AFFORDABLE RESIDENTIAL COMMUNITIES INC
Form 10-Q/A
March 13, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q/A
(Amendment No. 1)

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2006

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 1-31987

Affordable Residential Communities Inc.

(Exact name of Registrant as specified in its charter)

MARYLAND	**84-1477939**
(State of incorporation)	(I.R.S. employer identification no.)
7887 East Belleview Avenue, Suite 200	**80111**
Englewood, Colorado	(Zip code)
(Address of principal executive offices)	

(303) 291-0222

(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 x No o

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

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No x

The number of shares of the Registrant s common stock outstanding at August 4, 2006 was 41,329,705.

AFFORDABLE RESIDENTIAL COMMUNITIES INC.

FORM 10-Q/A

FOR THE QUARTER ENDED JUNE 30, 2006

Explanatory Note

On March 8, 2007, the Audit Committee of the Board of Directors of Affordable Residential Communities Inc. (the Company) determined that the Company should restate its unaudited consolidated financial statements as of and for the quarterly periods ended March 31, 2006, June 30, 2006 and September 30, 2006, to correct the allocation of income taxes (intra-period tax allocation) between continuing operations and discontinued operations for the first three quarters of 2006, as more fully described below. The Company does not expect any aggregate income tax expense or benefit for the year ended December 31, 2006. The above corrections do not have an adverse impact on any covenants associated with the Company s debt facilities. As a result of the restatement, we are amending our originally filed Form 10-Q.

This amended report does not reflect events occurring after the filing of the original Form 10-Q except for the following: (1) amounts have been recast for discontinued communities; (2) in accordance with SFAS No. 128, Earnings per Share, our basic and diluted weighted average shares outstanding have been increased by a factor of approximately 1.06 to reflect the dilutive impact of our January 2007 rights offering in which ten million shares of our common stock were purchased by our stockholders at the below-market price of $8.00 per share; and (3) the items reflected in Note 14 Subsequent Events. This filing should be read in conjunction with the Company s filings with the Securities and Exchange Commission subsequent to the filing of the initial reports.

Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* (SFAS 109), requires that a company with a loss from continuing operations consider all items reported apart from continuing operations (for example extraordinary items, discontinued operations and other comprehensive income) in determining the tax benefit that results from a loss from continuing operations. In our case, because we had a loss from continuing operations and a gain from discontinued operations in each of the periods referenced above, in accordance with SFAS 109 and Emerging Issues Task Force Topic D32, *Intra-period Tax Allocation of the Tax Effect of Pre-Tax Income from Continuing Operations*, we should have considered the gain from discontinued operations in determining the amount of tax benefit to allocate to continuing operations. However, we originally determined the allocation of income taxes (intra-period allocation) between continuing and discontinued operations using a with and without methodology. That is, we did not believe that a tax benefit resulted from the loss from continuing operations because we did not believe there was an incremental benefit from the loss generated from our continuing operations. Additionally, we believed that the gain from discontinued operations did not attract a tax consequence.

In accordance with FASB Interpretation No. 18, *Accounting for Income Taxes in Interim Periods An Interpretation of APB Opinion No. 28*, the tax benefit recognized in continuing operations is calculated using an effective rate methodology and therefore will be provided for over the course of the year. The tax expense recognized in discontinued operations is recognized on a discrete basis and therefore the entire amount of tax expense is recognized at the time the pretax gain on the discontinued operations is recognized. This mismatch in the timing of the recognition of tax benefits and expense resulted in a restatement of the net loss for the quarter and six months ended June 30, 2006.

We have also updated our evaluation of disclosure controls and procedures, as reflected in Item 4. Controls and Procedures.

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AFFORDABLE RESIDENTIAL COMMUNITIES INC.
CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2006 AND DECEMBER 31, 2005
(in thousands, except share and per share data)
(unaudited)

	June 30, 2006 (as restated)	December 31, 2005
Assets		
Rental and other property, net	$ 1,417,451	$ 1,453,097
Assets held for sale	30,409	132,340
Cash and cash equivalents	32,195	27,926
Restricted cash	6,648	7,022
Tenant and other receivables, net	4,445	3,942
Notes receivable, net	32,485	33,418
Loan origination costs, net	14,972	16,164
Loan reserves	38,635	35,088
Lease intangibles and customer relationships, net	9,259	12,055
Prepaid expenses and other assets	14,040	7,429
Total assets	$ 1,600,539	$ 1,728,481
Liabilities and Stockholders Equity		
Notes payable	$ 1,063,194	$ 1,146,331
Liabilities related to assets held for sale	21,329	56,827
Accounts payable and accrued expenses	26,096	32,653
Dividends payable	1,903	1,887
Tenant deposits and other liabilities	22,640	14,786
Total liabilities	1,135,162	1,252,484
Minority interest	28,972	31,902
Commitments and contingencies		
Stockholders equity		
Preferred stock, no par value, 5,750,000 shares authorized, 5,000,000 shares issued and outstanding at June 30, 2006 and December 31, 2005, respectively; liquidation preference of $25 per share plus accrued but unpaid dividends	119,108	119,108
Common stock, $.01 par value, 100,000,000 shares authorized, 41,306,485 and 40,971,423 shares issued and outstanding at June 30, 2006 and December 31, 2005, respectively	413	410
Additional paid-in capital	793,868	791,201
Accumulated other comprehensive income		583
Retained deficit	(476,984)	(467,207)
Total stockholders equity	436,405	444,095
Total liabilities and stockholders equity	$ 1,600,539	$ 1,728,481

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

AFFORDABLE RESIDENTIAL COMMUNITIES INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2006 AND 2005
(in thousands, except per share data)
(unaudited)

	Three Months Ended June 30, 2006 (as restated)	2005	Six Months Ended June 30, 2006 (as restated)	2005
Revenue				
Rental income	$ 51,959	$ 46,834	$ 102,865	$ 93,179
Sales of manufactured homes	2,993	16,390	5,665	23,854
Utility and other income	6,270	5,063	12,747	9,991
Net consumer finance interest income	245		424	
Total revenue	61,467	68,287	121,701	127,024
Expenses				
Property operations	16,256	18,093	32,678	36,334
Real estate taxes	5,024	4,070	10,160	8,037
Cost of manufactured homes sold	2,565	14,672	4,874	22,050
Retail home sales, finance and insurance	2,830	3,544	4,728	6,884
Property management	1,586	2,366	3,178	4,513
General and administrative	4,991	6,389	9,412	11,883
Depreciation and amortization	21,775	18,762	43,386	35,057
Loss on sale of airplane			541	
Net consumer finance interest expense		204		650
Interest expense	20,006	17,036	39,587	32,724
Total expenses	75,033	85,136	148,544	158,132
Interest income	(448)	(269)	(871)	(641)
Loss from continuing operations before income tax benefit and allocation to minority interest	(13,118)	(16,580)	(25,972)	(30,467)
Income tax benefit from continuing operations	3,372		4,571	
Loss from continuing operations before allocation to minority interest	(9,746)	(16,580)	(21,401)	(30,467)
Minority interest	166	628	402	1,172
Loss from continuing operations	(9,580)	(15,952)	(20,999)	(29,295)
Income from discontinued operations	689	302	2,381	1,083
Gain (loss) on sale of discontinued operations	15,613	52	25,909	(678)
Income tax expense from discontinued operations	(6,521)		(11,316)	
Minority interest in discontinued operations	(343)	(17)	(596)	(19)
Net loss	(142)	(15,615)	(4,621)	(28,909)
Preferred stock dividend	(2,578)	(2,578)	(5,156)	(5,156)
Net loss attributable to common stockholders	$ (2,720)	$ (18,193)	$ (9,777)	$ (34,065)
Loss per share from continuing operations				
Basic loss per share	$ (0.28)	$ (0.43)	$ (0.60)	$ (0.80)
Diluted loss per share	$ (0.28)	$ (0.43)	$ (0.60)	$ (0.80)
Income per share from discontinued operations				
Basic income per share	$ 0.22	$ 0.01	$ 0.38	$ 0.01
Diluted income per share	$ 0.22	$ 0.01	$ 0.38	$ 0.01
Loss per share attributable to common stockholders				
Basic loss per share	$ (0.06)	$ (0.42)	$ (0.22)	$ (0.79)
Diluted loss per share	$ (0.06)	$ (0.42)	$ (0.22)	$ (0.79)
Weighted average share information				
Basic shares outstanding	43,696	43,257	43,632	43,249

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

AFFORDABLE RESIDENTIAL COMMUNITIES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2006 and 2005
(in thousands) (unaudited)

	Six Months Ended June 30, 2006 (as restated)	**2005**
Cash flow from operating activities		
Net income (loss)	$ (4,621)	$ (28,909)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	43,386	35,057
Intra-period income taxes	6,745	
Adjustments to fair value for interest rate caps	(436)	227
Amortization of loan origination costs	3,045	3,421
Stock grant compensation expense	98	326
Partnership preferred unit distributions declared	552	786
Minority interest	(954)	(1,958)
Depreciation and minority interest included in income from discontinued operations	801	3,801
(Gain) loss on sale of discontinued operations	(25,909)	678
Loss on sale of airplane	541	
Gain on sale of manufactured homes	(791)	(1,804)
Changes in operating assets and liabilities	(7,002)	(10,636)
Net cash provided by operating activities	15,455	989
Cash flow from investing activities		
Purchases of manufactured homes	(6,693)	(68,300)
Proceeds from community sales	123,431	48,721
Proceeds from manufactured home sales	5,428	13,014
Proceeds from sale of airplane	1,170	
Community improvements and equipment purchases	(2,055)	(32,605)
Restricted cash	374	3,609
Loan reserves	(3,547)	(4,227)
Net cash provided by (used in) investing activities	118,108	(39,788)
Cash flow from financing activities		
Proceeds from issuance of debt	30,535	155,483
Repayment of debt	(147,372)	(94,352)
Deposits on refinance transaction	(4,900)	
Payment of common dividends and OP unit distributions		(27,045)
Payment of preferred dividends	(5,156)	(5,156)
Payment of partnership preferred distributions	(552)	(786)
Repurchase of OP Units		(1,836)
Loan origination costs	(1,849)	(3,879)
Net cash (used in) provided by financing activities	(129,294)	22,429
Net increase (decrease) in cash and cash equivalents	4,269	(16,370)
Cash and cash equivalents, beginning of period	27,926	32,859
Cash and cash equivalents, end of period	$ 32,195	$ 16,489
Non-cash financing and investing transactions:		
Notes receivable for manufactured home sales	$ 3,740	$ 11,402
Fair value of OP Units redeemed for common stock	$ 3,176	$
Supplemental cash flow information:		
Cash paid for interest	$ 40,187	$ 33,931

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

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AFFORDABLE RESIDENTIAL COMMUNITIES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Business, Basis of Presentation and Summary of Significant Accounting Policies

Business

Affordable Residential Communities Inc. is a Maryland corporation that is engaged in the acquisition, renovation, repositioning and operation of primarily all-age manufactured home communities, the retail sale and financing of manufactured homes, the rental of manufactured homes and other related businesses including acting as agent in the sale of homeowners insurance and related products, all exclusively to residents in our communities. We were organized in July 1998 and operate primarily through Affordable Residential Communities LP (the Operating Partnership or OP) and its subsidiaries, of which we are the sole general partner and owned 96.5% as of June 30, 2006.

On March 30, 2006, the Company elected not to be taxed as a Real Estate Investment Trust (REIT) for the year ending December 31, 2006 primarily because, in certain circumstances, gains on sales of properties that the Company realized in 2006 could have resulted in a Federal income tax liability equal to the amount of the gain for Federal income tax purposes (a 100% tax rate) if the Company had elected to remain a REIT.

As of June 30, 2006, we owned and operated 275 communities (excluding five communities classified as discontinued operations, see Note 10) consisting of 57,240 homesites (net of 1,108 homesites classified as discontinued operations) in 23 states with occupancy of 83.5%. Our five largest markets are Dallas-Fort Worth, Texas, with 12.5% of our total homesites; Atlanta, Georgia, with 8.7% of our total homesites; Salt Lake City, Utah, with 6.6% of our total homesites; the Front Range of Colorado, with 5.7% of our total homesites; and Kansas City-Lawrence-Topeka, with 4.2% of our total homesites. We also conduct a retail home sales business.

Our common stock is traded on the New York Stock Exchange under the symbol ARC . Our Series A Cumulative Redeemable Preferred Stock is traded on the New York Stock Exchange under the symbol ARC-PA . We have no public trading history prior to February 12, 2004.

Basis of Presentation

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America and in conformity with the rules and regulations of the Securities and Exchange Commission requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amount of revenues and expenses during the reporting period. Actual results may differ from previously estimated amounts.

The interim consolidated financial statements presented herein reflect all adjustments that are necessary to fairly present the financial position, results of operations and cash flows of the Company, and all such adjustments are of a normal and recurring nature. The results of operations for the interim period ended June 30, 2006 are not necessarily indicative of the results that may be expected for the year ended December 31, 2006. The December 31, 2005 condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. These financial statements should be read in conjunction with the financial statements included in our Current Report on Form 8-K for the year ended December 31, 2005 filed on October 5, 2006.

The accompanying consolidated financial statements include all of our accounts, which include the results of operations of the manufactured home communities acquired only for the periods subsequent to the date of acquisition. We have eliminated all significant inter-company balances and transactions.

We have reclassified certain prior period amounts to conform to the current year presentation.

Summary of Significant Accounting Policies

Rental and Other Property

We carry rental property at cost, less accumulated depreciation. We capitalize significant renovations and improvements that extend the useful life of assets and depreciate them over their estimated remaining useful lives. We expense maintenance and repairs as incurred. Depreciation is computed primarily using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of the various classes of rental property assets are as follows:

Asset Class	Estimated Useful Lives (Years)
Manufactured home communities and improvements	10 to 30
Buildings	10 to 20
Rental homes	10 or rent-to-own term
Furniture and other equipment	5
Computer software and hardware	3

We evaluate the recoverability of our investment in rental property whenever events or changes in circumstances indicate that the recoverability of the net book value of the asset is questionable. Our assessment of the recoverability of rental property includes, but is not limited to, recent operating results and expected net operating cash flows from future operations. In the event that facts and circumstances indicate that the carrying amount of rental property may be impaired, we perform an evaluation of recoverability in which we compare the estimated future undiscounted cash flows associated with the asset to the asset s carrying amount to determine if an impairment adjustment is required. If this review indicates that the asset s carrying amount will not be fully recoverable, we will reduce the carrying value of the asset to its estimated fair value. We recorded no impairment charges during the six months ended June 30, 2006 and 2005.

Restricted Stock Grants

During 2004 we granted 95,000 shares of restricted common stock that vest over five years. In June 2004, 42,500 of these restricted shares were forfeited and in October 2004, an additional 37,500 shares of restricted stock were forfeited pursuant to the terms of their issuance, leaving 15,000 restricted shares outstanding. During both of the six month periods ended June 30, 2006 and 2005, 3,000 shares vested leaving 9,000 shares unvested at June 30, 2006. We have recorded the unvested portion of the remaining 9,000 outstanding restricted shares as of June 30, 2006 in additional paid-in capital and are amortizing the balance ratably over the vesting period. We recorded $14,000 and $28,000, respectively, in compensation expense related to these restricted shares during both of the three and six month periods ended June 30, 2006 and 2005. In accordance with SFAS No. 123(R) (see Recent Statements of Financial Accounting Standards below) unearned compensation continues to be amortized over the vesting period but is now included as part of additional paid-in capital on the consolidated balance sheets. We expect that there will be no forfeitures of the unvested restricted stock outstanding at June 30, 2006.

We consider the number of vested shares issued under our 2003 equity incentive plan as common stock outstanding and include them in the denominator of our calculation of basic earnings per share. We also consider the total number of unvested restricted shares granted under our 2003 equity incentive plan in the denominator of our calculation of diluted earnings per share if they are dilutive. We return shares forfeited to the 2003 equity incentive plan as shares eligible for future grant and adjust any compensation expense previously recorded on such shares in the period the forfeiture occurs.

Income Taxes

Deferred tax assets and liabilities are recorded for the estimated future tax effects of the temporary difference between the tax basis and book basis of assets and liabilities reported in the accompanying consolidated balance sheets. Deferred tax assets are reduced by a valuation allowance to the extent that their benefits are not expected to be realized. At June 30, 2006, a valuation allowance of $74.9 million was recorded to reduce deferred tax assets to the amount expected to be recoverable.

We allocate income taxes between continuing and discontinued operations in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* (SFAS No. 109), particularly paragraph 140. We recognize interim income tax benefits in continuing operations on the effective rate method and income tax expense in discontinued operations without such pro-ration in accordance with Accounting Principles Bulletin 28, *Interim Financial Reporting* (APB 28) and FASB Interpretations 18, *Accounting for Income Taxes in Interim Periods An interpretation of APB Opinion No. 28* (FIN 18).

Accumulated Other Comprehensive Income and Comprehensive Loss

Amounts recorded in accumulated other comprehensive income as of December 31, 2005 represent unrecognized gains on our interest rate swap, which qualified as a cash flow hedge and was marked to market over the life of the instrument. Including these unrecognized gains or losses, our comprehensive loss for the three and six months ended June 30, 2006 was $2.7 million and $10.4 million, respectively, compared with a comprehensive loss of $18.5 million and $34.1 million, respectively, during the same periods in 2005. Our interest rate swap agreement expired in February 2006 and was not renewed.

Recent Statements of Financial Accounting Standards

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123(R)), which is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123). SFAS No. 123(R) became effective on January 1, 2006 and we have adopted the standard using the modified prospective method. Since our only share based payments are nominal restricted stock issuance and shares issued to members of the board of directors as compensation, the implementation of SFAS No. 123(R) did not have a material impact on our financial position as of June 30, 2006 or our operations or cash flows for the three months ended June 30, 2006.

2. Restatement

On March 8, 2007, the Audit Committee of the Board of Directors of Affordable Residential Communities Inc. (the Company) determined that the Company should restate its unaudited consolidated financial statements as of and for the quarterly periods ended March 31, 2006, June 30, 2006 and September 30, 2006, to correct the allocation of income taxes (intra-period tax allocation) between continuing operations and discontinued operations for the first three quarters of 2006, as more fully described below. The Company does not expect any aggregate income tax expense or benefit for the year ended December 31, 2006. The above corrections do not have an adverse impact on any covenants associated with the Company s debt facilities.

Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* (SFAS 109), requires that a company with a loss from continuing operations consider all items reported apart from continuing operations (for example extraordinary items, discontinued operations and other comprehensive income) in determining the tax benefit that results from a loss from continuing operations. In our case, because we had a loss from continuing operations and a gain from discontinued operations in each of the periods referenced above, in accordance with SFAS 109 and Emerging Issues Task Force Topic D32, *Intra-period Tax Allocation of the Tax Effect of Pre-Tax Income from Continuing Operations*, we should have considered the gain from discontinued operations in determining the amount of tax benefit to allocate to continuing operations. However, we originally determined the allocation of income taxes (intra-period allocation) between continuing and discontinued operations using a with and without methodology. That is, we did not believe that a tax benefit resulted from the loss from continuing operations because we did not believe there was an incremental benefit from the loss generated from our continuing operations. Additionally, we believed that the gain from discontinued operations did not attract a tax consequence.

In accordance with FASB Interpretation No. 18, *Accounting for Income Taxes in Interim Periods An Interpretation of APB Opinion No. 28*, the tax benefit recognized in continuing operations is calculated using an effective rate methodology and therefore will be provided for over the course of the year. The tax expense recognized in discontinued operations is recognized on a discrete basis and therefore the entire amount of tax expense is recognized at the time the pretax gain on the discontinued operations is recognized. This mismatch in the timing of the recognition of tax benefits and expense resulted in a restatement of the net loss for the quarter and six months ended June 30, 2006.

The impact of the restatement on our consolidated balance sheet and consolidated statement of operations is outlined in the table below (dollars in thousands). This restatement did not have an impact on our cash flows from operating, investing or financing activities or periods prior to 2006. The previously reported amounts have been recast for discontinued communities. However, the associated amounts were not separately reflected as they were considered immaterial to the presentation. Intra-period taxes are included in tenant deposits and other liabilities. In accordance with SFAS No. 128, Earnings per Share, our basic and diluted weighted average shares outstanding have been increased by a factor of approximately 1.06 to reflect the dilutive impact of our January 2007 rights offering in which ten million shares of our common stock were purchased by our stockholders at the below-market price of $8.00 per share.

	As of June 30, 2006 Previously Reported	As Restated
Consolidated Balance Sheet		
Tenant deposits and other liabilities	$ 16,340	$ 22,640
Total liabilities	$ 1,128,862	$ 1,135,162
Minority interest	$ 29,195	$ 28,972
Retained deficit	$ (470,907)	$ (476,984)
Total stockholders equity	$ 442,482	$ 436,405
Total liabilities and stockholders equity	$ 1,600,539	$ 1,600,539

Consolidated Statement of Operations	Three Months Ended June 30, 2006 Previously Reported	Three Months Ended June 30, 2006 As Restated	Six Months Ended June 30, 2006 Previously Reported	Six Months Ended June 30, 2006 As Restated
Loss from continuing operations before income tax benefit and allocation to minority interest	$ (13,118)	$ (13,118)	$ (25,972)	$ (25,972)
Income tax benefit from continuing operations		3,372		4,571
Loss before allocation to minority interest	(13,118)	(9,746)	(25,972)	(21,401)
Minority interest	284	166	562	402
Loss from continuing operations	(12,834)	(9,580)	(25,410)	(20,999)
Income from discontinued operations	689	689	2,381	2,381
Gain on sale of discontinued operations	15,613	15,613	25,909	25,909
Income tax expense from discontinued operations	(74)	(6,521)	(445)	(11,316)
Minority interest in discontinued operations	(569)	(343)	(979)	(596)
Net loss	2,825	(142)	1,456	(4,621)
Preferred stock dividend	(2,578)	(2,578)	(5,156)	(5,156)
Net loss attributable to common stockholders	$ 247	$ (2,720)	$ (3,700)	$ (9,777)
Loss per share from continuing operations				
Basic loss per share	$ (0.35)	$ (0.28)	$ (0.70)	$ (0.60)
Diluted loss per share	$ (0.35)	$ (0.28)	$ (0.70)	$ (0.60)
Income per share from discontinued operations				
Basic income per share	$ 0.36	$ 0.22	$ 0.62	$ 0.38
Diluted income per share	$ 0.36	$ 0.22	$ 0.62	$ 0.38
Loss per share attributable to common stockholders				
Basic loss per share	$ 0.01	$ (0.06)	$ (0.08)	$ (0.22)
Diluted loss per share	$ 0.01	$ (0.06)	$ (0.08)	$ (0.22)
Weighted average common shares outstanding	43,696	43,696	43,632	43,632

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3. Common Stock, Preferred Stock and Minority Interest Related Transactions

On March 2, 2006, the board of directors declared a quarterly cash dividend of $0.515625 per share for its Series A Cumulative Redeemable Preferred Stock, and $0.39 per unit on the Series C Preferred Operating Partnership Units of Affordable Residential Communities LP. The dividends were paid on April 28, 2006 to shareholders of record on April 14, 2006. On June 8, 2006, the board of directors declared a quarterly cash dividend of $0.515625 per share for its Series A Cumulative Redeemable Preferred Stock, and $0.39 per unit on the Series C Preferred Operating Partnership Units of Affordable Residential Communities LP. The dividends were paid on July 28, 2006 to shareholders of record on July 14, 2006. The Board reviews the payment of dividends on a quarterly basis.

At June 30, 2006, minority interest consisted of 1,503,093 OP Units that were issued to various limited partners and 705,688 preferred partnership units (PPUs) issued on June 30, 2004 as part of the D.A.M. portfolio acquisition. Each OP Unit outstanding is paired with 1.9268 shares of our special voting stock (each a Paired Equity Unit) that allows each holder to vote an OP Unit on matters as if it were a common share of our stock. Each OP Unit is redeemable for cash, or at our election, convertible into one share of our common stock. During the three and six months ended June 30, 2006, we converted approximately 14,000 and 328,000 OP Units, respectively, for an equal number of shares of our common stock valued at $141,400 and $3.2 million, respectively.

The PPUs outstanding as of June 30, 2006 consist of 705,688 Series C units. The Series C PPUs carry a liquidation preference of $25 per unit and earn cash distributions at the rate of 6.25% per annum, payable quarterly. The Series C PPUs can be redeemed at the option of the Operating Partnership for cash after the fifth anniversary of their issuance. Series C PPU holders can request redemption of their units after the two and a half year anniversary of issuance, at which time the Operating Partnership must redeem the PPUs or repurchase them with common stock, cash and/or a note payable, at the Operating Partnership s option. As of June 30, 2006, we had accrued $183,773 of the Series C PPU preferred distribution, representing the portion of the preferred distribution earned by Series C preferred unitholders through that date.

We have recorded an equity transfer adjustment between additional paid-in capital and the minority interest in our consolidated balance sheet as of June 30, 2006 to account for changes in the respective ownership in the underlying equity of the Operating Partnership.

The following summarizes the activity of the minority interest in the Operating Partnership (in thousands):

	(as restated)
Minority interest at December 31, 2005	$ 31,902
Minority interest allocation	194
Transfer from stockholders equity	604
Redemption of OP Units.	(3,176)
Distributions to PPU holders	(552)
Minority interest at June 30, 2006	$ 28,972

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4. Rental and Other Property, Net

The following summarizes rental and other property (in thousands):

	June 30, 2006	December 31, 2005
Land	$ 194,306	$ 194,331
Improvements to land and buildings	1,190,153	1,190,102
Rental homes and improvements	262,850	261,164
Furniture, equipment and vehicles	13,576	16,041
Subtotal	1,660,885	1,661,638
Less accumulated depreciation:		
On improvements to land and buildings	(186,331)	(164,186)
On rental homes and improvements	(50,052)	(37,077)
On furniture, equipment and vehicles	(7,051)	(7,278)
Rental and other property, net	$ 1,417,451	$ 1,453,097

5. Notes Payable

The following table sets forth certain information regarding our notes payable (in thousands):

	June 30, 2006	December 31, 2005
Senior fixed rate mortgage due 2009, 5.05% per annum	$ 87,237	$ 89,512
Senior fixed rate mortgage due 2012, 7.35% per annum	279,761	286,433
Senior fixed rate mortgage due 2014, 5.53% per annum	194,169	196,270
Senior variable rate mortgage due 2007, one-month LIBOR plus 3.00% per annum (8.33% at June 30, 2006)	116,757	126,297
Various individual fixed rate mortgages due 2006 through 2031, averaging 7.23% per annum at June 30, 2006	135,239	150,104
Revolving credit mortgage facility due 2006, one-month LIBOR plus 2.75% per annum (8.08% at June 30, 2006)	58,764	58,764
Floorplan line of credit due 2007, ranging from prime plus 0.75% to prime plus 4.00% per annum (9.00% at June 30, 2006)	4,513	14,188
Trust preferred securities due 2035, three-month LIBOR plus 3.25% per annum (8.73% at June 30, 2006)	25,780	25,780
Consumer finance facility due 2008, one-month LIBOR plus 3.00% per annum (8.33% at June 30, 2006)	19,345	18,607
Lease receivable facility due 2008, one-month LIBOR plus 4.125% per annum (9.46% at June 30, 2006)	41,300	77,500
Senior exchangeable notes due 2025, 7.50% per annum	96,600	96,600
D.A.M. PPU notes payable due 2006, 7.00% per annum	2,499	4,999
Other loans	1,230	1,277
	$ 1,063,194	$ 1,146,331

Senior Fixed Rate Mortgage Due 2009

The Senior Fixed Rate Mortgage due 2009 is an obligation of certain real property subsidiaries of the Operating Partnership and is collateralized by 26 manufactured home communities owned by these subsidiaries. The Senior Fixed Rate Mortgage due 2009 bears interest at a fixed rate of 5.05%, is being amortized based on a 30-year amortization schedule and matures on March 1, 2009. Pursuant to the terms of the mortgage agreement, we have established reserves relating to the mortgaged properties for real estate taxes, insurance, capital spending and property operating expenditures. The Senior Fixed Rate Mortgage due 2009 contains customary defeasance-based prepayment penalties for repayments made prior to maturity.

Senior Fixed Rate Mortgage Due 2012

The Senior Fixed Rate Mortgage due 2012 is an obligation of certain of our special purpose real property subsidiaries and is collateralized by 98 manufactured home communities. The Senior Fixed Rate Mortgage due 2012 bears interest at a fixed rate of 7.35% per annum, is amortized based on a 30-year schedule and matures on May 1, 2012. Pursuant to the terms of the mortgage agreement, we have established reserves relating to the mortgaged properties for real estate taxes, insurance, capital spending and property operating expenditures. The Senior Fixed Rate Mortgage due 2012 contains customary defeasance-based prepayment penalties for repayments made prior to maturity.

Senior Fixed Rate Mortgage Due 2014

The Senior Fixed Rate Mortgage due 2014 is an obligation of certain real property subsidiaries of the Operating Partnership and is collateralized by 43 manufactured home communities owned by these subsidiaries. The Senior Fixed Rate Mortgage due 2014 bears interest at a fixed rate of 5.53% per annum, is amortized based on a 30-year schedule and matures on March 1, 2014. Pursuant to the terms of the mortgage agreement, we have established reserves relating to the mortgaged properties for real estate taxes, insurance, capital spending and property operating expenditures. The Senior Fixed Rate Mortgage due 2014 contains customary defeasance-based prepayment penalties for repayments made prior to maturity.

Senior Variable Rate Mortgage Due 2007

In February 2006, we extended the maturity of our Senior Variable Rate Mortgage to February 2007 in accordance with the terms of the mortgage. On July 11, 2006, we entered into a $230 million mortgage debt facility. Approximately $117 million of the proceeds were used to repay our Senior Variable Rate Mortgage. The Loan Agreement is comprised of two components (collectively, the Loan): a $170 million 10-year fixed rate mortgage debt component and a $60 million 3-year floating rate mortgage debt component with two one-year (no-fee) extension options. The fixed rate component bears interest at 6.239% and requires interest-only payments for the term of the loan. The floating rate component is adjusted monthly, bears interest at one-month LIBOR plus 80 basis points and requires interest-only payments for the term of the loan.

Various Individual Fixed Rate Mortgages

We have assumed various individual fixed rate mortgages in connection with the acquisition of various properties that were encumbered at the time of acquisition as follows:

a) Mortgages assumed as part of individual property purchases. These notes total approximately $39.8 million at June 30, 2006, mature from 2006 ($5.2 million in 2006) through 2028 and have an average effective interest rate of 7.46%. These mortgages are secured by 13 specific manufactured home communities.

b) Mortgages assumed in conjunction with the Hometown acquisition. These notes total approximately $67.8 million, mature from 2008 through 2031 and carry an average effective interest rate of 7.12%. These mortgages are secured by 12 specific manufactured home communities and subject to early pre-payment penalties, the terms of which vary from mortgage to mortgage.

c) Notes assumed in conjunction with the D.A.M. portfolio purchase. These notes total approximately $27.6 million, mature in 2008 and carry an average effective annual interest rate of 7.18%. These mortgages are secured by 24 specific manufactured home communities.

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Revolving Credit Mortgage Facility

On July 11, 2006, we entered into a $230 million mortgage debt facility. Approximately $59 million of the proceeds were used to repay our Revolving Credit Mortgage Facility. The Loan Agreement is comprised of two components (collectively, the Loan): a $170 million 10-year fixed rate mortgage debt component and a $60 million 3-year floating rate mortgage debt component with two one-year (no-fee) extension options. The fixed rate component bears interest at 6.239% and requires interest-only payments for the term of the loan. The floating rate component is adjusted monthly, bears interest at one-month LIBOR plus 80 basis points and requires interest-only payments for the term of the loan.

Floorplan Lines of Credit

Our floorplan line of credit provides for borrowings of up to $35.0 million, secured by manufactured homes in inventory. Under the lines of credit, the lender will advance 75% of the cost of manufactured homes. Repayments of borrowed amounts are due upon sale or lease of the related manufactured home. Advances under the lines of credit bear interest ranging from the prime rate plus 0.75% to the prime rate plus 4.00% (averaging 9.00% at June 30, 2006) based on the length of time each advance has been outstanding. Monthly curtailment payments are required for unsold homes beginning 360 days following the purchase of the home. The required curtailment payment will be between 3.00% and 5.00% of the home s original invoice amount depending on the type of home and the number of months since the home s purchase. The lines of credit require us to maintain a minimum tangible net worth, a maximum debt to tangible net worth ratio of 3 to 1, and minimum cash and cash equivalents of $15.0 million, all as defined in the agreement. The minimum tangible net worth required is $425.0 million through December 31, 2006, and $385.0 million from January 1, 2007 through September 13, 2007, the due date of the line. We are in compliance with all financial covenants of the line of credit as of June 30, 2006. The line of credit is subject to an annual commitment fee of $250,000, an unused line fee of .25% per annum and a termination fee of 1.00% to 3.00%, based on the termination date.

Trust Preferred Securities Due 2035

On March 15, 2005, the Company issued $25.8 million in unsecured trust preferred securities. The $25.8 million trust preferred securities bear interest at three-month LIBOR plus 3.25% (8.73% at June 30, 2006). Interest on the securities is paid on the 30th of March, June, September and December of each year. The Company may redeem these securities on or after March 30, 2010 in whole or in part at principal amount plus accrued interest. The securities are mandatorily redeemable on March 15, 2035 if not redeemed sooner.

Consumer Finance Facility

The Consumer Finance Facility has a total commitment of $125.0 million and a term of four years. This facility is an obligation of a subsidiary of our Operating Partnership, and borrowings under this facility are secured by manufactured housing conditional sales contracts. Borrowings under the facility are limited by specified borrowing base requirements related to the value of the collateral securing the facility ($19.3 million as of June 30, 2006). The facility bears interest at a variable rate based upon a spread of 3.00% over the one-month LIBOR (8.33% at June 30, 2006). During the quarter, we paid a commitment fee of 1.00% on the original committed amount and 0.75% of the amended committed amount and will pay additional annual commitment fees payable on each anniversary of the closing. Advances under the facility are subject to a number of conditions, including certain underwriting and credit screening guidelines and the conditions that the home must be located in one of our communities, the loan term may not exceed 12 years for a single-section home or 15 years for a multi-section home and the loan amount shall not exceed 90% of the value of the home securing the conditional sales contract.

The line of credit requires the Operating Partnership to maintain a minimum tangible net worth, a maximum debt to tangible net worth ratio of 3 to 1, and minimum cash and cash equivalents of $15.0 million, all as defined in the agreement. The minimum tangible net worth required is $425.0 million through December 31, 2006, $385.0 million from January 1, 2007 through December 31, 2007, and $355.0 million from January 1, 2008 through September 30, 2008. We were in compliance as of June 30, 2006 with all financial covenants under the line of credit.

The availability of advances under the Consumer Finance Facility is subject to certain conditions that are beyond our control. Conditions that could result in our inability to draw on these facilities include a downgrade in the credit rating of the lender and the absence of certain markets for financing debt obligations secured by securities or mortgage loans. Funding under this facility may also be denied if the lender determines that the value of the assets serving as collateral would be insufficient to maintain the required 75% loan-to-value ratio upon giving effect to a request for funding. The lender can also at any time require that we prepay amounts funded or provide additional collateral if, in its judgment, this is necessary to maintain the 75% loan-to-value ratio.

Lease Receivables Facility

The Company has a $150.0 million secured revolving credit facility (the Lease Receivables Facility) which we use to finance the purchase of manufactured homes and for general corporate purposes. Pursuant to the agreement, borrowings are limited to approximately 65% of the net book value of the eligible manufactured housing units owned by two of our indirect wholly owned subsidiaries, ARC Housing LLC and ARC HousingTX LP (collectively, Housing) and located in ARC s communities, subject to certain other applicable borrowing base requirements. The facility bears interest at a variable rate based on a spread of 4.125% over the one-month LIBOR (9.46% at June 30, 2006). The facility matures September 30, 2008.

The line of credit requires the Operating Partnership to maintain a minimum tangible net worth, a maximum debt to tangible net worth ratio of 3 to 1, and minimum cash and cash equivalents of $15.0 million, all as defined in the agreement. The minimum tangible net worth required is $425.0 million through December 31, 2006, $385.0 million from January 1, 2007 through December 31, 2007, and $355.0 million from January 1, 2008 through September 30, 2008. We were in compliance as of June 30, 2006 with all financial covenants under the amended line of credit. Borrowings under the Lease Receivables Facility are secured by an assignment of all lease receivables and rents, an assignment of the underlying manufactured homes and a pledge by ARCHC LLC and ARC Housing GP LLC of 100% of the outstanding equity in Housing. Interest is payable monthly.

Senior Exchangeable Notes Due 2025

In August 2005, our Operating Partnership issued $96.6 million aggregate principal amount of 7.50% senior exchangeable notes due 2025 to qualified institutional buyers in a private transaction. The notes are senior unsecured obligations of the OP and are exchangeable, at the option of the holders, into shares of ARC common stock at an initial exchange rate of 69.8812 shares per $1,000 principal amount of the notes (equal to an initial exchange price of approximately $14.31 per share), subject to adjustment and, in the event of specified corporate transactions involving ARC or the OP, an additional make-whole premium. Upon exchange, the OP shall have the option to deliver, in lieu of shares of ARC common stock, cash or a combination of cash and shares of ARC common stock.

Prior to August 20, 2010, the notes are not redeemable at the option of the OP. After August 20, 2010, the OP may redeem all or a portion of the notes at a redemption price equal to the principal amount plus accrued and unpaid interest, if any, on the notes, if the closing price of ARC common stock has exceeded 130% of the exchange price for at least 20 trading days in any consecutive 30-trading day period.

Holders of the notes may require the OP to repurchase all or a portion of the notes at a purchase price equal to the principal amount plus accrued and unpaid interest, if any, on the notes on each of August 15, 2010, August 15, 2015, and August 15, 2020, or after the occurrence of certain corporate transactions involving ARC or the OP.

In connection with the sale and issuance of the notes, ARC is required to maintain the effectiveness of a registration rights agreement with the SEC with respect to the notes after February 5, 2006 (or 180 days following the issuance of the notes) or pay liquidated damages to the holders of the notes for each day following the date of ineffectiveness equal to an annual rate of 0.25% of the principal amount of the notes for the first 90 days following the ineffectiveness and 0.50% thereafter. ARC obtained the initial declaration of effectiveness of the registration statement on May 8, 2006 and incurred liquidated damages of $64,400 reflected in interest expense.

We have determined that, subsequent to the initial declaration of effectiveness of the registration statement, it is unlikely that events will occur that could trigger the payment of any additional liquidated damages and, accordingly, have assigned a nominal value to the liquidated damages provision.

In August 2005, our Operating Partnership issued $96.6 million aggregate principal amount of 7.50% senior exchar

D.A.M. PPU Notes Payable Due 2006

According to the terms of our Series B PPUs, in July 2005 the Series B PPU holders requested redemption of their units, and the Operating Partnership elected to repurchase them for approximately $2.5 million in cash and notes payable totaling approximately $5.0 million. A principal payment of approximately $2.5 million plus interest accrued at 7.00% was made on January 18, 2006 and the final payment of approximately $2.5 million plus interest accrued was made on July 18, 2006.

6. Income (loss) per share

In accordance with SFAS No. 128, Earnings per Share, our basic and diluted weighted average shares outstanding have been increased by a factor of approximately 1.06 to reflect the impact of our January 2007 rights offering in which ten million shares of our common stock were purchased by our stockholders at the below-market price of $8.00 per share. The following reflects the calculation of income (loss) per share on a basic and diluted basis (in thousands, except per share information):

	Three Months Ended June 30, 2006 (as restated)	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006 (as restated)	Six Months Ended June 30, 2005
Loss per share from continuing operations:				
Loss from continuing operations	$ (9,580)	$ (15,952)	$ (20,999)	$ (29,295)
Preferred stock dividends	(2,578)	(2,578)	(5,156)	(5,156)
Net loss from continuing operations	$ (12,158)	$ (18,530)	$ (26,155)	$ (34,451)
Weighted average common shares outstanding	43,696	43,257	43,632	43,249
Basic loss per share from continuing operations	$ (0.28)	$ (0.43)	$ (0.60)	$ (0.80)
Diluted loss per share from continuing operations	$ (0.28)	$ (0.43)	$ (0.60)	$ (0.80)
Income per share from discontinued operations:				
Income from discontinued operations	$ 689	$ 302	$ 2,381	$ 1,083
Gain (loss) on sale of discontinued operations	15,613	52	25,909	(678)
Income tax expense from discontinued operations	(6,521)		(11,316)	
Minority interest in discontinued operations	(343)	(17)	(596)	(19)
Net income from discontinued operations	$ 9,438	$ 337	$ 16,378	$ 386
Basic income per share from discontinued operations	$ 0.22	$ 0.01	$ 0.38	$ 0.01
Diluted income per share from discontinued operations	$ 0.22	$ 0.01	$ 0.38	$ 0.01
Loss per share available to common stockholders:				
Net loss available to common stockholders	$ (2,720)	$ (18,193)	$ (9,777)	$ (34,065)
Basic loss per share to common stockholders	$ (0.06)	$ (0.42)	$ (0.22)	$ (0.79)
Diluted loss per share to common stockholders	$ (0.06)	$ (0.42)	$ (0.22)	$ (0.79)
Equivalent shares utilized for diluted loss per share calculationexcept when anti-dilutive:				
Operating partnership units (a)	1,600	2,522	1,656	2,532
Preferred partnership units (b)	1,737	1,993	1,737	1,993
Restricted stock	10	40	10	35
Total	3,347	4,555	3,403	4,560

(a) From June 30, 2005 through June 30, 2006, we redeemed approximately 755,000 OP units.

(b) In July 2005, we redeemed all of the Series B PPUs (see our Form 8-K for the year ended December 31, 2005 filed on October 5, 2006).

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7. Property Operations Expense

During the three and six months ended June 30, 2006 and 2005, we incurred property operations expense as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Utilities and telephone	$ 7,062	$ 6,260	$ 14,202	$ 13,303
Salaries and benefits	4,893	6,300	9,863	11,787
Repairs and maintenance	2,155	2,485	3,978	4,900
Insurance	819	974	1,681	1,891
Bad debt expense	293	485	693	1,179
Professional services	298	340	609	683
Office supplies	151	290	311	549
Advertising	26	76	52	238
Other operating expense	559	883	1,289	1,804
	$ 16,256	$ 18,093	$ 32,678	$ 36,334

8. Retail Home Sales, Finance and Insurance Expense

During the three and six months ended June 30, 2006 and 2005, we incurred retail home sales, finance and insurance expense as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Salaries and benefits	$ 1,837	$ 1,547	3,079	3,080
Travel	117	213	166	358
Insurance	47	86	98	166
Bad debt expense	16	280	25	309
Professional services	195	244	428	399
Advertising	297	825	465	1,937
Other operating expense	321	349	467	635
	$ 2,830	$ 3,544	$ 4,728	$ 6,884

9. General and Administrative Expense

During the three and six months ended June 30, 2006 and 2005, we incurred general and administrative expense as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Salaries and benefits	$ 2,866	$ 3,627	$ 5,609	$ 6,840
Travel	188	362	321	802
Professional services	880	1,219	1,511	2,209
Telephone	134	106	199	205
Office supplies	108	129	224	250
Insurance	309	349	566	466
Rent	136	59	200	128
Other administrative expense	370	538	782	983
	$ 4,991	$ 6,389	$ 9,412	$ 11,883

10. Discontinued Operations

As of December 31, 2005, we held 41 communities as discontinued operations. As of June 30, 2006, we had closed sales for 36 of these communities, comprising $77.0 million of cash proceeds net of related debt, defeasance and other closing costs of $59.6 million. Subsequent to June 30, 2006, we closed an additional four communities for $8.4 million of cash proceeds net of related debt, defeasance and other closing costs of $15.4 million. We expect to close the remaining sales transaction in 2007. There can be no assurance, however, that the Company will close the remaining community sale, or, if it closes, that it will close on the terms set forth in its contract.

In accordance with the provisions of Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-lived Assets, each of the communities designated as held for sale and not sold have been classified as discontinued operations as of June 30, 2006 and December 31, 2005. We have included $30.4 million and $132.3 million of assets related to these communities as assets held for sale in the accompanying consolidated balance sheets as of June 30, 2006 and December 31, 2005, respectively, and $21.3 million and $56.8 million, respectively, of mortgage notes payable and other obligations related to these communities as liabilities related to assets held for sale. In addition, we have recast the operations of each of these communities as discontinued operations in the accompanying statements of operations for the three and six months ended June 30, 2006 and 2005. In connection with sales of our discontinued operations, we recorded gains of $15.6 million and $25.9 million, respectively, in the three and six months ended June 30, 2006, and a loss of $0.7 million in the six months ended June 30, 2005.

The following table summarizes combined balance sheet and income statement information for the discontinued operations noted above (in thousands):

	June 30, 2006	December 31, 2005
Assets Held for Sale		
Rental and other property, net	$ 29,154	$ 131,768
Tenant, notes and other receivables, net	44	665
Loan origination costs	288	752
Goodwill	1,398	6,481
Lease intangibles and customer relationships, net	204	1,110
Prepaid expenses and other assets	262	414
Reserve for loss on sales of communities	(941)	(8,850)
	$ 30,409	$ 132,340
Liabilities Related to Assets Held for Sale		
Notes payable	$ 20,708	$ 54,859
Accounts payable and accrued expenses	360	618
Tenant deposits and other liabilities	261	1,350
	$ 21,329	$ 56,827

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Statement of Operations				
Revenue	$ 2,761	$ 7,294	$ 8,201	$ 14,847
Operating expenses	(2,072)	(6,992)	(5,820)	(13,764)
Income from discontinued operations	$ 689	$ 302	$ 2,381	$ 1,083

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11. Commitments and Contingencies

In the normal course of business, from time to time we are involved in legal actions relating to the ownership and operations of our properties. In our opinion, the liabilities, if any, which may ultimately result from such legal actions, will not have a material adverse effect on our financial position, results of operations or cash flows. In the normal course of business, from time to time we incur environmental obligations relating to the ownership and operation of our properties. In our opinion, the liabilities, if any, which may ultimately result from such environmental obligations, will not have a material adverse effect on our financial position, results of operations or cash flows.

12. Segment Information

We operate in three business segments real estate, retail home sales, and finance and insurance. A summary of our business segment information is shown below (in thousands):

	Three Months Ended June 30, 2006 (as restated)	2005	Six Months Ended June 30, 2006 (as restated)	2005
Total revenue				
Real estate	$ 58,139	$ 51,636	$ 115,336	$ 102,808
Retail home sales	2,993	16,394	5,681	23,859
Finance and insurance	335	257	684	357
	61,467	68,287	121,701	127,024
Operating expenses, cost of manufactured homes sold and real estate taxes				
Real estate	21,280	22,163	42,838	44,371
Retail home sales	4,743	17,243	8,240	27,571
Finance and insurance	652	973	1,362	1,363
	26,675	40,379	52,440	73,305
Net segment income (a)				
Real estate	36,859	29,473	72,498	58,437
Retail home sales	(1,750)	(849)	(2,559)	(3,712)
Finance and insurance	(317)	(716)	(678)	(1,006)
	34,792	27,908	69,261	53,719
Property management expense	1,586	2,366	3,178	4,513
General and administrative expense	4,991	6,389	9,412	11,883
Interest expense				
Real estate	16,575	13,963	33,340	27,404
Retail home sales	145	630	417	991
Corporate and other	3,286	2,443	5,830	4,329
	20,006	17,036	39,587	32,724
Amortization expense	1,401	1,234	2,796	2,768
Depreciation expense				
Real estate	20,305	17,403	40,423	32,039
Retail home sales	20	9	20	15
Finance and insurance		2	1	3
Corporate and other	49	114	146	232
	20,374	17,528	40,590	32,289

(a) Net segment income represents total revenues less expenses for property operations, real estate taxes, cost of manufactured homes sold and retail home sales, finance, insurance and other operations. Net segment income is a measure of the performance of the properties before the effects of the following expenses: property management, general and administrative, depreciation, amortization, interest expense and the effect of discontinued operations.

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	Three Months Ended June 30, 2006 (as restated)	2005	Six Months Ended June 30, 2006 (as restated)	2005
Loss on sale of airplane			541	
Net consumer finance interest expense		204		650
Interest income	(448)	(269)	(871)	(641)
Loss from continuing operations before income tax benefit and allocation to minority interest	(13,118)	(16,580)	(25,972)	(30,467)
Income tax benefit from continuing operations	3,372		4,571	
Loss from continuing operations before minority interest	(9,746)	(16,580)	(21,401)	(30,467)
Minority interest	166	628	402	1,172
Loss from continuing operations	(9,580)	(15,952)	(20,999)	(29,295)
Income from discontinued operations	689	302	2,381	1,083
Gain (loss) on sale of discontinued operations	15,613	52	25,909	(678)
Income tax expense from discontinued operations	(6,521)		(11,316)	
Minority interest in discontinued operations	(343)	(17)	(596)	(19)
Net loss	(142)	(15,615)	(4,621)	(28,909)
Preferred stock dividend	(2,578)	(2,578)	(5,156)	(5,156)
Net loss attributable to common stockholders	$ (2,720)	$ (18,193)	$ (9,777)	$ (34,065)

	June 30, 2006	December 31, 2005
Identifiable assets		
Real estate	$ 1,534,695	$ 1,642,214
Retail home sales	14,083	28,843
Finance and insurance	27,752	27,689
Corporate and other	24,009	29,735
	$ 1,600,539	$ 1,728,481
Notes payable		
Real estate	$ 913,228	$ 984,881
Retail home sales	4,513	14,188
Finance and insurance	19,345	18,607
Corporate and other	126,108	128,655
	$ 1,063,194	$ 1,146,331

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13. Income Taxes

At June 30, 2006, the Company has net operating loss carry-forwards for Federal income tax purposes, subject to certain limitations, of approximately $348 million and $332 million for regular income tax and alternative minimum tax, respectively. These net operating loss carry-forwards expire in 2018 through 2025. Losses from continuing operations during the quarter and six months only partially offset the regular taxable earnings from discontinued operations for the quarter and six months ending June 30, 2006 due to the allocation of intra-period taxes as discussed below. The net operating loss carry-forwards for alternative minimum Federal income taxes generally are limited to offsetting 90% of the alternative minimum taxable earnings for a given period.

Based on our estimated composite Federal and state tax rate of 40%, we recorded as of June 30, 2006, a deferred tax asset of approximately $148.5 million less a valuation allowance reserve of approximately $74.3 million and deferred tax liabilities of approximately $74.2 million. We could experience circumstances in the future that result in a non-cash income tax benefit based on the timing of recognition of the tax benefit of our operating losses carried forward from prior years. Under current IRS rules, we can elect to return to REIT status after five years. There can be no assurances that the tax laws and regulations will not change or that we will change our REIT election status in five years.

The Company does not expect to have aggregate income tax benefits or expense for the year ended December 31, 2006. We allocate income taxes between continuing and discontinued operations in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* (SFAS No. 109), particularly paragraph 140. We recognize income tax benefits in continuing operations on the effective rate method and income tax expense in discontinued operations without such pro-ration in accordance with Accounting Principles Bulletin 28, *Interim Financial Reporting* (APB 28) and FASB Interpretations 18, *Accounting for Income Taxes in Interim Periods An interpretation of APB Opinion No. 28* (FIN 18).

The following is a detail of the significant components of the provision for income taxes and a reconciliation of the provision for income taxes to the amount that would be computed by applying the statutory Federal income tax rate of 35% to income before income taxes for the three and six months ended June 30, 2006 (in thousands):

	Three Months Ended June 30, 2006		
	Continuing Operations (as restated)	**Discontinued Operations (as restated)**	**Total (as restated)**
Current tax expense	$	$	$
Deferred tax expense			
Intra-period tax benefit (expense)	3,372	(6,521)	(3,149)
Provision for income taxes	$ 3,372	$ (6,521)	$ (3,149)
Tax at statutory rate	$ 4,492	$ (5,506)	$ (1,014)
Permanent differences	107	(228)	(121)
State taxes	642	(787)	(145)
Intra-period tax limitation	(3,075)		(3,075)
Decrease in valuation allowance	1,206		1,206
Provision for income taxes	$ 3,372	$ (6,521)	$ (3,149)

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	Six Months Ended June 30, 2006 Continuing Operations (as restated)	Discontinued Operations (as restated)	Total (as restated)
Current tax expense	$	$	$
Deferred tax expense			
Intra-period tax benefit (expense)	4,571	(11,316)	(6,745)
Provision for income taxes			