reconcile net income to net cash provided			
by operating activities:			
Depreciation and amortization	1,950		1,522
Benefit for deferred income taxes	(3,495)		(1,079)
Equity in earnings-unconsolidated entities	(628)		(937)
Cost of sales-community development	8,880		3,459
Cost of sales-homebuilding	21		7,042
Stock based compensation expense	655		197
Minority interest in consolidated entities	238		447
Amortization of deferred loan costs	312		504
Changes in notes and accounts receivable	291		(1,920)
Additions to community development assets	(10,214)		(5,092)
Homebuilding-construction expenditures	(5,976)		(3,825)
Changes in accounts payable, accrued liabilities	4,109		2,271
Net cash (used in)/provided by operating activities	(1,952)		4,457
Cash Flows from Investing Activities			
Investment in office building and apartment construction	(1,957)		(1,827)
Distribution from land real estate joint venture	1,160		-

Change in investments-unconsolidated apartment partnerships	1,116		745
Change in investments-unconsolidated commercial partnerships	356		(1,127)
Change in restricted cash	112		(1,177)
Additions to rental operating properties, net	(2,043)		(842)
Other assets	(347)		(223)
Net cash used in investing activities	(1,603)		(4,451)
Cash Flows from Financing Activities			
Cash proceeds from debt financing	18,245		21,252
Payment of debt	(12,416)		(17,751)
County Bonds proceeds, net of undisbursed funds	1,214		-
Dividends paid to shareholders	(1,024)		(768)
Net cash provided by financing activities	6,019		2,733
Net Increase in Cash and Cash Equivalents	2,464		2,739
Cash and Cash Equivalents, Beginning of Year	16,138		13,716
Cash and Cash Equivalents, June 30,	\$ 18,602		\$ 16,455
The accompanying notes are an integral part of these consolidated statements.			

AMERICAN COMMUNITY PROPERTIES TRUST
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2005

(Unaudited)

(1) ORGANIZATION

American Community Properties Trust ("ACPT") was formed on March 17, 1997 as a real estate investment trust under Article 8 of the Maryland Trust Law. ACPT was formed to succeed to most of Interstate General Company L.P.'s ("IGC" or "Predecessor") real estate operations.

On October 5, 1998 IGC transferred to ACPT the common shares of four subsidiaries that collectively comprised the majority of the principal real estate operations and assets of IGC. In exchange, ACPT issued to IGC 5,207,954 common shares of ACPT, all of which were distributed to the partners of IGC, resulting in the division of IGC's operations into two companies. The shares were distributed on a basis of one ACPT share for every two IGC units and a proportionate share to IGC's general partners.

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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"), IGP Group Corp. ("IGP Group") and their subsidiaries. All of the entities included in the consolidated financial statements are hereinafter referred to collectively as the "Company" or "ACPT". ACPT is taxed as a partnership. ARPT, ARMC and ALD are taxed as U.S. corporations and IGP Group's income is subject to Puerto Rico income taxes.

(2) BASIS OF PRESENTATION AND PRINCIPLES OF ACCOUNTING

Restated and Reclassified Financial Data

As more fully described in Notes 14 and 15 of the Company's Annual Report filed on Form 10-K for the year ended December 31, 2004, the Company restated its audited financial results of the fiscal years ended December 31, 2003 and 2002, and its unaudited quarterly results for the periods ended March 31, 2004, June 30, 2004 and September 30, 2004 to reflect the following:

- The Company corrected its accounting for cash distributions received from unconsolidated limited partnerships in which the Company is a general partner. Previously, the Company recorded cash distributions received from limited partnerships financed with non-recourse mortgages that were in excess of its investment basis as income. As part of the restatement and for future distributions, the Company will defer recognition of distributions received in excess of basis from limited partnerships in which the Company is the general partner.
- The Company commenced recording minority interest expense for cash distributions paid to the minority limited partners in our consolidated partnerships when those partners no longer had any basis in those consolidated partnerships. Previously, the distributions reduced the aggregate minority interest obligation recorded by the Company.
- The Company changed its accounting method for its general partner interest in Crossland Associates Limited Partnership ("Crossland"). Prior to the restatement, the Company's investment in Crossland had been recorded under the equity method due to certain important rights previously held by the limited partners. One of those rights expired in a year prior to the restatement period. As a result, the Company became the controlling partner and was required to consolidate the partnership. The adjustment to consolidate Crossland reflects the effects of excess cash distributions previously recognized as income and the expensing of excess distributions to minority partners as described above.

The adjustments resulted in the following (decrease) in net income and earnings per share - basic and diluted (in thousands except per share data):

	For the Six Months		For the Three Months
	Ended		Ended
	June 30, 2004		June 30, 2004
Net income	\$ (845)		\$ (45)
Earnings per share - basic and diluted	\$ (0.16)		\$ (0.01)

Basis of Presentation

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The accompanying consolidated financial statements include the accounts of ACPT and its majority owned subsidiaries and partnerships, after eliminating all intercompany transactions. As of June 30, 2005, the consolidated group includes ACPT and its four major subsidiaries, ARPT, ARMC, ALD and IGP Group. In addition, the consolidated group includes American Housing Management Company, American Housing Properties L.P., St. Charles Community, LLC, Interstate General Properties Limited Partnership, S.E., Land Development Associates S.E., LDA Group LLC, Torres del Escorial, Inc., Escorial Office Building I, Inc., Interstate Commercial Properties, Inc., Bannister Associates Limited Partnership, Coachman's Limited Partnership, Crossland Associates Limited Partnership, Fox Chase Apartments General Partnership, Headen House Associates Limited Partnership, Lancaster Apartments Limited Partnership, New Forest Apartments General Partnership, Nottingham South LLC, Owings Chase LLC, Palmer Apartments Associates Limited Partnership, Prescott Square LLC, Village Lake L.P., Wakefield Terrace Associates Limited Partnership, and Wakefield Third Age Associates Limited Partnership. The assets and liabilities of the partnerships contributed to ACPT were transferred at their cost basis because of affiliate ownership and common management.

The Company's investment in the partnerships that it does not control, or for which it is not the primary beneficiary if such entity is a variable interest entity, are recorded using the equity method of accounting. Refer to Note 3 for further discussion regarding investments in unconsolidated real estate entities.

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, 2004.

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.

The operating results for the six and three months ended June 30, 2005 and 2004 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. Weighted average shares outstanding for the six and three months ended June 30, 2005 and 2004 were not adjusted for the diluted calculation.

Summary of Significant Accounting Policies

Operating Real Estate 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. Maintenance and other repair costs are charged to operations as incurred. 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,

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- Furniture, fixtures and equipment are depreciated over five to seven years using the straight-line method
- Leasehold improvements are capitalized and depreciated over the life of the lease or their estimated useful life, whichever is shorter.

The table below presents the major classes of depreciable assets as of June 30, 2005 and December 31, 2004 (in thousands):

	June 30,	December 31,
	2005	2004
	(unaudited)	(audited)
Land	\$ 8,468	\$ 8,110
Building	93,905	91,319
Building improvements	3,980	3,616
Equipment	6,038	5,490
	112,391	108,535
Accumulated depreciation	45,273	43,464
Operating properties, net	\$ 67,118	\$ 65,071

In addition, the Company owned other property and equipment of \$848,000 and \$632,000, net of accumulated depreciation, respectively, as of June 30, 2005 and December 31, 2004. Total depreciation expense was \$1,950,000 and \$1,522,000 for six months ended June 30, 2005 and 2004, respectively, and \$942,000 and \$761,000 for the three months ended June 30, 2005 and 2004, respectively.

Acquired Real Estate Properties

On October 29, 2004, the Company, through its subsidiary AHP, completed the acquisition of the assets of two apartment properties in Pikesville, Maryland containing a total of 307 apartment units. The properties were purchased for approximately \$20,000,000.

On May 23, 2005, the Company, through its subsidiary AHP, completed the acquisition of an apartment property in Baltimore, Maryland containing 85 units for approximately \$3,000,000. The acquisition was financed through a combination of cash and non-recourse debt financing.

We allocated the purchase price of acquired properties to the related physical assets (land and building) and in-place leases based on the fair values of each component, in accordance with Statement of Financial Accounting Standards ("SFAS") No. 141, "*Business Combinations*." The value ascribed to in-place leases is based on the rental rates for the existing leases compared to market rent for leases of similar terms and present valuing the difference based on tenant credit risk rates. In preparing this calculation, we considered the estimated costs to make an apartment unit rent ready, the estimated costs and lost income associated with executing a new lease on an apartment unit, and the remaining terms of leases in place. The Company depreciates the amounts allocated to building and improvements over 40 years on a straight-line basis and amortizes the amounts allocated to intangible assets relating to in-place leases, totaling \$483,000 for the October acquisition and \$104,000 for the May acquisition, which are included in other operating assets in the accompanying balance sheet, over the remaining term of the related leases, which term is no longer than

one year.

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Reclassification

Certain amounts from the prior year have been reclassified to conform to our current year's presentation.

Impact of Recently Issued Accounting Standards

SFAS 123(R)

In December 2004, the FASB issued SFAS No. 123(R), "*Share Based Payment*," a revision of SFAS No. 123. Statement 123(R) addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. SFAS 123(R) is similar in concept to SFAS No. 123, but requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. In addition, companies must also recognize compensation expense related to any awards that were not fully vested as of July 1, 2005. Pro forma disclosure is no longer an alternative. This revision is effective in the first interim or annual reporting period beginning after January 1, 2006. This revision is not expected to have a material impact on the Company's financial condition or results of operations.

SFAS 154

In May 2005, the FASB issued SFAS No. 154, "*Accounting Changes and Error Corrections*," which replaces APB Opinion No. 20 and SFAS No. 3, and changes the requirements for the accounting for and reporting of a change in accounting principle. This statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005, although early adoption is permitted for accounting changes and corrections of errors made in fiscal years beginning after the dates FAS 154 was issued. We do not anticipate that the adoption of SFAS 154 will have a material impact on our financial condition or results of operations.

FIN 46

In January 2003, the FASB issued Interpretation No. 46 (revised December 2003) ("FIN 46-R"), "*Consolidation of Variable Interest Entities*." FIN 46-R clarifies the application of Accounting Research Bulletin 51, "*Consolidated Financial Statements*," for certain entities that do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties or in which equity investors do not have the characteristics of a controlling financial interest ("variable interest entities"). Variable interest entities within the scope of FIN 46-R are required to be consolidated by their primary beneficiary. The objective of FIN 46-R is to improve financial reporting by companies involved with variable interest entities by requiring the variable interest entities to be consolidated with the results of the primary beneficiary if the primary beneficiary absorbs a majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity. We adopted FIN 46-R as of March 31, 2004. Its adoption did not have a material impact on our financial position, results of operations or cash flows.

As discussed in Note 3, our Company holds interests in and acts as the managing agent of certain partnerships established for the purpose of constructing and renting residential housing. We have determined that two of our unconsolidated apartment partnerships, Brookside Gardens Limited Partnership ("Brookside") and Lakeside

Apartments Limited Partnership ("Lakeside"), 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 expected losses. The Company is exposed to losses for Brookside of \$205,000 and Lakeside of \$171,000, consisting of our net investment, loans and unpaid fees. 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.

EITF Issue 04-5

In June 2005, the FASB ratified Emerging Issues Task Force Issue 04-5, *"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,"* or EITF 04-5. EITF 04-5 provides an accounting model to be used by a general partner, or group of general partners, to determine whether the general partner(s) controls a limited partnership or similar entity in light of certain rights held by the limited partners and provides additional guidance on what constitutes substantive kick-out rights and substantive participating rights. EITF 04-5 is being applied after June 29, 2005 for (a) general partners of all newly formed limited partnerships and (b) existing limited partnerships for which the partnership agreements have been modified. For general partners in all other limited partnerships, the consensus will be applied no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005. There are two transition method alternatives available upon adoption; one involves a cumulative effect of a change in accounting principle recorded in opening retained earnings and the other involves restatement. We have not yet determined the financial impact or method of adoption of EITF 04-5

; however, we believe most of the apartment partnerships reflected in Note 3, Investment in Unconsolidated Real Estate Entities, will be consolidated.

(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 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"*. The Company's investments in unconsolidated real estate entities accounted for under the equity method of accounting consisted of general partnership interests in 13 limited partnerships which own apartment properties in the United States and Puerto Rico; a limited partnership interest in a limited partnership that owns a commercial property in Puerto Rico; and a 50% ownership interest in a limited liability company.

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.

Apartment Partnerships

The unconsolidated apartment partnerships as of June 30, 2005 include 13 partnerships owning 3,463 rental units in 16 apartment complexes. These complexes are owned by Alturas Del Senorial Associates Limited Partnership, Bayamon Garden Associates Limited Partnership, Brookside Gardens Limited Partnership, Carolina Associates Limited Partnership S.E., Colinas de San Juan Associates Limited Partnership, Essex Apartments Associates Limited Partnership, Huntington Associates Limited Partnership, Jardines de Caparra Associates Limited Partnership, Lakeside Apartments Limited Partnership, Monserrate Associates Limited Partnership, San Anton Associates S.E., Turabo Limited Dividend Partnership and Valle del Sol Associates Limited Partnership. The Company holds less than a 20% economic interest in Brookside and Lakeside. As a general partner, we have significant influence over operations of Brookside and Lakeside that is disproportionate to our economic ownership in these two partnerships. In

accordance with SOP 78-9 and APB No. 18, these investments are accounted for under the equity method. The Company holds a general partner interest in the remaining partnerships listed above and pursuant to the terms of the partnership agreement, has significant influence over the operations of the partnership's operations. The general partner generally shares in zero to 5% of profits, losses and cash flow from operations until such time as the limited partners have received cash distributions equal to their capital contributions. Thereafter, the Company generally shares in 50% of profits, losses and cash distributions from operations. Pursuant to the partnership agreements, the general partners of the unconsolidated partnerships are prohibited from selling or encumbering their general partner interest or selling the apartment complex without majority limited partner approval. The limited partners of certain partnerships have additional rights including that the partnership cannot be terminated without their approval and the ability to remove the general partner under certain default conditions. Depending on the partnership, the limited partners may have additional participating rights, which include the right to approve the managing agent, to approve the budget, and to prohibit the general partner from refinancing the property. As such, in accordance with SOP 78-9, the limited partners have important rights and the general partner is considered a noncontrolling partner. Accordingly, the partnerships are accounted for under the equity method.

Commercial Partnerships

The Company holds a limited partner interest in a commercial property in Puerto Rico which it accounts for under the equity method. 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 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.

Prior period results reflect the Company's 50% limited partnership interest in El Monte Properties, S.E. ("El Monte") that it purchased from Insular Properties Limited Partnership ("Insular") on April 30, 2004 for \$1,462,500. Insular is owned by the J. Michael Wilson Family, a related party. In December 2004, a third party 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 the first quarter 2005, El Monte distributed to the Company \$30,000 cash and its 50% share of the \$3,000,000 note. The Company will recognize income as it receives cash payments on the note. The note is due in installments over a three year period beginning in December 2007. El Monte expects to wind up its affairs in 2005.

Land Development Joint Venture

In September 2004, the Company entered into a joint venture agreement with Lennar Corporation ("Lennar") for the development of a 352-unit, active adult community located in St. Charles, Maryland. At that time, a joint venture, St. Charles Active Adult Community, LLC, was formed to carry out the terms of the joint venture. Lennar and the Company each hold a 50% ownership interest in the limited liability company. The operating agreement calls for the joint venture to develop 352 lots and to deliver the lots to Lennar, starting at the end of 2005. The Company will manage 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 the historical cost basis of the land, with the proceeds received reflected as deferred revenue which 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. Per the terms of the loan, both the Company and Lennar provided development completion guarantees for the project with an estimated cost to complete of approximately \$10,000,000 as of June 30, 2005.

The following table summarizes the financial data and principal activities of the unconsolidated real estate entities for which the Company accounts under the equity method. The information is presented to segregate the apartment partnerships from both the commercial partnerships accounted for within the investment properties caption on the

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balance sheet, and our 50% ownership interest in the land development joint venture that is accounted for within the community development caption on the balance sheet.

			Land	
			Development	
	Apartment	Commercial	Joint	
	Partnerships	Partnerships	Venture	Total
	(In thousands)			
Summary Financial Position:				
Total Assets				
June 30, 2005	\$ 79,732	\$ 28,911	\$ 11,005	\$ 119,648
December 31, 2004	81,538	31,821	9,489	122,848
Total Non-Recourse Debt				
June 30, 2005	103,379	24,025	-	127,404
December 31, 2004	102,924	24,975	-	127,899
Total Recourse Debt				
June 30, 2005	-	-	3,794	3,794
December 31, 2004	-	-	-	-
Total Other Liabilities				
June 30, 2005	8,873	1,125	280	10,278
December 31, 2004	9,673	3,231	235	13,139
Total (Deficit) Equity				
June 30, 2005	(32,520)	3,761	6,931	(21,828)
December 31, 2004	(31,059)	3,615	9,254	(18,190)
Company's Investment				
June 30, 2005	3,082	4,888	4,465	12,435
December 31, 2004	3,942	4,872	5,625	14,439

			Land	
			Development	
	Apartment	Commercial	Joint	
	Partnerships	Partnerships	Venture	Total
	(In thousands)			
Summary of Operations:				
Total Revenue				
Six Months Ended June 30, 2005	13,871	1,827	-	15,698
Six Months Ended June 30, 2004 (Restated)	13,573	3,396	-	16,969
Three Months Ended June 30, 2005	6,956	913	-	7,869
Three Months Ended June 30, 2004 (Restated)	6,836	2,484	-	9,320
Net Income				
Six Months Ended June 30, 2005	1,017	898	(3)	1,912
Six Months Ended June 30, 2004 (Restated)	83	932	-	1,015
Three Months Ended June 30, 2005	361	466	(3)	824
Three Months Ended June 30, 2004 (Restated)	270	539	-	809
Company's Recognition of Equity in Earnings				
Six Months Ended June 30, 2005	256	372	-	628
Six Months Ended June 30, 2004 (Restated)	618	319	-	937

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Three Months Ended June 30, 2005	104	179	-	283
Three Months Ended June 30, 2004 (Restated)	47	176	-	223
Summary of Cash Flows:				
Cash Flows from Operating Activities				
Six Months Ended June 30, 2005	3,196	875	42	4,113
Six Months Ended June 30, 2004 (Restated)	2,404	1,222	-	3,626
Three Months Ended June 30, 2005	1,020	7	42	1,069
Three Months Ended June 30, 2004 (Restated)	846	340	-	1,186
Company's Share of Cash Flows from Operating Activities				
Six Months Ended June 30, 2005	1,014	396	21	1,431
Six Months Ended June 30, 2004 (Restated)	562	561	-	1,123
Three Months Ended June 30, 2005	313	(3)	21	331
Three Months Ended June 30, 2004 (Restated)	176	162	-	338
Operating Cash Distributions				
Six Months Ended June 30, 2005	2,478	753	2,320	5,551
Six Months Ended June 30, 2004 (Restated)	884	702	-	1,586
Three Months Ended June 30, 2005	993	341	2,320	3,654
Three Months Ended June 30, 2004 (Restated)	266	374	-	640

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Company's Share of Operating Cash Distributions				
Six Months Ended June 30, 2005	1,075	356	1,160	2,591
Six Months Ended June 30, 2004 (Restated)	290	304	-	594
Three Months Ended June 30, 2005	398	154	1,160	1,712
Three Months Ended June 30, 2004 (Restated)	83	155	-	238
Refinancing Cash Distributions				
Six Months Ended June 30, 2005	100	-	-	100
Six Months Ended June 30, 2004 (Restated)	2,526	-	-	2,526
Three Months Ended June 30, 2005	100	-	-	100
Three Months Ended June 30, 2004 (Restated)	-	-	-	-
Company's Share of Refinancing Cash Distributions				
Six Months Ended June 30, 2005	1	-	-	1
Six Months Ended June 30, 2004 (Restated)	1,249	-	-	1,249
Three Months Ended June 30, 2005	1	-	-	1
Three Months Ended June 30, 2004 (Restated)	-	-	-	-

(4) DEBT

The Company's outstanding debt is collateralized primarily by land, land improvements, homebuilding assets, receivables, investment properties, investments in partnerships, and rental properties. The following table summarizes the indebtedness of the Company at June 30, 2005 and December 31, 2004 (in thousands):

	Maturity		Interest		Outstanding As Of	
	Dates		Rates (a),(b)		June 30,	December 31,

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	From/To		From/To		2005	2004
					(unaudited)	(audited)
Related to community development:						
Recourse debt (c)	06-30-06/		Non-interest		\$ 14,590	\$ 16,504
	03-01-20		bearing/P+1%			
Related to homebuilding:						
Recourse debt (d)	03-31-07		P		13,533	8,792
Related to investment properties:						
Recourse debt (e)	05-15-07/		6.98%/P+1.25%		4,867	1,896
	01-23-13					
Non-recourse debt (f)	10-31-05/		LIBOR		107,273	98,879
	02-01-39		+2.25%/7.85%			
General:						
Recourse debt (g)	07-04-05/		Non-interest		194	202
	06-01-09		bearing/10.95%			
Total debt					\$ 140,457	\$ 126,273

- "P" = Prime lending interest rate. (The prime rates at June 30, 2005 and December 31, 2004 were 6.25%

and 5.25% respectively).

- LIBOR = London Inter Bank Offer Rate. It is a standard financial index used in U.S. capital markets and can be found in the Wall Street Journal. It is an index that is used to set the cost of various variable-rate loans. The three-month LIBOR rates at June 30, 2005 and December 31, 2004 were 3.50 % and 2.56%, respectively.
- As of June 30, 2005, \$13,590,000 of the community development recourse debt relates to the general obligation bonds with the Charles County Government as described in detail under the heading "Financial Commitments" in Footnote 5. The remainder of the outstanding balance is fully collateralized by approximately 500 acres within Parque El Comandante. On April 29, 2005, the LDA land loans due to FirstBank and to KEMBT Corporation were repaid in full. As a result, the balance of the land inventory in Parque Escorial is unencumbered as of June 30, 2005.
- The outstanding recourse debt related to the homebuilding operations is composed of a \$26,000,000 revolving construction loan with a maximum outstanding balance limited to \$15,000,000 for Torres Del Escorial. This loan is secured by a mortgage on the property and will be repaid primarily by the proceeds from home sales, which are scheduled to begin in the fourth quarter of 2005.
- As of June 30, 2005 and December 31, 2004, the outstanding recourse debt within the investment properties is comprised of a loan borrowed to finance the acquisition of Village Lake and Coachman's.

In June 2005, the Company signed a 2 year, \$3,000,000 recourse note with Columbia Bank. The loan carries a fixed interest rate of 6.98% and requires the Company to pay monthly principle and interest payments until its maturity on May 15, 2007

and is collateralized by the Company's cash receipts from the two apartment properties acquired in 2004 and two parcels of land acquired in the second quarter of 2005.

- The non-recourse investment properties' debt is collateralized by the apartment projects. As of June 30, 2005, approximately \$51,236,000 of this debt is secured by the Federal Housing Administration ("FHA") or the Maryland Housing Fund. As of June 30, 2005, a portion of the outstanding balance is composed of a mortgage loan of \$4,079,000 that has a stated interest rate of 7.5%; however, after deducting interest subsidy provided by HUD, the effective interest rate over the life of the loan is 1%. The non-recourse debt balance is also composed of a \$7,968,000 construction loan for an office building in Parque Escorial that matures on October 31, 2005.
- The general recourse debt outstanding as of June 30, 2005 is made up of various capital leases outstanding within our US and Puerto Rico operations as well as vehicle notes.

The Company's loans contain various financial, cross collateral, cross default, technical and restrictive provisions. As of June 30, 2005, the Company was in compliance with the provisions of its loan agreements.

(5) COMMITMENTS AND CONTINGENCIES

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. Also, as part of the agreement, the County agreed to issue general obligation public improvement bonds to finance this construction and the Company obtained letters of credit to guarantee the repayment of these bonds. In March 2004, the Charles County Commissioners issued an \$8,000,000 Consolidated Public Improvement Bond (the "2004 Bonds") on behalf of the Company. The 2004 Bonds bear an interest rate between 4% and 5% and call for semi-annual interest payments and annual principal payments and mature in 2019. In October 2004, we formalized an agreement with the County that stipulates the borrowing and repayment provisions for the funds advanced. Under the terms of the agreement, the Company is obligated to pay interest and principal on the full amount of the 2004 Bonds; as such, the Company recorded the full amount of the debt and a receivable from the County, which is included within our Community Development assets, representing the remaining 2004 Bond proceeds to be advanced to the Company over an eighteen month period by the Charles County Commissioners as major infrastructure development within the project occurs. To the extent not all the proceeds are used to fund development, any unused funds will be used to repay the 2004 Bonds. As part of the agreement, the Company will pay the County Commissioners a monthly payment equal to one-sixth of the semi-annual interest payments due on the 2004 Bonds and one-twelfth of the annual principal payment due on the 2004 Bonds. In connection with the arrangement, the Company is required to provide a letter of credit to secure the repayment of the 2004 Bonds. This letter of credit was issued by Lennar as part of a residential lot sales contract for 1,950 lots in Fairway Village.

In March 2005, the Charles County Commissioners issued another series of 15 year public improvement general obligation bonds (the "2005 Bonds"), raising \$6,000,000, on behalf of the Company. The 2005 Bonds bear an interest rate escalating from 5% to 5.125% and call for semi-annual interest payments and annual principal payments. The Charles County Commissioners will provide proceeds from the issuance of the 2005 Bonds to the Company when certain major development occurs for the County's road projects over an eighteen-month period. The Company will pay the County Commissioners a monthly payment equal to one-sixth of the semi-annual interest payments due on the 2005 Bonds and one-twelfth of the annual principal payment due on the 2005 Bonds. A formal agreement with the County was executed in May 2005.

As of June 30, 2005, ACPT is guarantor of \$14,367,000 of surety bonds for the completion of land development projects with Charles County, substantially all of which are for the benefit of the Charles County Commissioners.

Consulting Agreement and Arrangement

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ACPT entered into a consulting and retirement compensation agreement with IGC's founder and Chief Executive Officer, James J. Wilson, effective October 5, 1998 which provides for annual cash payments of \$200,000 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 June 30, 2005, ACPT has guaranteed \$18,457,000 of outstanding debt owed by its subsidiaries. IGP has guaranteed \$14,533,000 of outstanding debt owed by its subsidiaries. LDA guaranteed \$13,533,000 of outstanding debt owed by its subsidiary. In addition, St. Charles Community LLC guaranteed \$4,867,000 of outstanding debt owed by AHP. 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. We do not expect the guarantees to impair the individual subsidiary's or the Company's ability to conduct business or to pursue its future development plans.

Legal Matters

The Company was named as a third-party defendant in a three count complaint alleging that the Company schemed with the Charles County Commissioners, one employee of Charles County, the St. Charles Planning & Design Review Board ("PDRB"), and the managing agent for the PDRB to prevent the plaintiff from obtaining signage for one of his lots and the development of a second lot. Each of the three counts seeks actual and compensatory damages in an amount to be proven at trial, plus punitive damages in the amount of \$3,000,000. The trial judge granted the Company's Motion to Dismiss all counts of the complaint at a May 2002 hearing. The Plaintiff appealed the dismissal and the appellate court dismissed the appeal as premature. The underlying claim filed by the PDRB against the Plaintiff was tried on February 4, 2004, and by Order of the Circuit Court of Charles County, Maryland dated April 8, 2004, the PDRB was successful and all claims filed by the Plaintiff were denied. The Plaintiff has filed an appeal to the Court of Special Appeals concerning both the May 2002 Order and the April 8, 2004 Order, which granted relief to the PDRB. Argument has been held before the Court of Special Appeals on March 4, 2005. This Court issued its opinion on or about April 20, 2005 affirming the trial court's dismissal of all counts as to the Company. Vann filed a petition for certiorari with the Court of Appeals, Maryland's highest court, in mid June 2005.

On February 3, 2004, Constance and Joseph Stephenson filed a suit arising largely out of disruptions caused by renovation of the premises located at 201 I Street, SW, Washington, DC (the "Premises"). Affiliates of J. Michael Wilson, the Company's Chief Executive Officer, own the Premises and are named as defendants. The Company was the managing agent of the Premises. Plaintiffs alleged that the Defendants (including the Company) failed to address various alleged security and safety conditions at the Premises and also failed to supervise or monitor the activities of construction workers on site. The complaint contains four counts alleged against Defendants including the Company. Those four counts are for violation of the District of Columbia Consumer Protection Procedures Act, breach of implied warranty of habitability, negligence, and intentional infliction of emotional distress. As relief, Plaintiffs seek a temporary restraining order, compensatory damages of \$3,000,000, as well as unquantified punitive damages, declaratory judgment, which, among other things would relieve them of their obligations under their respective leases, preliminary injunction, attorneys' fees and an injunction requiring the inspection and remediation of mold within the Plaintiffs' apartment. A motion for partial summary judgment was filed and denied by the court. An agreement has been reached to settle all claims. The Company's portion of the settlement will be paid by its insurer.

On October 7, 2003, New Capitol Park Plaza Tenants Association and several individual tenants filed a suit against a number of parties including the Company arising largely out of disruptions caused by renovation of the premises at 201 I Street, SW, Washington, DC (the "Premises"). Affiliates of J. Michael Wilson, the Company's Chief Executive Officer, own the Premises, hired and supervised the construction contractor also named as a defendant. The Company

was the managing agent of the Premises. Plaintiffs allege that the Defendants, including ARMC, failed to address various alleged security, safety and health conditions at the Premises. It also alleges that ARMC and other Defendants failed to supervise or monitor the activities of employees of ARMC and employees of other Defendants, as well as construction workers on site, allegedly resulting in the loss of personal property. The complaint contains eleven counts, three of which are alleged against ARMC only (two counts of negligence and one count of negligent entrustment) and six of which are alleged against ARMC and other Defendants (three counts for violations of the District of Columbia Consumer Protection Procedures Act; one count for breach of contract; one count for negligent retention of employees and construction contractors; and one count for intrusion upon seclusion -- privacy violations). In addition to the other relief requested, Plaintiffs sought a temporary restraining order. A hearing has already been held on Plaintiffs' motion for a temporary restraining order, which motion has been denied. Other relief sought by the Plaintiffs includes a preliminary injunction; a declaratory judgment, which, among other things, would relieve the tenants of their obligations under their respective leases; unquantified compensatory damages; attorneys' fees; punitive damages; and the greater of compensatory or liquidated damages pursuant to their claims under the Consumer Protection Procedures Act. A motion for partial summary judgment was filed by the Defendants, including ARMC. Additionally, Plaintiff filed a motion to compel discovery from ARMC, including, but not limited to what are likely thousands of pages of documents. The motion for partial summary judgment was granted in part: Judgment was entered in favor of ARMC as to the three counts (I, II, and III) alleging violations of the Consumer Protection Procedures Act. Additionally, judgment was granted in favor of ARMC as to the claims asserted by the Tenants Association. Plaintiffs' counsel moved to add twenty-eight individual present and former tenants as plaintiffs (in addition to the two original individual plaintiffs) but the court denied that motion. The court then dismissed one of the two remaining individual Plaintiffs, ordering that his case be tried in landlord-tenant court. The court also dismissed the claims for punitive damages. Thus, the case will now be tried for the remaining plaintiff.

On February 3, 2004, Karen Stephenson filed a suit arising largely out of disruptions caused by renovation of the premises located at 201 I Street, SW, Washington, DC (the "Premises"). Affiliates of J. Michael Wilson, the Company's Chief Executive Officer, own the Premises and are named as defendants. The Company was the managing agent of the Premises. Plaintiff alleged that the Defendants (including the Company) failed to address various alleged security and safety conditions at the Premises and also failed to supervise or monitor the activities of construction workers on site. The complaint contains four counts alleged against Defendants including the Company. Those four counts are for violation of the District of Columbia Consumer Protection Procedures Act, breach of implied warranty of habitability, negligence, and intentional infliction of emotional distress. As relief, Plaintiff seeks a temporary restraining order, compensatory damages of \$1,000,000, as well as unquantified punitive damages, declaratory judgment, which, among other things would relieve her of her lease obligations, preliminary injunction, attorneys' fees and an injunction requiring the inspection and remediation of mold within the Plaintiff's apartment. A motion for partial summary judgment was filed and denied by the court. An agreement has been reached to settle all claims. The Company's portion of the settlement will be paid by its insurer.

On February 10, 2004, nine tenants filed a suit against a number of parties including the Company as a result of various health and safety hazards arising largely out of disruptions caused by renovations at the premises located at 101 and 103 G Street, SW, Washington, DC (the "Premises"). Affiliates of J. Michael Wilson, the Company's Chief Executive Officer, own the Premises, hired and supervised the construction contractor and are named as a defendant. The Company was the managing agent of the Premises. Plaintiffs allege that the Defendants, including ARMC, failed to address various alleged security, safety and health conditions at the Premises. The complaint contains nine counts alleged against Defendants including the Company. The nine counts are for violation of the District of Columbia Consumer Protection Procedures Act, breach of express warranty, breach of implied warranty of habitability, actual fraud, constructive fraud, negligence, negligent misrepresentation, breach of contract and intentional infliction of emotional distress. As relief, the Plaintiffs are seeking \$8,200,000 of compensatory and punitive damages in addition to attorneys' fees and court costs and a remediation of the mold problems within each Plaintiff's apartment. A motion for partial summary judgment was filed and is pending. An agreement has been reached to settle all claims. The Company's portion of the settlement will be paid by its insurer.

On August 30, 2004, Arthur Simpson filed a suit arising largely out of disruptions caused by renovation of the premises located at 201 I Street, SW, Washington, DC (the "Premises"). Affiliates of J. Michael Wilson, the Company's Chief Executive Officer, own the Premises and are named as Defendants. ARMC (the "Company") was the managing agent of the Premises. Plaintiff alleged that the Defendants (including the Company) failed to address various alleged security and safety conditions at the Premises and also failed to supervise or monitor the activities of construction workers on site. The complaint contains four counts alleged against the Defendants including the Company. Those four counts are for nuisance, breach of implied warranty of habitability, negligence, and intentional infliction of emotional distress. For relief, Plaintiff seeks an injunction prohibiting Defendants from facilitating access to Plaintiff's apartment without adequate notice or lawful excuse, compensatory damages of \$10,000,000, as well as unquantified punitive damages, declaratory judgment, which, among other things would relieve him of his lease obligations, preliminary injunction, attorney's fees and an injunction requiring the inspection and remediation of mold within the Plaintiff's apartment. Discovery is on going.

On January 25, 2005, Myriet Jno-Lewis filed a suit arising largely out of disruptions caused by renovation of the premises located at 201 I Street, SW, Washington, DC (the "Premises"). Affiliates of J. Michael Wilson, the Company's Chief Executive Officer, own the Premises and are named as Defendants. ARMC (the "Company") was the managing agent of the Premises. Plaintiff alleged that the Defendants (including the Company) failed to address various alleged security and safety conditions at the Premises and also failed to supervise or monitor the activities of construction workers on site. The complaint contains five counts alleged against the Defendants including the Company. Those five counts are for nuisance, breach of implied warranty of habitability, negligence, invasion of privacy, and intentional infliction of emotional distress. For relief, Plaintiff seeks an injunction prohibiting Defendants from facilitating access to Plaintiff's apartment without adequate notice or lawful excuse, compensatory damages of \$1,000,000, as well as unquantified punitive damages, declaratory judgment, which, among other things would relieve him of his lease obligations, preliminary injunction, attorney's fees and an injunction requiring the inspection and remediation of mold within the Plaintiff's apartment. Discovery is ongoing.

On November 17, 1997, Nissan Auto, Inc. filed a claim in the Superior Court of San Juan, Puerto Rico against the Company and eighteen other parties. The charges stem from the construction of an overpass. Nissan Auto alleges that the construction material and heavy equipment blocked the entrances to their business causing irreparable damage. Plaintiff is seeking \$2,000,000 in compensatory damages for lost business, additional damages not to be determined until the problem is cured and \$120,000 for other damages and costs. On February 11, 2000, IGP filed suit in the Superior Court of San Juan, Puerto Rico adding General Accident Insurance Company and Royal Insurance Company, IGP's insurance companies, as third party defendants to the action. On May 24, 2000, General Accident Insurance Company indicated it would cover IGP in this case up to the limit of its policy of \$2,000,000 and, therefore, no loss contingency has been recorded. During 2003, the insurance company's lawyer held several depositions with the experts of both parties. In October 2003, a new or amended loss of earnings report subscribed by the Plaintiff's expert witness states that after a reevaluation of the Plaintiff's account statements the new "adjusted loss earnings" amounts to \$600,214 instead of \$1,193,092 claimed in their first report. In November 2003, the Defendant's expert witness filed a report regarding the Plaintiff's economic damages or loss of earnings claims. Pursuant to the expert witness' report, the Plaintiff's loss of earnings/economic damages does not exceed \$17,800. A status conference was held on March 15, 2004 and the Court appointed a new expert witness as the Special Commissioner to evaluate Plaintiff and Defendant's expert witnesses' reports. In a status conference held on October 18, 2004, the Special Commissioner informed the Court that he expects to complete in January 2005 a preliminary report regarding the expert witnesses' reports previously presented. This report, along with recommendations by the Special Commissioner have been postponed. The Court rescheduled a status hearing for September 30, 2005 and a status conference is scheduled for November 2005 to schedule pending discovery.

On May 13, 2002, Antonio Santiago Rodriguez, and others filed a claim in the Superior Court of Carolina, Puerto Rico against the Company and twelve other parties. The charges stem from the construction of a local baseball park to be donated by ELI to the Municipality of Carolina as part of the agreement to construct a building for the State Insurance Fund of Puerto Rico. Plaintiffs allege that during the construction of the park from May 1999 to July 2000,

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the site grading work caused rain waters to flood its place of business. Subsequently the Municipality of Carolina expropriated the land occupied by the Plaintiff who is seeking \$813,500 in compensatory damages for lost business, equipment and property, and \$250,000 for mental anguish and moral damages. The Company is a limited partner in ELI and, as such, should not have any liability. During a status conference held in January 2004, Plaintiff's attorney announced his resignation as legal counsel and requested an extension of time in order to allow the Plaintiff to hire a new legal counsel. On October 6, 2004 the Defendants' attorney filed a motion to dismiss the action. On November 30, 2004, the Defendants' attorney filed another motion in support of the motion filed on October 6, 2004. The court is in the process of evaluating the motions.

On November 24, 1997, the Plaintiffs, resident owners of Urbanización Loiza Valley in Canovanas, Puerto Rico, a neighborhood consisting of 56 houses near the property owned by LDA, filed a claim against Cantera Hipodromo, Inc. (the "lessee" who operates a quarry on the land owned by LDA), the owners of the lessee, the lessee's Insurance Companies and LDA. The Plaintiffs allege that as a result of certain explosions occurring in the quarry, their houses have suffered different types of damages and they have also suffered physical injuries and mental anguish. The damages claimed exceed \$11,000,000. The physical damage to the property is estimated at less than \$1,000,000. The lease agreement contains an indemnification clause in favor of LDA. The lessee has public liability insurance coverage of \$1,000,000 through Integrand Assurance Company and an umbrella insurance coverage of \$2,000,000 through American International Insurance Company. Integrand's legal counsel has provided the legal defense for all parties to date but in September 2003 declared that the allegations in the complaint regarding public nuisance do not fall under their policy. In November 2003 the lessee's legal counsel filed a motion in opposition to such allegation. On January 28, 2005, the appellate court in Puerto Rico confirmed the trial court and Integrand is forced to provide coverage and pay attorneys' fees to LDA and to Cantera Hipodromo. On February 11, 2005, Integrand filed a reconsideration motion in the appellate court and on February 28, 2005 the same court dismissed the motion presented by Integrand. On March 17, 2005, Integrand filed a request of certiorari in the Supreme Court of Puerto Rico and on March 23, 2005, an opposition to the expedition of the certiorari was filed. On June 6, 2005, the Supreme Court denied the request. The trial court scheduled a status hearing for August 10, 2005.

Due to the inherent uncertainties of the judicial process and the early stage of certain of these actions, we are unable to either predict the outcome of or estimate a range of potential loss associated with, these matters. While we intend to vigorously defend these matters and believe we have meritorious defenses available to us, there can be no assurance that we would prevail. If any of these matters are not resolved in our favor, it could have a material adverse effect on our financial condition and results of operations.

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

ACPT, certain officers and trustees of ACPT, IGC and a general partner of IGC, Interstate Business Corporation ("IBC"), have ownership interests in various entities that conduct business with the Company. The financial impact of the related party transactions on the accompanying consolidated financial statements is reflected below (in thousands):

CONSOLIDATED STATEMENT OF INCOME:					
		Six Months Ended	Three Months Ended		

		June 30,		June 30,	
		2005	2004	2005	2004
			(Restated)		(Restated)
<u>Management and Other Fees</u>					
(B)					
Unconsolidated subsidiaries with third party partners		\$ 1,135	\$ 1,253	\$ 683	\$ 588
Affiliates of J. Michael Wilson, CEO and Chairman		244	380	122	192
		\$ 1,379	\$ 1,633	\$ 805	\$ 780
<u>Interest and Other Income</u>					
Unconsolidated real estate entities with third party partners		\$ -	\$ 24	\$ -	\$ 12
<u>General and Administrative Expense</u>					
Affiliates of J. Michael Wilson, CEO and Chairman	(B1)	\$ 69	\$ 204	\$ 37	\$ 108
Reserve additions and other write-offs-					
Unconsolidated real estate entities with third party partners	(A)	(18)	163	(8)	(16)
Affiliates of J. Michael Wilson, CEO and Chairman		-	102	-	45
Reimbursement to IBC for ACPT's share of					
J. Michael Wilson's salary		175	145	87	73
Reimbursement of administrative costs-					

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Affiliates of J. Michael Wilson, CEO and Chairman		(9)	(11)	(5)	(6)
IGC		-	(1)	-	(1)
James J. Wilson, IGC chairman and director	(B3)	100	100	50	50
Thomas J. Shafer, Trustee	(B4)	21	21	10	10
		\$ 338	\$ 723	\$ 171	\$ 263
BALANCE SHEET IMPACT:					
				Balance	Balance
				June 30,	December 31,
				2005	2004
<u>Assets Related to Rental Properties</u>					
Receivables-All unsecured and due on demand					
Unconsolidated real estate entities with third party					
partners, net of reserves				\$ 388	\$ 641
<u>Other Assets</u>					
Receivables-All unsecured and due on demand					
Affiliate of J. Michael Wilson, CEO and Chairman				\$ 138	\$ 72
IGC				-	3
IBC				3	5
				\$ 141	\$ 80
<u>Liabilities Related to Community Development</u>					

Notes payable-KEMBT Corporation	(B2)			\$ -	\$ 2,728
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(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.

On September 21, 2004, ARMC exercised its rights under the management agreement with Capital Park Apartments Limited Partnership to terminate the agreement effective October 11, 2004. Management fees generated by this property represented less than 1% of the Company's total revenue.

The management contracts for two commercial properties managed in Puerto Rico were terminated when the properties were sold in December 2004 and April 2005. Management fees generated by these properties represent less than 1% of the Company's total revenue.

(B) **Other**

Other transactions with related parties are as follows:

- (1) The Company rents executive office space and other property from affiliates in the United States pursuant to leases that expire through 2010. In management's opinion, all leases with affiliated persons are on terms at least as favorable as those generally available from unaffiliated persons for comparable property.
- (2) The Company repaid the loan, net of a \$430,000 discount, on April 29, 2005.
- (3) Fees paid to James J. Wilson pursuant to a consulting and retirement agreement. Effective October 5, 1998, the consulting agreement provides for annual cash payments of \$200,000 through October 2008. At Mr. Wilson's request, payments are made to IGC.
- (4) Fees paid to Thomas J. Shafer, a trustee, pursuant to a consulting agreement.

Related Party Acquisition and Disposition**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.

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In December 2004, a third party buyer purchased El Monte for \$20,000,000, of which \$17,000,000 was paid 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 \$30,000 in cash and the \$1,500,000 note to the Company in the first quarter 2005. The note bears interest at a rate of prime plus 2% and matures on December 3, 2009. The note is payable in three installments, the first installment of \$250,000 is due on December 3, 2007, the second installment of \$250,000 is due on December 3, 2008 and the balance on December 3, 2009. The Company will recognize income as the cash payments on the note are received. As of June 30, 2005, the note and its related deferred income are shown net on the balance sheet. El Monte is expected to wind up its affairs in 2005 and distribute any remaining cash at the time of liquidation.

(7) 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, including 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 management services. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The following presents the segment information for the six months ended June 30, 2005 and 2004 (in thousands):

	United	Puerto	Inter-	
<u>Six Months (Unaudited)</u>	States	Rico	Segment	Total
2005:				
Land sales revenue	\$ 2,324	\$ 10,397	\$ -	\$ 12,721
Cost of land sales	1,547	7,492	(159)	8,880
Home sales revenue	-	-	-	-
Cost of home sales	-	21		21
Rental property revenues	10,828	-	-	10,828
Rental property operating expenses	4,374	-	-	4,374
Management and other fees	505	1,194	(2)	1,697
General, administrative, selling and marketing expense	3,731	1,686	(2)	5,415
Depreciation and amortization	1,888	62	-	1,950
Operating income	2,117	2,330	159	4,606

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Interest income	91	371	(382)	80
Equity in earnings from unconsolidated entities	73	555	-	628
Interest expense	3,544	23	(310)	3,257
Minority interest in consolidated entities	238	-	-	238
Income (loss) before provision for income taxes	(1,499)	3,796	88	2,385
Income tax (benefit) provision	(548)	1,028	-	480
Net income (loss)	(951)	2,768	88	1,905
Gross profit on land sales	777	2,905	159	3,841
Gross profit (loss) on home sales	-	(21)	-	(21)
Total assets	146,083	68,122	(10,058)	204,147
Additions to long lived assets	14,428	2,055	-	16,483

	United	Puerto	Inter-	
<u>Six Months (Unaudited)</u>	States	Rico	Segment	Total
2004 (Restated):				
Land sales revenue	\$ 2,237	\$ 2,677	\$ -	\$ 4,914
Cost of land sales	1,488	1,971	-	3,459
Home sales revenue	-	9,309	-	9,309
Cost of home sales	-	7,042	-	7,042
Rental property revenues	8,998	-	-	8,998
Rental property operating expenses	3,735	-	-	3,735
Management and other fees	842	1,102	(8)	1,936
General, administrative, selling and marketing expense	3,121	1,774	(8)	4,887

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Depreciation and amortization	1,470	52		1,522
Operating income	2,263	2,249	-	4,512
Interest income	99	301	(302)	98
Equity in earnings from unconsolidated entities	(371)	1,308	-	937
Interest expense	2,958	40	(230)	2,768
Minority interest in consolidated entities	447	-	-	447
Income (loss) before provision for income taxes	(1,410)	3,943	(73)	2,460
Income tax (benefit) provision	(536)	1,128	-	592
Net income (loss)	(874)	2,815	(73)	1,868
Gross profit (loss) on land sale	749	706	-	1,455
Gross profit on home sales	-	2,267	-	2,267
Total assets	99,703	65,144	(15,349)	149,498
Additions to long lived assets	4,858	2,878	-	7,736

The following presents the segment information for the three months ended June 30, 2005 and 2004 (in thousands):

	United	Puerto	Inter-	
<u>Three Months (Unaudited)</u>	States	Rico	Segment	Total
2005:				
Land sales revenue	\$ 1,525	\$ 7,448	\$ -	\$ 8,973
Cost of land sales	1,025	5,329	(118)	6,236
Home sales revenue	-	-	-	-
Cost of home sales	-	11		11
Rental property revenues	5,487	-	-	5,487
Rental property operating expenses	2,281	-	-	2,281

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Management and other fees	264	707	(1)	970
General, administrative, selling and marketing expense	1,862	850	(1)	2,711
Depreciation and amortization	911	31	-	942
Operating income	1,197	1,934	118	3,249
Interest income	42	166	(191)	17
Equity in earnings from unconsolidated entities	49	234	-	283
Interest expense	1,705	11	(161)	1,555
Minority interest in consolidated entities	212	-	-	212
Income (loss) before provision for income taxes	(630)	2,827	89	2,286
Income tax (benefit) provision	(216)	824	-	608
Net income (loss)	(414)	2,003	89	1,678
Gross profit on land sales	500	2,119	118	2,737
Gross profit (loss) on home sales	-	(11)	-	(11)
Total assets				