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	$	