AMERICAN CAMPUS COMMUNITIES INC
Form 10-Q
May 10, 2006

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

FORM 10-Q

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

For the quarterly period ended March 31, 2006.

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

Commission file number 001-32265

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

Maryland	**76-0753089**
(State or Other Jurisdiction of Incorporation or Organization)	*(IRS Employer Identification No.)*
805 Las Cimas Parkway, Suite 400 **Austin, TX**	**78746**
(Address of Principal Executive Offices)	*(Zip Code)*

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

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

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

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

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

There were 17,203,573 shares of American Campus Communities, Inc.'s common stock with a par value of $0.01 per share outstanding as of the close of business on May 3, 2006.

FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2006

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AMERICAN CAMPUS COMMUNITIES, INC. AND SUBSIDIARIES

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

	March 31, 2006 (Unaudited)	December 31, 2005
Assets		
Investments in real estate:		
Owned off-campus properties, net	$ 676,890	$ 417,098
On-campus participating properties, net	79,387	80,370
Investments in real estate, net	756,277	497,468
Cash and cash equivalents	11,025	24,641
Restricted cash	12,609	9,502
Student contracts receivable, net	1,904	2,610
Other assets	20,101	16,641
Total assets	**$ 801,916**	**$ 550,862**
Liabilities and stockholders' equity		
Liabilities:		
Secured debt	$ 422,597	$ 291,646
Unsecured revolving credit facility	67,000	-
Accounts payable and accrued expenses	9,807	7,983
Other liabilities	26,294	25,155
Total liabilities	**525,698**	**324,784**
Minority interests	35,011	2,851
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Common shares, $.01 par value, 800,000,000 shares authorized, 17,203,573 and 17,190,000 shares issued and outstanding at March 31, 2006 and December 31, 2005, respectively	172	172
Additional paid in capital	253,432	233,388
Accumulated earnings and distributions	(12,999)	(10,817)
Accumulated other comprehensive income	602	484
Total stockholders' equity	**241,207**	**223,227**
Total liabilities and stockholders' equity	**$ 801,916**	**$ 550,862**

See accompanying notes to consolidated financial statements.

AMERICAN CAMPUS COMMUNITIES, INC. AND SUBSIDIARIES

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

	Three Months Ended March 31, 2006		Three Months Ended March 31, 2005	
Revenues:				
Owned off-campus properties	$	19,487	$	12,489
On-campus participating properties		5,982		5,493
Third party development services		1,602		609
Third party development services - on-campus participating properties		36		36
Third party management services		662		710
Resident services		320		204
Total revenues		**28,089**		**19,541**
Operating expenses:				
Owned off-campus properties		8,149		5,136
On-campus participating properties		1,950		1,875
Third party development and management services		1,638		1,464
General and administrative		1,587		1,364
Depreciation and amortization		5,275		3,424
Ground/facility lease		192		212
Total operating expenses		**18,791**		**13,475**
Operating income		**9,298**		**6,066**
Nonoperating income and (expenses):				
Interest income		185		58
Interest expense		(5,336)		(3,808)
Amortization of deferred financing costs		(355)		(246)
Other nonoperating income		-		430
Total nonoperating expenses		**(5,506)**		**(3,566)**
Income before income taxes, minority interests, and discontinued operations		3,792		2,500
Income tax provision		-		(102)
Minority interests		(128)		(87)
Income from continuing operations		**3,664**		**2,311**
Discontinued operations:				
Loss attributable to discontinued operations		-		(2)
Gain from disposition of real estate		-		5,883
Total discontinued operations		-		5,881
Net income	**$**	**3,664**	**$**	**8,192**
Income per share - basic:				
Income from continuing operations per share	$	0.21	$	0.18
Net income per share	$	0.21	$	0.65
Income per share - diluted:				
Income from continuing operations per share	$	0.21	$	0.19

Net income per share	$	0.21	$	0.65
Weighted-average common shares outstanding:				
Basic		17,209,779		12,622,145
Diluted		18,176,189		12,769,939
Distributions declared per common share	$	0.3375	$	0.3375

See accompanying notes to consolidated financial statements.

AMERICAN CAMPUS COMMUNITIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited, in thousands)

	Three Months Ended March 31,	
	2006	**2005**
Net income	**$ 3,664**	**$ 8,192**
Other comprehensive income:		
Change in fair value of interest rate swap	118	345
Net comprehensive income	**$ 3,782**	**$ 8,537**

See accompanying notes to consolidated financial statements.

AMERICAN CAMPUS COMMUNITIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Three Months Ended March 31, 2006	2005
Operating activities		
Net income	$ 3,664	$ 8,192
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain from disposition of real estate	-	(5,883)
Minority interests share of income	128	87
Depreciation and amortization	5,275	3,424
Amortization of deferred financing costs and debt premiums/discounts	106	127
Share-based compensation	121	24
Income tax provision	-	102
Changes in operating assets and liabilities:		
Restricted cash	(1,211)	3,013
Student contracts receivable, net	706	(849)
Other assets	(605)	(1,474)
Accounts payable and accrued expenses	367	(414)
Other liabilities	(2,471)	(636)
Net cash provided by operating activities	6,080	5,713
Investing activities		
Net proceeds from disposition of real estate	-	28,023
Cash paid for property acquisitions	(69,241)	(72,763)
Investments in owned off-campus properties	(14,684)	(10,972)
Investments in on-campus participating properties	(49)	(3,055)
Purchase of corporate furniture, fixtures and equipment	(139)	(86)
Net cash used in investing activities	(84,113)	(58,853)
Financing activities		
Proceeds from revolving credit facility, net of paydowns	67,000	21,800
Proceeds from construction loans	5,708	2,528
Proceeds from bridge/mortgage loan	-	37,400
Principal payments on debt	(1,098)	(484)
Change in construction accounts payable	(5)	681
Debt issuance and assumption costs	(1,204)	(913)
Distributions to common and restricted stockholders	(5,841)	(4,277)
Distributions to Predecessor owners	-	(1,179)
Distributions to minority partners	(143)	(41)
Net cash provided by financing activities	64,417	55,515
Net change in cash and cash equivalents	(13,616)	2,375
Cash and cash equivalents at beginning of period	24,641	4,050
Cash and cash equivalents at end of period	$ 11,025	$ 6,425
Supplemental disclosure of non-cash investing and financing activities		
Loans assumed in connection with property acquisitions	$ (123,649)	$ (47,169)
Issuance of Common Units in connection with property acquisitions	$ (49,096)	$ -
Issuance of Preferred Units in connection with property acquisitions	$ (3,075)	$ -

Change in fair value of derivative instruments, net	$	118	$	345
Supplemental disclosure of cash flow information				
Interest paid	$	6,251	$	4,496

See accompanying notes to consolidated financial statements.

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

1. Organization and Description of Business

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

As of March 31, 2006, the Company's property portfolio contained 38 student housing properties with approximately 22,900 beds and approximately 7,400 apartment units, consisting of 34 owned off-campus properties that are in close proximities to colleges and universities and four on-campus participating properties operated under ground/facility leases with the related university systems. These communities contain modern housing units, offer resort-style amenities and are supported by a classic resident assistant system and other student-oriented programming.

Through the TRS, the Company also provides construction management and development services for student housing properties owned by colleges and universities, charitable foundations, and others. As of March 31, 2006, the Company provided third party management and leasing services for 15 student housing properties (10 of which the Company served as the third party developer and construction manager) that represented approximately 9,000 beds in approximately 3,700 units. Third party management and leasing services are typically provided pursuant to multi-year management contracts that have initial terms that range from one to five years. As of March 31, 2006, the Company's total owned and managed portfolio included 53 properties with approximately 31,900 beds in approximately 11,100 units.

2. Summary of Significant Accounting Policies

Principles of Consolidation and Combination

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

Interim Financial Statements

The accompanying interim financial statements are unaudited, but have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all disclosures required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting solely of normal recurring matters) necessary for a fair presentation of the financial statements for these interim periods have been included. Because of the seasonal nature of the Company's operations, the results of operations and cash flows for any interim period are not necessarily indicative of results for other interim periods or for the full year. These financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December, 31, 2005.

Use of Estimates

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

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

Investments in Real Estate

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

Buildings and improvements	7-40 years
Leasehold interest - on-campus participating properties	25-34 years (shorter of useful life or respective lease term)
Furniture, fixtures and equipment	3-7 years

The cost of buildings and improvements includes the purchase price of the property, including legal fees and acquisition costs. Project costs directly associated with the development and construction of an owned real estate project, which include interest, property taxes, and amortization of deferred finance costs, are capitalized as construction in progress. Upon completion of the project, costs are transferred into the applicable asset category and depreciation commences. Interest totaling approximately $0.5 million and $0.3 million was capitalized during the three months ended March 31, 2006, and 2005, respectively. Amortization of deferred financing costs totaling approximately $30,000 was capitalized during both the three months ended March 31, 2006, and 2005.

Management assesses whether there has been an impairment in the value of the Company's investments in real estate whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is recognized when estimated expected future cash flows (undiscounted and before interest charges) are less than the carrying value of the property. The estimation of expected future net cash flows is inherently uncertain and relies on assumptions regarding current and future economics and market conditions. If such conditions change, then an adjustment to the carrying value of the Company's long-lived assets could occur in the future period in which the conditions change. To the extent that a property is impaired, the excess of the carrying amount of the property over its estimated fair value is charged to earnings. The Company believes that there were no impairments of the carrying values of its investments in real estate as of March 31, 2006.

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

Intangible Assets

In connection with property acquisitions completed during the three months ended March 31, 2006 and 2005, the Company capitalized approximately $2.3 million and $1.1 million, respectively, related to management's estimate of the fair value of the in-place leases assumed. These intangible assets are amortized on a straight-line basis over a term of approximately six months, which represents the average remaining term of the underlying leases. The amortization is included in depreciation expense in the accompanying consolidated statements of operations. See Note 3 for a detailed discussion of the property acquisitions completed during the three months ended March 31, 2006.

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

Debt Premiums and Discounts

Debt premiums and discounts represent fair value adjustments to account for the difference between the fixed rates and market rates of debt assumed in connection with the Company's property acquisitions. The debt premiums and discounts are being amortized to interest expense over the term of the related loans using the effective-interest method. As of March 31, 2006 and December 31, 2005, net unamortized debt premiums were $7.1 million and $4.4 million, respectively, net of unamortized debt discounts of $0.5 million and $-0-, respectively. Debt premiums and discounts are included in secured debt on the accompanying consolidated balance sheets.

Third Party Development Services Costs

Costs associated with the pursuit of development and construction management contracts are expensed as incurred, until such time that management believes it is probable the contract will be executed. Costs are then deferred and recognized in relation to the revenues earned on executed contracts. Management evaluates the status of awarded projects on a periodic basis and expenses any deferred costs related to projects whose current status indicates the costs may not provide future value to the Company in the form of revenues. Such write-offs are included in third party development and management services expenses on the accompanying consolidated statements of operations. As of March 31, 2006, the Company has capitalized approximately $2.5 million in pre-development costs related to awarded projects that have not yet commenced construction. Such costs are included in other assets in the accompanying consolidated balance sheets.

Stock-Based Compensation

The Company accounts for equity based awards in accordance with SFAS No. 123 (R), *Share-Based Payment.* Accordingly, the Company has recognized compensation expense related to certain restricted stock awards (see Note 9) over the underlying vesting periods, which amounted to approximately $0.1 million and $24,000 during the three months ended March 31, 2006 and 2005, respectively.

Income Taxes

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

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

Other Nonoperating Income

Other nonoperating income of approximately $0.4 million for the three months ended March 31, 2005 consists of a gain recognized related to insurance proceeds received for a fire that occurred at one of the Company's owned off-campus properties in 2003.

Income Per Share

Basic income per share is computed using net income and the weighted average number of shares of the Company's common stock outstanding during the period, including restricted stock units ("RSUs") issued to outside directors. RSUs are included in both basic and diluted weighted average common shares outstanding because they were fully vested on the date of grant and all conditions required in order for the recipients to earn the RSUs have been satisfied. Diluted income per share reflects weighted average common shares issuable from the assumed conversion of restricted stock awards ("RSAs") granted to employees and common and preferred units of limited partnership interest in the Operating Partnership ("Common Units" and "Series A Preferred Units," respectively). See Note 7 for a discussion of Common Units and Series A Preferred Units and Note 9 for a discussion of RSAs.

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

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

	Three Months Ended March 31,	
	2006	**2005**
Basic net income per share calculation:		
Income from continuing operations	$ 3,664	$ 2,311
Discontinued operations	-	5,881
Net income	$ 3,664	$ 8,192
Income from continuing operations - per share	$ 0.21	$ 0.18
Income from discontinued operations - per share	$ -	$ 0.47
Net income - per share	$ 0.21	$ 0.65
Basic weighted average common shares outstanding	17,209,779	12,622,145
Diluted net income per share calculation:		
Income from continuing operations	$ 3,664	$ 2,311
Series A Preferred Unit distributions	15	-
Income allocated to Common Units	77	87
Income from continuing operations, as adjusted	3,756	2,398
Discontinued operations	-	5,881
Net income, as adjusted	$ 3,756	$ 8,279
Income from continuing operations - per share	$ 0.21	$ 0.19
Income from discontinued operations - per share	$ -	$ 0.46
Net income - per share	$ 0.21	$ 0.65
Basic weighted average common shares outstanding	17,209,779	12,622,145
Common Units	838,607	121,000
Series A Preferred Units	39,599	-
Restricted stock awards	88,204	26,794
Diluted weighted average common shares outstanding	18,176,189	12,769,939

3. Property Acquisitions

On March 1, 2006, the Company completed the acquisition of a portfolio of 13 student housing properties (the “Royal Portfolio”) pursuant to a contribution and sale agreement with contributors affiliated with Royal Properties for a contribution value of $244.3 million, which was paid as follows: (i) the issuance to certain partners of the contributors of approximately 2.1 million Common Units valued at $23.50 per unit and approximately 0.1 million Series A Preferred Units valued at $26.75 per unit (See Note 7); (ii) the assumption of $123.6 million of fixed-rate mortgage debt (see Note 8); and (iii) the remainder in cash and promissory notes, of which $1.9 million is currently outstanding, and is payable on February 28, 2007 together with accrued interest at 4.39% per annum. The Company also incurred an additional $4.6 million in closing costs and other external acquisition costs related to this acquisition.

The Company retained approximately $6.9 million of the contribution value, which will be utilized to satisfy indemnification obligations that may arise during a one-year survival period, with any remaining amounts to be paid to the contributors upon expiration of such one-year survival period. The retained amount is composed of Common Units, Series A Preferred Units, secured promissory notes and cash.

The Royal Portfolio consists of five properties in Florida, four properties in Texas, two properties in Tennessee, and one property each in Arizona and Kentucky. The 13 properties contain approximately 1,800 units and approximately 5,700 beds.

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

The acquired properties' results of operations have been included in the accompanying consolidated statements of operations since the acquisition date. The following pro forma information for the three months ended March 31, 2006 and 2005 presents consolidated information for the Company as if the property acquisitions discussed above, the 2005 acquisitions and the July 2005 equity offering had occurred at the beginning of the earliest period presented. The unaudited pro forma information is provided for informational purposes only and is not indicative of results that would have occurred or which may occur in the future:

	Three Months Ended March 31,	
	2006	**2005**
Total revenues	$ 33,198	$ 28,699
Net income	$ 3,642	$ 6,572
Net income per share - basic	$ 0.21	$ 0.38
Net income per share - diluted	$ 0.19	$ 0.34

4. Property Disposition and Discontinued Operations

In November 2004, California State University - San Bernardino exercised its option to purchase from the Company the University Village at San Bernardino off-campus student housing property for an aggregate purchase price of approximately $28.3 million. This transaction was consummated in January 2005, resulting in net proceeds of approximately $28.1 million. The resulting gain on disposition of approximately $5.9 million is included in discontinued operations in the accompanying consolidated statement of operations for the three months ended March 31, 2005.

The related net income or loss for the afore-mentioned property is reflected in the accompanying consolidated statements of operations as discontinued operations in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Below is a summary of the results of operations through the property's disposition date:

	Three Months Ended March 31,	
	2006	**2005**
Total revenues	$ -	$ 29
Total operating expenses	-	(31)
Net loss	$ -	$ (2)

5. Investments in Owned Off-Campus Properties

Owned off-campus properties consisted of the following:

	March 31, 2006	**December 31, 2005**
Land	$ 80,859	$ 52,018
Buildings and improvements	576,957	361,938
Furniture, fixtures and equipment	22,667	18,115
Construction in progress	34,032	18,962

		714,515		451,033
Less accumulated depreciation		(37,625)		(33,935)
Owned off-campus properties, net	$	676,890	$	417,098

6. On-Campus Participating Properties

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

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

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

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

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

On-campus participating properties are as follows:

			Historical Cost	
Lessor/University	**Lease Commencement**	**Required Debt Repayment** [1]	**March 31, 2006**	**December 31, 2005**
Texas A&M University System / Prairie View A&M University [2]	2/1/96	9/1/23	$ 38,073	$ 38,037
Texas A&M University System / Texas A&M International	2/1/96	9/1/23	5,925	5,920
Texas A&M University System / Prairie View A&M University [3]	10/1/99	8/31/25 / 8/31/28	23,785	23,777
University of Houston System / University of Houston [4]	9/27/00	8/31/35	34,603	34,603
			102,386	102,337
Less accumulated amortization			(22,999)	(21,967)
On-campus participating properties, net			$ 79,387	$ 80,370

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

[2] Consists of three phases placed in service between 1996 and 1998.

[3] Consists of two phases placed in service in 2000 and 2003.

[4] Consists of two phases placed in service in 2001 and 2005.

7. Minority Interests

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

Equity interests in the Operating Partnership not owned by the Company are held in the form of Common Units and Series A Preferred Units. On March 1, 2006, approximately 2.1 million Common Units valued at $23.50 per unit and 0.1 million Series A Preferred Units valued at $26.75 per unit were issued to individuals and entities affiliated with Royal Properties in connection with the acquisition of the Royal Portfolio (see Note 3). Such Common Units and Series A Preferred Units are exchangeable on or after March 1, 2007 into an equal number of shares of the Company's common stock, or, at the Company's election, cash. A Common Unit and a share of the Company's common stock have essentially the same economic characteristics, as they effectively participate equally in the net income and distributions of the Operating Partnership. Series A Preferred Units have a cumulative preferential per annum cash distribution rate of 5.99%, payable quarterly concurrently with the payment of dividends on the Company's common stock.

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

Income allocated to minority interests on the Company's consolidated statements of operations includes the Series A Preferred Unit distributions as well as the pro rata share of the Operating Partnership's net income allocated to Common Units. The Common Unitholders' minority interest in the Operating Partnership is reported at an amount equal to their ownership percentage of the net equity of the Operating Partnership at the end of each reporting period. As of March 31, 2006, approximately 12% of the equity interests of the Operating Partnership was held by persons affiliated with Royal Properties and certain current and former members of management in the form of Common Units and Series A Preferred Units. As of December 31, 2005, approximately 0.7% of the equity interests of the Operating Partnership was held by certain current and former members of management in the form of Common Units.

Minority interests also include the equity interests of external joint venture partners in three joint ventures. Two of the joint ventures serve to own and operate the Company's Callaway House and University Village at Sweethome owned-off campus properties, which are located near the campuses of Texas A&M University and the State University of New York - Buffalo, respectively. The other joint venture was formed to develop, own, and operate the Company's Village at Newark owned off-campus property, which is currently under development and is located near the campuses of Rutgers University, New Jersey Institute of Technology and Essex County Community College.

8. Debt

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

	March 31, 2006	December 31, 2005
Debt secured by owned off-campus properties:		
Mortgage loans payable	$ 318,492	$ 195,871
Construction loan payable	5,688	-
	324,180	195,871
Debt secured by on-campus participating properties:		
Mortgage loans payable	16,716	16,786
Construction loan payable	16,431	16,411
Bonds payable	58,215	58,215
	91,362	91,412
Revolving credit facility	67,000	-
Unamortized debt premiums, net of discounts	7,055	4,363
Total debt	**$ 489,597**	**$ 291,646**

Loans Assumed or Entered Into in Conjunction with Property Acquisitions

In connection with the March 1, 2006 acquisition of the Royal Portfolio (see Note 3), the Company assumed approximately $123.6 million of fixed-rate mortgage debt. At the time of assumption, the debt had a weighted average interest rate of 5.95% and an average term to maturity of 6.3 years. Upon assumption of this debt, the Company recorded debt premiums of approximately $2.9 million, net of discounts, to reflect the estimated fair value of the debt assumed.

The above mortgage loans are secured by the related properties.

Revolving Credit Facility

The Operating Partnership has a $100 million revolving credit facility, which may be expanded by up to an additional $100 million upon the satisfaction of certain conditions. The maturity date of the facility is August 2007 and the Company guarantees the Operating Partnership’s obligations under the facility.

Availability under the revolving credit facility is limited to an "aggregate borrowing base amount" equal to the lesser of (i) 65% of the value of certain properties, calculated as set forth in the credit facility, and (ii) the adjusted net operating income from these properties divided by a formula amount. The facility bears interest at a variable rate, at the Company’s option, based upon a base rate or one-, two-, three-, or six-month LIBOR plus, in each case, a spread based upon the Company’s total leverage. Additionally, the Company is required to pay an unused commitment fee ranging from 0.15% to 0.20% per annum, depending on the aggregate unused balance. As of March 31, 2006, the balance outstanding on the revolving credit facility totaled $67.0 million, bearing interest at a rate of 6.28%, with remaining availability under the facility (subject to certain financial covenants) totaling approximately $31.8 million.

The terms of the facility include certain restrictions and covenants, which limit, among other items, the incurrence of additional indebtedness, liens, and the disposition of assets. The facility contains customary affirmative and negative covenants and also contains financial covenants that, among other things, require the Company to maintain certain minimum ratios of "EBITDA" (earnings before interest, taxes, depreciation and amortization) for interest expense and fixed charges. Before June 30, 2006, the Company may not pay distributions that exceed 100% of funds from operations for any four consecutive quarters. After June 30, 2006, the Company may not pay distributions that exceed 95% of funds from operations for any four consecutive quarters. The financial covenants also include consolidated net worth and leverage ratio tests. As of March 31, 2006, the Company was in compliance with all such covenants.

9. Incentive Award Plan

The Company has adopted the 2004 Incentive Award Plan (the “Plan”). The Plan provides for the grant to selected employees and directors of the Company and the Company’s affiliates of stock options, RSUs, RSAs, and other stock-based incentive awards. The Company has reserved a total of 1,210,000 shares of the Company’s common stock for issuance pursuant to the Plan, subject to certain adjustments for changes in the Company’s capital structure, as defined in the Plan. As of March 31, 2006, the Company has issued 618,589 awards under the Plan. A summary of the Company’s stock-based incentive awards under the Plan as of March 31, 2006 and changes during the three months ended March 31, 2006, is presented below:

	Common Units	Restricted Stock Units (RSUs)	Restricted Stock Awards (RSAs)	Outperformance Bonus Plan	Total
Outstanding at December 31, 2005	121,000	14,375	45,868	367,682	548,925
Granted [1]	-	-	69,966	-	69,966
Vested	-	-	(12,194)	-	(12,194)
Forfeited	-	-	(303)	-	(303)
Converted to common shares	(4,000)	-	-	-	(4,000)
Outstanding at March 31, 2006	117,000	14,375	103,337	367,682	602,394
Vested at March 31, 2006	117,000	14,375	12,194	-	143,569

[1] On January 31, 2006, the Company granted 69,966 RSAs to its executive officers and certain employees that vest in equal annual installments over five years. Unvested awards are forfeited upon the termination of an individual’s employment with the Company. Recipients of RSAs receive dividends, as declared by the Company’s Board of Directors, on unvested shares provided that the respective recipient continues to be an employee of the Company.

10. Interest Rate Hedges

In connection with the December 2003 extension of a construction note payable for Cullen Oaks, an on-campus participating property, the Predecessor entered into an interest rate swap on November 19, 2003 (effective December 15, 2003 through November 15, 2008) that was designated to hedge its exposure to fluctuations on interest payments attributed to changes in interest rates associated with payments on its advancing construction note payable. Under the terms of the interest rate swap agreement, the Company pays a fixed rate of 5.5% and receives a floating rate of LIBOR plus 1.9%. The interest rate swap had an estimated fair value of approximately $0.6 million and $0.5 million at March 31, 2006 and December 31, 2005, respectively, and is reflected in other assets in the accompanying consolidated balance sheets.

The Company does not expect to reclassify a material amount of net gains on hedge instruments from accumulated other comprehensive income to earnings in 2006. Ineffectiveness resulting from the Company's hedges is not material.

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11. Commitments and Contingencies

Commitments

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

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

The Company's estimated maximum exposure amount under the above guarantees is approximately $9.2 million

At March 31, 2006, all third party development projects were anticipated to complete on schedule and within budget. The Company has estimated the fair value of guarantees entered into or modified after December 31, 2002, the effective date of FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, to be immaterial.

In the normal course of business, the Company enters into various development-related purchase commitments with parties that provide development-related goods and services. In the event that the Company was to terminate development services prior to the completion of projects under construction, the Company could potentially be committed to satisfy outstanding purchase orders with such parties. The Company's most significant and common commitments rest with general contractors and furniture suppliers.

Contract to Acquire Development Property: The Company is under contract to acquire a $24.8 million development property in Waco, Texas. The closing of this transaction is anticipated to occur during the third quarter of 2006, upon completion of construction and lease-up, and is dependent upon this property achieving certain occupancy levels and rental rates. There can be no assurance that such conditions will be satisfied or that this acquisition will be consummated.

Contingencies

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

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

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12. Segments

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

	Three Months Ended March 31,	
	2006	2005
Owned Off-Campus Properties		
Rental revenues	$ 19,807	$ 12,692
Interest and other income	16	34
Total revenues from external customers	19,823	12,726
Operating expenses before depreciation and amortization	8,014	5,065
Interest expense	3,775	2,456
Insurance gain	-	430
Operating income before depreciation, amortization, minority interests and allocation of corporate overhead	$ 8,034	$ 5,635
Depreciation and amortization	$ 4,123	$ 2,455
Capital expenditures	$ 14,684	$ 10,792
Total segment assets at March 31,	$ 699,168	$ 396,663
On-Campus Participating Properties		
Rental revenues	$ 5,982	$ 5,493
Interest and other income	64	25
Total revenues from external customers	6,046	5,518
Operating expenses before depreciation, amortization, ground/facility lease, and allocation of corporate overhead	1,778	1,669
Ground/facility lease	192	212
Interest expense	1,587	1,347
Operating income before depreciation, amortization, minority interests and allocation of corporate overhead	$ 2,489	$ 2,290
Depreciation and amortization	$ 1,033	$ 880
Capital expenditures	$ 49	$ 3,055
Total segment assets at March 31,	$ 92,528	$ 83,423
Development Services		
Development and construction management fees from external customers	$ 1,638	$ 645
Intersegment revenues	-	92
Total revenues	1,638	737
Operating expenses	1,310	912
Operating income (loss) before depreciation, amortization, minority interests and allocation of corporate overhead	$ 328	$ (175)
Total segment assets at March 31,	$ 4,431	$ 1,406
Property Management Services		
Property management fees from external customers	$ 662	$ 710

Intersegment revenues		835		657
Total revenues		1,497		1,367
Operating expenses		640		418
Operating income before depreciation, amortization, minority interests and allocation of corporate overhead	$	857	$	949
Total segment assets at March 31,	$	1,253	$	2,051
Reconciliations				
Total segment revenues	$	29,004	$	20,348
Unallocated interest income earned on corporate cash		105		-
Elimination of intersegment revenues		(835)		(749)
Total consolidated revenues, including interest income	$	28,274	$	19,599
Segment operating income before depreciation, amortization, minority interests and allocation of corporate overhead	$	11,708	$	8,699
Depreciation and amortization		5,630		3,670
Net unallocated expenses relating to corporate overhead		2,286		2,529
Income tax provision		-		(102)
Minority interests		(128)		(87)
Income from continuing operations	$	3,664	$	2,311
Total segment assets	$	797,380	$	483,543
Unallocated corporate assets		4,536		2,944
Total assets	$	801,916	$	486,487

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-looking Statements

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

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

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

Our Company and Our Business

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

As of March 31, 2006, our property portfolio contained 38 student housing properties with approximately 22,900 beds and approximately 7,400 apartment units, consisting of 34 owned off-campus properties that are in close proximities to colleges and universities and four on-campus participating properties operated under ground/facility leases with the related university systems. These communities contain modern housing units, offer resort-style amenities and are supported by a resident assistant system and other student-oriented programming.

Through the TRS, we also provide construction management and development services for student housing properties owned by colleges and universities, charitable foundations, and others. As of March 31, 2006, we provided third party management and leasing services for 15 student housing properties (10 of which we served as the third party developer and construction manager) that represented approximately 9,000 beds in approximately 3,700 units. Third party management and leasing services are typically provided pursuant to multi-year management contracts that have initial terms that range from one to five years. As of March 31, 2006, our total owned and managed portfolio included 53 properties with approximately 31,900 beds in approximately 11,100 units.

Our development and construction management services as of March 31, 2006 consisted of seven projects under contract and currently in progress with fees ranging from $0.3 million to $3.5 million. As of March 31, 2006, fees of approximately $3.4 million remained to be earned by us with respect to these projects, which have scheduled completion dates of August 2006 through August 2008. In addition, as of March 31, 2006, we had been awarded three projects which have not yet commenced construction.

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

Acquisitions

On March 1, 2006, we completed the acquisition of a portfolio of 13 student housing properties (the "Royal Portfolio") pursuant to a contribution and sale agreement with contributors affiliated with Royal Properties for a contribution value of $244.3 million, which was paid as follows: (i) the issuance to certain partners of the contributors of approximately 2.1 million Common Units valued at $23.50 per unit and approximately 0.1 million Series A Preferred Units valued at $26.75 per unit; (ii) the assumption of $123.6 million of fixed-rate mortgage debt; and (iii) the remainder in cash and promissory notes, of which $1.9 million is currently outstanding, and is payable on February 28, 2007 together with accrued interest at 4.39% per annum. We also incurred an additional $4.6 million in closing costs and other external acquisition costs related to this acquisition.

We retained approximately $6.9 million of the contribution value, which will be utilized to satisfy indemnification obligations that may arise during a one-year survival period with any remaining amounts to be paid to the contributors upon expiration of such one-year survival period. The retained amount is composed of Common Units, Series A Preferred Units, secured promissory notes and cash.