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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q/A

(Amendment No. 1)

(Mark One)

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

For the quarterly period ended March 31, 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 (State of incorporation)	**84-1477939** (I.R.S. employer identification no.)
7887 East Belleview Avenue, Suite 200 **Englewood, Colorado** (Address of principal executive offices)	**80111** (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 May 5, 2006 was 41,298,339.

AFFORDABLE RESIDENTIAL COMMUNITIES INC.
FORM 10-Q/A
FOR THE QUARTER ENDED MARCH 31, 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 ended March 31, 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 MARCH 31, 2006 AND DECEMBER 31, 2005
(in thousands, except share and per share data)
(unaudited)

	March 31, 2006 (as restated)	December 31, 2005
Assets		
Rental and other property, net	$ 1,434,422	$ 1,453,097
Assets held for sale	78,925	132,340
Cash and cash equivalents	31,312	27,926
Restricted cash	6,702	7,022
Tenant and other receivables, net	3,366	3,942
Notes receivable, net	33,622	33,418
Loan origination costs, net	15,405	16,164
Loan reserves	35,307	35,088
Lease intangibles and customer relationships, net	10,660	12,055
Prepaid expenses and other assets	9,122	7,429
Total assets	$ 1,658,843	$ 1,728,481
Liabilities and Stockholders Equity		
Notes payable	$ 1,106,258	$ 1,146,331
Liabilities related to assets held for sale	37,886	56,827
Accounts payable and accrued expenses	25,471	32,653
Dividends payable	1,903	1,887
Tenant deposits and other liabilities	19,179	14,786
Total liabilities	1,190,697	1,252,484
Minority interest	29,178	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 March 31, 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, 41,288,948 and 40,971,423 shares issued and outstanding at March 31, 2006 and December 31, 2005, respectively	413	410
Additional paid-in capital	793,712	791,201
Accumulated other comprehensive income		583
Retained deficit	(474,265)	(467,207)
Total stockholders equity	438,968	444,095
Total liabilities and stockholders equity	$ 1,658,843	$ 1,728,481

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

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AFFORDABLE RESIDENTIAL COMMUNITIES INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2006 AND 2005
(in thousands, except per share data)
(unaudited)

	Three Months Ended March 31, 2006 (as restated)	2005
Revenue		
Rental income	$ 50,906	$ 46,346
Sales of manufactured homes	2,672	7,464
Utility and other income	6,477	4,928
Net consumer finance interest income	179	
Total revenue	60,234	58,738
Expenses		
Property operations	16,422	18,242
Real estate taxes	5,136	3,967
Cost of manufactured homes sold	2,309	7,378
Retail home sales, finance and insurance	1,898	3,340
Property management	1,592	2,145
General and administrative	4,421	5,494
Depreciation and amortization	21,611	16,296
Loss on sale of airplane	541	
Net consumer finance interest expense		446
Interest expense	19,581	15,689
Total expenses	73,511	72,997
Interest income	(423)	(373)
Loss from continuing operations before income tax benefit and allocation to minority interest	(12,854)	(13,886)
Income tax benefit from continuing operations	1,199	
Loss from continuing operations before allocation to minority interest	(11,655)	(13,886)
Minority interest	236	544
Loss from continuing operations	(11,419)	(13,342)
Income from discontinued operations	1,692	781
Gain (loss) on sale of discontinued operations	10,296	(730)
Income tax expense from discontinued operations	(4,795)	
Minority interest in discontinued operations	(253)	(3)
Net loss	(4,479)	(13,294)
Preferred stock dividend	(2,578)	(2,578)
Net loss attributable to common stockholders	$ (7,057)	$ (15,872)
Loss per share from continuing operations		
	$ (0.32)	$ (0.37)
Diluted loss per share	$ (0.32)	$ (0.37)
Income per share from discontinued operations		
Basic income per share	$ 0.16	$
Diluted income per share	$ 0.16	$
Loss per share attributable to common stockholders		
Basic loss per share	$ (0.16)	$ (0.37)
Diluted loss per share	$ (0.16)	$ (0.37)
Weighted average share information		
Basic shares outstanding	43,576	43,256

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

AFFORDABLE RESIDENTIAL COMMUNITIES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2006 and 2005
(in thousands)
(unaudited)

	Three Months Ended March 31, 2006 (as restated)	2005
Cash flow from operating activities		
Net loss	$ (4,479)	$ (13,294)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	21,611	16,296
Intra-period income taxes	3,596	
Adjustments to fair value for interest rate caps	(312)	219
Amortization of loan origination costs	1,434	1,693
Stock grant compensation expense	49	14
Partnership preferred unit distributions declared	276	393
Minority interest	(512)	(937)
Depreciation and minority interest included in income from discontinued operations	472	2,079
(Gain) loss on sale of discontinued operations	(10,296)	730
Loss on sale of airplane	541	
Gain on sale of manufactured homes	(363)	(86)
Changes in operating assets and liabilities	(8,078)	(510)
Net cash provided by operating activities	3,939	6,597
Cash flow from investing activities		
Purchases of manufactured homes	(1,964)	(11,681)
Proceeds from community sales	60,804	37,378
Proceeds from manufactured home sales	2,561	7,240
Proceeds from sale of airplane	1,170	
Community improvements and equipment purchases	(1,815)	(26,359)
Restricted cash	320	(9)
Loan Reserves	(219)	101
Net cash provided by investing activities	60,857	6,670
Cash flow from financing activities		
Proceeds from issuance of debt	23,035	63,658
Repayment of debt	(80,918)	(51,543)
Payment of common dividends and OP unit distributions		(13,521)
Payment of preferred dividends	(2,578)	(2,578)
Payment of partnership preferred distributions	(276)	(393)
Loan origination costs	(673)	(1,349)
Net cash used in financing activities	(61,410)	(5,726)
Net increase in cash and cash equivalents	3,386	7,541
Cash and cash equivalents, beginning of period	27,926	32,859
Cash and cash equivalents, end of period	$ 31,312	$ 40,400
Non-cash financing and investing transactions:		
Notes receivable acquired from community sales	$	$ 1,068
Notes receivable for manufactured home sales	$ 95	$
Supplemental cash flow information:		
Cash paid for interest	$ 21,719	$ 16,087

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

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

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

Business

Affordable Residential Communities Inc. is a Maryland corporation that is engaged in the acquisition, renovation, repositioning and operation of primarily all-age manufactured home communities, the retail sale and financing of manufactured homes, the rental of manufactured homes and other related businesses including acting as agent in the sale of homeowners insurance and related products, all exclusively to residents in our communities. We were organized in July 1998 and operate primarily through Affordable Residential Communities LP (the Operating Partnership or OP) and its subsidiaries, of which we are the sole general partner and owned 96.5% as of March 31, 2006.

As of March 31, 2006, we owned and operated 275 communities (net of 14 communities classified as discontinued operations, see Note 10) consisting of 57,246 homesites (net of 2,920 homesites classified as discontinued operations) in 23 states with occupancy of 83.6%. 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 March 31, 2006 are not necessarily indicative of the results that may be expected for the year ended December 31, 2006. These financial statements should be read in conjunction with the financial statements included in our Current Report on Form 8-K for the year ended December 31, 2005 filed on October 5, 2006.

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

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

Summary of Significant Accounting Policies

Rental and Other Property

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

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

We evaluate the recoverability of our investment in rental property whenever events or changes in circumstances indicate that the recoverability of the net book value of the asset is questionable. Our assessment of the recoverability of rental property includes, but is not limited to, recent operating results and expected net operating cash flows from future operations. In the event that facts and circumstances indicate that the carrying amount of rental property may be impaired, we perform an evaluation of recoverability in which we compare the estimated future undiscounted cash flows associated with the asset to the asset s carrying amount to determine if an impairment adjustment is required. If this review indicates that the asset s carrying amount will not be fully recoverable, we will reduce the carrying value of the asset to its estimated fair value. We recorded no impairment charges during the three months ended March 31, 2006 and 2005.

Restricted Stock Grants

During 2004 we granted 95,000 shares of restricted common stock that vest over five years. In June 2004, 42,500 of these restricted shares were forfeited and in October 2004, an additional 37,500 shares of restricted stock were forfeited pursuant to the terms of their issuance, leaving 15,000 restricted shares outstanding. During both of the three month periods ended March 31, 2006 and 2005, 3,000 shares vested leaving 9,000 shares unvested at March 31, 2006. We have recorded the unvested portion of the remaining 9,000 outstanding restricted shares as of March 31, 2006 as unearned compensation and are amortizing the balance ratably over the vesting period. We recorded $14,000 in compensation expense related to these restricted shares during both of the three month periods ended March 31, 2006 and 2005. In accordance with SFAS No. 123(R) (see Recent Statements of Financial Accounting Standards below), effective January 1, 2006, unearned compensation will continue 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 March 31, 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.

Interest and Internal Cost Capitalization

We capitalize our interest costs (using our average cost of borrowings) and internal costs (using actual time spent and related costs) on development of long-lived assets from the date we begin substantive activities through the date we place such assets into service in accordance with Statement of Financial Accounting Standards (SFAS) No. 34, *Capitalization of Interest* and SFAS No. 67, *Accounting for Costs and Initial Rental Operations of Real Estate Projects,* respectively. The long-lived assets on which we capitalize interest include general construction activities in our communities, manufactured homes and, in the case of the communities acquired, the cost of the vacant homesites we acquired on which we are making improvements and placing a manufactured home for rent or sale.

Income Taxes

Deferred tax assets and liabilities are recorded for the estimated future tax effects of the temporary difference between the tax basis of assets and liabilities reported in the accompanying consolidated balance sheets. Deferred tax assets are reduced by a valuation allowance to the extent that their benefits are not expected to be realized. At March 31, 2006 a valuation allowance of $76.1 million was recorded to reduce deferred tax assets to the amount expected to be recoverable.

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

Accumulated Other Comprehensive Income and Comprehensive Loss

Amounts recorded in accumulated other comprehensive income as of December 31, 2005 represent unrecognized gains on our interest rate swap, which qualified as a cash flow hedge and was marked to market over the life of the instrument. Including these unrecognized gains or losses, our comprehensive loss for the three months ended March 31, 2006 was $7.6 million compared with a comprehensive loss of $15.6 million for the three months ended March 31, 2005. Our interest rate swap agreement expired in February 2006 and was not renewed.

Recent Statements of Financial Accounting Standards

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123(R)), which is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123). SFAS No. 123(R) became effective on January 1, 2006 and we have adopted the standard using the modified prospective method. Since our only share based payments are nominal restricted stock issuance and shares issued to members of the board of directors as compensation, the implementation of SFAS No. 123(R) did not have a material impact on our financial position as of March 31, 2006 or our operations or cash flows for the three months ended March 31, 2006.

2. Restatement

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

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

In accordance with FASB Interpretation No. 18, *Accounting for Income Taxes in Interim Periods An Interpretation of APB Opinion No. 28* , the tax benefit recognized in continuing operations is calculated using an effective rate methodology and therefore will be provided for over the course of the year. The tax expense recognized in discontinued operations is recognized on a discrete basis and therefore the entire amount of tax expense is recognized at the time the pretax gain on the discontinued operations is recognized. This mismatch in the timing of the recognition of tax benefits and expense resulted in a restatement of the net loss for the quarter ended March 31, 2006.

The impact of the restatement on our consolidated balance sheet and consolidated statement of operations is outlined in the table below (dollars in thousands). This restatement did not have an impact on our cash flows from operating, investing or financing activities or periods prior to 2006. The previously reported amounts have been recast for discontinued communities. However, the associated amounts were not separately reflected as they were considered immaterial of 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 March 31, 2006	
	Previously Reported	**As Restated**
Consolidated Balance Sheet		
Tenant deposits and other liabilities	$ 15,954	$ 19,179
Total liabilities	$ 1,187,472	$ 1,190,697
Minority interest	$ 29,293	$ 29,178
Retained deficit	$ (471,154)	$ (474,265)
Total stockholders equity	$ 442,079	$ 438,968
Total liabilities and stockholders equity	$ 1,658,843	$ 1,658,843

	Three Months Ended March 31, 2006	
	Previously Reported	**As Restated**
Consolidated Statement of Operations		
Loss from continuing operations before income tax benefit and allocation to minority interest	$ (12,854)	$ (12,854)
Income tax benefit from continuing operations		1,199
Loss before allocation to minority interest	(12,854)	(11,655)
Minority interest	278	236
Loss from continuing operations	(12,576)	(11,419)
Income from discontinued operations	1,692	1,692
Gain on sale of discontinued operations	10,296	10,296
Income tax expense from discontinued operations	(371)	(4,795)
Minority interest in discontinued operations	(410)	(253)
Net loss	(1,369)	(4,479)
Preferred stock dividend	(2,578)	(2,578)
Net loss attributable to common stockholders	$ (3,947)	$ (7,057)
Loss per share from continuing operations		
Basic loss per share	$ (0.35)	$ (0.32)
Diluted loss per share	$ (0.35)	$ (0.32)
Income per share from discontinued operations		
Basic income per share	$ 0.26	$ 0.16
Diluted income per share	$ 0.26	$ 0.16
Loss per share attributable to common stockholders		
Basic loss per share	$ (0.09)	$ (0.16)
Diluted loss per share	$ (0.09)	$ (0.16)
Weighted average common shares outstanding	43,576	43,576

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

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

At March 31, 2006, minority interest consisted of 1,517,060 OP Units that were issued to various limited partners and 705,688 preferred partnership units (PPUs) issued on June 30, 2004 as part of the D.A.M. portfolio acquisition. Each OP Unit outstanding is paired with 1.9268 shares of our special voting stock (each a Paired Equity Unit) that allows each holder to vote an OP Unit on matters as if it were a common share of our stock. Each OP Unit is redeemable for cash, or at our election, one share of our common stock. During the first quarter of 2006, we redeemed approximately 313,900 OP Units for an equal number of shares of our common stock valued at $3.0 million.

The PPUs outstanding as of March 31, 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 March 31, 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 March 31, 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	17
Transfer from stockholders equity	570
Redemption of OP Units.	(3,035)
Distributions to PPU holders	(276)
Minority interest at March 31, 2006	$ 29,178

4. Rental and Other Property, Net

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

	March 31, 2006	December 31, 2005
Land	$ 194,281	$ 194,331
Improvements to land and buildings	1,189,753	1,190,102
Rental homes and improvements	261,551	261,164
Furniture, equipment and vehicles	12,949	16,041
Subtotal	1,658,534	1,661,638
Less accumulated depreciation:		
On improvements to land and buildings	(174,043)	(164,186)
On rental homes and improvements.	(43,629)	(37,077)
On furniture, equipment and vehicles	(6,440)	(7,278)
Rental and other property, net	$ 1,434,422	$ 1,453,097

We have capitalized interest and internal costs of $0.2 million in the cost of land and building improvements and manufactured home purchases for the three months ended March 31, 2005. No interest and internal costs were capitalized for the three months ended March 31, 2006.

5. Notes Payable

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

	March 31, 2006	December 31, 2005
Senior fixed rate mortgage due 2009, 5.05% per annum	$ 89,155	$ 89,512
Senior fixed rate mortgage due 2012, 7.35% per annum	281,523	286,433
Senior fixed rate mortgage due 2014, 5.53% per annum	195,550	196,270
Senior variable rate mortgage due 2007, one-month LIBOR plus 3.00% per annum (7.83% at March 31, 2006)	118,523	126,297
Various individual fixed rate mortgages due 2006 through 2031, averaging 7.23% per annum at March 31, 2006	135,977	150,104
Revolving credit mortgage facility due 2006, one-month LIBOR plus 2.75% per annum (7.58% at March 31, 2006)	58,764	58,764
Floorplan line of credit due 2007, ranging from prime plus 0.75% to prime plus 4.00% per annum (8.50% at March 31, 2006)	6,945	14,188
Trust preferred securities due 2035, three-month LIBOR plus 3.25% per annum (8.25% at March 31, 2006)	25,780	25,780
Consumer finance facility due 2008, one-month LIBOR plus 3.00% per annum (7.83% at March 31, 2006)	18,188	18,607
Lease receivable facility due 2008, one-month LIBOR plus 4.25% per annum (8.95% at March 31, 2006)	75,500	77,500
Senior exchangeable notes due 2025, 7.50% per annum	96,600	96,600
D.A.M. PPU notes payable due 2006, 7.00% per annum	2,499	4,999
Other loans	1,254	1,277
	$ 1,106,258	$ 1,146,331

Senior Fixed Rate Mortgage Due 2009

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

Senior Fixed Rate Mortgage Due 2012

The Senior Fixed Rate Mortgage due 2012 is an obligation of certain of our special purpose real property subsidiaries and is collateralized by 99 manufactured home communities. The Senior Fixed Rate Mortgage due 2012 bears interest at a fixed rate of 7.35% per annum, is amortized based on a 30-year schedule and matures on May 1, 2012. Pursuant to the terms of the mortgage agreement, we have established reserves relating to the mortgaged properties for real estate taxes, insurance, capital spending and property operating expenditures. The Senior Fixed Rate Mortgage due 2012 contains customary defeasance-based prepayment penalties for repayments made prior to maturity.

Senior Fixed Rate Mortgage Due 2014

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

Senior Variable Rate Mortgage Due 2007

The Senior Variable Rate Mortgage due 2007 is an obligation of certain real property subsidiaries of the Operating Partnership and is collateralized by 32 manufactured home communities owned by these subsidiaries. The Senior Variable Rate Mortgage due 2007 bears interest at a variable rate based on a spread of 3.00% over the one-month LIBOR rate (7.83% at March 31, 2006). On February 10, 2006, we extended the due date to February 11, 2007. At our option and subject to certain conditions, we may extend the Senior Variable Rate Mortgage due 2007 for two additional 12-month periods. In connection with the second and third extensions, we would be required to pay extension fees of 0.25% and 0.375% of the outstanding principal balance, respectively. We will incur an exit fee equal to 0.50% of the loan amount payable upon any repayment of the principal amount of the loan. The exit fee will be subject to reduction by an amount equal to 0.50% of the principal amount of any first mortgage loans provided by the lenders to refinance the Senior Variable Rate Mortgage due 2007. 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.

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 $40.0 million at March 31, 2006, mature from 2006 ($5.2 million in 2006) through 2028 and have an average effective interest rate of 7.46%. These mortgages are secured by 13 specific manufactured home communities.

b) Mortgages assumed in conjunction with the Hometown acquisition. These notes total approximately $68.2 million, mature from 2008 through 2031 and carry an average effective interest rate of 7.12%. These mortgages are secured by 12 specific manufactured home communities and subject to early pre-payment penalties, the terms of which vary from mortgage to mortgage.

c) Notes assumed in conjunction with the D.A.M. portfolio purchase. These notes total approximately $27.8 million, mature in 2008 and carry an average effective annual interest rate of 7.18%. These mortgages are secured by 24 specific manufactured home communities.

Revolving Credit Mortgage Facility

Our Revolving Credit Mortgage Facility provides for borrowings of up to $85.0 million. This facility is an obligation of a subsidiary of the Operating Partnership and is secured by 28 communities. Advances under the Revolving Credit Mortgage Facility are limited by borrowing base requirements related to the value and cash flow of the communities securing the loan ($62.4 million as of March 31, 2006). The Revolving Credit Mortgage Facility bears interest at the one month LIBOR plus 2.75% (7.58% at March 31, 2006) and matures in September 2006. We incurred a commitment fee of 0.5% at the closing of the facility and will pay origination fees of 0.5% with each advance. The facility contains no significant financial covenants.

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 8.50% at March 31, 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 March 31, 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% (8.25% at March 31, 2006). Interest on the securities is paid on the 30th of March, June, September and December of each year. The Company may redeem these securities on or after March 30, 2010 in whole or in part at principal amount plus accrued interest. The securities are mandatorily redeemable on March 15, 2035 if not redeemed sooner.

Consumer Finance Facility

The Consumer Finance Facility has a total commitment of $125.0 million and a term of four years. This facility is an obligation of a subsidiary of our Operating Partnership, and borrowings under this facility are secured by manufactured housing conditional sales contracts. Borrowings under the facility are limited by specified borrowing base requirements related to the value of the collateral securing the facility ($19.7 million as of March 31, 2006). The facility bears interest at a variable rate based upon a spread of 3.00% over the one-month LIBOR (7.83% at March 31, 2006). During the quarter, we paid a commitment fee of 1.00% on the original committed amount and 0.75% of the amended committed amount and will pay additional annual commitment fees payable on each anniversary of the closing. Advances under the facility are subject to a number of conditions, including certain underwriting and credit screening guidelines and the conditions that the home must be located in one of our communities, the loan term may not exceed 12 years for a single-section home or 15 years for a multi-section home and the loan amount shall not exceed 90% of the value of the home securing the conditional sales contract.

The line of credit requires the Operating Partnership to maintain a minimum tangible net worth, a maximum debt to tangible net worth ratio of 3 to 1, and minimum cash and cash equivalents of $15.0 million, all as defined in the agreement. The minimum tangible net worth required is $425.0 million through December 31, 2006, $385.0 million

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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 March 31, 2006 with all financial covenants under the line of credit.

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

Lease Receivables Facility

The Company has a $150.0 million secured revolving credit facility (the Lease Receivables Facility) which we use to finance the purchase of manufactured homes and for general corporate purposes. Pursuant to the agreement, borrowings are limited to approximately 65% of the net book value of the eligible manufactured housing units owned by two of our indirect wholly owned subsidiaries, ARC Housing LLC and ARC HousingTX LP (collectively, Housing) and located in ARC s communities, subject to certain other applicable borrowing base requirements. The facility bears interest at a variable rate based on a spread of 4.25% over the one-month LIBOR (8.95% at March 31, 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 March 31, 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 and pursuant to a registration rights agreement, ARC filed a registration statement with the SEC with respect to the notes. In the event that the registration statement was not declared effective by the SEC within 180 days of the closing of the sale of the notes, which occurred on August 9, 2005, the holders of the notes are entitled to receive liquidated damages. The 180-day period expired on February 5, 2006 prior to the registration statement being declared effective.

As a result of this registration effectiveness default, the holders of the notes are entitled to liquidated damages to be paid for each day following the default until the registration statement is declared effective in an amount equal to 0.25% of the principal amount of the notes on an annual basis for the first 90 days following the default. The rate increases to 0.50% (the maximum annual rate) of the principal amount on and after the 91st day following the default. Liquidated damages incurred through March 31, 2006 are approximately $35,700 and are reflected in the consolidated statement of operations as interest expense. The registration statement became effective prior to the end of the 90-day period.

We have determined that, subsequent to the initial declaration of effectiveness of the registration statement, it is extremely unlikely that any events will occur that could trigger the payment of any additional liquidated damages. Accordingly, the registration rights agreement was valued a nominal value at inception.

D.A.M. PPU Notes Payable Due 2006

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

6. 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 March 31, 2006 (as restated)	2005
Loss per share from continuing operations:		
Loss from continuing operations	$ (11,419)	$ (13,342)
Preferred stock dividends	(2,578)	(2,578)
Net loss from continuing operations	$ (13,997)	$ (15,920)
Weighted average share information:		
Common shares outstanding	43,576	43,256
Basic loss per share from continuing operations	$ (0.32)	$ (0.37)
Diluted loss per share from continuing operations	$ (0.32)	$ (0.37)
Income (loss) per share from discontinued operations:		
Income from discontinued operations	$ 1,692	$ 781
Gain (loss) on sale of discontinued operations	10,296	(730)
Income tax expense on discontinued operations	(4,795)	
Minority interest in discontinued operations	(253)	(3)
Net income from discontinued operations	$ 6,940	$ 48
Basic income per share from discontinued operations	$ 0.16	$
Diluted income per share from discontinued operations	$ 0.16	$
Loss per share to common stockholders:		
Net loss to common stockholders	$ (7,057)	$ (15,872)
Basic loss per share to common stockholders	$ (0.16)	$ (0.37)
Diluted loss per share to common stockholders	$ (0.16)	$ (0.37)
Equivalent shares excluded from diluted loss per share because they would be anti-dilutive:		
Operating partnership units (a)	1,710	2,543
Preferred partnership units (b)	1,778	2,103
Restricted stock	11	15
Total	3,499	4,661

(a) From March 31, 2005 through March 31, 2006, we redeemed a weighted average of 787,000 operating partnership units.

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

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7. Property Operations Expense

During the three months ended March 31, 2006 and 2005, we incurred property operations expense as follows (in thousands):

	Three Months Ended March 31, 2006	2005
Utilities and telephone	$ 7,141	$ 7,043
Salaries and benefits	4,970	5,487
Repairs and maintenance	1,823	2,415
Insurance	862	916
Bad debt expense	400	694
Professional services	311	343
Office supplies	161	259
Advertising	26	162
Other operating expense	728	923
	$ 16,422	$ 18,242

8. Retail Home Sales, Finance, Insurance and Other Operating Expense

During the three months ended March 31, 2006 and 2005, we incurred retail home sales, finance, insurance and other operating expense as follows (in thousands):

	Three Months Ended March 31, 2006	2005
Salaries and benefits	$ 661	$ 1,226
Lease commissions	581	307
Insurance	50	79
Professional services	233	155
Advertising	168	1,111
Other operating expense	205	462
	$ 1,898	$ 3,340

9. General and Administrative Expense

During the three months ended March 31, 2006 and 2005, we incurred general and administrative expense as follows (in thousands):

	Three Months Ended March 31, 2006	2005
Salaries and benefits	$ 2,744	$ 3,213
Travel	133	440
Professional services	631	990
Telephone	65	99
Office supplies	116	122
Insurance	257	117
Rent	64	69
Other administrative expense	411	444
	$ 4,421	$ 5,494

10. Discontinued Operations

As of December 31, 2005, the Company held 41 communities as discontinued operations and as of March 31, 2006 had closed sales for 27 of these communities comprising $34.2 million of cash proceeds net of related debt, defeasance and other closing costs of $34.3 million. Subsequent to March 31, 2006, we closed an additional 13 communities for $51.2 million of cash proceeds net of related debt, defeasance and other closing costs of $40.7 million. The remaining sales transaction is expected to close in 2007. There can be no assurance, however, that the Company will close the remaining community sale, or, if it closes, that it will close on the terms set forth in its contract.

In accordance with the provisions of Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-lived Assets, each of the communities designated as held for sale and not sold have been classified as discontinued operations as of March 31, 2006 and December 31, 2005. We have included $78.9 million and $132.3 million of net assets related to these communities as assets held for sale in the accompanying consolidated balance sheets as of March 31, 2006 and December 31, 2005, respectively, and $37.9 million and $56.8 million, respectively, of mortgage notes payable and other obligations related to these communities as liabilities related to assets held for sale. In addition, we have recast the operations of each of these communities as discontinued operations in the accompanying statements of operations for the three months ended March 31, 2006 and 2005 and recorded a gain of $10.3 million and loss of $0.7 million, respectively, related to the sale of the discontinued operations for the quarters ended March 31, 2006 and 2005 in connection with these sales.

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

	March 31, 2006	December 31, 2005
Assets Held for Sale		
Rental and other property, net	$ 75,189	$ 131,768
Tenant, notes and other receivables, net	294	665
Loan origination costs	357	752
Goodwill	3,524	6,481
Lease intangibles and customer relationships, net	762	1,110
Prepaid expenses and other assets	196	414
Reserve for loss on sales of communities	(1,397)	(8,850)
	$ 78,925	$ 132,340
Liabilities Related to Assets Held for Sale		
Notes payable	$ 36,844	$ 54,859
Accounts payable and accrued expenses	421	618
Tenant deposits and other liabilities	621	1,350
	$ 37,886	$ 56,827

	Three Months Ended March 31, 2006	2005
Statement of Operations		
Revenue	$ 5,441	$ 7,553
Operating expenses	(3,749)	(6,772)
Income from discontinued operations	$ 1,692	$ 781

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11. Commitments and Contingencies

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

12. Segment Information

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

	Three Months Ended March 31, 2006 (as restated)	2005
Total revenue		
Real estate	$ 57,196	$ 51,174
Retail home sales	2,688	7,464
Finance and insurance	350	100
	60,234	58,738
Operating expenses, cost of manufactured homes sold and real estate taxes		
Real estate	21,558	22,209
Retail home sales	3,497	10,327
Finance and insurance	710	391
	25,765	32,927
Net segment income (a)		
Real estate	35,638	28,965
Retail home sales	(809)	(2,863)
Finance and insurance	(360)	(291)
	34,469	25,811
Property management expense	1,592	2,145
General and administrative expense	4,421	5,494
Interest expense		
Real estate	16,765	13,440
Retail home sales	273	362
Corporate and other	2,543	1,887
	19,581	15,689
Amortization expense	1,395	1,534
Depreciation expense		
Real estate	20,118	14,635
Retail home sales	1	6
Finance and insurance		2
Corporate and other	97	119
	20,216	14,762

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

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	Three Months Ended 2006 (as restated)	2005
Loss on sale of airplane	541	
Net consumer finance interest expense		446
Interest income	(423)	(373)
Loss from continuing operations before income tax benefit and allocation to minority interest	(12,854)	(13,886)
Income tax benefit from continuing operations	1,199	
Loss from continuing operations before minority interest	(11,655)	(13,886)
Minority interest	236	544
Loss from continuing operations	(11,419)	(13,342)
Income discontinued operations	1,692	781
Gain (loss) on sale of discontinued operations	10,296	(730)
Income tax expense from discontinued operations	(4,795)	
Minority interest in discontinued operations	(253)	(3)
Net loss	(4,479)	(13,294)
Preferred stock dividend	(2,578)	(2,578)
Net loss attributable to common stockholders	$ (7,057)	$ (15,872)

	March 31, 2006	December 31, 2005
Identifiable assets		
Real estate	$ 1,587,721	$ 1,642,214
Retail home sales	20,112	28,843
Finance and insurance	27,391	27,689
Corporate and other	23,619	29,735
	$ 1,658,843	$ 1,728,481
Notes payable		
Real estate	$ 954,992	$ 984,881
Retail home sales	6,945	14,188
Finance and insurance	18,188	18,607
Corporate and other	126,133	128,655
	$ 1,106,258	$ 1,146,331

13. Income Taxes

The Company has determined that certain sales of properties that will close during the year ending December 31, 2006 will result in gains for Federal income tax purposes. In certain circumstances, gains on sales of properties by companies taxed as a REIT may result in a Federal income tax liability equal to the amount of the gain for Federal income tax purposes (a 100% tax rate). As a result, on March 30, 2006, the Company elected not to be taxed as a REIT for the year ending December 31, 2006.

At March 31, 2006, the Company has net operating loss carry-forwards for Federal income tax purposes, subject to certain limitations, of approximately $354 million and $339 million for regular income tax and alternative minimum tax, respectively. These net operating loss carry-forwards expire in 2018 through 2025. Losses from continuing operations during the quarter only partially offset the regular taxable earnings from discontinued operations for the quarter ending March 31, 2006 due to the allocation of intra-period taxes as discussed below. The net operating loss carry-forwards for alternative minimum Federal income taxes generally are limited to offsetting 90% of the alternative minimum taxable earnings for a given period. Therefore, alternative minimum tax was incurred in the first quarter of 2006 by the Company as a result of this change in tax status.

Based on our estimated composite Federal and state tax rate of 40%, we recorded as of March 31, 2006, a deferred tax asset of approximately $150.6 million less a valuation allowance reserve of approximately $75.5 million and deferred tax liabilities of approximately $75.2 million. We could experience circumstances in the future that result in a non-cash income tax benefit based on the timing of recognition of the tax benefit of our operating losses carried forward from prior years. Under current IRS rules, we can elect to return to REIT status after five years. There can be no assurances that the tax laws and regulations will not change or that we will change our REIT election status in five years.

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

The significant components of the provision for income taxes are as follows (in thousands):

	Three Months Ended March 31, 2006		
	Continuing Operations (as restated)	**Discontinued Operations (as restated)**	**Total (as restated)**
Current tax expense	$	$	$
Deferred tax expense			
Intra-period tax benefit (expense)	1,199	(4,795)	(3,596)
Provision for income taxes	$ 1,199	$ (4,795)	$ (3,596)

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The provision for income taxes differs from the amount that would be computed by applying the statutory Federal income tax rate of 35% to income before income taxes as a result of the following (in thousands):

	Three Months Ended March 31, 2006		
	Continuing Operations (as restated)	Discontinued Operations (as restated)	Total (as restated)
Tax at statutory rate	$ 4,401	$ (4,052)	$ 349
Permanent differences	(560)	(164)	(724)
State taxes	629	(579)	50
Intra-period tax limitation	(3,225)		(3,225)
Increase in valuation allowance	(46)		(46)
Provision for income taxes	$ 1,199	$ (4,795)	$ (3,596)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of the assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The tax effects of significant temporary differences that give rise to the net deferred tax assets and liabilities are as follows (in thousands):

	March 31, 2006	January 1, 2006
Deferred Tax Assets		
Net operating loss carryforwards	$ 141,752	$ 146,005
Prepaid rent	327	343
Loan loss reserve	194	373
Allowance for doubtful accounts	336	366
Tax basis goodwill	3,665	3,795
Notes payable	2,109	2,202
Accrued liabilities	695	990
Other	1,189	1,205
Alternative minimum tax credit	371	
Valuation allowance	(75,476)	(75,430)
Total gross deferred tax assets	$ 75,162	$ 79,849
Deferred Tax Liabilities		
Rental and other property, net	$ 69,762	$ 73,700
Lease intangibles and customer relationships	4,569	5,176
Deferred commissions	740	842
Other	91	131
Total gross deferred tax liabilities	$ 75,162	$ 79,849

14. Subsequent Events

Redemption of Series C PPUs

In January 2007, all 705,688 units of our Series C PPUs were redeemed according to their terms for 1,628,410 shares of ARC common stock.

Acquisition of NLASCO, Inc.

On January 31, 2007, we acquired all of the stock of NLASCO, Inc. (NLASCO), a privately held property and casualty insurance holding company, and its subsidiaries. In exchange for the stock, NLASCO s shareholders, consisting of C. Clifton Robinson and affiliates, received $105.75 million in cash and 1,218,880 shares of ARC common stock for a total consideration of $117.5 million. In addition, Flexpoint Fund, L.P., a fund managed by Flexpoint Partners, LLC of Chicago, Illinois, invested $20 million to purchase 2,154,763 shares of common stock of the Company at the leading ten-day average market price of our common stock on the date the agreement was signed, subject to certain anti-dilution provisions. The acquisition closed on January 31, 2007.

In order to raise $80 million to provide a source of funding for a portion of the acquisition of NLASCO, we conducted a rights offering to our stockholders. In the rights offering, all holders of ARC common stock as of the record date of December 19, 2006 received one non-transferable right to purchase approximately 0.242 shares of common stock of the Company for each share held. The price at which the additional shares were purchased was $8.00 per share. The rights offering expired on January 23, 2007, and the company issued approximately 7.8 million shares of common stock to existing shareholders on that date. In addition, Gerald J. Ford and certain affiliates controlled by him purchased approximately 1.8 million shares that they would have been entitled to in the rights offering in a separate private placement transaction. Gerald J. Ford, one of the Company s directors and the beneficial owner of approximately 17.6% of ARC s common stock as of the record date, and certain of his affiliates also backstopped the rights offering and purchased another approximately 400,000 shares that were not purchased in the rights offering by the stockholders of record on the record date, at the rights offering price per share of $8.00.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the consolidated historical financial statements and notes appearing elsewhere in this Form 10-QA and the financial information set forth in the tables below.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-QA includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended by the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, included in this report that address results or developments that we expect or anticipate will or may occur in the future, where statements are preceded by, followed by or include the words believes, expects, may, will, would, could, shou seeks, approximately, intends, plans, projects, estimates or anticipates or the negative of these words and phrases or similar words or p including such things as our business strategy, our ability to obtain future financing arrangements, estimates relating to our future distributions, our understanding of our competition, market trends, projected capital expenditures, the impact of technology on our products, operations and business, are forward-looking statements. The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance taking into account all information currently available to us. These beliefs, assumptions and expectations are subject to risks and uncertainties and can change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, business plan, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. These risks could cause actual results to vary materially from our forward-looking statements along with the risks disclosed in the section of this report entitled Risk Factors and the following factors:

- competition from other forms of single or multifamily housing;
- changes in market rental rates, supply and demand for affordable housing, the cost of acquiring, transporting, setting or selling manufactured homes;
- the availability of manufactured homes from manufacturers;
- the availability of cash or financing for us to acquire additional manufactured homes;
- the ability of manufactured home buyers to obtain financing;
- our ability to maintain or increase rental rates and maintain or improve occupancy;
- the level of repossessions by manufactured home lenders;
- the adverse impact of external factors such as changes in interest rates, inflation and consumer confidence;
- the ability to identify acquisitions, have funds available for acquisitions, the pace of acquisitions and/or dispositions of communities and new or rental homes;
- our corporate debt ratings;
- demand for home purchases in our communities and demand for financing of such purchases;
- demand for rental homes in our communities;
- the condition of capital markets;
- actual outcome of the resolution of any conflict;

- our ability to successfully operate acquired properties;

- our decision and ability to sell additional communities and the terms and conditions of any such sales and whether any such sales actually close;

- issues arising from our decision not to continue to maintain our status as a real estate investment trust (REIT) ;

- the impact of the tax code and rules on our balance sheet and business operations;

- our ability to pay dividends or make other distributions to our stockholders and the Partnership s unitholders;

- environmental uncertainties and risks related to natural disasters;

- changes in and compliance with real estate permitting, licensing and zoning laws including legislation affecting monthly leases and rent control and increases in property taxes; and

- changes in and compliance with licensing requirements regarding the sale or leasing of manufactured homes.

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Consequently, all of the forward-looking statements made in this report are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by us will be realized, or even substantially realized, and that they will have the expected consequences to or effects on us and our business or operations. Forward-looking statements made in this report speak as of the date hereof or as of the date specifically referenced in any such statement set forth herein. We undertake no obligation to update or revise any forward-looking statements in this report.

GENERAL STRUCTURE OF THE COMPANY

We are a fully integrated, self-administered and self-managed corporation focused on the operation of primarily all-age manufactured home communities. We also conduct certain complementary business activities focused on improving and maintaining occupancy in our communities, including the rental of manufactured homes, the retail sale of manufactured homes, the financing of sales of manufactured homes and acting as agent in the sale of homeowners insurance and other related insurance products. We conduct substantially all of our activities through our Operating Partnership, of which we are the sole general partner and in which we hold a 96.5% ownership interest as of March 31, 2006.

Beginning in 1995, our co-founders founded several companies under the name Affordable Residential Communities or ARC for the purpose of engaging in the business of acquiring, renovating, repositioning and operating manufactured home communities, as well as certain related businesses. We were formed in July 1998 as a Maryland corporation for the purpose of acting as the investment vehicle for and a co-general partner of our Operating Partnership, the fourth real property partnership organized and operated by our co-founders. In May 2002, we completed a reorganization in which we acquired substantially all the other real property partnerships and other related businesses organized and operated by our co-founders.

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 ended March 31, 2006.

RECENT DEVELOPMENTS

On February 10, 2006, we extended the due date of our Senior Variable Rate Mortgage due 2006 to February 11, 2007. At our option and subject to certain conditions, we may extend the Senior Variable Rate Mortgage due 2006 for two additional 12-month periods. In connection with the second and third extensions, we would be required to pay extension fees of 0.25% and 0.375% of the outstanding principal balance, respectively.

In February and March 2006, the Company closed on 27 previously contracted community sales transactions, including the sale of our Desert Palms community, comprising $34.2 million of cash proceeds net of related debt, defeasance and other closing costs of $34.3 million. We expect to close all the remaining sales transactions in 2006 and will continue to own and operate these communities through the date of sale. There can be no assurance, however, that the Company will close all of the remaining community sales, or, if they close, that they will close on the terms set forth in the contract with respect to each.

The Company has determined that certain sales of properties anticipated to close during the year ending December 31, 2006 will result in gains for Federal income tax purposes. In certain circumstances, gains on sales of properties by companies taxed as a REIT may result in a Federal income tax liability equal to the amount of the gain for Federal income tax purposes (a 100% tax rate). As a result, on March 30, 2006, the Company elected not to be taxed as a REIT for the year ending December 31, 2006.

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

On May 5, 2006, our registration statement filed with respect to our senior exchangeable notes was declared effective.

OVERVIEW OF RESULTS

For the quarter ended March 31, 2006, net loss attributable to common stockholders was ($7.1) million (as restated) or ($0.16) per share (as restated), as compared to a net loss attributable to common stockholders of ($15.9) million or ($0.37) per share for the same period in 2005. Revenue in our real estate segment increased to $57.2 million from $51.2 million for the three months ended March 31, 2006, as compared to the three months ended March 31, 2005. Real estate segment expenses for the three months ended March 31, 2006 decreased to $21.6 million, as compared with $22.2 million for the three months ended March 31, 2005. As a result, real estate net segment income increased 23.0% to $35.6 million from $29.0 million for the three months ended March 31, 2006, as compared to the three months ended March 31, 2005. See Real Estate Net Segment Income included hereinafter in this section for definitions of real estate net segment income and for reconciliations of real estate net segment income to net loss, the most directly comparable GAAP measure.

Total portfolio occupancy averaged 83.5% and 81.9% for the three months ended March 31, 2006 and 2005, respectively, and was 83.6% and 82.2% as of March 31, 2006 and 2005, respectively. The increases are due mainly to the initiatives to increase occupancy during 2005 when we aggressively marketed sales of manufactured homes and spent in excess of $50 million on community improvements to drive occupancy.

The following table summarizes our occupancy net activity for the three months ended March 31:

	Three Months Ended March 31, 2006	2005
Homeowner activity:		
Homeowner move ins	253	250
Homeowner move outs	(548)	(688)
Home sales	132	739
Repossession move outs	(303)	(602)
Net homeowner activity	(466)	(301)
Home renter activity:		
Home renter move ins	927	838
Home renter lease with option to purchase move ins	389	793
Home renter move outs	(855)	(1,042)
Net home renter activity	461	589
Net activity	**(5)**	**288**
The following reconciles the above activity to the period end occupied homesites.		
Net homeowner activity	(466)	(301)
Occupied homeowner sites, beginning of period	40,409	41,836
Occupied homeowner sites, end of period	39,943	41,535
Net home renter activity	461	589
Occupied home renter sites, beginning of period	7,468	5,389
Occupied home renter sites, end of period	7,929	5,978
Total occupied homesites, end of period	47,872	47,513
Total occupancy percentage (a)	83.6%	82.2%

(a) The Company removed a total of 674 lots from its homesite count from March 31, 2005 to December 31, 2005 as part of its ongoing review of operations.

On March 31, 2006, our total home inventory was 9,267 homes. In the first quarter of 2006, as compared with the same period of 2005, our sales of manufactured homes declined primarily due to increased leasing activity. We expect increased sales and leasing activity in the coming months due to our continued focus on affordable price points, marketing, training of our employees and the availability of chattel financing through our consumer finance program. In the three months ended March 31, 2006, we sold 132 manufactured homes from our home inventory, compared with 739 for the same period in 2005.

BUSINESS OBJECTIVES, PROPERTY MANAGEMENT AND OPERATING STRATEGIES

Community and General Business Management. We are currently focused on community operations. Historically, we focused more extensively on community acquisition opportunities. Our principal business objectives are to achieve sustainable long-term growth in cash flow and to maximize returns to our investors. Generally we provide a clean, attractive and affordable place for our residents to live that is competitive with other forms of housing and provide real value and service to our residents. We have established district and regional management that has a sufficiently limited span of control to allow for strong focus on community operations. We have engaged in a detailed, bottom-up, budgeting process that focused on operating effectiveness at the community level against which we intend to regularly compare our results throughout the year. In our community operations, we are focused on rent levels, recovery of utility costs and control of expenses. In our marketing programs, we are focused on profitable programs in the sale and leasing of homes. We have implemented procedures to increase the pricing of our home and leasing transactions. Our primary tools remain (i) our rental home program, including our lease with option to purchase program, (ii) our for-sale inventory and (iii) our consumer finance program. We have taken steps to down-size our sales and marketing organization and have recently terminated over 150 employees, primarily in sales management. Our other key operating objectives include the following:

Customer Satisfaction and Quality Control. Our goal is to meet the needs of our residents or prospective residents for housing alternatives in a clean and attractive environment at affordable prices. We approach our business with a consumer product focus having an emphasis on value and quality to our residents and prospective residents. We have quality assurance programs executed through employee training and adherence to guidelines developed by our senior management, based in part upon surveys of our customers. Our customer focus and quality controls are designed to provide consistency and quality of product and to enable our community managers to effectively market our communities and improve resident satisfaction and retention across our portfolio.

Presence in Key Markets. As of March 31, 2006, approximately 74% of our homesites are located in our 20 largest markets. We believe we have a leading market share in 15 of these markets, based on number of homesites. Increasing our presence and market share enables us to (i) achieve operating efficiencies and economies of scale by leveraging our local property management infrastructure and other operating overhead over a larger number of communities and homesites, (ii) provide potential residents with a broader range of affordable housing options in their market, (iii) increase our visibility and brand recognition and leverage advertising costs and (iv) obtain more favorable terms and faster turnaround time on construction, renovation, repairs and home installation services. We believe the continuing significant size and geographic diversity of our portfolio reduces our exposure to risks associated with geographic concentration, including the risk of economic downturns or natural disasters in any one market in which we operate.

Management of Occupancy. In response to challenging industry conditions, particularly the shortage of available consumer financing for the purchase of manufactured housing, we have developed and implemented a range of programs aimed primarily at maintaining and/or increasing our occupancy, improving resident satisfaction and retention, increasing revenue and improving our operating margins. We focus on converting long-term renters into homeowners and improving occupancy through the sale of older homes for cash, the sale for cash or financing of newer homes and the leasing of newer homes with an option to purchase.

THE PROPERTIES

As of March 31, 2006, our portfolio consisted of 275 manufactured home communities (net of 14 communities classified as discontinued operations, see Note 10 in the accompanying financial statements) comprising 57,246 homesites located in 23 states and 58 markets, primarily oriented toward all-age living. 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, Kansas, with 4.2% of our total homesites.

As of March 31, 2006, our communities had an occupancy rate of 83.6%, and the average monthly rental income per occupied homesite was $355. Homesite leases by homeowners generally are month-to-month, or in limited cases year-to-year, and require security deposits. In the case of our residents renting homes from us, lease terms are typically one year, and require a security deposit.

The following table sets forth certain information regarding our communities, arranged from our largest to smallest market, as of March 31, 2006:

Markets (1)	Number of Total Homesites	Percentage of Total Homesites	Occupancy 03/31/06	Rental Income Per Occupied Homesite Per Month (2) 03/31/06
Dallas Ft. Worth, TX	7,181	12.5 %	80.4 %	$ 384
Atlanta, GA	4,967	8.7 %	89.1 %	387
Salt Lake City, UT	3,796	6.6 %	92.6 %	364
Front Range of CO	3,290	5.7 %	84.0 %	460
Kansas City Lawrence Topeka, MO KS	2,424	4.2 %	87.2 %	315
Jacksonville, FL	2,258	4.0 %	90.7 %	371
Wichita, KS	2,162	3.9 %	64.6 %	301
Orlando, FL	1,858	3.3 %	92.4 %	392
St. Louis, MO IL	1,914	3.3 %	79.1 %	312
Oklahoma City, OK	1,891	3.3 %	80.1 %	317
Greensboro Winston Salem, NC	1,396	2.4 %	67.0 %	296
Davenport Moline Rock Island, IA IL	1,382	2.4 %	86.9 %	295
Elkhart Goshen, IN	1,209	2.1 %	88.5 %	383
Charleston North Charleston, SC	1,184	2.1 %	83.0 %	307
Raleigh Durham Chapel Hill, NC	1,092	1.9 %	90.3 %	385
Sioux City, IA NE	994	1.7 %	79.6 %	330
Syracuse, NY	939	1.6 %	61.3 %	380
Des Moines, IA	859	1.5 %	88.0 %	353
Flint, MI	838	1.5 %	72.9 %	395
Pueblo, CO	752	1.3 %	67.0 %	331
Subtotal Top 20 Markets	42,386	74.0 %	83.0 %	365
All Other Markets	14,860	26.0 %	85.3 %	331
Total / Weighted Average	57,246	100.0 %	83.6 %	$ 355

(1) Markets are defined by our management.

(2) Rental Income is defined as homeowner rental income, home renter rental income and other income reduced by move-in bonuses and rent concessions.

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COMMUNITIES

Comparison of the Three Months Ended March 31, 2006 to the Three Months Ended March 31, 2005

The following table presents certain information relative to our real estate segment as of and for the three months ended March 31, 2006 and 2005 (in thousands, except home, community and income and revenue per unit information):

	Real Estate Segment 2006	2005
Three Months Ended March 31:		
Average total homesites	57,217	57,819
Average total rental homes	9,258	7,568
Average occupied homesites - homeowners	40,166	41,740
Average occupied homesites - rental homes	7,598	5,613
Average total occupied homesites	47,764	47,353
Average occupancy - rental homes	82.1 %	74.2 %
Average occupancy - total	83.5 %	81.9 %
Real estate revenue		
Homeowner rental income	$ 36,865	$ 35,513
Home renter rental income	13,825	10,562
Other	216	271
Rental income	50,906	46,346
Utility and other income	6,290	4,828
Total real estate revenue	57,196	51,174
Real estate expenses		
Property operations expenses	16,422	18,242
Real estate taxes	5,136	3,967
Total real estate expenses	21,558	22,209
Real estate net segment income	$ 35,638	$ 28,965
Average monthly rental income per total occupied homesite (1)	$ 355	$ 326
Average monthly homeowner rental income per homeowner occupied homesite (2)	$ 306	$ 284
Average monthly home renter income per occupied rental home (3)	$ 607	$ 627
As of March 31:		
Total communities	275	275
Total homesites	57,246	57,803
Occupied homesites	47,872	47,513
Total rental homes owned	9,267	7,640
Occupied rental homes	7,929	5,978

(1) Average monthly rental income per occupied homesite is defined as rental income divided by average total occupied homesites divided by the number of months in the period.

(2) Average monthly homeowner rental income per homeowner occupied homesite is defined as homeowner rental income divided by average homeowner occupied homesites divided by the number of months in the period.

(3) Average monthly home rent er income per occupied rental home is defined as home renter rental income divided by average occupied rental homes divided by the number of months in the period.

	Three Months Ended March 31, 2006 (as restated)	2005
Net segment income:		
Real estate	$ 35,638	$ 28,965
Retail home sales	(809)	(2,863)
Finance and insurance	(360)	(291)
	34,469	25,811
Other expenses:		
Property management	1,592	2,145
General and administrative	4,421	5,494
Depreciation and amortization	21,611	16,296
Loss on sale of airplane	541	
Net consumer finance interest expense		446
Interest expense	19,581	15,689
Total other expenses	47,746	40,070
Interest income	(423)	(373)
Loss from continuing operations before income tax benefit and allocation to minority interest	(12,854)	(13,886)
Income tax benefit from continuing operations	1,199	
Loss from continuing operations before minority interest	(11,655)	(13,886)
Minority interest	236	544
Loss from continuing operations	(11,419)	(13,342)
Income from discontinued operations	1,692	781
Gain (loss) on sale of discontinued operations	10,296	(730)
Income tax expense from discontinued operations	(4,795)	
Minority interest in discontinued operations	(253)	(3)
Net loss	(4,479)	(13,294)
Preferred stock dividend	(2,578)	(2,578)
Net loss attributable to common stockholders	$ (7,057)	$ (15,872)

RESULTS OF OPERATIONS

Comparison of the Three Months Ended March 31, 2006 to the Three Months Ended March 31, 2005

Revenue. Revenue for the three months ended March 31, 2006 was $60.2 million, as compared to $58.7 million for the three months ended March 31, 2005, an increase of $1.5 million, or 3%. Rental income increased by $4.6 million, primarily as a result of $3.2 million from higher home renter and other rental income and $2.7 million from increased rental rates, partially offset by $1.3 million from decreased homeowner occupancy. Revenue from the sale of manufactured homes decreased by $4.8 million as the Company sold 607 fewer homes in the first quarter of 2006, as compared to the same quarter last year. The reduction in volume primarily resulted from the procedures we implemented to increase the sales pricing of our homes. Utility and other income increased by $1.5 million due to our increased focus on utility recovery.

Property Operations Expense. For the three months ended March 31, 2006, total property operations expense was $16.4 million, as compared to $18.2 million for the three months ended March 31, 2005, a decrease of $1.8 million, or 10%.

The decrease primarily is due to decreases in: a) salaries and benefits of $0.5 million, or 9%; b) repairs and maintenance of $0.6 million, or 25%; c) bad debt expense of $0.3 million, or 42%; and d) other expense of $0.4 million.

Real Estate Taxes Expense. Real estate taxes expense for the three months ended March 31, 2006 was $5.1 million, as compared to $4.0 million for the three months ended March 31, 2005, an increase of $1.1 million or 30%. The increase primarily is due to higher property tax assessments. A portion of the increase also relates to a higher number of manufactured homes subject to property tax assessments in the current year.

Cost of Manufactured Homes Sold. The cost of manufactured homes sold was $2.3 million for the three

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months ended March 31, 2006, as compared to $7.4 million for the three months ended March 31, 2005, a decrease of $5.1 million. The decrease primarily was due to the decrease in the number of manufactured homes sold, as discussed above. The Company experienced a net gain on the sale of manufactured homes of $0.4 million and $0.1 million, respectively, in the quarters ended March 31, 2006 and 2005.

Retail Home Sales, Finance, Insurance and Other Operations Expense. For the three months ended March 31, 2006, total retail home sales, finance, insurance and other operations expense was $1.9 million as compared to $3.3 million for three months ended March 31, 2005, a decrease of $1.4 million. This decrease primarily is due to the down-sizing of our sales and marketing organization in which we terminated over 150 employees in the fourth quarter of 2005, primarily in sales management.

Property Management Expense. Property management expense for the three months ended March 31, 2006 was $1.6 million, as compared to $2.1 million for the three months ended March 31, 2005, a decrease of $0.5 million, or 26%. The decrease primarily is due to a reduction in travel and advertising expense.

General and Administrative Expense. General and administrative expense for the three months ended March 31, 2006 was $4.4 million, as compared to $5.5 million for the three months ended March 31, 2005, a decrease of $1.1 million, or 20%. The decrease primarily was due to a reduction in salaries and benefits and the related travel expenses.

Depreciation and Amortization Expense. Depreciation and amortization expense for the three months ended March 31, 2006 was $21.6 million, as compared to $16.3 million for the three months ended March 31, 2005, an increase of $5.3 million, or 33%. The increase primarily is due to depreciation on the significant amount of mobile homes and community improvements placed in service during 2005.

Loss on Sale of Airplane. During the quarter ended March 31, 2006, the Company sold one of its two aircraft for $1.2 million in cash, incurring a loss on the sale of approximately $0.5 million.

Interest Expense. Interest expense for the three months ended March 31, 2006 was $19.6 million, as compared to $15.7 million for the three months ended March 31, 2005, an increase of $3.9 million, or 25%. The increase is due to a higher outstanding average debt balance of approximately $125 million, as well as higher effective weighted average interest rates on our variable rate debt.

Income Taxes. The Company expects to have no aggregate income tax expense or benefit for the year ended December 31, 2006. However, we have restated our Consolidated Financial Statements for the three months ended March 31, 2006 to (a) provide for an intra-period income tax allocation whereby we recorded an income tax benefit from continuing operations of $1.2 million (as restated) and an income tax expense from discontinued operations of $4.8 million (as restated) in accordance with SFAS No. 109 and (b) deferred the resulting income tax benefit from continuing operations to future interim periods using an estimated annual effective tax rate in accordance with APB 28 and FIN 18.

Minority Interest. Minority interest for the three months ended March 31, 2006 was $0.2 million (as restated) as compared to $0.5 million for the three months ended March 31, 2005, a decrease of $0.3 million, or 57%. The decrease primarily was due to a decrease in the minority interest share of our net loss to 3.5% from 5.6% for the first quarter of 2005.

Discontinued Operations. On December 15, 2005, the Company held an auction in which it offered 71 communities for sale. The Company ultimately entered into contracts to sell 38 of these communities. During 2006, the Company entered into contracts to sell three more communities. As of March 31, 2006, the Company has closed 27 of these transactions comprising $34.2 million of cash proceeds net of related debt, defeasance and other closing costs of $34.3 million. A gain of $10.3 million was recorded on the sales of these communities in the first quarter of 2006.

Preferred Stock Dividend. On March 2, 2006, the ARC board of directors declared a quarterly cash dividend of $0.5156 per share for each of the 5,000,000 outstanding shares of our Series A Preferred Stock, payable April 28, 2006, amounting to $2.6 million. For the quarter ended March 31, 2005, the dividend declared also was $0.5156 per share, or $2.6 million.

Net Loss Attributable to Common Stockholders. As a result of the foregoing, our net loss attributable to

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common stockholders was ($7.1) million (as restated) for the three months ended March 31, 2006, as compared to ($15.9) million for the three months ended March 31, 2005, an increase of $8.8 million or 56%.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2006, we had approximately $31 million of cash and cash equivalents and $34.2 million available under the terms of the lease receivables line of credit. This reflects the use of a significant portion of the excess net cash proceeds from the sale 27 communities in the first quarter of 2006 to repay certain mortgage and floorplan and other indebtedness. As of March 31, 2006, we closed sales transactions for 27 of the 41 communities we held as discontinued as of December 31, 2005, including the sale of the Desert Palms community, and obtained cash proceeds of $34.2 million net of related debt repayment and defeasance and other costs of $34.3 million.

Our plan for 2006 is to (i) manage our results against our detailed, budget focused on operating effectiveness at the community level; (ii) adjust the price and cost structure of our marketing programs in the sales and leasing of homes; (iii) control our expense structure to fit the size of our company consistent with maintaining effective controls over the business; (iv) make capital expenditures as necessary and appropriate to keep our communities up to our standards; and (v) purchase homes for sale or lease as demand warrants and funds permit.

Our short-term liquidity needs include funds for dividend payments on our $125 million Series A cumulative redeemable preferred stock bearing a dividend rate of 8.25% per annum (approximately $10.3 million annually), funds for capital expenditures for our existing communities, funds for purchases of manufactured homes and funds to service our debt.

We expect to fund our short-term liquidity needs described above through net cash provided by operations, borrowings under our $35 million floorplan line of credit, borrowings under our $150 million lease receivables line of credit, borrowings under our $125 million consumer finance facility and net proceeds from the sales of communities.

Our ability to obtain funding from time to time under the lease receivables facility, the floorplan line of credit and the consumer finance debt facility will be subject to certain conditions, and we make no assurance that we will continue to meet any or all of these conditions in the future. If we are unable to meet the conditions necessary to continue funding under these facilities, we may not be able to fund operations, capital expenditures, manufactured home sale consumer loans, manufactured home purchases and distributions on our preferred stock and our results of operations could be adversely affected.

We expect to meet our long-term liquidity requirements for the funding of potential community acquisitions, purchases of additional rental homes, purchase, sale and financing of homes to new residents in our communities, funding of distributions on our preferred stock and other capital improvements through net cash provided by operations, borrowings under secured and unsecured indebtedness, retail home sales and consumer finance debt. We expect to refinance our indebtedness as it comes due, and, in February 2006, we extended the maturity of our senior variable rate mortgage to February 2007 in accordance with the terms of the mortgage.

Based on present commitments and community sales plans, the Company believes it will be able to fund its debt service obligations, capital expenditures and home purchases from operating cash flows and the financing sources described above. However, we cannot assure that we will be able to complete the sales of the remaining communities currently held for sale, sell manufactured homes or refinance expiring credit lines. Should we not be able to obtain sufficient funds for these purposes, we may determine that it is necessary to substantially defer or eliminate some or all of our objectives that require these funds, including home purchases, consumer loans, and non-recurring capital expenditures.

CASH FLOWS

Comparison of the Three Months Ended March 31, 2006 to the Three Months Ended March 31, 2005

Cash provided by operations was $3.9 million and $6.6 million for the three months ended March 31, 2006 and 2005, respectively. The decrease in cash provided by operations for 2006 as compared to 2005 primarily was due to the payment of severance in the first quarter of 2006.

Cash provided by investing activities was $60.9 million in the three months ended March 31, 2006, compared with cash provided by investing activities of $6.7 million in the same period in 2005. The increase in cash from investing activities primarily was due to spending $24.5 million less on community improvements and receiving $23.4 million more from the sale of communities.

Cash used in financing activities was $61.4 million in the three months ended March 31, 2006, compared with cash used in financing activities of $5.7 million in the same period in 2005. The increase in cash used in financing activities primarily was due to the repayment of $80.9 million of debt, primarily in relation to the sales of communities, in the first quarter of 2006, compared with $51.5 million of debt repaid in the first quarter of 2005. Also, the first quarter of 2006 we received proceeds from the issuance of additional indebtedness of $23.0 million, as compared with $63.7 million in the first quarter of 2005. Partially offsetting this was the discontinuance of the payment of the common and OP unit dividends, which were paid in the first quarter of 2005 but were not paid in the first quarter of 2006.

INFLATION

Inflation in the U.S. has been relatively low in recent years and did not have a material impact on our results of operations for the three months ended March 31, 2006 and 2005. Although the impact of inflation has been relatively insignificant in recent years, it remains a factor in the United States economy and may increase the cost of acquiring or replacing property, plant, and equipment and the costs of labor and utilities.

COMMITMENTS

At March 31, 2006, we had approximately $1,106.3 million of consolidated indebtedness outstanding with the following repayment obligations (in thousands):

	Principal Commitments			**Interest Commitments**			**Total Debt Commitments**		
	Fixed	**Variable**	**Total**	**Fixed**	**Variable**	**Total**	**Fixed**	**Variable**	**Total**
2006	$ 14,797	$ 58,764	$ 73,561	$ 40,319	$ 17,445	$ 57,764	$ 55,116	$ 76,209	$ 131,325
2007	10,114	125,468	135,582	52,392	11,786	64,179	62,506	137,254	199,761
2008	53,655	93,688	147,343	50,244	7,443	57,688	103,899	101,131	205,031
2009	104,720		104,720	44,344	2,127	46,471	149,064	2,127	151,191
2010	13,212		13,212	42,168	2,127	44,295	55,380	2,127	57,507
Thereafter	600,802	25,780	626,582	198,378	51,564	249,942	799,180	77,344	876,524
Commitments	797,300	303,700	1,101,000	427,845	92,492	520,339	1,225,145	396,192	1,621,339
Unamortized premium	5,258		5,258						
	$ 802,558	$ 303,700	$ 1,106,258	$ 427,845	$ 92,492	$ 520,339	$ 1,225,145	$ 396,192	$ 1,621,339

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our future income, cash flows and fair values relevant to financial instruments are dependent upon prevalent market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates. We use some derivative financial instruments to manage, or hedge, interest rate risks related to our borrowings. We do not use derivatives for trading or speculative purposes and only enter into contracts with major financial institutions based on their credit rating and other factors.

As of March 31, 2006, our total debt outstanding was approximately $1,106.3 million, comprised of approximately $802.6 million of indebtedness subject to fixed interest rates and approximately $303.7 million, or 27% of our total consolidated debt, subject to variable interest rates.

If LIBOR and the prime rate were to increase by one eighth of one percent (0.125%), the increase in interest expense on the variable rate debt would decrease future earnings and cash flows by approximately $380,000 annually.

Interest risk amounts were determined by considering the impact of hypothetical interest rates on our financial instruments. These analyses do not consider the effect of any change in overall economic activity that could occur in that environment. Further, in the event of a change of that magnitude, we may take actions to further mitigate our exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, these analyses assume no changes in our financial structure.

The fair value of debt outstanding as of March 31, 2006 was approximately $1,111.6 million.

The following table sets forth certain information with respect to our indebtedness outstanding as of March 31, 2006 (dollars in thousands):

	Amount of Debt	**Percentage of Total Debt**	**Weighted Average Interest Rate**	**Maturity Date**
Fixed Rate Debt				
Senior fixed rate mortgage due 2009	$ 89,155	8.1 %	5.05 %	2009
Senior fixed rate mortgage due 2012	281,523	25.5 %	7.35 %	2012
Senior fixed rate mortgage due 2014	195,550	17.7 %	5.53 %	2014
Various individual fixed rate mortgages due 2006 through 2031	135,977	12.3 %	7.23 %	2006-2031
Senior exchangeable notes due 2025	96,600	8.7 %	7.50 %	2025
D.A.M. Preferred Partnership Units due 2006	2,499	0.2 %	7.00 %	2006
Other loans	1,254	0.1 %	6.97 %	2012
	802,558	72.6 %	6.65 %	
Variable Rate Debt				
Senior variable rate mortgage due 2007	118,523	10.8 %	7.83 %	2007
Revolving credit mortgage facility due 2006	58,764	5.3 %	7.58 %	2006
Trust preferred securities due 2035.	25,780	2.3 %	8.25 %	2035
Consumer finance facility due 2008	18,188	1.6 %	7.83 %	2008
Lease receivable facility due 2008	75,500	6.8 %	8.95 %	2008
Floorplan lines of credit due 2007	6,945	0.6 %	8.50 %	2007
	303,700	27.4 %	8.11 %	
	$ 1,106,258	100.0 %	7.05 %	

ITEM 4. CONTROLS AND PROCEDURES

(a) Restatement of Previously Issued Financial Statements

As more fully described in Note 2 of the Notes to Consolidated Financial Statements, the Company has restated its interim consolidated financial statements for the quarter ended March 31, 2006 to correct its intra-period income tax accounting as presented in the original Form 10-Q for the quarter ended March 31, 2006. As a result of the restatement of its previously issued interim consolidated financial statements as of and for the quarter ended March 31, 2006, management has assessed the impact of the restatement on its disclosure controls and procedures as of March 31, 2006, as discussed below.

(b) Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) is recorded, processed and reported within the time periods specified in the SEC s rules and forms and that such information is accumulated and communicated to our management, including our principal executive and principal financial officers, or other persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

In light of the restatement referred to in (a) above, management, with the participation of the Company s principal executive and financial officers, re-evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2006. Based on this re-evaluation and as a result of the identification of the material weakness in our internal control over financial reporting discussed below, management has concluded that our disclosure controls and procedures were not effective as of March 31, 2006.

A material weakness is a control deficiency, or a combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Management determined that the following control deficiency constitutes a material weakness in our internal control over financial reporting at March 31, 2006:

The Company did not maintain effective internal controls over the presentation of its income tax provision. Specifically, the Company did not maintain effective controls to ensure that its intra-period income tax allocation between continuing and discontinued operations was in accordance with generally accepted accounting principles. This control deficiency resulted in the restatement of the Company s consolidated financial statements for each of the first three quarters of the year ended December 31, 2006. Additionally, this control deficiency could result in a misstatement of the Company s income tax provision that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected.

(c) Plan for Remediation of Material Weakness

We believe that the steps described below, which have already been taken in connection with the preparation of the December 31, 2006 financial statements, remediate the material weakness in our internal control over financial reporting described in (b) above:

(1) The Company plans to perform a more rigorous review of its income tax provision and related intra-period tax allocations in conjunction with the preparation of its interim and annual consolidated financial statements; and

(2) The Company plans to perform a more rigorous review of its income tax disclosure requirements in conjunction with the preparation of its interim and annual consolidated financial statements.

(d) Changes in Internal Control Over Financial Reporting

There have not been any changes in the Company s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS

(a) Exhibits:

See Exhibit Index

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SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AFFORDABLE RESIDENTIAL COMMUNITIES INC.

Date: March 12, 2007

By: /s/ Lawrence E. Kreider
Lawrence E. Kreider
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer and a duly authorized officer)

EXHIBIT INDEX

Exhibit Number	**Exhibit Title**
3.1*	Articles of Amendment and Restatement of Affordable Residential Communities Inc. (incorporated by reference to Exhibit 3.1 to the Annual Report on Form 10-K of Affordable Residential Communities Inc. for the year ended December 31, 2003 (file number 001-31987)).
3.2*	Amended and Restated Bylaws of Affordable Residential Communities Inc. (incorporated by reference to Exhibit 3.2 to the Annual Report on Form 10-K of Affordable Residential Communities Inc. for the year ended December 31, 2003 (file number 001-31987)).
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act, as amended.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act, as amended.
32.1	Certification of Chief Executive Officer of Affordable Residential Communities Inc., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer of Affordable Residential Communities Inc., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Previously filed