AMERICAN COMMUNITY PROPERTIES TRUST
Form 10-Q
November 12, 2008
UNITED STATES

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

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2008, 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, a non-accelerated filer or a smaller reporting company. 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 o Smaller reporting company x

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

Yes o No x

As of November 8, 2008, there were 5,229,954 Common Shares, par value $0.01 per share, issued and outstanding

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FORM 10-Q
SEPTEMBER 30, 2008
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AMERICAN COMMUNITY PROPERTIES TRUST
CONSOLIDATED STATEMENTS OF INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30,
(In thousands, except per share amounts)
(Unaudited)

	2008	2007
Revenues		
Rental property revenues	$ 46,673	$ 45,249
Community development-land sales	6,457	8,032
Homebuilding-home sales	3,476	6,113
Management and other fees, substantially all from related entities	568	756
Reimbursement of expenses related to managed entities	1,106	1,307
Total revenues	58,280	61,457
Expenses		
Rental property operating expenses	22,291	22,901
Cost of land sales	5,218	5,930
Cost of home sales	2,694	4,399
General, administrative, selling and marketing	8,969	8,600
Depreciation and amortization	7,511	7,009
Expenses reimbursed from managed entities	1,106	1,307
Total expenses	47,789	50,146
Operating income	10,491	11,311
Other income (expense)		
Interest and other income	497	1,178
Equity in earnings from unconsolidated entities	489	2,020
Interest expense	(12,780)	(14,037)
Minority interest in consolidated entities	(1,691)	(1,750)
Loss before provision for income taxes	(2,994)	(1,278)
Benefit for income taxes	(993)	(19)
Net loss	$ (2,001)	$ (1,259)
Loss per share		
Basic and Diluted	$ (0.38)	$ (0.24)
Weighted average shares outstanding		
Basic and Diluted	5,215	5,205
Cash dividends per share	$ -	$ 0.30

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

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

	2008	2007
Revenues		
Rental property revenues	$ 15,736	$ 15,417
Community development-land sales	460	2,063
Homebuilding-home sales	494	899
Management and other fees, substantially all from related entities	188	250
Reimbursement of expenses related to managed entities	344	414
Total revenues	17,222	19,043
Expenses		
Rental property operating expenses	7,374	7,787
Cost of land sales	493	1,574
Cost of home sales	394	583
General, administrative, selling and marketing	2,920	3,232
Depreciation and amortization	2,469	2,428
Expenses reimbursed from managed entities	344	414
Total expenses	13,994	16,018
Operating income	3,228	3,025
Other income (expense)		
Interest and other income	135	288
Equity in earnings from unconsolidated entities	158	175
Interest expense	(4,224)	(4,700)
Minority interest in consolidated entities	(370)	(193)
Loss before benefit for income taxes	(1,073)	(1,405)
Benefit for income taxes	(443)	(307)
Net loss	$ (630)	$ (1,098)
Loss per share		
Basic and Diluted	$ (0.12)	$ (0.21)
Weighted average shares outstanding		
Basic and Diluted	5,222	5,207
Cash dividends per share	$ -	$ 0.10

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

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

	As of September 30, 2008 (Unaudited)	As of December 31, 2007 (Audited)
ASSETS		
ASSETS:		
Investments in real estate:		
Operating real estate, net of accumulated depreciation	$ 159,631	$ 164,352
of $157,494 and $150,292, respectively		
Land and development costs	99,652	84,911
Condominiums under construction	1,917	4,460
Rental projects under construction or development	3,719	853
Investments in real estate, net	264,919	254,576
Cash and cash equivalents	19,303	24,912
Restricted cash and escrow deposits	20,414	20,223
Investments in unconsolidated real estate entities	6,476	6,528
Receivable from bond proceeds	2,162	5,404
Net accounts receivable	1,959	2,676
Deferred tax assets	34,778	34,075
Property and equipment, net of accumulated depreciation	967	1,045
Deferred charges and other assets, net of amortization of		
$3,389 and $2,764 respectively	10,840	11,285
Total Assets	$ 361,818	$ 360,724
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Non-recourse debt	$ 277,118	$ 279,981
Recourse debt	33,814	25,589
Accounts payable and accrued liabilities	22,675	24,874
Deferred income	3,017	3,214
Accrued current income tax liability	14,581	14,620
Total Liabilities	351,205	348,278
SHAREHOLDERS' EQUITY:		
Common shares, $.01 par value, 10,000,000 shares authorized, 5,229,954 shares issued and outstanding as of September 30, 2008 and December 31, 2007	52	52
Treasury stock, 67,709 shares at cost	(376)	(376)
Additional paid-in capital	17,545	17,377
Retained deficit	(6,608)	(4,607)
Total Shareholders' Equity	10,613	12,446
Total Liabilities and Shareholders' Equity	$ 361,818	$ 360,724

The accompanying notes are an integral part of these consolidated balance sheets.

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AMERICAN COMMUNITY PROPERTIES TRUST
CONSOLIDATED STATEMENT 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, 2007 (Audited)	5,229,954	$ 52	$ (376)	$ 17,377	$ (4,607)	$ 12,446
Net loss	-	-	-	-	(2,001)	(2,001)
Amortization of Trustee Restricted Shares	-	-	-	168	-	168
Balance September 30, 2008 (Unaudited)	5,229,954	$ 52	$ (376)	$ 17,545	$ (6,608)	$ 10,613

The accompanying notes are an integral part of this consolidated statement.

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

	2008	2007
Cash Flows from Operating Activities		
Net loss	$ (2,001)	$ (1,259)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	7,511	7,009
Distribution to minority interests in excess of basis	1,587	1,988
Benefit for deferred income taxes	(703)	(5,019)
Equity in earnings-unconsolidated entities	(489)	(2,020)
Distribution of earnings from unconsolidated entities	490	521
Cost of land sales	5,251	5,930
Cost of home sales	2,694	4,399
Stock based compensation expense	91	190
Amortization of deferred loan costs	633	643
Changes in notes and accounts receivable	717	1,806
Additions to community development assets	(19,992)	(23,180)
Right of way easement	-	2,000
Homebuilding-construction expenditures	(151)	(547)
Deferred income	(197)	(479)
Changes in accounts payable, accrued liabilities	(2,161)	(1,050)
Net cash used in operating activities	(6,720)	(6,968)
Cash Flows from Investing Activities		
Investment in office building and apartment construction	(2,866)	(452)
Change in investments - unconsolidated entities	51	1,538
Change in restricted cash	(191)	(1,841)
Additions to rental operating properties, net	(2,561)	(6,298)
Other assets	(339)	(221)
Net cash used in investing activities	(5,906)	(7,274)
Cash Flows from Financing Activities		
Cash proceeds from debt financing	6,386	23,339
Payment of debt	(2,888)	(19,678)
County Bonds proceeds, net of undisbursed funds	5,106	5,301
Payments of distributions to minority interests	(1,587)	(1,988)
Dividends paid to shareholders	-	(1,548)
Net cash provided by financing activities	7,017	5,426
Net Decrease in Cash and Cash Equivalents	(5,609)	(8,816)
Cash and Cash Equivalents, Beginning of Period	24,912	27,459

Cash and Cash Equivalents, End of Period	$	19,303	$	18,643

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

AMERICAN COMMUNITY PROPERTIES TRUST
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2008
(Unaudited)

(1) ORGANIZATION

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 have been passed through to ACPT's shareholders. A federal tax regulation has been proposed that could eliminate the pass through of these foreign tax credits to ACPT's shareholders. Comments on the proposed regulation are currently being evaluated with the final regulation expected to be effective for tax years beginning after the final regulation is ultimately published in the Federal Register. ACPT's federal taxable income consists of certain passive income from IGP Group, a controlled foreign corporation, distributions from IGP Group and dividends from ACPT's U.S. subsidiaries. Other than Interstate Commercial Properties ("ICP"), which is taxed as a Puerto Rico corporation, the taxable income from the remaining Puerto Rico operating entities passes through to IGP Group or ALD. Of this taxable income, only the portion of taxable income applicable to the profits, losses or gains on the residential land sold in Parque Escorial passes through to ALD. ALD, ARMC, and ARPT are taxed as U.S. corporations. The taxable income from the U.S. apartment properties flows through to ARPT.

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

Basis of Presentation

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

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

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

Alturas del Senorial Associates Limited Partnership	Land Development Associates S.E.
American Housing Management Company	LDA Group, LLC
American Housing Properties L.P.	Milford Station I, LLC
Bannister Associates Limited Partnership	Milford Station II, LLC
Bayamon Garden Associates Limited Partnership	Monserrate Associates Limited Partnership

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

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, 2007. The operating results for the nine and three months ended September 30, 2008, and 2007, are not necessarily indicative of the results that may be expected for the full year. Net income (loss) 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.

Sales, Profit Recognition and Cost Capitalization

In accordance with Statement of Financial Accounting Standard (“SFAS”) No. 66, “Accounting for Sales of Real Estate,” community development land sales are recognized at closing only when sufficient down payments have been obtained and initial and continuing investment criteria have been met, possession and other attributes of ownership have been transferred to the buyer, and ACPT has no significant continuing involvement. Under the provisions of SFAS 66, related to condominium sales, revenues and costs are to be recognized when construction is beyond the preliminary stage, the buyer is committed to the extent of being unable to require a refund except for non-delivery of the unit, sufficient units in the project have been sold to ensure that the property will not be converted to rental property, the sales proceeds are collectible and the aggregate sales proceeds and the total cost of the project can be reasonably estimated. Accordingly, we recognize revenues and costs upon settlement with the homebuyer which doesn’t occur until after we receive use and occupancy permits for the building.

The costs of developing the land are allocated to our land assets and charged to cost of sales as the related inventories are sold using the relative sales value method which rely on estimated costs and sales values. In accordance with SFAS 67 "Accounting for Costs and Initial Rental Operations of Real Estate Projects", the costs of acquiring and developing land are allocated to these assets and charged to cost of sales as the related inventories are sold. Within our homebuilding operations, the costs of acquiring the land and constructionof the condominiums are allocated to these assets and charged to cost of sales as the condominiums are sold. The cost of sales is determined by the percentage of completion method. The Company considers interest expense on all debt available for capitalization to the extent of average qualifying assets for the period. Interest specific to the construction of qualifying assets, represented primarily by our recourse debt, is first considered for capitalization. To the extent qualifying assets exceed debt specifically identified, a weighted average rate including all other debt is applied. Any excess interest is reflected as interest expense.

Impairment of Long-Lived Assets

ACPT carries its rental properties, homebuilding inventory, land and development costs at the lower of cost or fair value in accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." For real estate assets such as our rental properties which the Company plans to hold and use, which includes property to be developed in the future, property currently under development and real estate projects that are completed or substantially complete, we evaluate whether the carrying amount of each of these assets will be recovered from their undiscounted future cash flows arising from their use and eventual disposition. If the carrying value were to be greater than the undiscounted future cash flows, we would recognize an impairment loss to the extent the carrying amount is not recoverable. Our estimates of the undiscounted operating cash flows expected to be generated by each asset are performed on an individual project basis and based on a number of assumptions that are subject to economic and market uncertainties, including, among others, demand for apartment units, competition, changes in market rental rates, and costs to operate and complete each project. There have been no impairment charges for the nine and three months ended September 30, 2008 and 2007.

The Company evaluates, on an individual project basis, whether the carrying value of its substantially completed real estate projects, such as our homebuilding inventory that are to be sold, will be recovered based on the fair value less cost to sell. If the carrying value were to be greater than the fair value less costs to sell, we would recognize an impairment loss to the extent the carrying amount is not recoverable. Our estimates of the fair value less costs to sell are based on a number of assumptions that are subject to economic and market uncertainties, including, among others, comparable sales, demand for commercial and residential lots and competition. The Company performed similar reviews for land held for future development and sale considering such factors as the cash flows associated with future development expenditures. Should this evaluation indicate an impairment has occurred, the Company will record an impairment charge equal to the excess of the historical cost over fair value less costs to sell. There have been no impairment charges for the nine and three months ended September 30, 2008 and 2007.

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Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, unrestricted deposits with financial institutions and short-term investments with original maturities of three months or less. Restricted cash and escrow deposits include funds held in restricted escrow accounts used for maintenance and capital improvements with the approval of HUD and/or the State Finance Agency. The account also includes tenant security deposits as well as deposits collected within our homebuilding operations as well as funds in an escrow account that are restricted for the repayment of the County bonds.

As of September 30, 2008, the Company had cash and cash equivalents of $19,303,000 and $20,414,000 in restricted cash. Included in the Company's cash and cash equivalents are $8,756,000 of cash located within multifamily apartment entities, and to which the Company does not have direct control. Cash flow from our consolidated apartment properties whose mortgage loans are insured by the Federal Housing Authority ("FHA"), or financed through the housing agencies in Maryland, Virginia or Puerto Rico (the "Financing Agencies,") are subject to guidelines and limits established by the apartment partnerships' regulatory agreements with HUD and the State Financing Agencies. For two of our Puerto Rico partnerships, the regulatory agreements also require that if cash from operations exceeds the allowable cash distributions, the surplus must be deposited into restricted escrow accounts held by the mortgagee and controlled by HUD or the applicable Financing Agency.

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.

Operating Real Estate

The table below presents the major classes of depreciable assets as of September 30, 2008 and December 31, 2007 (in thousands):

	September 30, 2008 (Unaudited)	December 31, 2007 (Audited)
Building	$ 265,816	$ 265,115
Building improvements	10,606	10,414
Equipment	15,191	13,603
	291,613	289,132
Less: Accumulated depreciation	157,494	150,292
	134,119	138,840
Land	25,512	25,512
Operating properties, net	$ 159,631	$ 164,352

Other Property and Equipment

In addition, the Company owned other property and equipment of $967,000 and $1,045,000, net of accumulated depreciation of $2,480,000 and $2,294,000 respectively, as of September 30, 2008 and December 31, 2007 respectively.

Depreciation

Total depreciation expense was $7,511,000 and $7,009,000 for the nine months ended September 30, 2008 and 2007, respectively, and $2,469,000 and $2,428,000 for the three months ended September 30, 2008 and 2007, respectively.

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Impact of Recently Issued Accounting Standards

SFAS 157 and 159

In September 2006, the FASB issued SFAS 157, "Fair Value Measurements" and in February 2007, the FASB issued SFAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS 157 defines fair values as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. SFAS 157 applies whenever other standards require assets or liabilities to be measured at fair value and does not expand the use of fair value in any new circumstances. SFAS 157 establishes a hierarchy that prioritizes the information used in developing fair value estimates. The hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, such as the reporting entity's own data. SFAS 157 requires fair value measurements to be disclosed by level within the fair value hierarchy. On February 12, 2008, the FASB issued FASB Staff Position No. FAS 157-2, "Effective Date of FASB Statement No. 157," which amends FAS No. 157 by delaying its effective date by one year for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. Therefore, beginning on January 1, 2008, this standard applies prospectively to new fair value measurements of financial instruments and recurring fair value measurements of non-financial assets and non-financial liabilities. On January 1, 2009, the standard will also apply to all other fair value measurements. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The fair value election is designed to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 was effective for the Company beginning January 1, 2008. The implementation of SFAS 157 and 159 did not have a material impact on our financial statements.

SFAS 141R

On December 4, 2007, the FASB issued Statement No. 141R, "Business Combinations" ("SFAS 141R"). This statement changes the accounting for acquisitions specifically eliminating the step acquisition model, changing the recognition of contingent consideration from being recognized when it is probable to being recognized at the time of acquisition, disallowing the capitalization of transaction costs and delays when restructurings related to acquisitions can be recognized. The standard is effective for fiscal years ending after December 15, 2008 and will only impact the accounting for acquisitions we make after its adoption, except for certain amendments related to income taxes related to acquisitions which will apply to business combinations with acquisition dates before the effective dates of SFAS 141R.

SFAS 160

On December 4, 2007, the FASB issued Statement No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51" ("SFAS 160"). SFAS 160 replaces the concept of minority interest with noncontrolling interests in subsidiaries. Noncontrolling interests will now be reported as a component of equity in the consolidated statement of financial position. Earnings attributable to noncontrolling interests will continue to be reported as a part of consolidated earnings; however, SFAS 160 requires that income attributable to both controlling and noncontrolling interests be presented separately on the face of the consolidated income statement. In addition, SFAS 160 provides that when losses attributable to noncontrolling interests exceed the noncontrolling interest's basis, losses continue to be attributed to the noncontrolling interest as opposed to being absorbed by the consolidating entity. SFAS 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. All other requirements of SFAS 160 shall be applied prospectively. SFAS 160 is effective for the first annual reporting period beginning on or after December 15, 2008. The Company is currently evaluating the impact of the adoption of SFAS 160 on its consolidated financial statements. However, the provisions of SFAS 160 are directly applicable to the Company's currently reported minority interest in consolidated entities and, accordingly, will change the presentation of the Company's financial statements when implemented.

EITF Issue No. 06-08

In November 2006, the Emerging Issues Task force of the FASB ("EITF") reached a consensus on EITF Issue No. 06-08, "Applicability of a Buyer's Continuing Investment under FASB Statement No. 66, Accounting for Sales of Real Estate, for Sales of Condominiums" ("EITF 06-08"). EITF 06-08 requires 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 was effective for the Company beginning January 1, 2008. The implementation of EITF 06-08 did not have a material impact on our financial statements.

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(3) INVESTMENT IN UNCONSOLIDATED REAL ESTATE ENTITIES

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

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

Apartment Partnerships

The unconsolidated apartment partnerships as of September 30, 2008 and 2007 included Brookside Gardens Limited Partnership (“Brookside”) and Lakeside Apartments Limited Partnership (“Lakeside”) 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 $246,000 and $231,000 and for Lakeside of $160,000 and $172,000 as of September 30, 2008 and December 31, 2007, 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 during 2009.

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, December 2006 and again in October 2007. Included within these amendments, the maximum borrowings outstanding on the facility were reduced to $5.0 million. For the October 2007 amendment, the development loan was modified to provide a one-year delay in development of the project, as to date, lot development has outpaced sales. Per the terms of the loan, both the Company and Lennar provided development completion guarantees. In the nine and three months ended September 30, 2008, the joint venture did not sell any lots. In the nine and three months ended September 30, 2007, the joint venture sold 48 and 18 lots to Lennar and recognized $1,063,000 and $408,000 in deferred revenue, off-site fees and management fees and $358,000 and $140,000 of deferred costs, respectively.

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

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	Apartment Properties	Commercial Property	Land Development Joint Venture	Total
		(in thousands)		
Summary Financial Position:				
Total Assets				
September 30, 2008	$ 4,822	$ 27,867	$ 12,714	$ 45,403
December 31, 2007	4,980	27,379	12,397	44,756
Total Non-Recourse Debt				
September 30, 2008	3,136	22,960	4,998	31,094
December 31, 2007	3,189	22,960	4,722	30,871
Total Other Liabilities				
September 30, 2008	967	490	783	2,240
December 31, 2007	976	147	741	1,864
Total Equity				
September 30, 2008	719	4,417	6,933	12,069
December 31, 2007	815	4,272	6,934	12,021
Company's Investment, net (1)				
September 30, 2008	-	4,649	1,828	6,477
December 31, 2007	(1)	4,701	1,828	6,528
Summary of Operations:				
Total Revenue				
Nine Months Ended September 30, 2008	620	2,653	-	3,273
Nine Months Ended September 30, 2007	604	2,730	5,560	8,894
Three Months Ended September 30, 2008	202	864	-	1,066
Three Months Ended September 30, 2007	203	909	1,951	3,063
Net Income (Loss)				
Nine Months Ended September 30, 2008	(97)	1,339	-	1,242
Nine Months Ended September 30, 2007	(155)	1,407	2	1,254
Three Months Ended September 30, 2008	(30)	430	-	400
Three Months Ended September 30, 2007	(58)	470	-	412
Company's recognition of equity in earnings				
Nine Months Ended September 30, 2008	-	490	-	490
Nine Months Ended September 30, 2007 (2)	(1)	521	-	520
	-	159	-	159

Three Months Ended September 30, 2008				
Three Months Ended September 30, 2007	-	175	-	175

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	Apartment Properties	Commercial Property	Land Development Joint Venture	Total
		(in thousands)		
Summary of Cash Flows:				
Cash flows provided by (used in) operating activities				
Nine Months Ended September 30, 2008	$ 61	$ 1,627	$ 42	$ 1,730
Nine Months Ended September 30, 2007	38	1,710	5,508	7,256
Three Months Ended September 30, 2008	11	650	40	701
Three Months Ended September 30, 2007	(12)	865	2,359	3,212
Company's share of cash flows from operating activities				
Nine Months Ended September 30, 2008	1	736	21	758
Nine Months Ended September 30, 2007	-	774	2,754	3,528
Three Months Ended September 30, 2008	-	294	20	314
Three Months Ended September 30, 2007	-	392	1,179	1,571
Operating cash distributions				
Nine Months Ended September 30, 2008	-	1,194	-	1,194
Nine Months Ended September 30, 2007	-	1,236	-	1,236
Three Months Ended September 30, 2008	-	421	-	421
Three Months Ended September 30, 2007	-	442	-	442
Company's share of operating cash distributions				
Nine Months Ended September 30, 2008	-	541	-	541
Nine Months Ended September 30, 2007	-	560	-	560
Three Months Ended September 30, 2008	-	191	-	191
Three Months Ended September 30, 2007	-	200	-	200

Notes:
(1) Represents the Company's net investment, including assets and accrued liabilities in the consolidated balance sheet for unconsolidated real estate entities.
(2) Excludes collection of the El Monte note receivable, resulting in recognition of $1.5 million as Equity in Earnings, see Note 6.

(4) DEBT

The Company's outstanding debt is collateralized primarily by land, land improvements, receivables, investment properties, investments in partnerships, and rental properties. The following table summarizes the indebtedness of the Company at September 30, 2008 and December 31, 2007 (in thousands):

	Maturity Dates From/To	Interest Rates From/To	Outstanding as of September 30, 2008 (Unaudited)	December 31, 2007 (Audited)
Recourse Debt				
Community Development (a), (b), (c), (d)	05-01-09/03-01-23	4%/8%	$ 33,620	$ 25,490
General obligations (e)	06-01-09/03-03-12	Non-interest bearing/8.55%	194	99
Total Recourse Debt			33,814	25,589
Non-Recourse Debt				
Investment Properties (f)(g)	04-30-09/08-01-47	4.95%/10%	277,118	279,981
Total debt			$ 310,932	$ 305,570

a) As of September 30, 2008, $25,629,000 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, bears interest at Prime plus 0.75% (5.75% at September 30, 2008) and matures on May 1, 2009. The facility includes various sub-limits on a revolving basis for amounts to finance apartment project acquisitions and land development in St. Charles. The terms require certain financial covenants to be calculated annually as of December 31, including a tangible net worth to senior debt ratio for ALD and a minimum net worth test for ACPT. As of September 30, 2008 $3,026,000 was outstanding on the Revolver.

c) LDA has a $10,000,000 revolving line of credit facility that bears interest at a fluctuating rate equivalent to the LIBOR Rate plus 225 basis points (5.038% at September 30, 2008). The facility is to be used to fund the development of infrastructure in Parque Escorial and Parque El Comandante and matures on August 31, 2009. The outstanding balance of this facility on September 30, 2008, was $2,754,000.

d) On April 2, 2008, the Company secured a two-year, $3,600,000 construction loan for the construction of a commercial restaurant/office building within the O'Donnell Lake Restaurant Park. The facility is secured by the land along with any improvements constructed and bears interest at Wall Street Journal published Prime Rate (5.0% at September 30, 2008). At the end of the two-year construction period, the Company may convert the loan to a 5-year permanent loan, amortized over a 30 year period at a fixed interest rate to be determined. As of September 30, 2008, $2,211,000 was outstanding under this facility leaving $1,389,000 available to fund completion of the building.

e) The general recourse debt outstanding as of September 30, 2008, 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) The non-recourse debt related to the investment properties is collateralized by the multifamily rental properties and the office building in Parque Escorial. As of September 30, 2008, approximately $73,913,000 of this debt is secured by the Federal Housing Administration ("FHA") or the Maryland Housing Fund.

g) On May 12, 2008, IGP agreed to provide a fixed charge and debt service guarantee related to the Escorial Office Building I, Inc ("EOB") mortgage. The fixed charge and debt service guarantee requires IGP to contribute capital in cash in such amounts required to cause EOB to comply with the related financial covenants. The guarantee will remain in full force until EOB has complied with the financial covenants for four consecutive quarters.

The Company's loans contain various financial, cross collateral, cross default, technical and restrictive provisions. As of September 30, 2008, the Company was in compliance with the financial covenants and the other provisions of its loan agreements.

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(5) COMMITMENTS AND CONTINGENT LIABILITIES

Financial Commitments

Pursuant to an agreement reached between ACPT and the Charles County Commissioners in 2002, the Company agreed to accelerate the construction of two major roadway links to the Charles County (the "County") road system. As part of the agreement, the County agreed to issue general obligation public improvement bonds 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. These 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 of 5.1%, call for semi-annual interest payments and annual principal payments and mature in fifteen years. Under the terms of bond repayment agreements between the Company and the County, the Company is obligated to pay interest and principal on the full amount of the bonds; as such, the Company recorded the full amount of the debt and a receivable from the County representing the undisbursed bond proceeds to be advanced to the Company as major infrastructure development within the project occurs. As of September 30, 2008, all of the bond proceeds had been used to fund the specified development. As part of the agreement, the Company will pay the County a monthly payment equal to one-sixth of the semi-annual interest payments and one-twelfth of the annual principal payment due on the Bonds. The County also requires ACPT to fund an escrow account from lot sales that will be used to repay this obligation.

In August 2005, the Company signed a memorandum of understanding ("MOU") with the Charles County Commissioners regarding a land donation that is now the site of a minor league baseball stadium and entertainment complex which opened in May of 2008. Under the terms of the MOU, the Company donated 42 acres of land in St. Charles to the County on December 31, 2005. The Company also agreed to expedite off-site utilities, storm-water management and road construction improvements that will serve the entertainment complex and future portions of St. Charles so that the improvements will be completed concurrently with the entertainment complex. The County will be responsible for infrastructure improvements on the site of the complex. In return, the County agreed to issue additional general obligation bonds to finance the infrastructure improvements. In March 2006, $4,000,000 of bonds were issued for this project, with an additional $3,000,000 issued in both March 2007 and March 2008. These bonds bear interest rates ranging from 4.9% to 5.75%, for a blended lifetime rate of 5.2%, call for semi-annual interest payments and annual principal payments and mature in fifteen years. The terms of the bond repayment agreement are similar to those noted above. As of September 30, 2008, $2,162,000 of these bond proceeds are recorded as a receivable and available to fund the related infrastructure. 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. In addition, the County agreed to issue an additional 100 school allocations a year to St. Charles commencing with the issuance of bonds.

As of September 30, 2008, ACPT is guarantor of $23,777,000 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 paid Mr. Wilson $200,000 per year through September 2008, and accordingly, no more payments are due under this agreement.

Guarantees

ACPT and its subsidiaries typically provide guarantees for another subsidiary's loans. In many cases more than one company guarantees the same debt. Since all of these companies are consolidated, the debt or other financial commitment made by the subsidiaries to third parties and guaranteed by ACPT, is included within ACPT's consolidated financial statements. As of September 30, 2008, ACPT has guaranteed $25,629,000 of outstanding debt owed by its subsidiaries. IGP has guaranteed $2,754,000 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 fifteen 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

In 2006, a group of approximately 60 tenants of Capital Park Towers Apartments (“Capital Park”) a property managed, but not owned by ARMC and located at 301 G Street, S.W., Washington, D.C. filed a tenant petition with the Rent Administrator for the District of Columbia challenging increases in rent implemented with respect to said tenants units during the previous three year period (“Initial Case”). The Company's Chairman has an economic interest in the property related to a note receivable from Capital Park. Following the initial petition, a group of 60 additional tenants filed a similar petition in May of 2008. The Initial Case is set for an initial hearing on the merits on November 7, 2008. While the Company has numerous defenses to the claims asserted in both cases, at this time management believes that potential exposure to damages in these cases is probable and estimates the loss at approximately $230,000. Generally, these types of losses are covered by our insurance policies. However, the Company has recently been informed that our insurance carrier intends to deny these claims. We intend to vigorously defend against the claims asserted and will continue to pursue coverage under our insurance policies. Given the current circumstances, the Company accrued $230,000 in the third quarter 2008 related to the potential losses. However, absent a settlement of the case, it will likely take a number of years before the case is concluded and a final determination rendered.

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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, 2007.

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

CONSOLIDATED STATEMENT OF INCOME:		Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007
Management and Other Fees					
Unconsolidated subsidiaries with third party partners	(A)	$ 32	$ 32	$ 11	$ 11
Affiliates of J. Michael Wilson, CEO and Chairman		-	43	-	-
		$ 32	$ 75	$ 11	$ 11
Rental Property Revenues	(B)	$ 36	$ 43	$ 6	$ 15
Interest and Other Income					
Unconsolidated real estate entities with third party partners		$ 6	$ 6	$ 2	$ 2
General and Administrative Expense					
Reserve additions (reductions) and other write-offs-					
Unconsolidated real estate entities with third party partners	(A)	$ (2)	$ 25	$ 7	$ 14
Reimbursement to IBC for ACPT's share of J. Michael Wilson's compensation		311	293	104	98
Reimbursement of administrative costs-					
Affiliates of J. Michael Wilson, CEO and Chairman		(14)	(18)	(4)	(5)
Reimbursement of legal fees to attorney for J. Michael Wilson	(C1)		188		140
Consulting Fees					
James J. Wilson, IGC Chairman and Director	(C2)	150	150	50	50
Thomas J. Shafer, Trustee	(C3)	45	45	15	15

	$ 490	$ 683	$ 172	$ 312

BALANCE SHEET:	Balance September 30, 2008	Balance December 31, 2007
Other Assets		
Receivables - All unsecured and due on demand		
Unconsolidated Subsidiaries	$ 5	$ -
Affiliate of J. Michael Wilson, CEO and Chairman	-	5
Total	$ 5	$ 5
Other Liabilities		
Payable due to Affiliate of J. Michael Wilson, CEO and Chairman	$ 13	$ -

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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.

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. On February 25, 2008, CWT exercised its rights under the lease and provided six months written notice of its intention to terminate the lease, effective August 24, 2008. 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 second quarter 2007, The Independent Trustees concluded that certain legal fees and expenses incurred by J. Michael Wilson related to seeking a strategic partner would be reimbursed by the Company. The Independent Trustees authorized the Company to fund up to $225,000 of such costs, $188,000 of which were incurred through the third quarter of 2007.
2) Represents fees paid to James J. Wilson pursuant to a consulting and retirement agreement. At Mr. Wilson's request, payments are made to Interstate Waste Technologies, Inc.
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 two notes of $1,500,000 each that bear an interest rate of prime plus 2%, with a ceiling of 9%, and mature on December 3, 2009. The net cash proceeds from the sale of the real estate were distributed to the partners. As a result, the Company received $2,500,000 in cash and recognized $986,000 of income in 2004. El Monte distributed a $1,500,000 note to the Company in January 2005. On January 24, 2007, the Company received $1,707,000 as payment in full of the principal balance and all accrued interest related to the El Monte note receivable. Accordingly, in 2007 the Company recorded $1,500,000 as equity in earnings and $207,000 as interest income.

(7) INCOME TAXES

The total amount of unrecognized tax benefits as of September 30, 2008, was $15,095,000. Included in the balance at September 30, 2008, were $41,000 of tax positions that, if recognized, would affect the effective tax rate. A reconciliation of the beginning and ending amount of unrecognized tax benefit (in thousands) is as follows:

Unrecognized tax benefit at beginning of period (December 31, 2007)	$ 14,869
Change attributable to tax positions taken during a prior period	252
Change attributable to tax positions taken during the current period	-
Decrease attributable to settlements with taxing authorities	-
Decrease attributable to lapse of statute of limitations	(26)
Unrecognized tax benefit at end of period (September 30, 2008)	$ 15,095

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In accordance with our accounting policy, we present accrued interest related to uncertain tax positions as a component of interest expense and accrued penalties as a component of income tax expense on the Consolidated Statement of Income. Our Consolidated Statements of Income for the nine months ended September 30, 2008 and 2007, included interest expense of $1,031,000 and $855,000, respectively and penalties of $58,000 and $143,000, respectively. Our Consolidated Statements of Income for the three months ended September 30, 2008 and 2007, included interest expense of $298,000 and $304,000, respectively and penalties of $20,000 and $71,000, respectively. Our Consolidated Balance Sheets as of September 30, 2008 and December 31, 2007, included accrued interest of $3,844,000 and $2,814,000, respectively and accrued penalties of $1,143,000 and $1,085,000, 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 United States for the years ended December 31, 2005 through 2007 remain subject to examination. For Puerto Rico, the tax returns for the years ended December 31, 2004 through 2007 remain subject to examination. Within the next twelve months, the Company does not anticipate any payments related to settlement of any tax examinations. There is a reasonable possibility within the next twelve months the amount of unrecognized tax benefits will decrease by $577,000 when the related statutes of limitations expire and certain payments are recognized as taxable income.

(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 $5,903,000 for the nine months ended September 30, 2008, which represents 16% of the U.S. segment's revenue and 10% of our total year-to-date consolidated revenue. No other customers accounted for more than 10% of our consolidated revenue for the nine months ended September 30, 2008.

Residential land sales to Lennar within our U.S. segment were $5,131,000 for the nine months ended September 30, 2007 which represented 14% of the U.S. segment's revenue and 8% of our total year-to-date consolidated revenue. No customers accounted for more than 10% of our consolidated revenue for the nine months ended September 30, 2007.

The following presents the segment information for the nine and three months ended September 30, 2008 and 2007 (in thousands):

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	United States	Puerto Rico	Inter-Segment	Total
Nine Months Ended September 30, 2008 (Unaudited):	($)	($)	($)	($)
Rental property revenues	29,676	16,997	-	46,673
Rental property operating expenses	13,736	8,571	(16)	22,291
Land sales revenue	6,457	-	-	6,457
Cost of land sales	5,218	-	-	5,218
Home sales revenue	-	3,476	-	3,476
Cost of home sales	-	2,694	-	2,694
Management and other fees	117	471	(20)	568
General, administrative, selling and marketing expense	7,045	1,928	(4)	8,969
Depreciation and amortization	4,684	2,827	-	7,511
Operating income	5,567	4,924	-	10,491
Interest income	300	29	(14)	315
Equity in earnings from unconsolidated entities	(1)	490	-	489
Interest expense	8,506	4,288	(14)	12,780
Minority interest in consolidated entities	456	1,235	-	1,691
(Loss) income before benefit for income taxes	(3,081)	87	-	(2,994)
Income tax benefit	(931)	(62)	-	(993)
Net (loss) income	(2,150)	149	-	(2,001)
Gross profit on land sales	1,239	-	-	1,239
Gross profit on home sales	-	782	-	782
Total assets	262,446	99,741	(369)	361,818
Additions to long lived assets	4,633	794	-	5,427

	United States	Puerto Rico	Inter-Segment	Total
Nine Months Ended September 30, 2007 (Unaudited):	($)	($)	($)	($)
Rental property revenues	28,529	16,720	-	45,249
Rental property operating expenses	14,376	8,543	(18)	22,901
Land sales revenue	8,032	-	-	8,032
Cost of land sales	5,930	-	-	5,930
Home sales revenue	-	6,113	-	6,113
Cost of home sales	-	4,399	-	4,399
Management and other fees	299	479	(22)	756
General, administrative, selling and marketing expense	6,355	2,249	(4)	8,600
Depreciation and amortization	4,252			