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 September 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	
Englewood, Colorado	**80111**
(Address of principal executive offices)	(Zip code)

(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 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 Act). Yes o No x

The number of shares of the Registrant s common stock outstanding at November 3, 2006 was 41,318,618.

AFFORDABLE RESIDENTIAL COMMUNITIES INC.

FORM 10-Q/A

FOR THE QUARTER ENDED SEPTEMBER 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 nine months ended September 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 SEPTEMBER 30, 2006 AND DECEMBER 31, 2005

(in thousands, except share and per share data)

(unaudited)

	September 30, 2006 (as restated)	December 31, 2005
Assets		
Rental and other property, net	$ 1,401,896	$ 1,453,097
Assets held for sale	16,600	132,340
Cash and cash equivalents	31,109	27,926
Restricted cash	6,782	7,022
Tenant and other receivables, net	4,478	3,942
Notes receivable, net	31,266	33,418
Loan origination costs, net	17,825	16,164
Loan reserves	34,906	35,088
Lease intangibles and customer relationships, net	7,858	12,055
Prepaid expenses and other assets	8,763	7,429
Total assets	$ 1,561,483	$ 1,728,481
Liabilities and Stockholders Equity		
Notes payable	$ 1,053,373	$ 1,146,331
Liabilities related to assets held for sale	953	56,827
Accounts payable and accrued expenses	26,542	32,653
Dividends payable	1,903	1,887
Tenant deposits and other liabilities	21,023	14,786
Total liabilities	1,103,794	1,252,484
Minority interest	28,553	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 September 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, 41,329,705 and 40,971,423 shares issued and outstanding at September 30, 2006 and December 31, 2005, respectively	413	410
Additional paid-in capital	794,449	791,201
Accumulated other comprehensive income		583
Retained deficit	(484,834)	(467,207)
Total stockholders equity	429,136	444,095
Total liabilities and stockholders equity	$ 1,561,483	$ 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 NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005

(in thousands, except per share data)

(unaudited)

	Three Months Ended September 30, 2006 (as restated)	2005	Nine Months Ended September 30, 2006 (as restated)	2005
Revenue				
Rental income	$ 52,027	$ 48,547	$ 154,892	$ 141,727
Sales of manufactured homes	1,916	10,745	7,581	34,599
Utility and other income	6,552	5,915	19,299	15,906
Net consumer finance interest income	558		982	
Total revenue	61,053	65,207	182,754	192,232
Expenses				
Property operations	18,805	20,504	51,483	56,838
Real estate taxes	4,814	3,938	14,974	11,975
Cost of manufactured homes sold	1,502	10,123	6,376	32,173
Retail home sales, finance and insurance	2,202	6,806	6,930	13,690
Property management	1,549	3,030	4,727	7,541
General and administrative	4,974	7,334	14,386	19,217
Early termination of debt	556		556	
Depreciation and amortization	21,131	19,602	64,517	54,660
Real estate and retail home asset impairment		23,158		23,158
Goodwill impairment		74,793		74,793
Loss on sale of airplane			541	
Net consumer finance interest expense		19		669
Interest expense	18,731	19,568	58,318	52,292
Total expenses	74,264	188,875	222,808	347,006
Interest income	(255)	(743)	(1,126)	(1,384)
Loss from continuing operations before income tax benefit and allocation to minority interest	(12,956)	(122,925)	(38,928)	(153,390)
Income tax benefit from continuing operations	4,472		9,043	
Loss from continuing operations before allocation to minority interest	(8,484)	(122,925)	(29,885)	(153,390)
Minority interest	27	5,106	429	6,277
Loss from continuing operations	(8,457)	(117,819)	(29,456)	(147,113)
Income (loss) from discontinued operations	276	(6,828)	2,657	(5,745)
Gain (loss) on sale of discontinued operations	5,220		31,129	(678)
Income taxes on discontinued operations	(2,198)		(13,514)	
Minority interest in discontinued operations	(113)	296	(709)	276
Net loss	(5,272)	(124,351)	(9,893)	(153,260)
Preferred stock dividend	(2,578)	(2,578)	(7,734)	(7,734)
Net loss attributable to common stockholders	$ (7,850)	$ (126,929)	$ (17,627)	$ (160,994)
Loss per share from continuing operations				
Basic loss per share	$ (0.25)	$ (2.78)	$ (0.85)	$ (3.58)
Diluted loss per share	$ (0.25)	$ (2.78)	$ (0.85)	$ (3.58)
Income (loss) per share from discontinued operations				
Basic income (loss) per share	$ 0.07	$ (0.15)	$ 0.45	$ (0.14)
Diluted income (loss) per share	$ 0.07	$ (0.15)	$ 0.45	$ (0.14)
Loss per share attributable to common stockholders				

Basic loss per share	$ (0.18)	$ (2.93)	$ (0.40)	$ (3.72)
Diluted loss per share	$ (0.18)	$ (2.93)	$ (0.40)	$ (3.72)
Weighted average share information				
Basic shares outstanding	43,718	43,267	43,666	43,255

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

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AFFORDABLE RESIDENTIAL COMMUNITIES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 and 2005

(in thousands) (unaudited)

	Nine Months Ended September 30, 2006 (as restated)	2005
Cash flow from operating activities		
Net loss	$ (9,893)	$ (153,260)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	64,517	54,660
Intra-period income taxes	4,471	
Adjustments to fair value for interest rate caps	(299)	220
Amortization of loan origination costs	4,168	5,296
Stock and option grant compensation expense	450	407
Partnership preferred unit distributions declared	828	1,085
Minority interest	(1,257)	(7,362)
Real estate and retail home asset impairment		23,158
Goodwill impairment		74,793
Depreciation and minority interest included in income from discontinued operations	927	4,731
(Gain) loss on sale of discontinued operations	(31,130)	678
Loss on sale of airplane	541	
Impairment charges on assets held for sale		6,546
Gain on sale of manufactured homes	(1,205)	(2,426)
Changes in operating assets and liabilities	(6,832)	(8,225)
Net cash provided by operating activities	25,286	301
Cash flow from investing activities		
Purchases of manufactured homes	(10,745)	(106,979)
Proceeds from community sales	143,845	48,721
Proceeds from manufactured home sales	7,263	16,051
Proceeds from sale of airplane	1,170	
Community improvements and equipment purchases	(3,107)	(48,992)
Restricted cash	240	3,902
Loan reserves	182	(8,780)
Net cash provided by (used in) investing activities	138,848	(96,077)

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

	Nine Months Ended September 30, 2006 (as restated)	2005
Cash flow from financing activities		
Proceeds from issuance of debt	260,853	312,135
Repayment of debt	(407,418)	(141,999)
Payment of common dividends and OP unit distributions		(35,148)
Payment of preferred dividends	(7,734)	(7,734)
Payment of partnership preferred distributions	(828)	(1,085)
Repurchase of OP Units for cash		(6,408)
Repurchase of PPUs		(2,501)
Loan origination costs	(5,824)	(8,265)
Net cash (used in) provided by financing activities	(160,951)	108,995
Net increase in cash and cash equivalents	3,183	13,219
Cash and cash equivalents, beginning of period	27,926	32,859
Cash and cash equivalents, end of period	$ 31,109	$ 46,078
Non-cash financing and investing transactions:		
Notes receivable for manufactured home sales	$ 4,752	$ 19,988
Notes payable issued for redemption of PPUs	$	$ 4,999
Fair value of OP Units redeemed for common stock	$ 3,377	$
Supplemental cash flow information:		
Cash paid for interest	$ 61,013	$ 43,404

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 ownership 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, primarily 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 September 30, 2006.

During March 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 September 30, 2006, we owned and operated 275 communities (excluding one community classified as discontinued operations, see Note 10) consisting of 57,256 homesites (net of 350 homesites classified as discontinued operations) in 23 states with occupancy of 83.2%. 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 September 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. In connection with the preparation of our 2005 Form 10-K we determined that cash flows from restricted cash and loan reserves should be included in investing rather than financing activities. As a result, the cash flow statement for the nine months ended September 30, 2006 has been revised to conform to this 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 three and nine months ended September 30, 2006 and an impairment charge of $23.2 million in the three and nine months ended September 30, 2005.

Stock Based Compensation

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 through December 31, 2005 were 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 September 30, 2006 or our operations or cash flows for the nine months ended September 30, 2006.

Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS No. 123(R), using the modified prospective transition method and, therefore, have not restated results for prior periods. Under this transition method, stock-based compensation expense for the three and nine months ended September 30, 2006 includes compensation expense for all share-based payment awards granted prior to, but not yet vested, at December 31, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123(R). Stock-based compensation expense for all share-based payment awards granted after December 31, 2005 is based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123(R). We recognize these compensation costs for only those awards expected to vest over the service period of the award, which is currently the option vesting term of three years. Prior to the adoption of SFAS No. 123(R) we recognized stock-based compensation expense in accordance with Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25). In March 2005, the SEC issued Staff Accounting Bulletin No. 107, *Share-Based Payment* (SAB 107), regarding their interpretation of SFAS 123(R) and the valuation of share-based payment awards for public companies. We have applied the provisions of SAB 107 in our adoption of SFAS No. 123(R).

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 nine month periods ended September 30, 2006 and 2005, 3,000 shares vested leaving 9,000 shares unvested at September 30, 2006. We have recorded the unvested portion of the remaining 9,000 outstanding restricted shares as of September 30, 2006 in additional paid-in capital and are amortizing the balance ratably over the vesting period. We recorded $14,000 and $43,000, respectively, in compensation expense related to these restricted shares during both of the three and nine month periods ended September 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 September 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. The provision for income tax expense or benefit differs from the amounts of income taxes currently payable because certain items of income and expense included in the consolidated financial statements are recognized in different time periods by taxing authorities.

Deferred tax assets, including net operating loss and tax credit carry forwards, are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that any portion of these tax attributes will not be realized. At September 30, 2006, a valuation allowance of $79.1 million was recorded to reduce deferred tax assets to the amount expected to be recoverable.

From time to time, management must assess the need to accrue or disclose a possible loss contingency for proposed adjustments from various Federal, state and foreign tax authorities that regularly audit the company in the normal course of business. In making these assessments, management must often analyze complex tax laws of multiple jurisdictions.

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 nine months ended September 30, 2006 was $7.9 million and $18.2 million, respectively, compared with a comprehensive loss of $127.1 million and $161.2 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 July 13, 2006, the FASB issued its Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 is an interpretation of SFAS No. 109, *Accounting for Income Taxes*. FIN 48 provides interpretive guidance for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return. FIN 48 requires the affirmative evaluation that it is more-likely-than-not, based on the technical merits of a tax position, that an enterprise is entitled to the economic benefits resulting from positions taken in income tax returns. If a tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements. FIN 48 also requires companies to disclose additional quantitative and qualitative information in their financial statements about uncertain tax positions. FIN 48 is effective for fiscal years beginning after December 15, 2006, and the cumulative effect of applying FIN 48 shall be reported as an adjustment to the opening balance of retained earnings for that fiscal year. We are currently evaluating the impact, if any, that FIN 48 may have on our financial position, results of operations and cash flows.

On September 15, 2006, the FASB issued SFAS No.157, *Fair Value Measurement* (SFAS No. 157), which addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under generally accepted accounting purposes (GAAP). SFAS No. 157 provides a common definition of fair value to be used throughout GAAP. The FASB believes that the new standard will make the measurement of fair value more consistent and comparable and improve disclosures about those measures. SFAS No. 157 will become effective for ARC on January 1, 2008 and we are still evaluating its impact on or financial position and results of operations.

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 nine months ended September 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, periods prior to 2006 or any of our debt covenants. 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 September 30, 2006	
Consolidated Balance Sheet	**Previously Reported**	**As Restated**
Tenant deposits and other liabilities	$ 16,791	$ 21,023
Total liabilities	$ 1,099,562	$ 1,103,794
Minority interest	$ 28,704	$ 28,553
Retained deficit	$ (480,753)	$ (484,834)
Total stockholders equity	$ 433,217	$ 429,136
Total liabilities and stockholders equity	$ 1,561,483	$ 1,561,483

	Three Months Ended September 30, 2006		Nine Months Ended September 30, 2006	
Consolidated Statement of Operations	**Previously Reported**	**As Restated**	**Previously Reported**	**As Restated**
Loss from continuing operations before income tax benefit and allocation to minority interest	$ (12,956)	$ (12,956)	$ (38,929)	$ (38,928)
Income tax benefit from continuing operations		4,472		9,043
Loss before allocation to minority interest	(12,956)	(8,484)	(38,929)	(29,885)
Minority interest	182	27	744	429
Loss from continuing operations	(12,774)	(8,457)	(38,185)	(29,456)
Income from discontinued operations	276	276	2,657	2,657
Gain on sale of discontinued operations	5,220	5,220	31,130	31,129
Income tax expense from discontinued operations	206	(2,198)	(239)	(13,514)
Minority interest in discontinued operations	(196)	(113)	(1,175)	(709)
Net loss	(7,268)	(5,272)	(5,812)	(9,893)
Preferred stock dividend	(2,578)	(2,578)	(7,734)	(7,734)
Net loss attributable to common stockholders	$ (9,846)	$ (7,850)	$ (13,546)	$ (17,627)
Loss per share from continuing operations				
Basic loss per share	$ (0.35)	$ (0.25)	$ (1.05)	$ (0.85)
Diluted loss per share	$ (0.35)	$ (0.25)	$ (1.05)	$ (0.85)
Income per share from discontinued operations				
Basic income per share	$ 0.12	$ 0.07	$ 0.74	$ 0.45
Diluted income per share	$ 0.12	$ 0.07	$ 0.74	$ 0.45
Loss per share attributable to common stockholders				
Basic loss per share	$ (0.23)	$ (0.18)	$ (0.31)	$ (0.40)
Diluted loss per share	$ (0.23)	$ (0.18)	$ (0.31)	$ (0.40)
Weighted average common shares outstanding	43,718	43,718	43,666	43,666

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

Stock Option Grants

On July 27, 2006, the Compensation Committee of our Board of Directors approved the grant of 500,000 non-qualified stock option awards to four senior executive officers of the Company pursuant to our 2003 Equity Incentive Plan at an exercise price of $10.74 per share, the closing price of ARC s common stock on the New York Stock Exchange on the date of grant. The options have a term of ten years from the date of the award. Under the terms of the grants, the options vest ratably over a three-year period with the first third of the award amount vesting on the first anniversary of the award, the second third vesting on the second anniversary date of the award, and the balance vesting on the third anniversary date of the award. Vesting is accelerated in certain circumstances, including in the event of the death of the award recipient or in the event of a change of control of the Company.

The fair values for the stock options granted during the three and nine months ended September 30, 2006 were estimated using the Black-Scholes option pricing model with an expected volatility of 30%, a risk-free interest rate of 5.1%, a dividend yield rate of zero, a ten-year expected life of the options, and a forfeiture rate of zero. Based on calculations using the Black-Scholes option pricing model, the grant date fair value of the options granted during the quarter approximated $5.79 per share. The expected volatility is based on the historical volatility in the price of our common stock since our IPO. The risk-free interest rate is the ten-year Treasury rate, based on the expected life of the options. The dividend yield assumption is based on our history and expectation of dividend payments on common stock. The expected life of the stock options represents the period in which the stock options are expected to remain outstanding, which is the full term of the options.

Our total stock compensation expense recorded in general and administrative expenses for the three and nine months ended September 30, 2006, related to stock-based compensation was $0.4 million and $0.5 million, respectively, compared with $0.1 million and $0.4 million, respectively, for the same periods in 2005.

Stockholder Rights Plan

On July 11, 2006, we entered into a Stockholder Rights Plan (the Rights Plan) under which one right was distributed as a dividend for each share of our common stock held by stockholders of record as of the close of business on July 17, 2006. The Rights Plan has been adopted as a means to preserve the use of previously accumulated net operating losses, as described below. Effective with the revocation of our REIT election in March 2006, we have been taxed as a corporation for U.S. Federal income tax purposes and our net income has been subject to taxation at regular (or alternative minimum) corporate rates without the benefit of a dividends paid deduction. We have net operating losses (NOLs) from prior years that are expected to offset substantially our taxable income, if any. Therefore, the preservation of such NOLs is the key to minimizing our U.S. Federal income tax liability. U.S. Federal income tax law imposes significant limitations on the ability of a corporation to use its NOLs to offset income in circumstances where such corporation has experienced a change in ownership. Generally, there is a change in ownership if, at any time, one or more 5% shareholders have aggregate increases in their ownership in the corporation of more than 50 percentage points looking back over the prior three year period. One of the principal reasons for adopting the Rights Plan is to preserve the use of the NOLs by dissuading investors from aggregating ownership in ARC and triggering such a change in ownership. The Rights Plan is designed to reduce the likelihood of a change in ownership by, among other things, discouraging any person or group from acquiring additional shares such that they would beneficially own 5% or more of the outstanding shares of our common stock. The Rights Plan was not adopted in response to any effort to acquire control of the Company. To help preserve the benefit of the NOLs, we intend to submit for stockholder approval an amendment to our charter to restrict certain acquisitions of our common stock so as to reduce the likelihood of triggering a change in ownership. The Board of Directors intends to terminate the Rights Plan if the charter amendment is approved. Under the Rights Plan, each right initially will entitle stockholders to purchase a fraction of a share of preferred stock at a purchase price of $50.00, subject to adjustment as provided in the Rights Plan. Subject to the exceptions and limitations contained in the Rights Plan, the rights generally will be exercisable only if a person or group acquires beneficial ownership of 5% or more of our common stock or commences a tender or exchange offer upon consummation of which such person or group would beneficially own 5% or more of our common stock. Unless earlier terminated, the rights will expire on July 17, 2016.

Dividends Declared

On March 2, 2006, the board of directors declared a quarterly cash dividend of $0.515625 per share for our Series A Cumulative Redeemable Preferred Stock, and $0.39 per unit on the Series C Preferred Units of the Operating Partnership. 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 our Series A Cumulative Redeemable Preferred Stock, and $0.39 per unit on the Series C Preferred Units of the Operating Partnership. The dividends were paid on July 28, 2006 to shareholders of record on July 14, 2006. On September 20, 2006, the board of directors declared a quarterly cash dividend of $0.515625 per share for our Series A Cumulative Redeemable Preferred Stock, and $0.39 per unit on the Series C Preferred Units of the Operating Partnership. The dividends were paid on October 30, 2006 to shareholders of record on October 13, 2006. The Board reviews the payment of dividends on a quarterly basis.

Minority Interest

At September 30, 2006, minority interest consisted of 1,483,284 OP Units that were issued to various limited partners and 705,688 preferred partnership units (PPUs) issued on June 30, 2004 as part of an 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 nine months ended September 30, 2006, we converted approximately 20,000 and 348,000 OP Units, respectively, for an equal number of shares of our common stock valued at approximately $200,900 and $3.4 million, respectively.

The PPUs outstanding as of September 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 September 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 September 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	280
Transfer from stockholders equity	576
Redemption of OP Units	(3,377)
Distributions to PPU holders	(828)
Minority interest at September 30, 2006	$ 28,553

4. Rental and Other Property, Net

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

	September 30, 2006	December 31, 2005
Land	$ 194,306	$ 194,331
Improvements to land and buildings	1,190,720	1,190,102
Rental homes and improvements	265,474	261,164
Furniture, equipment and vehicles	13,894	16,041
Subtotal	1,664,394	1,661,638
Less accumulated depreciation:		
On improvements to land and buildings	(198,329)	(164,186)
On rental homes and improvements	(56,527)	(37,077)
On furniture, equipment and vehicles	(7,642)	(7,278)
Rental and other property, net	$ 1,401,896	$ 1,453,097

5. Notes Payable

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

	September 30, 2006	December 31, 2005
Senior fixed rate mortgage due 2009, 5.05% per annum	$ 85,041	$ 89,512
Senior fixed rate mortgage due 2012, 7.35% per annum	278,452	286,433
Senior fixed rate mortgage due 2014, 5.53% per annum	190,122	196,270
Senior fixed rate mortgage due 2016, 6.24% per annum	170,000	
Senior variable rate mortgage due 2009, one-month LIBOR plus 0.80% per annum (6.12% at September 30, 2006)	60,000	
Senior variable rate mortgage, one-month LIBOR plus 3.00% per annum		126,297
Revolving credit mortgage facility, one-month LIBOR plus 2.75% per annum		58,764
Various individual fixed rate mortgages due 2006 through 2031, averaging 7.23% per annum at September 30, 2006	134,524	150,104
Floorplan line of credit due 2007, ranging from prime plus 0.75% to prime plus 4.00% per annum (9.00% at September 30, 2006)	1,651	14,188
Trust preferred securities due 2035, three-month LIBOR plus 3.25% per annum (8.62% at September 30, 2006)	25,780	25,780
Consumer finance facility due 2008, one-month LIBOR plus 3.00% per annum		18,607
Lease receivable facility due 2008, one-month LIBOR plus 4.125% per annum (9.45% at September 30, 2006)	10,000	77,500
Senior exchangeable notes due 2025, 7.50% per annum	96,600	96,600
PPU notes payable, 7.00% per annum		4,999
Other loans	1,203	1,277
	$ 1,053,373	$ 1,146,331

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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 Fixed Rate Mortgage Due 2016; Senior Variable Rate Mortgage Due 2009 (repaid and terminated Senior Variable Rate Mortgage and Revolving Credit Mortgage Facility)

On July 11, 2006, we entered into a $230 million mortgage debt facility. Approximately $116.8 million of the proceeds were used to repay and terminate our Senior Variable Rate Mortgage and approximately $58.8 million of the proceeds were used to repay and terminate 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 (6.12% at September 30, 2006) and requires interest-only payments for the term of the loan. The loan is secured by 59 manufactured housing communities located in 18 states as well as an assignment of leases and rents associated with the mortgaged property. The loan is non-recourse with the exception that the repayment of the indebtedness is guaranteed pursuant to a guaranty of non-recourse obligations in the event of declaration of bankruptcy; interference with any of the lenders rights, and asset transfers and other activities in violation of the loan documents. Under the provisions of the loan agreement, we have the right to prepay any portion of the floating rate component, with or without release of the mortgaged property, without penalty. Subsequent to a prepayment of the entire floating rate component of the loan, we have the option to prepay a fixed portion of the loan subject to prepayment fees, yield maintenance or defeasance in accordance with the terms of the loan agreement.

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 $39.7 million at September 30, 2006, mature from 2006 ($5.1 million in 2006) through 2028 and have an average

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effective interest rate of 7.45%. These mortgages are secured by 13 specific manufactured home communities.

b) Mortgages assumed in conjunction with the Hometown acquisition as discussed in Form 10-K. These notes total approximately $67.5 million at September 30, 2006, 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 as discussed in Form 10-K. These notes total approximately $27.3 million at September 30, 2006, mature in 2008 and carry an average effective annual interest rate of 7.18%. These mortgages are secured by 24 specific manufactured home communities.

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 September 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 September 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% (8.62% at September 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. In July, we repaid the outstanding principal balance under this facility and no balance was outstanding as of September 30, 2006. 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 ($18.7 million as of September 30, 2006). The facility bears interest at a variable rate based upon a spread of 3.00% over the one-month LIBOR. 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 September 30, 2006 with all financial covenants under the line of

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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 (9.45% at September 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 September 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.

PPU Notes Payable

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 September 30, 2006 (as restated)	2005	Nine Months Ended September 30, 2006 (as restated)	2005
Loss per share from continuing operations:				
Loss from continuing operations	$ (8,457)	$ (117,819)	$ (29,456)	$ (147,113)
Preferred stock dividends	(2,578)	(2,578)	(7,734)	(7,734)
Net loss from continuing operations	$ (11,035)	$ (120,397)	$ (37,190)	$ (154,847)
Weighted average common shares outstanding	43,718	43,267	43,666	43,255
Basic loss per share from continuing operations	$ (0.25)	$ (2.78)	$ (0.85)	$ (3.58)
Diluted loss per share from continuing operations	$ (0.25)	$ (2.78)	$ (0.85)	$ (3.58)
Income (loss) per share from discontinued operations:				
Income (loss) from discontinued operations	$ 276	$ (6,828)	$ 2,657	$ (5,745)
Gain (loss) on sale of discontinued operations	5,220		31,129	(678)
Income tax expense on discontinued operations	(2,198)		(13,514)	
Minority interest in discontinued operations	(113)	296	(709)	276
Net income (loss) from discontinued operations	$ 3,185	$ (6,532)	$ 19,563	$ (6,147)
Basic income (loss) per share from discontinued operations	$ 0.07	$ (0.15)	$ 0.45	$ (0.14)
Diluted income (loss) per share from discontinued operations	$ 0.07	$ (0.15)	$ 0.45	$ (0.14)
Loss per share available to common stockholders:				
Net loss available to common stockholders	$ (7,850)	$ (126,929)	$ (17,627)	$ (160,994)
Basic loss per share to common stockholders	$ (0.18)	$ (2.93)	$ (0.40)	$ (3.72)
Diluted loss per share to common stockholders	$ (0.18)	$ (2.93)	$ (0.40)	$ (3.72)
Equivalent shares utilized for diluted income (loss) per share calculation except when anti-dilutive:				
Operating partnership units (a)	1,578	2,157	1,627	2,408
Preferred partnership units (b)	1,927	2,001	1,927	2,420
Restricted stock	10	60	10	49
Total (c)	3,515	4,218	3,564	4,877

(a) From September 30, 2005 through September 30, 2006, we redeemed approximately 359,000 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).

(c) Excludes 500,000 stock options and 806,000 warrants outstanding with exercise prices above the market price of our common stock.

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7. Property Operations Expense

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Utilities and telephone	$ 7,637	$ 7,734	$ 21,840	$ 21,037
Salaries and benefits	5,453	6,193	15,316	17,980
Repairs and maintenance	3,287	3,284	7,265	8,184
Insurance	807	802	2,488	2,692
Bad debt expense	327	855	1,020	2,035
Professional services	413	333	1,021	1,015
Office supplies	168	299	480	848
Advertising	19	246	71	483
Other operating expense	694	758	1,982	2,564
	$ 18,805	$ 20,504	$ 51,483	$ 56,838

8. Retail Home Sales, Finance and Insurance Expense

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Salaries and benefits	$ 1,268	$ 4,175	4,347	7,255
Travel	121	336	287	694
Insurance	52	109	150	275
Bad debt expense	(13)	287	13	596
Professional services	278	589	706	988
Advertising	258	999	723	2,936
Other operating expense	238	311	704	946
	$ 2,202	$ 6,806	$ 6,930	$ 13,690

9. General and Administrative Expense

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Salaries and benefits	$ 3,113	$ 4,509	$ 8,722	$ 11,349
Travel	180	452	501	1,254
Professional services	730	885	2,241	3,095
Telephone	88	181	287	386
Office supplies	80	126	304	377
Insurance	294	300	860	766
Rent	130	90	331	218
Other administrative expense	359	791	1,140	1,772
	$ 4,974	$ 7,334	$ 14,386	