AMERICAN LAND LEASE INC
Form 10-Q
August 09, 2007
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2007

OR

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

Commission file number 1-9360

AMERICAN LAND LEASE, INC.

(Exact name of registrant as specified in its charter)

Delaware	***84-1038736***
(State or other jurisdiction of	***(IRS Employer***
Incorporation or organization)	***Identification No.)***
29399 U.S. Hwy 19 North, Suite 320	
Clearwater, Florida	***33761***

(Address of Principal Executive Offices) *(Zip Code)*

Registrant s telephone number, including area code (727) 726-8868

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 ¨

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

Large accelerated filer ¨ 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 Exchange Act). Yes ¨ No x

As of July 30, 2007, approximately 7,983,000 shares of common stock, par value $.01 per share, were outstanding.

Table of Contents

AMERICAN LAND LEASE, INC. AND SUBSIDIARIES

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2007

TABLE OF CONTENTS

(i)

Table of Contents

PART I.

FINANCIAL INFORMATION

Item 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AMERICAN LAND LEASE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

	June 30, 2007 (unaudited)	December 31, 2006
ASSETS		
Real estate, net of accumulated depreciation of $31,191 and $29,068, respectively, including real estate under development of $119,602 and $110,682, respectively	$ 395,235	$ 383,006
Cash and cash equivalents	308	253
Inventory	21,031	22,827
Other assets, net	16,085	15,969
Total Assets	$ 432,659	$ 422,055
LIABILITIES		
Secured long-term notes payable	$ 238,676	$ 235,567
Secured short-term financing	30,013	20,059
Accounts payable and accrued liabilities	11,545	13,216
	280,234	268,842
MINORITY INTEREST IN OPERATING PARTNERSHIP	16,421	16,502
STOCKHOLDERS EQUITY		
Preferred stock, par value $.01 per share, 3,000 shares authorized, 1,000 and 1,000 shares issued and outstanding, respectively	25,000	25,000
Common stock, par value $.01 per share; 12,000 shares authorized; 9,481 and 9,390 shares issued, respectively; 7,738 and 7,664 shares outstanding (excluding treasury stock), respectively	95	94
Additional paid-in capital	293,113	291,460
Dividends in excess of accumulated earnings	(154,920)	(153,231)
Treasury stock, 1,753 and 1,726 shares at cost, respectively	(27,284)	(26,612)
	136,004	136,711
Total Liabilities and Stockholders Equity	$ 432,659	$ 422,055

See Notes to Condensed Consolidated Financial Statements

Table of Contents

AMERICAN LAND LEASE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)

(unaudited)

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
RENTAL PROPERTY OPERATIONS				
Rental and other property revenues	$ 9,715	$ 8,508	$ 19,436	$ 16,681
Golf course operating revenues	219	213	649	683
Total property operating revenues	9,934	8,721	20,085	17,364
Property operating expenses	(3,247)	(3,056)	(6,576)	(5,972)
Golf course operating expenses	(357)	(373)	(692)	(738)
Total property operating expenses	(3,604)	(3,429)	(7,268)	(6,710)
Depreciation	(1,251)	(1,032)	(2,480)	(2,011)
Income from rental property operations	5,079	4,260	10,337	8,643
SALES OPERATIONS				
Home sales revenue	7,929	12,052	15,594	25,548
Cost of home sales	(5,658)	(7,914)	(11,291)	(16,958)
Gross profit on home sales	2,271	4,138	4,303	8,590
Commissions earned on brokered sales	44	164	119	323
Commissions paid on brokered sales	(24)	(76)	(68)	(158)
Gross profit on brokered sales	20	88	51	165
Selling and marketing expenses	(2,370)	(2,754)	(4,698)	(5,554)
(Loss) income from sales operations	(79)	1,472	(344)	3,201
General and administrative expenses	(993)	(995)	(1,957)	(1,886)
Interest and other income	8	91	178	144
Interest expense	(2,278)	(1,832)	(4,521)	(3,411)
Income before minority interest in Operating Partnership and discontinued operations	1,737	2,996	3,693	6,691
Minority interest in Operating Partnership	(198)	(350)	(419)	(785)
Income from continuing operations	1,539	2,646	3,274	5,906
DISCONTINUED OPERATIONS				
Income from discontinued operations, net of minority interest in Operating Partnership		50		92
Net income	1,539	2,696	3,274	5,998
Cumulative preferred stock dividends	(485)	(484)	(969)	(968)

Net income available to common stockholders	$	1,054	$	2,212	$	2,305	$	5,030
Earnings per common share basic:								
Income from continuing operations (net of preferred stock dividends)	$	0.14	$	0.29	$	0.30	$	0.66
Income from discontinued operations				0.01				0.01
Net income attributable to common stockholders	$	0.14	$	0.30	$	0.30	$	0.67
Earnings per common share diluted:								
Income from continuing operations (net of preferred stock dividends)	$	0.13	$	0.27	$	0.29	$	0.63
Income from discontinued operations				0.01				0.01
Net income attributable to common stockholders	$	0.13	$	0.28	$	0.29	$	0.64
Weighted average common shares outstanding		7,745		7,465		7,728		7,466
Weighted average common shares and common share equivalents outstanding		8,029		7,836		8,052		7,860
Dividends declared per common share	$	0.25	$	0.25	$	0.50	$	0.50

See Notes to Condensed Consolidated Financial Statement

Table of Contents

AMERICAN LAND LEASE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

(in thousands)

(unaudited)

	Preferred Stock		Common Stock		Additional Paid-In	Dividends In Excess of Accumulated	Treasury	Total Stockholders
	Shares	Amount	Shares	Amount	Capital	Earnings	Stock	Equity
BALANCES DECEMBER 31, 2006	1,000	$ 25,000	9,390	$ 94	$ 291,460	$ (153,231)	$ (26,612)	$ 136,711
Exercise of options			57	1	841			842
Purchase of treasury stock							(672)	(672)
Vesting of restricted stock			27					
Equity compensation granted to the Board of Directors			7		194			194
Stock-based compensation					618			618
Net income						3,274		3,274
Dividends paid preferred stock						(969)		(969)
Dividends paid common stock						(3,994)		(3,994)
BALANCES JUNE 30, 2007	1,000	$ 25,000	9,481	$ 95	$ 293,113	$ (154,920)	$ 27,284)	$ 136,004

See Notes to Condensed Consolidated Financial Statements

Table of Contents

AMERICAN LAND LEASE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 3,274	$ 5,998
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,030	2,653
Revenue recognized related to acquired lease obligations	(263)	(27)
Stock-based compensation	611	642
Minority interest in Operating Partnership	419	785
Minority interest attributable to discontinued operations		12
Decrease (increase) in inventory	1,796	(4,829)
Net change in operating assets and liabilities	552	(2,703)
Net cash provided by operating activities	9,419	2,531
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of real estate		(15,166)
Additions to real estate, including development	(11,762)	(19,269)
Capitalized interest	(4,423)	(3,420)
Capital replacements	(727)	(1,189)
Additions to fixed assets other than real estate classified as other assets	(246)	(659)
Notes receivable advances	(89)	(180)
Proceeds from notes receivable	266	10
Net cash used in investing activities	(16,981)	(39,873)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from (principal payments on) secured short-term financing	9,954	(207)
Proceeds from secured long-term notes payable borrowings	4,580	51,917
Principal payments on secured long-term notes payable	(1,471)	(1,587)
Payments of deferred financing costs	(73)	(864)
Payments to escrow funds	(172)	(226)
Collections of escrowed funds	92	150
Proceeds from stock options exercised	797	258
Repurchase of common stock	(627)	
Payments of common stock dividends	(3,994)	(3,932)
Payments of preferred stock dividends	(969)	(968)
Payments of OP Unit distributions	(500)	(497)
Net cash provided by financing activities	7,617	44,044
NET INCREASE IN CASH AND CASH EQUIVALENTS	55	6,702
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	253	1,795
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 308	$ 8,497

See Notes to Condensed Consolidated Financial Statements

Table of Contents

AMERICAN LAND LEASE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2007

(unaudited)

A. The Company

American Land Lease, Inc. (ANL) is a Delaware corporation that owns home sites leased to owners of homes situated on the leased land and operates the communities composed of these homes. ANL has elected to be taxed as a real estate investment trust (REIT). ANL s preferred stock, par value $0.01 per share, is listed on the New York Stock Exchange (NYSE) under the symbol ANL-PA. ANL s common stock, par value $0.01 per share, is listed on the NYSE under the symbol ANL. In May 1997, ANL contributed its net assets to Asset Investors Operating Partnership, L.P. (the Operating Partnership) in exchange for the sole general partner interest in the Operating Partnership and substantially all of the Operating Partnership s initial capital. Except as the context requires, we, our, us and the Company refer to ANL, the Operating Partnership an all majority-owned subsidiaries.

Interests in the Operating Partnership held by limited partners other than ANL are referred to as OP Units. The Operating Partnership s income is allocated to holders of OP Units based on the weighted average number of OP Units outstanding during the period. The holders of the OP Units receive distributions, prorated from the date of issuance, in an amount equivalent to the dividends paid, if any, to holders of ANL s common stock. After holding OP Units for one year, limited partners generally have the right to redeem their OP Units for cash. Notwithstanding that right, the Operating Partnership may elect to acquire some or all of the OP Units tendered for redemption in exchange for shares of ANL s common stock in lieu of cash. At June 30, 2007, the Operating Partnership had approximately 993,000 OP Units outstanding, excluding those owned by ANL, and ANL owned 89% of the Operating Partnership.

As of June 30, 2007, based on total home sites, 72% of the Company s portfolio of residential land lease communities is located in Florida, 24% in Arizona and 4% in Alabama.

B. Presentation of Financial Statements

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X under the Securities Exchange Act of 1934, as amended. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal recurring nature. Operating results for the three and six months ended June 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

The condensed consolidated balance sheet at December 31, 2006 has been derived from the audited financial statements at that date but does not include all of the information and notes required by GAAP.

For further information, refer to the financial statements and notes thereto included in ANL s Annual Report on Form 10-K for the year ended December 31, 2006.

Table of Contents

C. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of ANL, the Operating Partnership and all majority-owned subsidiaries. The minority interest in the Operating Partnership represents the OP Units that are redeemable at the option of the holder. All significant intercompany balances and transactions have been eliminated in consolidation.

Real Estate and Depreciation

The Company capitalizes direct costs associated with the acquisition of consolidated properties as a cost of the assets acquired, and such direct costs are depreciated over the estimated useful lives of the related assets. In accordance with Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations,* the Company allocates the purchase price of real estate to land, land improvements, buildings, furniture, fixtures, equipment and intangibles, such as the value of above and below market leases and origination costs associated with the in-place leases. In order to allocate purchase price on these various components, the Company performs the following procedures for properties acquired:

1. Determine the as-if vacant fair value of the physical property acquired;

2. Allocate the as-if vacant fair value among land, land improvements, buildings (based on real estate valuation techniques), furniture, fixtures and equipment; and

3. Compute the difference between the purchase price of the property and the as-if vacant fair value and allocate such difference to leases in-place (based on the nature of our business, customer relationship value is assumed to be zero), which will represent the total intangible assets or liabilities. The fair value of the leases in-place are comprised of:

    a. The value of the above and/or below market leases in-place. Above-market and below-market in-place lease values are computed based on the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management s estimate of fair market lease rates and effective lease terms for the corresponding in-place leases, measured over a period equal to the estimated remaining effective terms of the leases.

    b. Avoided leasing commissions and other costs that were incurred to execute leases.

    c. The value associated with lost rents during the absorption period (estimates of lost rental revenue during the expected lease-up periods based on current market demand).

The values of the above and below market leases are amortized and recorded as either an increase (in the case of below market leases) or a decrease (in the case of above market leases) to rental income over the estimated remaining expected terms of the associated leases (including fixed rate renewal periods for below market leases). Amortization expense is recorded over the expected remaining terms of the associated leases for the values associated with avoided leasing commissions, other costs that were incurred to execute leases and the value associated with lost rents during the absorption period. If a resident vacates a home site prior to the effective term of the lease and no rental payments are being made on the lease, any unamortized balance of the related intangible will be written off.

Table of Contents

Rental properties are recorded at cost less accumulated depreciation, unless considered impaired. Significant renovations and improvements, which improve or extend the useful life of an asset, are capitalized and depreciated using the straight-line method over the remaining estimated life. In addition, the Company capitalizes direct and indirect costs (including interest, taxes and other costs) in connection with the development of additional home sites within its residential land lease communities. Maintenance, repairs and minor improvements are expensed as incurred.

Interest incurred relating to the development of communities is capitalized during the development period. The Company s strategy is to master plan, develop and build substantially all of the home sites in its communities. Accordingly, substantially all projects excluding finished lots where the home is available for occupancy are undergoing development. The Company capitalized interest of approximately $2,248,000 and $1,794,000 for the three months ended June 30, 2007 and 2006, and $4,423,000 and $3,420,000 for the six months ended June 30, 2007 and 2006, respectively.

If events or circumstances indicate that the carrying amount of a property may be impaired, the Company will make an assessment of its recoverability by estimating the future undiscounted cash flows, excluding interest charges, of the property. If the carrying amount exceeds the aggregate future cash flows, the Company would recognize an impairment loss to the extent the carrying amount exceeds the fair value of the property. There were no impairment losses recognized during the six months ended June 30, 2007 and 2006.

Depreciation is computed using the straight-line method over an estimated useful life of 5 to 75 years for land improvements, 5 to 50 years for buildings and 5 to 15 years for furniture and other equipment, all of which are judgmental determinations. These determinations may prove to be different than the actual life of any individual asset.

Inventory

The Company, through a taxable subsidiary corporation, maintains an inventory of manufactured homes situated within its residential land lease communities. Carrying amounts for inventory are determined on a specific identification basis and are stated at the lower of cost or market. If actual market conditions are less favorable than those projected by management, inventory write-downs may be required that could have a significant impact on the Company s results of operations and cash flows. As of June 30, 2007, $8,596,000 of the Company s total inventory investment of $21,031,000 was older than one year. The Company recorded charges of approximately $68,000 and $83,000 for the three months ended June 30, 2007 and 2006, and $200,000 and $221,000 for the six months ended June 30, 2007 and 2006, respectively, to adjust inventory carrying amounts to market value.

Revenue Recognition

The Company generates income from the rental of home sites. The leases entered into by residents for the rental of home sites are generally for terms of one year, and the rental revenues associated with the leases are recognized when earned and due from residents.

The Company, through a taxable subsidiary, generates income from memberships, daily green fees, cart rentals and merchandise sales at golf courses located within its communities. Revenues associated with the activities of the golf courses are recognized when earned and received by the Company.

The Company, through a taxable subsidiary, generates income from the sale of homes situated on home sites owned by the Company. Sales of homes by the Company are recorded upon the closing of the home sale transaction and title passing to the purchaser.

Deferred Financing Costs

Fees and costs incurred in obtaining financing are capitalized. Such costs are amortized over the terms of the related loan agreements using the effective interest method and are charged to interest expense.

Advertising Costs

Costs of advertising are expensed the first time the advertising takes place. Direct response advertising conducted by the Company during the periods was expensed as incurred, as the Company could not define the expected period of future benefits. Advertising expenses were $575,000 and $726,000 for the three months ended June 30, 2007 and 2006, respectively, and $1,134,000 and $1,369,000 for the six months ended June 30, 2007 and 2006, respectively, and are included within golf course operating expenses and selling and marketing expenses in the consolidated statements of income.

Income Taxes

ANL has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended. To qualify as a REIT, ANL must meet a number of organizational and operational requirements, including income, asset, and stockholder requirements, and a requirement that, in general, it must distribute currently at least 90% of its adjusted taxable income to its stockholders. It is management s current intention to adhere to these requirements and maintain ANL s REIT status. As a REIT, ANL generally will not be subject to corporate level federal income tax on taxable income that it distributes currently to its stockholders, by virtue of a deduction for dividends paid. If ANL fails to qualify as a REIT in any taxable year, it will be subject to federal income taxes at regular corporate rates (including any applicable alternative minimum tax) and, unless entitled to relief under certain statutory provisions, may not be able to qualify as a REIT for four subsequent taxable years. Even if ANL qualifies for taxation as a REIT, ANL may be subject to certain state and local taxes on its income and property, and to federal income and excise taxes and penalties, including taxes on ANL s undistributed taxable income. In addition, taxable income from non-REIT activities conducted through taxable subsidiaries of ANL is subject to federal, state, and local income taxes.

Earnings Per Share

Basic earnings per share are based upon the weighted-average number of shares of common stock outstanding during each period. Diluted earnings per share reflect the effect of dilutive, unexercised stock options, both vested and unvested, and unvested restricted stock of 284,000 and 371,000 shares for the three months ended June 30, 2007 and 2006, respectively, and 324,000 and 394,000 shares for the six months ended June 30, 2007 and 2006, respectively. Vested and unvested stock options totaling 148,000 and 0 shares for the three months ended June 30, 2007 and 2006, respectively, and 148,000 and 0 shares for the six months ended June 30, 2007 and 2006, respectively, were excluded from diluted earnings as their effect was anti-dilutive.

Table of Contents

Stock-based Compensation

Stock-based compensation is reported in selling and marketing expenses, and general and administrative expenses. The Company recorded stock-based compensation expense of $307,000 and $379,000 for the three months ended June 30, 2007 and 2006, respectively, and $623,000 and $642,000 for the six months ended June 30, 2007 and 2006, respectively. The Company used the Black-Scholes-Merton formula to estimate the fair value of stock options and used the closing stock price at date of grant for time-based restricted stock for the six months ended June 30, 2007 and 2006. In 2007, the Company changed its valuation model for its market-based restricted stock from a barrier option model to a Monte Carlo model. The Company reviewed various models in 2007 and determined that the output derived from the Monte Carlo model is more reflective of the economic substance of the Company s market-based restricted award. The change in valuation model to estimate the fair value of the market-based awards did not have a material effect on the consolidated financial statements for the three and six months ended June 30, 2007.

Treasury Stock

On October 17, 2000, the Board of Directors authorized the Company to repurchase up to 2,000,000 shares of the outstanding common stock. The timing of stock purchases is at the discretion of management. During the six months ended June 30, 2007 and 2006, the Company repurchased 27,000 and 0 shares of outstanding common stock, respectively. The Company has repurchased approximately 604,000 shares as of June 30, 2007 pursuant to this authorization.

Depreciation of Personal Property

Depreciation of personal property is reported in property operating expenses, selling and marketing expenses, or general and administrative expenses, based upon the use of the associated asset. The Company recorded depreciation expense related to personal property of $99,000 and $141,000 for the three months ended June 30, 2007 and 2006, respectively, and $192,000 and $288,000, for the six months ended June 30, 2007 and 2006, respectively. Depreciation is computed using the straight-line method over an estimated useful life of 5 to 15 years for furniture and other equipment, all of which are judgmental determinations. These determinations may prove to be different than the actual life of any individual asset.

Statements of Cash Flows

The Company considers cash maintained in bank accounts, money market funds and highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Table of Contents

Non-cash investing and financing activities for the period ended June 30, 2007 and 2006 were as follows:

	2007	2006
Issuance of common stock for:		
Services by directors	$ 194,000	$ 140,000
Acquisition of an age-restricted residential land lease community		$ 1,000,000
Real estate acquired:		
By assumption of below market leases		$ 864,000
Cashless exercise of options	$ 45,000	

Fair Value of Financial Instruments

The aggregate fair value of cash and cash equivalents, receivables, payables and secured short-term financing as of June 30, 2007 approximates their carrying value due to their relatively short-term nature. Management further believes that the fair value of variable rate secured long-term notes payable approximates their carrying value. For the Company s fixed rate secured long-term notes payable, fair values have been based on estimates using present value techniques. These techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the calculated estimates of fair value cannot be substantiated by comparison to independent market quotes and, in many cases, may not be realized in immediate settlement of the instrument. The estimated fair value of the Company s secured long-term notes payable was $239,272,000 and $243,114,000 at June 30, 2007 and December 31, 2006, respectively, as compared to the carrying value of $238,676,000 and $235,567,000 at June 30, 2007 and December 31, 2006, respectively.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications

In accordance with SFAS 144, *Accounting for the Impairment or Disposal of Long-lived Assets* (SFAS 144), certain reclassifications have been made in the 2006 consolidated financial statements to present the operations of one community as discontinued operations for all periods presented. Such reclassifications have no material effect on the amounts as originally presented.

D. Real Estate

Real estate at June 30, 2007 and December 31, 2006 is as follows (in thousands):

	June 30, 2007	December 31, 2006
Land	$ 92,329	$ 89,124
Land improvements and buildings	334,097	322,950
	426,426	412,074
Less accumulated depreciation	(31,191)	(29,068)
Real estate, net	$ 395,235	$ 383,006

Table of Contents

The Company s real estate investment consists of buildings, land improvements, and land. Buildings consist primarily of clubhouses at its residential land lease communities maintained as amenities for resident use. A majority of the Company s investment in land improvements consists of long-lived assets such as lateral infrastructure at its residential land lease communities including sanitary sewer and storm water collection systems, potable water supply systems, roads and walkways. The balance of land improvements consists of assets with shorter lives such as marinas, fencing, swimming pools, spas, shuffleboard courts, tennis courts and other resident amenities.

E. Secured Long-Term Notes Payable

The following table summarizes the Company s secured long-term notes payable (in thousands):

	June 30, 2007	December 31, 2006
Fixed rate, ranging from 7.86% to 8.20%, fully amortizing, non-recourse notes maturing at various dates from 2015 through 2020	$ 10,196	$ 10,467
Fixed rate, ranging from 5.48% to 7.75%, partially amortizing, non-recourse notes maturing at various dates from 2007 through 2021	217,124	213,744
Variable rate, at the three-month LIBOR rate plus 175 basis points, non-recourse notes maturing in 2011	11,356	11,356
	$ 238,676	$ 235,567

F. Secured Short-Term Financing

The Company has a revolving line of credit with a bank with a total commitment of $16,000,000 that bears interest at a variable rate ranging from 150 to 175 points over the one-month LIBOR rate (6.92% at June 30, 2007 and 7.0% at December 31, 2006). The line of credit is secured by real property and improvements located in St. Lucie, Lake, and Pasco County, Florida and Maricopa County, Arizona with a net book value of $35,513,000. The revolving line of credit matures in May 2009. At June 30, 2007, $9,505,000 was outstanding and $6,495,000 was not drawn under the revolving line of credit. The availability of funds to the Company under the line of credit is subject to certain borrowing base and other customary restrictions, including compliance with financial and other covenants thereunder. Based on the application of the borrowing base calculation, as of June 30, 2007, $5,260,000 was available to the Company. The line of credit also includes certain financial covenants that require the Company to maintain a ratio of cash flow (as defined by the lender) on a trailing twelve-month basis to pro forma annual fixed charge obligations (as defined by the lender) of not less than .85 to 1.0 during fiscal year 2007, and 1.0 to 1.0 during fiscal year 2008; to maintain an adjusted tangible net worth (as defined by the lender) of $150,000,000 and to maintain a debt to adjusted tangible net worth ratio of not more than 1.75 to 1.0, among others. The Company believes it was in compliance with all financial covenant requirements under this revolving line of credit at June 30, 2007 with the exception of the cash flow ratio. The Company obtained a waiver with regard to this covenant from the bank.

The Company has a floor plan line of credit with a floor plan lender providing a committed credit facility of $35,000,000 with a variable interest rate linked to the lender s prime rate plus 25 basis points (8.50% at June 30, 2007 and December 31, 2006). Individual advances mature between 360 days and 720 days

Table of Contents

based on the aging of the Company s inventory. This floor plan line of credit is secured by inventory located in the Company s residential land lease communities with a carrying value of approximately $19,757,000. At June 30, 2007, approximately $20,508,000 was outstanding, of which $2,646,000 was recourse to the Company, and approximately $14,492,000 was available under the floor plan credit facility. The financial covenants of the floor plan line of credit require the Company to maintain a tangible net worth of $90,000,000 and to maintain a debt to net worth ratio of not more than 2.0 to 1.0, among others. The floor plan lender s commitment to fund future inventory purchases expires in September 2009. The Company believes it was in compliance with all financial covenant requirements under this floor plan line of credit at June 30, 2007.

G. Commitments and Contingencies

Commitments

In the ordinary course of business, the Company has entered into various construction contracts with third parties to develop subdivisions within the Company s existing portfolio of residential land lease communities. The unpaid balance of these contracts remaining at June 30, 2007 is approximately $5,703,000.

As of June 30, 2007, the Company s outstanding purchase obligations with manufacturers of homes to be constructed in the Company s communities totaled $1,378,000.

Legal Contingencies

The Company is party to various legal actions resulting from its operating activities. These actions are routine litigation and administrative proceedings arising in the ordinary course of business, some of which are covered by liability insurance, and none of which are expected to have a material adverse effect on the consolidated financial condition or results of operations of the Company and its subsidiaries taken as a whole. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in assumptions and effectiveness of strategies, related to these proceedings.

H. Segment Reporting

The Company has two reportable segments: rental property (ownership of land leases, land development, investment acquisition and disposition) and home sales (sale of homes, both new and used, to be sited on land owned by the Company). The rental property segment consists of residential land lease communities that generate rental and other property related income through the leasing of land to residents that are unrelated to the Company. The home sales segment sells manufactured homes to customers that are unrelated to the Company. The homes sold by the home sales segment are situated on land within the Company s portfolio of rental property. The customers of the home sales business become residents of the Company s rental property segment coincident with the sale of a home, at which time the customer enters into a lease with the rental property segment. No revenues are generated from transactions with other segments and no single resident or customer contributed 10% or more of total revenues during the three and six months ended June 30, 2007 and 2006.

Table of Contents

Non-segment revenue used to reconcile total revenue consists of interest income and other income. Non-segment assets used to reconcile to total assets include cash and cash equivalents, cash in escrows, accounts receivable, prepaid expenses, investments, deferred charges and other assets. Overhead expenses, such as administrative expenses, are allocated to each segment based upon management s best estimate of the resources utilized in the management and operations of each segment. The accounting policies of the segments are the same as those described in Note C.

SFAS 131, *Disclosures about Segments of an Enterprise and Related Information*, requires that segment disclosures present the measure(s) used by the chief operating decision maker for purposes of assessing such segments performance. The Company s chief operating decision maker is comprised of its executive senior management team who use several generally accepted industry financial measures to assess the performance of the business. Specifically, the Company s chief operating decision makers assess and measure rental property operating activities based on income before depreciation and contribution margins for our home sales segment.

The revenues, net income (loss), and assets for each of the reportable segments are summarized in the following tables for the three and six months ended June 30, 2007 and June 30, 2006 (in thousands).

	Three months ended June 30, 2007			
	Rental Property	Home Sales	Corporate, Interest and Other	Total
Revenues	$ 9,934	$ 7,973	$	$ 17,907
Home sales contribution margin		(79)		(79)
Rental property income before depreciation	6,330			6,330
Depreciation	(1,251)			(1,251)
General and administrative expenses	(551)	(442)		(993)
Interest expense			(2,278)	(2,278)
Interest and other income			8	8
Minority interest in earnings			(198)	(198)
Net income (loss)	$ 4,528	$ (521)	$ (2,468)	$ 1,539
Assets	$ 400,674	$ 31,062	$ 923	$ 432,659
Capital additions to:				
Real estate	$ 8,011	$	$	$ 8,011
Capital replacements real estate	290			290
Capital replacements other assets	95			95
Other assets	69	27	1	97
Total	$ 8,465	$ 27	$ 1	$ 8,493

Table of Contents

	Three months ended June 30, 2006			
	Rental Property	Home Sales	Corporate, Interest and Other	Total
Revenues	$ 8,721	$ 12,216	$	$ 20,937
Home sales contribution margin		1,472		1,472
Rental property income before depreciation				