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 September 30, 2006

OR

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

Commission File Number 1-31987

Affordable Residential Communities Inc.

(Exact name of Registrant as specified in its charter)

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

(303) 291-0222

(Registrant s telephone number, including area code)

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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

Large accelerated filer o Accelerated filer x Non-accelerated filer o

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

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

AFFORDABLE RESIDENTIAL COMMUNITIES INC.

FORM 10-Q/A

FOR THE QUARTER ENDED SEPTEMBER 30, 2006

Explanatory Note

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

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

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

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

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

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AFFORDABLE RESIDENTIAL COMMUNITIES INC.

CONSOLIDATED BALANCE SHEETS

AS OF SEPTEMBER 30, 2006 AND DECEMBER 31, 2005

(in thousands, except share and per share data)

(unaudited)

	September 30, 2006 (as restated)	December 31, 2005
Assets		
Rental and other property, net	$ 1,401,896	$ 1,453,097
Assets held for sale	16,600	132,340
Cash and cash equivalents	31,109	27,926
Restricted cash	6,782	7,022
Tenant and other receivables, net	4,478	3,942
Notes receivable, net	31,266	33,418
Loan origination costs, net	17,825	16,164
Loan reserves	34,906	35,088
Lease intangibles and customer relationships, net	7,858	12,055
Prepaid expenses and other assets	8,763	7,429
Total assets	$ 1,561,483	$ 1,728,481
Liabilities and Stockholders Equity		
Notes payable	$ 1,053,373	$ 1,146,331
Liabilities related to assets held for sale	953	56,827
Accounts payable and accrued expenses	26,542	32,653
Dividends payable	1,903	1,887
Tenant deposits and other liabilities	21,023	14,786
Total liabilities	1,103,794	1,252,484
Minority interest	28,553	31,902
Commitments and contingencies		
Stockholders equity		
Preferred stock, no par value, 5,750,000 shares authorized, 5,000,000 shares issued and outstanding at September 30, 2006 and December 31, 2005, respectively; liquidation preference of $25 per share plus accrued but unpaid dividends	119,108	119,108
Common stock, $.01 par value, 100,000,000 shares authorized, 41,329,705 and 40,971,423 shares issued and outstanding at September 30, 2006 and December 31, 2005, respectively	413	410
Additional paid-in capital	794,449	791,201
Accumulated other comprehensive income		583
Retained deficit	(484,834)	(467,207)
Total stockholders equity	429,136	444,095
Total liabilities and stockholders equity	$ 1,561,483	$ 1,728,481

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

AFFORDABLE RESIDENTIAL COMMUNITIES INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005

(in thousands, except per share data)

(unaudited)

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

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

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

AFFORDABLE RESIDENTIAL COMMUNITIES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 and 2005

(in thousands) (unaudited)

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

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

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

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

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AFFORDABLE RESIDENTIAL COMMUNITIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

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

Business

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

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

As of September 30, 2006, we owned and operated 275 communities (excluding one community classified as discontinued operations, see Note 10) consisting of 57,256 homesites (net of 350 homesites classified as discontinued operations) in 23 states with occupancy of 83.2%. Our five largest markets are Dallas-Fort Worth, Texas, with 12.5% of our total homesites; Atlanta, Georgia, with 8.7% of our total homesites; Salt Lake City, Utah, with 6.6% of our total homesites; the Front Range of Colorado, with 5.7% of our total homesites; and Kansas City-Lawrence-Topeka, with 4.2% of our total homesites. We also conduct a retail home sales business.

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

Basis of Presentation

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

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

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

We have reclassified certain prior period amounts to conform to the current year presentation. In connection with the preparation of our 2005 Form 10-K we determined that cash flows from restricted cash and loan reserves should be included in investing rather than financing activities. As a result, the cash flow statement for the nine months ended September 30, 2006 has been revised to conform to this presentation.

Summary of Significant Accounting Policies

Rental and Other Property

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

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

We evaluate the recoverability of our investment in rental property whenever events or changes in circumstances indicate that the recoverability of the net book value of the asset is questionable. Our assessment of the recoverability of rental property includes, but is not limited to, recent operating results and expected net operating cash flows from future operations. In the event that facts and circumstances indicate that the carrying amount of rental property may be impaired, we perform an evaluation of recoverability in which we compare the estimated future undiscounted cash flows associated with the asset to the asset s carrying amount to determine if an impairment adjustment is required. If this review indicates that the asset s carrying amount will not be fully recoverable, we will reduce the carrying value of the asset to its estimated fair value. We recorded no impairment charges during the three and nine months ended September 30, 2006 and an impairment charge of $23.2 million in the three and nine months ended September 30, 2005.

Stock Based Compensation

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123(R)), which is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123). SFAS No. 123(R) became effective on January 1, 2006 and we have adopted the standard using the modified prospective method. Since our only share based payments through December 31, 2005 were nominal restricted stock issuance and shares issued to members of the board of directors as compensation, the implementation of SFAS No. 123(R) did not have a material impact on our financial position as of September 30, 2006 or our operations or cash flows for the nine months ended September 30, 2006.

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

During 2004 we granted 95,000 shares of restricted common stock that vest over five years. In June 2004, 42,500 of these restricted shares were forfeited and in October 2004, an additional 37,500 shares of restricted stock were forfeited pursuant to the terms of their issuance, leaving 15,000 restricted shares outstanding. During both of the nine month periods ended September 30, 2006 and 2005, 3,000 shares vested leaving 9,000 shares unvested at September 30, 2006. We have recorded the unvested portion of the remaining 9,000 outstanding restricted shares as of September 30, 2006 in additional paid-in capital and are amortizing the balance ratably over the vesting period. We recorded $14,000 and $43,000, respectively, in compensation expense related to these restricted shares during both of the three and nine month periods ended September 30, 2006 and 2005. In accordance with SFAS No. 123(R) (see Recent Statements of Financial Accounting Standards below) unearned compensation continues to be amortized over the vesting period but is now included as part of additional paid-in capital on the consolidated balance sheets. We expect that there will be no forfeitures of the unvested restricted stock outstanding at September 30, 2006.

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

Income Taxes

Deferred tax assets and liabilities are recorded for the estimated future tax effects of the temporary difference between the tax basis and book basis of assets and liabilities reported in the accompanying consolidated balance sheets. The provision for income tax expense or benefit differs from the amounts of income taxes currently payable because certain items of income and expense included in the consolidated financial statements are recognized in different time periods by taxing authorities.

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

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

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

Accumulated Other Comprehensive Income and Comprehensive Loss

Amounts recorded in accumulated other comprehensive income as of December 31, 2005 represent unrecognized gains on our interest rate swap, which qualified as a cash flow hedge and was marked to market over the life of the instrument. Including these unrecognized gains or losses, our comprehensive loss for the three and nine months ended September 30, 2006 was $7.9 million and $18.2 million, respectively, compared with a comprehensive loss of $127.1 million and $161.2 million, respectively, during the same periods in 2005. Our interest rate swap agreement expired in February 2006 and was not renewed.

Recent Statements of Financial Accounting Standards

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

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

2. Restatement

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

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

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

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

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

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

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

Stock Option Grants

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

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

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

Stockholder Rights Plan

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

Dividends Declared

On March 2, 2006, the board of directors declared a quarterly cash dividend of $0.515625 per share for our Series A Cumulative Redeemable Preferred Stock, and $0.39 per unit on the Series C Preferred Units of the Operating Partnership. The dividends were paid on April 28, 2006 to shareholders of record on April 14, 2006. On June 8, 2006, the board of directors declared a quarterly cash dividend of $0.515625 per share for our Series A Cumulative Redeemable Preferred Stock, and $0.39 per unit on the Series C Preferred Units of the Operating Partnership. The dividends were paid on July 28, 2006 to shareholders of record on July 14, 2006. On September 20, 2006, the board of directors declared a quarterly cash dividend of $0.515625 per share for our Series A Cumulative Redeemable Preferred Stock, and $0.39 per unit on the Series C Preferred Units of the Operating Partnership. The dividends were paid on October 30, 2006 to shareholders of record on October 13, 2006. The Board reviews the payment of dividends on a quarterly basis.

Minority Interest

At September 30, 2006, minority interest consisted of 1,483,284 OP Units that were issued to various limited partners and 705,688 preferred partnership units (PPUs) issued on June 30, 2004 as part of an acquisition. Each OP Unit outstanding is paired with 1.9268 shares of our special voting stock (each a Paired Equity Unit) that allows each holder to vote an OP Unit on matters as if it were a common share of our stock. Each OP Unit is redeemable for cash, or at our election, convertible into one share of our common stock. During the three and nine months ended September 30, 2006, we converted approximately 20,000 and 348,000 OP Units, respectively, for an equal number of shares of our common stock valued at approximately $200,900 and $3.4 million, respectively.

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

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

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

	(as restated)
Minority interest at December 31, 2005	$ 31,902
Minority interest allocation	280
Transfer from stockholders equity	576
Redemption of OP Units	(3,377)
Distributions to PPU holders	(828)
Minority interest at September 30, 2006	$ 28,553

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4. Rental and Other Property, Net

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

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

5. Notes Payable

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

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

Senior Fixed Rate Mortgage Due 2009

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

Senior Fixed Rate Mortgage Due 2012

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

Senior Fixed Rate Mortgage Due 2014

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

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

On July 11, 2006, we entered into a $230 million mortgage debt facility. Approximately $116.8 million of the proceeds were used to repay and terminate our Senior Variable Rate Mortgage and approximately $58.8 million of the proceeds were used to repay and terminate our Revolving Credit Mortgage Facility. The Loan Agreement is comprised of two components (collectively, the Loan): a $170 million 10-year fixed rate mortgage debt component and a $60 million 3-year floating rate mortgage debt component with two one-year (no-fee) extension options. The fixed rate component bears interest at 6.239% and requires interest-only payments for the term of the loan. The floating rate component is adjusted monthly, bears interest at one-month LIBOR plus 80 basis points (6.12% at September 30, 2006) and requires interest-only payments for the term of the loan. The loan is secured by 59 manufactured housing communities located in 18 states as well as an assignment of leases and rents associated with the mortgaged property. The loan is non-recourse with the exception that the repayment of the indebtedness is guaranteed pursuant to a guaranty of non-recourse obligations in the event of declaration of bankruptcy; interference with any of the lenders rights, and asset transfers and other activities in violation of the loan documents. Under the provisions of the loan agreement, we have the right to prepay any portion of the floating rate component, with or without release of the mortgaged property, without penalty. Subsequent to a prepayment of the entire floating rate component of the loan, we have the option to prepay a fixed portion of the loan subject to prepayment fees, yield maintenance or defeasance in accordance with the terms of the loan agreement.

Various Individual Fixed Rate Mortgages

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

a) Mortgages assumed as part of individual property purchases. These notes total approximately $39.7 million at September 30, 2006, mature from 2006 ($5.1 million in 2006) through 2028 and have an average

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

b) Mortgages assumed in conjunction with the Hometown acquisition as discussed in Form 10-K. These notes total approximately $67.5 million at September 30, 2006, mature from 2008 through 2031 and carry an average effective interest rate of 7.12%. These mortgages are secured by 12 specific manufactured home communities and subject to early pre-payment penalties, the terms of which vary from mortgage to mortgage.

c) Notes assumed in conjunction with the D.A.M. portfolio purchase as discussed in Form 10-K. These notes total approximately $27.3 million at September 30, 2006, mature in 2008 and carry an average effective annual interest rate of 7.18%. These mortgages are secured by 24 specific manufactured home communities.

Floorplan Lines of Credit

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

Trust Preferred Securities Due 2035

On March 15, 2005, the Company issued $25.8 million in unsecured trust preferred securities. The $25.8 million trust preferred securities bear interest at three-month LIBOR plus 3.25% (8.62% at September 30, 2006). Interest on the securities is paid on the 30th of March, June, September and December of each year. The Company may redeem these securities on or after March 30, 2010 in whole or in part at principal amount plus accrued interest. The securities are mandatorily redeemable on March 15, 2035 if not redeemed sooner.

Consumer Finance Facility

The Consumer Finance Facility has a total commitment of $125.0 million and a term of four years. In July, we repaid the outstanding principal balance under this facility and no balance was outstanding as of September 30, 2006. This facility is an obligation of a subsidiary of our Operating Partnership, and borrowings under this facility are secured by manufactured housing conditional sales contracts. Borrowings under the facility are limited by specified borrowing base requirements related to the value of the collateral securing the facility ($18.7 million as of September 30, 2006). The facility bears interest at a variable rate based upon a spread of 3.00% over the one-month LIBOR. During the quarter, we paid a commitment fee of 1.00% on the original committed amount and 0.75% of the amended committed amount and will pay additional annual commitment fees payable on each anniversary of the closing. Advances under the facility are subject to a number of conditions, including certain underwriting and credit screening guidelines and the conditions that the home must be located in one of our communities, the loan term may not exceed 12 years for a single-section home or 15 years for a multi-section home and the loan amount shall not exceed 90% of the value of the home securing the conditional sales contract.

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

1, 2008 through September 30, 2008. We were in compliance as of September 30, 2006 with all financial covenants under the line of

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credit.

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

Lease Receivables Facility

The Company has a $150.0 million secured revolving credit facility (the Lease Receivables Facility) which we use to finance the purchase of manufactured homes and for general corporate purposes. Pursuant to the agreement, borrowings are limited to approximately 65% of the net book value of the eligible manufactured housing units owned by two of our indirect wholly owned subsidiaries, ARC Housing LLC and ARC HousingTX LP (collectively, Housing) and located in ARC s communities, subject to certain other applicable borrowing base requirements. The facility bears interest at a variable rate based on a spread of 4.125% over the one-month LIBOR (9.45% at September 30, 2006). The facility matures September 30, 2008.

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

Senior Exchangeable Notes Due 2025

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

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

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

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

We have determined that, subsequent to the initial declaration of effectiveness of the registration statement,

it is unlikely that events will occur that could trigger the payment of any additional liquidated damages and, accordingly, have assigned a nominal value to the liquidated damages provision.

PPU Notes Payable

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

6. Income (loss) per share

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

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

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

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

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

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7. Property Operations Expense

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

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

8. Retail Home Sales, Finance and Insurance Expense

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

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

9. General and Administrative Expense

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Salaries and benefits	$ 3,113	$ 4,509	$ 8,722	$ 11,349
Travel	180	452	501	1,254
Professional services	730	885	2,241	3,095
Telephone	88	181	287	386
Office supplies	80	126	304	377
Insurance	294	300	860	766
Rent	130	90	331	218
Other administrative expense	359	791	1,140	1,772
	$ 4,974	$ 7,334	$ 14,386	$ 19,217

10. Discontinued Operations

As of December 31, 2005, we held 41 communities as discontinued operations. As of September 30, 2006, we had closed sales for 39 of these communities, comprising $83.7 million of cash proceeds net of related debt, defeasance and other closing costs of $74.3 million. In the fourth quarter of 2006, we closed on the sales of an additional community, comprising $1.7 million of cash proceeds net of related debt, defeasance and other closing costs of $0.7 million. We expect to close the remaining sales transaction in 2007 and will continue to own this community through the date of sale. 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 have been classified as discontinued operations as of September 30, 2006 and December 31, 2005. We have included $16.6 million and $132.3 million of assets related to these communities as assets held for sale in the accompanying consolidated balance sheets as of September 30, 2006 and December 31, 2005, respectively, and $0.1 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. The debt related to the remaining community held for sale at September 30, 2006 has been defeased. In addition, we have recast the operations of each of these communities as discontinued operations in the accompanying statements of operations for the three and nine months ended September 30, 2006 and 2005. In connection with sales of our discontinued operations, we recorded gains of $5.2 million and $31.1 million, respectively, in the three and nine months ended September 30, 2006, and a loss of $0.7 million in the nine months ended September 30, 2005.

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

	September 30, 2006	December 31, 2005
Assets Held for Sale		
Rental and other property, net	$ 15,070	$ 131,768
Tenant, notes and other receivables, net	13	665
Loan origination costs		752
Goodwill	754	6,481
Lease intangibles and customer relationships, net	199	1,110
Prepaid expenses and other assets	564	414
Reserve for loss on sales of communities		(8,850)
	$ 16,600	$ 132,340
Liabilities Related to Assets Held for Sale		
Notes payable	$ 586	$ 54,859
Accounts payable and accrued expenses	239	618
Tenant deposits and other liabilities	128	1,350
	$ 953	$ 56,827

	Three Months Ended September 30, 2006	2005	Nine Months Ended September 30, 2006	2005
Statement of Operations				
Revenue	$ 774	$ 6,986	$ 8,976	$ 21,832
Operating expenses	(498)	(7,268)	(6,319)	(21,031)
Asset impairment charges		(6,546)		(6,546)
Income (loss) from discontinued operations	$ 276	$ (6,828)	$ 2,657	$ (5,745)

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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 September 30, 2006 (as restated)	2005	Nine Months Ended September 30, 2006 (as restated)	2005
Total revenue				
Real estate	$ 58,484	$ 53,846	$ 173,819	$ 156,654
Retail home sales	1,916	10,773	7,597	34,632
Finance and insurance	653	588	1,338	946
	61,053	65,207	182,754	192,232
Operating expenses, cost of manufactured homes sold and real estate taxes				
Real estate	23,619	24,442	66,457	68,813
Retail home sales	3,062	15,480	11,302	43,051
Finance and insurance	642	1,449	2,004	2,812
	27,323	41,371	79,763	114,676
Net segment income (loss) (a)				
Real estate	34,865	29,404	107,362	87,841
Retail home sales	(1,146)	(4,707)	(3,705)	(8,419)
Finance and insurance	11	(861)	(666)	(1,866)
	33,730	23,836	102,991	77,556
Property management expense	1,549	3,030	4,727	7,541
General and administrative expense	4,974	7,334	14,386	19,217
Interest expense				
Real estate	15,266	13,885	48,605	41,289
Retail home sales	105	750	523	1,741
Corporate and other	3,360	4,933	9,190	9,262
	18,731	19,568	58,318	52,292
Amortization expense	1,401	1,401	4,197	4,168
Depreciation expense				
Real estate	19,646	18,103	60,069	50,142
Retail home sales	37	2	57	17
Finance and insurance		1	1	4
Corporate and other	47	95	193	329
	19,730	18,201	60,320	50,492

(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.

	Three Months Ended September 30, 2006 (as restated)	2005	Nine Months Ended September 30, 2006 (as restated)	2005
Loss on sale of airplane			541	
Early termination of debt	556		556	
Goodwill impairment		74,793		74,793
Real estate and retail home asset impairment		23,158		23,158
Net consumer finance interest expense		19		669
Interest income	(255)	(743)	(1,126)	(1,384)
Loss from continuing operations before income tax benefit and allocation to minority interest	(12,956)	(122,925)	(38,928)	(153,390)
Income tax benefit from continuing operations	4,472		9,043	
Loss from continuing operations before minority interest	(8,484)	(122,925)	(29,885)	(153,390)
Minority interest	27	5,106	429	6,277
Loss from continuing operations	(8,457)	(117,819)	(29,456)	(147,113)
Income (loss) from discontinued operations	276	(6,828)	2,657	(5,745)
Gain (loss) on sale of discontinued operations	5,220		31,129	(678)
Income taxes on discontinued operations	(2,198)		(13,514)	
Minority interest in discontinued operations	(113)	296	(709)	276
Net loss	(5,272)	(124,351)	(9,893)	(153,260)
Preferred stock dividend	(2,578)	(2,578)	(7,734)	(7,734)
Net loss attributable to common stockholders	$ (7,850)	$ (126,929)	$ (17,627)	$ (160,994)

	September 30, 2006	December 31, 2005
Identifiable assets		
Real estate	$ 1,500,717	$ 1,642,214
Retail home sales	9,529	28,843
Finance and insurance	26,942	27,689
Corporate and other	24,295	29,735
	$ 1,561,483	$ 1,728,481
Notes payable		
Real estate	$ 928,140	$ 984,881
Retail home sales	1,651	14,188
Finance and insurance		18,607
Corporate and other	123,582	128,655
	$ 1,053,373	$ 1,146,331

13. Income Taxes

The Company has determined that certain sales of properties that closed or will close during the year ending December 31, 2006 could result in gains for Federal income tax purposes. As a result, in March 2006 we elected not to be taxed as a REIT for the year ending December 31, 2006.

At September 30, 2006, the Company has net operating loss carry-forwards for Federal income tax purposes, subject to certain limitations, of approximately $361 million and $342 million for regular income tax and alternative minimum tax, respectively. These net operating loss carry-forwards expire in 2018 through 2025. Losses from continuing operations during the quarter and nine months only partially offset the regular taxable earnings from discontinued operations for the quarter and nine months ending September 30, 2006 due to the allocation of intra-period taxes as discussed below. The net operating loss carry-forwards for alternative minimum Federal income taxes generally are limited to offsetting 90% of the alternative minimum taxable earnings for a given period.

At September 30, 2006, we recorded a deferred tax asset of approximately $153.2 million less a valuation allowance reserve of approximately $79.1 million and deferred tax liabilities of approximately $74.1 million based on our estimated composite Federal and state tax rate of 40%. We could experience circumstances in the future that result in a non-cash income tax benefit based on the timing of recognition of the tax benefit of our operating losses carried forward from prior years. Under current IRS rules, we can elect to return to REIT status after five years. There can be no assurances that the tax laws and regulations will not change or that we will change our REIT election status in five years.

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

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

	Three Months Ended September 30, 2006		
	Continuing Operations (as restated)	**Discontinued Operations (as restated)**	**Total**
Current tax expense	$	$	$
Deferred tax expense			
Intra-period tax benefit (expense)	4,472	(2,198)	2,274
Provision for income taxes	$ 4,472	$ (2,198)	$ 2,274
Tax at statutory rate	$ 4,472	$ (1,855)	$ 2,617
Permanent differences	1,493	(78)	1,415
State taxes	639	(265)	374
Intra-period tax limitation	2,068		2,068
Increase in valuation allowance	(4,200)		(4,200)
Provision for income taxes	$ 4,472	$ (2,198)	$ 2,274

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	Nine Months Ended September 30, 2006 Continuing Operations (as restated)	Discontinued Operations (as restated)	Total
Current tax expense	$	$	$
Deferred tax expense			
Intra-period tax benefit (expense)	9,043	(13,514)	(4,471)
Provision for income taxes	$ 9,043	$ (13,514)	$ (4,471)
Tax at statutory rate	$ 13,365	$ (11,414)	$ 1,951
Permanent differences	1,040	(470)	570
State taxes	1,908	(1,630)	278
Intra-period tax limitation	(4,232)		(4,232)
Increase in valuation allowance	(3,038)		(3,038)
Provision for income taxes	$ 9,043	$ (13,514)	$ (4,471)

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):

	September 30, 2006	January 1, 2006
Deferred Tax Assets		
Net operating loss carryforwards	$ 144,598	$ 146,650
Prepaid rent	250	343
Loan loss reserve	588	373
Allowance for doubtful accounts	448	669
Tax basis goodwill	3,749	4,178
Notes payable	1,924	2,202
Accrued liabilities	1,214	990
Other	201	462
Alternative minimum tax credit	239	
Valuation allowance	(79,073)	(76,035)
Total gross deferred tax assets	$ 74,138	$ 79,832
Deferred Tax Liabilities		
Rental and other property, net	$ 70,388	$ 73,814
Lease intangibles and customer relationships	3,223	5,176
Deferred commissions	527	842
Total gross deferred tax liabilities	$ 74,138	$ 79,832

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

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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-Q/A and the financial information set forth in the tables below.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q/A 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 ownership and 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 September 30, 2006.

Beginning in 1995 our predecessors 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 OP, the fourth real property partnership organized and operated by our predecessor entities. 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 predecessors and became the sole general partner of our OP.

RESTATEMENT

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

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

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

RECENT DEVELOPMENTS

Agreement Reached to Acquire Common Stock of NLASCO, Inc.

On October 6, 2006, we signed a definitive agreement to acquire all of the stock of NLASCO, Inc. (NLASCO), a privately held property and casualty insurance holding company. In exchange for the stock, NLASCO s shareholders, consisting of C. Clifton Robinson and affiliates, will receive $105.75 million in cash and 1,218,880 shares of ARC common stock for a total consideration of $117.5 million. In addition, we signed an agreement with Flexpoint Fund, L.P., a fund managed by Flexpoint Partners, LLC of Chicago, Illinois, pursuant to which it will invest $20 million to purchase 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.

We expect to conduct a rights offering to our stockholders in order to raise approximately $80 million to provide a source of funding for a portion of the acquisition of NLASCO. In the proposed rights offering, all holders of ARC common stock will receive one non-transferable right to purchase approximately 0.242 shares of common stock of the Company for each share held as of a record date to be established and announced at a later date. The price at which the additional shares may be purchased is $8.00 per share. It is currently anticipated that an affiliate of Gerald J. Ford, one of the Company s directors and the beneficial owner of approximately 17.6% of ARC s common stock, will backstop the rights offering and purchase any shares 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.

The transaction is expected to close by the end of the first quarter of 2007, subject to regulatory approval and other required consents.

Community Sales

In the first nine months of 2006, the Company closed on 39 previously contracted community sales transactions comprising $83.7 million of cash proceeds net of related debt, defeasance and other closing costs of $74.3 million. In the fourth quarter of 2006, we discontinued and closed an additional sale on one community, comprising $1.7 million of cash proceeds net of related debt, defeasance and other closing costs of $0.7 million. We expect to close the remaining sales transaction in 2007. There can be no assurance, however, that the Company will close the remaining community sale, or, if it closes, that it will close on the terms set forth in its contract.

Dividends Declared

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

Stock Option Grants

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

Stockholder Rights Plan

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

Refinancing

On July 11, 2006, six indirect wholly owned subsidiaries of the Operating Partnership, as co-borrowers, entered into a $230 million mortgage debt facility with Merrill Lynch Mortgage Lending, Inc. Approximately $175 million of the proceeds of the loan were used to repay other debt. The loan agreement is comprised of two components; a $170 million 10-year fixed rate mortgage debt component and a $60 million 3-year floating rate mortgage debt component with two one-year (no-fee) extension options. The fixed rate component bears interest at 6.239% and requires interest-only payments for the term of the loan. The floating rate component is adjusted monthly, bears interest at one-month LIBOR plus 80 basis points and requires interest-only payments for the term of the loan. The loan is secured by 59 manufactured housing communities located in 18 states as well as an assignment of leases and rents associated with the mortgaged property. The loan is non-recourse with the exception that the repayment of the indebtedness is guaranteed pursuant to a guaranty of non-recourse obligations in the event of declaration of bankruptcy; interference with any of the lenders rights, and asset transfers and other activities in violation of the loan documents. Under the provisions of the loan agreement, we have the right to prepay any portion of the floating rate component, with or without release of the mortgaged property, without penalty. Subsequent to a prepayment of the entire floating rate component of the loan, we have the option to prepay a fixed portion of the loan subject to prepayment fees, yield maintenance or defeasance in accordance with the terms of the loan agreement.

OVERVIEW OF RESULTS

For the three and nine months ended September 30, 2006, net loss from continuing operations was ($11.0) million (as restated) and ($37.2) million (as restated), or ($0.25) per share (as restated) and ($0.85) per share (as restated), respectively, as compared to net losses from continuing operations of ($120.4) million and ($154.8) million, or ($2.78) per share and ($3.58) per share, for the same periods in 2005. Excluding impairments and executive severance (net of minority interest) in 2005 of $94.7 million, our third quarter loss from continuing operations declined year-over-year by $14.7 million, or 57%. Revenue in our real estate segment increased to $58.5 million for the three months ended September 30, 2006 as compared to $53.9 million for the same period in 2005. Real estate segment expenses for the three months ended September 30, 2006 decreased to $23.6 million, as compared with $24.4 million for the three months ended September 30, 2005. As a result, real estate net segment income increased to $34.9 million for the three months ended September 30, 2006 as compared to $29.4 million for the same period in 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 83.3% and 83.4% for the three and nine months ended September 30, 2006, respectively, and averaged 84.9% and 83.2% for the three and nine months ended September 30, 2005, respectively. The following table summarizes our occupancy net activity for the three and nine months ended September 30:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2006	**2005**	**2006**	**2005**
Homeowner activity:				
Homeowner move ins	236	66	766	451
Homeowner move outs	(529)	(629)	(1,617)	(2,057)
Home sales	91	583	353	2,224
Repossession move outs	(231)	(427)	(892)	(1,478)
Net homeowner activity	(433)	(407)	(1,390)	(860)
Home renter activity:				
Home renter move ins	891	416	2,763	2,280
Home renter lease with option to purchase move ins	481	1,764	1,273	3,746
Home renter move outs	(1,059)	(1,422)	(2,858)	(3,743)
Net home renter activity	313	758	1,178	2,283
Net activity	**(120)**	**351**	**(212)**	**1,423**
The following reconciles the above activity to the period end occupied homesites				
Net homeowner activity	(433)	(407)	(1,390)	(860)
Occupied homeowner sites, beginning of period	39,452	41,383	40,409	41,836
Occupied homeowner sites, end of period	39,019	40,976	39,019	40,976
Net home renter activity	313	758	1,178	2,283
Occupied home renter sites, beginning of period	8,333	6,914	7,468	5,389
Occupied home renter sites, end of period	8,646	7,672	8,646	7,672
Total occupied homesites, end of period	47,665	48,648	47,665	48,648
Total occupancy percentage (a)	83.2 %	85.2 %	83.2 %	85.2 %

(a) The Company removed a net 586 lots from its homesite count from December 31, 2004 to September 30, 2006 as part of its ongoing review of operations.

On September 30, 2006, our total home inventory was 9,557 homes. Results in the three and nine months ended September 30, 2006, as compared with the same periods in 2005, reflect a change in sales and marketing programs that we implemented in the fourth quarter of 2005 to increase the sales pricing of our homes. We continue to focus on affordable price points, marketing, training of our employees and the availability of chattel financing through our consumer finance program. In the three and nine months ended September 30, 2006, we sold 91 and 353 manufactured homes, respectively, from our home inventory compared with 583 and 2,224, respectively, for the same periods in 2005.

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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 adequate focus on community operations. We operate against a detailed, bottom-up, budget against which we 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 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 took steps to down-size our sales and marketing organization in the fourth quarter of 2005 and 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 September 30, 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. A significant market share should enable 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 several programs designed to have a favorable impact on occupancy, resident satisfaction and retention, and revenue and 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 September 30, 2006, our portfolio consisted of 275 manufactured home communities (net of one community classified as discontinued operations, see Note 10 in the accompanying financial statements) comprising 57,256 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 September 30, 2006, our communities had an occupancy rate of 83.2%, and the average monthly rental income per occupied homesite was $364. 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 September 30, 2006:

Market (1)	**Number of Total Homesites**	**Percentage of Total Homesites**	**Occupancy Percentage**	**Rental Income Per Occupied Homesite Per Month (2)**
Dallas Ft. Worth, TX	7,183	12.5 %	80.7 %	$ 401
Atlanta, GA	4,969	8.7 %	88.6 %	390
Salt Lake City, UT	3,797	6.6 %	94.0 %	372
Front Range of CO	3,290	5.7 %	83.4 %	462
Kansas City Lawrence Topeka, MO KS	2,426	4.2 %	85.9 %	321
Jacksonville, FL	2,259	4.0 %	90.6 %	376
Wichita, KS	2,162	3.9 %	60.5 %	310
St. Louis, MO IL	1,917	3.4 %	78.6 %	336
Oklahoma City, OK	1,891	3.3 %	77.6 %	324
Orlando, FL	1,858	3.2 %	92.9 %	397
Greensboro Winston Salem, NC	1,396	2.4 %	65.2 %	301
Davenport Moline Rock Island, IA IL	1,382	2.4 %	86.5 %	309
Elkhart Goshen, IN	1,209	2.1 %	87.0 %	382
Charleston North Charleston, SC	1,184	2.1 %	80.6 %	305
Raleigh Durham Chapel Hill, NC	1,092	1.9 %	90.7 %	397
Sioux City, IA NE	994	1.7 %	81.1 %	340
Syracuse, NY	939	1.6 %	59.7 %	378
Des Moines, IA	859	1.5 %	87.8 %	360
Flint, MI	838	1.5 %	71.1 %	397
Pueblo, CO	752	1.3 %	65.6 %	329
Subtotal Top 20 Markets	42,397	74.0 %	82.5 %	373
All Other Markets	14,859	26.0 %	85.4 %	339
Total / Weighted Average	57,256	100.0 %	83.2 %	$ 364

(1) Markets are defined by our management.

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

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COMMUNITIES

Comparison of the Three and Nine Months Ended September 30, 2006 to the Three and Nine Months Ended September 30, 2005

The following table presents certain information relative to our real estate segment as of and for the three and nine months ended September 30, 2006 and 2005 (in thousands, except home, community and income and revenue per unit information):

	Three Months Ended September 30, 2006	2005	Nine Months Ended September 30, 2006	2005
Average total homesites	57,251	57,216	57,235	57,580
Average total rental homes	9,483	8,434	9,359	7,948
Average occupied homesites - homeowners	39,218	41,219	39,680	41,474
Average occupied homesites - rental homes	8,455	7,348	8,047	6,412
Average total occupied homesites	47,673	48,567	47,727	47,886
Average occupancy - rental homes	89.2 %	87.1 %	86.0 %	80.7 %
Average occupancy - total	83.3 %	84.9 %	83.4 %	83.2 %
Real estate revenue				
Homeowner rental income	$ 36,714	$ 35,195	$ 110,574	$ 106,196
Home renter rental income	15,090	13,108	43,679	34,707
Other	223	244	639	824
Rental income	52,027	48,547	154,892	141,727
Utility and other income	6,457	5,299	18,927	14,927
Total real estate revenue	58,484	53,846	173,819	156,654
Real estate expenses				
Property operations expenses	18,805	20,504	51,483	56,838
Real estate taxes	4,814	3,938	14,974	11,975
Total real estate expenses	23,619	24,442	66,457	68,813
Real estate net segment income	$ 34,865	$ 29,404	$ 107,362	$ 87,841
Average monthly rental income per total occupied homesite (1)	$ 364	$ 333	$ 361	$ 329
Average monthly homeowner rental income per homeowner occupied homesite (2)	$ 312	$ 285	$ 310	$ 285
Average monthly home renter income per occupied rental home (3)	$ 595	$ 595	$ 603	$ 601

	September 30, 2006	2005
Total communities	275	275
Total homesites	57,256	57,113
Occupied homesites	47,665	48,648
Total rental homes owned	9,557	8,889
Occupied rental homes	8,646	7,672

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(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 renter 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.

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	Three Months Ended September 30, 2006 (as restated)	2005	Nine Months Ended September 30, 2006 (as restated)	2005
Net segment income (loss):				
Real estate	$ 34,865	$ 29,404	$ 107,362	$ 87,841
Retail home sales	(1,146)	(4,707)	(3,705)	(8,419)
Finance and insurance	11	(861)	(666)	(1,866)
	33,730	23,836	102,991	77,556
Other expenses:				
Property management	1,549	3,030	4,727	7,541
General and administrative	4,974	7,334	14,386	19,217
Early termination of debt	556		556	
Depreciation and amortization	21,131	19,602	64,517	54,660
Real estate and retail home asset impairment		23,158		23,158
Goodwill impairment		74,793		74,793
Loss on sale of airplane			541	
Net consumer finance interest expense		19		669
Interest expense	18,731	19,568	58,318	52,292
Total other expenses	46,941	147,504	143,045	232,330
Interest income	(255)	(743)	(1,126)	(1,384)
Loss from continuing operations before income tax benefit and allocation to minority interest	(12,956)	(122,925)	(38,928)	(153,390)
Income tax benefit from continuing operations	4,472		9,043	
Loss from continuing operations before minority interest	(8,484)	(122,925)	(29,885)	(153,390)
Minority interest	27	5,106	429	6,277
Loss from continuing operations	(8,457)	(117,819)	(29,456)	(147,113)
Income (loss) from discontinued operations	276	(6,828)	2,657	(5,745)
Gain (loss) on sale of discontinued operations	5,220		31,129	(678)
Income tax expense from discontinued operations	(2,198)		(13,514)	
Minority interest in discontinued operations	(113)	296	(709)	276
Net loss	(5,272)	(124,351)	(9,893)	(153,260)
Preferred stock dividend	(2,578)	(2,578)	(7,734)	(7,734)
Net loss attributable to common stockholders	$ (7,850)	$ (126,929)	$ (17,627)	$ (160,994)

RESULTS OF OPERATIONS

Comparison of the Three Months Ended September 30, 2006 to the Three Months Ended September 30, 2005

Revenue. Revenue for the three months ended September 30, 2006 was $61.1 million, as compared to $65.2 million for the three months ended September 30, 2005, a decrease of $4.1 million, or 6%. Rental income increased by $3.5 million, primarily as a result of $3.2 million from increased rental rates and $2.0 million from higher home renter rental income, partially offset by $1.7 million from decreased homeowner occupancy. Revenue from the sale of manufactured homes decreased by $8.8 million as the Company sold 492 fewer homes in the third quarter of 2006, as compared to the same quarter last year. We implemented a change in sales and marketing programs in the fourth quarter of 2005 to increase the sales pricing of our homes. Utility and other income increased by $0.6 million due to our increased focus on utility recovery.

Property Operations Expense. For the three months ended September 30, 2006, total property operations expense was $18.8 million, as compared to $20.5 million for the three months ended September 30, 2005, a decrease of $1.7 million, or 8%. The decrease primarily is due to decreases in: a) salaries and benefits of $0.7 million, or 12%, from decreased headcount; b) bad debt expense of $0.5 million, or 62%, from increased focus on collections; c) advertising expense of $0.2 million; and d) other expenses of $0.3 million.

Real Estate Taxes Expense. Real estate taxes expense for the three months ended September 30, 2006 was $4.8 million, as compared to $3.9 million for the three months ended September 30, 2005, an increase of $0.9

million or 22%. 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, including sales commissions, was $1.5 million, or $16,500 per unit, for the three months ended September 30, 2006, as compared to $10.1 million, or $17,400 per unit, for the three months ended September 30, 2005, a decrease of $8.6 million. The decrease primarily was due to the decrease in the number of manufactured homes sold, as discussed above. The Company recorded a net gain on the sale of manufactured homes of $0.4 million and $0.6 million, respectively, in the quarters ended September 30, 2006 and 2005.

Retail Home Sales, Finance and Insurance Expense. For the three months ended September 30, 2006, total retail home sales, finance and insurance expense was $2.2 million as compared to $6.8 million for three months ended September 30, 2005, a decrease of $4.6 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 September 30, 2006 was $1.5 million, as compared to $3.0 million for the three months ended September 30, 2005, a decrease of $1.5 million, or 49%. The decrease primarily is due to reduced advertising expenses and headcount reductions resulting in lower salaries and benefits and travel expenses.

General and Administrative Expense. General and administrative expense for the three months ended September 30, 2006 was $5.0 million, as compared to $7.3 million for the three months ended September 30, 2005, a decrease of $2.3 million, or 32%. The decrease primarily was due to lower salaries and benefits and the related travel expenses, as well as a reduction in professional services resulting from Sarbanes-Oxley implementation costs incurred last year, partially offset by an increase of $0.3 million in stock compensation. In addition, in the third quarter of 2005 we accrued $1.0 million related to employee severance.

Early Termination of Debt. The three months ended September 30, 2006 include exit fees incurred of $0.6 million related to the Senior Variable Rate Mortgage that we terminated in July 2006.

Depreciation and Amortization Expense. Depreciation and amortization expense for the three months ended September 30, 2006 was $21.1 million, as compared to $19.6 million for the three months ended September 30, 2005, an increase of $1.5 million, or 8%. The increase primarily is due to depreciation on the significant amount of mobile homes and community improvements placed in service during the latter half of 2005.

Real Estate and Retail Home Asset Impairment. During the quarter ended September 30, 2005, we recognized $23.2 million of impairment charges related to communities classified as discontinued in the third quarter 2005 and then re-continued in the fourth quarter 2005 whose estimated fair value was less than their carrying values.

Goodwill Impairment. Subsequent to an announcement on September 21, 2005, that ARC was making changes in senior management, eliminating the dividend on its common stock, and planning the sale of 79 communities, the market value of ARC s common stock declined. As a result, and because the estimated fair value of our tangible net assets was above the market value of our equity at September 30, 2005, we recorded an impairment charge for the three months ended September 30, 2005 of $74.8 million to write off the remaining goodwill.

Interest Expense. Interest expense for the three months ended September 30, 2006 was $18.7 million, as compared to $19.6 million for the three months ended September 30, 2005, a decrease of $0.9 million, or 4%. The decrease is due to a lower outstanding average debt balance of approximately $32 million, partially offset by higher effective weighted average interest rates on our variable rate debt.

Interest Income. Interest income for the three months ended September 30, 2006 was $0.3 million as compared to $0.7 million for the three months ended September 30, 2005, a decrease of $0.4 million, or 66%. The decrease primarily was due to a lower level of cash on hand during the third quarter of 2006 as compared to the same period in 2005. In the beginning of August 2005, we received $96.6 million from the issuance of our senior exchangeable notes.

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 September 30, 2006 to (a) provide for an intra-period income tax allocation whereby we recorded an income tax benefit from continuing operations of $4.5 million (as restated) (including $3.4 million (as restated) deferred from the first six months) and an income tax expense from discontinued operations of $2.2 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 September 30, 2006 was almost zero (as restated) as compared to $5.1 million for the three months ended September 30, 2005, a decrease of $5.1 million, or 99%. The decrease primarily was due to a decrease in our loss before allocation to minority interest.

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. Another three communities were discontinued in 2006. Since the plan to discontinue the 38 communities was announced in the third quarter of 2005, we recorded an impairment of $6.5 million to recognize anticipated losses on the sales of certain of these communities. During the third quarter of 2006, the Company closed three community sales, comprising $6.7 million of cash proceeds net of related debt, defeasance and other closing costs of $14.7 million. A gain of $5.2 million was recorded on the sales of these communities in the third quarter of 2006.

Preferred Stock Dividend. On September 20, 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. This dividend, which was paid on October 30, 2006, amounted to $2.6 million. For the quarter ended September 30, 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 common stockholders was ($7.9) million (as restated) for the three months ended September 30, 2006, as compared to a net loss attributable to common stockholders of ($126.9) million for the three months ended September 30, 2005, a reduction in net loss of $119.0 million or 94%. Impairments and executive severance charges (net of minority interest) of $94.7 million were incurred in the 2005 period.

Comparison of the Nine Months Ended September 30, 2006 to the Nine Months Ended September 30, 2005

Revenue. Revenue for the nine months ended September 30, 2006 was $182.8 million, as compared to $192.2 million for the nine months ended September 30, 2005, a decrease of $9.4 million, or 5%. Rental income increased by $13.2 million, primarily as a result of $9.0 million from increased rental rates and $8.8 million from higher home renter rental income, partially offset by $4.6 million from decreased homeowner occupancy. Revenue from the sale of manufactured homes decreased by $27.0 million as the Company sold 1,871 fewer homes in the first nine months of 2006, as compared to the same period last year. We implemented a change in sales and marketing programs in the fourth quarter of 2005 to increase the sales pricing of our homes. Utility and other income increased by $3.4 million due to increases in utilities expense and our increased focus on utility recovery.

Property Operations Expense. For the nine months ended September 30, 2006, total property operations expense was $51.5 million, as compared to $56.8 million for the nine months ended September 30, 2005, a decrease of $5.3 million, or 9%. The decrease primarily is due to decreases in: a) salaries and benefits of $2.7 million, or 15%, from decreased headcount; b) repairs and maintenance of $0.9 million, or 11%; c) bad debt expense of $1.0 million, or 50%; d) advertising expense of $0.4 million; and e) other expense of $1.2 million. These decreases partially were offset by an increase in utilities and telephone expense of $0.8 million.

Real Estate Taxes Expense. Real estate taxes expense for the nine months ended September 30, 2006 was $15.0 million, as compared to $12.0 million for the nine months ended September 30, 2005, an increase of $3.0 million or 25%. 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, including sales commissions, was $6.4 million, or $18,100 per unit, for the nine months ended September 30, 2006, as compared to $32.2 million, or $14,500 per unit, for the nine months ended September 30, 2005, a decrease of $25.8 million. The decrease

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primarily was due to the decrease in the number of manufactured homes sold, as discussed above. The Company recorded a net gain on the sale of manufactured homes of $1.2 million and $2.4 million, respectively, in the nine months ended September 30, 2006 and 2005.

Retail Home Sales, Finance and Insurance Expense. For the nine months ended September 30, 2006, total retail home sales, finance and insurance expense was $6.9 million as compared to $13.7 million for nine months ended September 30, 2005, a decrease of $6.8 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 nine months ended September 30, 2006 was $4.7 million, as compared to $7.5 million for the nine months ended September 30, 2005, a decrease of $2.8 million, or 37%. The decrease primarily is due to reduced advertising expenses and headcount reductions resulting in lower salaries and benefits and travel expenses.

General and Administrative Expense. General and administrative expense for the nine months ended September 30, 2006 was $14.4 million, as compared to $19.2 million for the nine months ended September 30, 2005, a decrease of $4.8 million, or 25%. The decrease primarily was due to lower salaries and benefits and the related travel expenses, as well as a reduction in professional services resulting from Sarbanes-Oxley implementation costs incurred last year. In addition, in the third quarter of 2005 we accrued $1.0 million related to employee severance.

Early Termination of Debt. The nine months ended September 30, 2006 include exit fees incurred of $0.6 million related to the Senior Variable Rate Mortgage that we terminated in July 2006.

Depreciation and Amortization Expense. Depreciation and amortization expense for the nine months ended September 30, 2006 was $64.5 million, as compared to $54.7 million for the nine months ended September 30, 2005, an increase of $9.8 million, or 18%. The increase primarily is due to depreciation on the significant amount of mobile homes and community improvements placed in service during the latter half of 2005.

Real Estate and Retail Home Asset Impairment. During the nine months ended September 30, 2005, we recognized $23.2 million of impairment charges related to communities classified as discontinued in the third quarter 2005 and then re-continued in the fourth quarter 2005 whose estimated fair value was less than their carrying values.

Goodwill Impairment. Subsequent to an announcement on September 21, 2005, that ARC was making changes in senior management, eliminating the dividend on its common stock, and planning the sale of 79 communities, the market value of ARC s common stock declined. As a result, and because the estimated fair value of our tangible net assets was above the market value of our equity at September 30, 2005, we recorded an impairment charge for the nine months ended September 30, 2005 of $74.8 million to write off the remaining goodwill.

Loss on Sale of Airplane. During the nine months ended September 30, 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.

Net Consumer Finance Interest Expense. Represents interest expense and amortization of loan origination costs related to our consumer finance facility less interest income received from tenant notes receivable. The number was a net expense in the nine months ended September 30, 2005 as opposed to a net income in the nine months ended September 30, 2006 due to the start-up of operations in 2005.

Interest Expense. Interest expense for the nine months ended September 30, 2006 was $58.3 million, as compared to $52.3 million for the nine months ended September 30, 2005, an increase of $6.0 million, or 12%. The increase is due to a higher outstanding average debt balance 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 nine months ended September 30, 2006 to (a) provide for an intra-period income tax allocation whereby we recorded an income

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tax benefit from continuing operations of $9.0 million (as restated) (including $4.5 million (as restated) deferred from the first six months) and an income tax expense from discontinued operations of $13.5 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 nine months ended September 30, 2006 was $0.4 million (as restated) as compared to $6.3 million for the nine months ended September 30, 2005, a decrease of $5.9 million, or 93%. The decrease primarily was due to a decrease in our loss before allocation to minority interest.

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. Another three communities were discontinued in 2006. Since the plan to discontinue the 38 communities was announced in the third quarter of 2005, we recorded an impairment of $6.5 million to recognize anticipated losses on the sales of certain of these communities. During the nine months ended September 30, 2006, the Company closed 39 community sales, comprising $83.7 million of cash proceeds net of related debt, defeasance and other closing costs of $74.3 million. A gain of $31.1 million was recorded on the sales of these communities in the nine months ended September 30, 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, paid April 28, 2006. On June 8, 2006, the ARC board of directors declared another quarterly cash dividend of $0.5156 per share for each of the 5,000,000 outstanding shares of our Series A Preferred Stock, paid July 28, 2006. On September 20, 2006, the ARC board of directors declared another quarterly cash dividend of $0.5156 per share for each of the 5,000,000 outstanding shares of our Series A Preferred Stock, paid October 30, 2006. For the nine months ended September 30, 2006, these dividends totaled $7.7 million. For the nine months ended September 30, 2005, the dividends declared also were $0.5156 per share, or $7.7 million.

Net Loss Attributable to Common Stockholders. As a result of the foregoing, our net loss attributable to common stockholders was ($17.6) million (as restated) for the nine months ended September 30, 2006, as compared to a net loss attributable to common stockholders of ($161.0) million for the nine months ended September 30, 2005, a reduction in net loss of $143.4 million or 89%. Impairments and executive severance charges (net of minority interest) of $94.7 million were incurred in the 2005 period.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2006, we had approximately $31.1 million of cash and cash equivalents, $105.8 million available under the terms of the lease receivables line of credit and $18.7 million available under our consumer finance facility. This reflects the use of a significant portion of the excess net cash proceeds from the sale of 39 communities in the first nine months of 2006 to repay certain lease receivable, consumer finance, floorplan and other indebtedness. As of September 30, 2006, we closed sales transactions for 39 of the 41 communities we held as discontinued as of December 31, 2005, obtaining cash proceeds of $83.7 million net of related debt repayment and defeasance and other costs of $74.3 million.

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

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. Our short-term liquidity needs may also include funds related to the acquisition of NLASCO, should the acquisition be completed, for a portion of the purchase price, transaction costs and repayment of certain related party indebtedness of NLASCO.

We expect to fund our short-term liquidity needs described above through net cash provided by

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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 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 potential other financing transactions.

We expect to refinance our indebtedness as or before it comes due. On July 11, 2006, we entered into a $230 million mortgage debt facility in which we repaid approximately $175 million of our senior variable rate mortgage and our revolving credit mortgage facility and, with the additional $55 million, partially repaid our lease receivables facility and our consumer finance facility. We also intend to use the excess funds to complete a partial defeasance of one of our communities that is held for sale. As a result of the refinancing, we increased the proportion of our fixed rate debt to over 90% from 75% prior to the refinancing. This refinancing also resulted in lower interest rates as compared with rates currently in effect on our senior variable rate mortgage, our revolving credit mortgage facility, our lease receivables facility and our consumer finance facility.

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 sale of the remaining community 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 Nine Months Ended September 30, 2006 to the Nine Months Ended September 30, 2005

Cash provided by operations was $25.3 million and $0.3 million for the nine months ended September 30, 2006 and 2005, respectively. The increase in cash provided by operations for 2006 as compared to 2005 primarily was due to increased net segment income in the real estate segment, reduced net segment losses in the retail sales, finance and insurance segments and reduced property management and general and administrative expenses, partially offset by an increase in interest payments.

Cash provided by investing activities was $138.8 million in the nine months ended September 30, 2006, compared with cash used in investing activities of $96.1 million in the same period in 2005. The increase in cash from investing activities primarily was due to reduced community improvement spending by $45.9 million, increased net proceeds from the sale of communities by $95.1 million and reduced manufactured home purchases by $96.2 million.

Cash used in financing activities was $161.0 million in the nine months ended September 30, 2006, compared with cash provided by financing activities of $109.0 million in the same period in 2005. The decrease in cash used in financing activities primarily was due to the repayment of $407.4 million of debt, primarily in relation to the sales of communities, in the first nine months of 2006, compared with $142.0 million of debt repaid in the first nine months of 2005. Also, in the first nine months of 2006 we received proceeds from the issuance of additional indebtedness of $260.9 million, as compared with $312.1 million in the first nine months of 2005. Partially offsetting this was the discontinuance of the payment of the common and OP unit dividends, which were paid in the first nine months of 2005 but were not paid in the first nine months of 2006. Also in the first nine months of 2005 we repurchased OP units for cash of $6.4 million while in the first nine months of 2006 all OP unit redemptions were for common stock.

In connection with the preparation of our 2005 Form 10-K, we determined that cash flows from restricted cash and loan reserves should be included in investing rather than financing activities. As a result, the cash flow statement for the nine months ended September 30, 2005 has been revised and cash flows from investing activities was changed from ($91.2) million to ($96.1) million and cash flows from financing activities was changed from $100.2 million to $109.0 million.

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 and nine months ended September 30, 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 September 30, 2006, we had approximately $1,053.4 million of consolidated indebtedness outstanding with the following repayment obligations (in thousands):

	Principal Commitments			**Interest Commitments**		
	Fixed	**Variable**	**Total**	**Fixed**	**Variable**	**Total**
2006	$ 7,625	$	$ 7,625	$ 15,771	$ 1,786	$ 17,557
2007	9,836	1,651	11,487	62,330	6,945	69,275
2008	52,741	10,000	62,741	60,221	6,612	66,833
2009	101,267	60,000	161,267	54,432	4,385	58,817
2010	13,053		13,053	52,308	2,222	54,530
Thereafter	766,621	25,780	792,401	258,144	53,877	312,021
Commitments	951,143	97,431	1,048,574	503,206	75,827	579,033
Unamortized premium	4,799		4,799			
	$ 955,942	$ 97,431	$ 1,053,373	$ 503,206	$ 75,827	$ 579,033

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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 September 30, 2006, our total debt outstanding was approximately $1,053.4 million, comprised of approximately $955.9 million, or 90.8% of our total consolidated debt, subject to fixed interest rates and approximately $97.4 million, or 9.2% 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 $122,000 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 September 30, 2006 was approximately $1,068.6 million.

The following table sets forth certain information with respect to our indebtedness outstanding as of September 30, 2006 (dollars in thousands):

	Amount of Debt	Percentage of Total Debt	Weighted Average Interest Rate
Fixed Rate Debt			
Senior fixed rate mortgage due 2009	$ 85,041	8.1 %	5.05 %
Senior fixed rate mortgage due 2012	278,452	26.4 %	7.35 %
Senior fixed rate mortgage due 2014	190,122	18.0 %	5.53 %
Senior fixed rate mortgage due 2016	170,000	16.1 %	6.24 %
Various individual fixed rate mortgages due 2006 through 2031	134,524	12.8 %	7.23 %
Senior exchangeable notes due 2025	96,600	9.2 %	7.50 %
Other loans	1,203	0.2 %	6.97 %
	955,942	90.8 %	6.58 %
Variable Rate Debt			
Senior variable rate mortgage due 2009	60,000	5.7 %	6.12 %
Trust preferred securities due 2035	25,780	2.4 %	8.62 %
Lease receivable facility due 2008	10,000	0.9 %	9.45 %
Floorplan lines of credit due 2007	1,651	0.2 %	9.00 %
	97,431	9.2 %	7.17 %
	$ 1,053,373	100.0 %	6.64 %

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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 and nine months ended September 30, 2006 to correct its intra-period income tax accounting as presented in the original Form 10-Q for the quarter and nine months ended September 30, 2006. As a result of the restatement of its previously issued interim consolidated financial statements as of and for the quarter and nine months ended September 30, 2006, management has assessed the impact of the restatement on its disclosure controls and procedures as of September 30, 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 September 30, 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 September 30, 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 September 30, 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.

In connection with the preparation of our 2005 Form 10-K, we determined that cash flows from restricted cash and l

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS

(a) Exhibits:

See Exhibit Index

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)).
10.1*	Form of Affordable Residential Communities Inc. 2003 Equity Incentive Plan Non-Qualified Stock Option Agreement.
10.2*	Time Share Agreement dated July 15, 2006, between Larry D. Willard and Affordable Residential Communities LP.
10.3*	Time Share Agreement dated July 15, 2006, between James F. Kimsey and Affordable Residential Communities LP.
10.4*	Loan Agreement dated July 11, 2006 among ARCHL06 LLC, ARC18TX LP, ARC18FLD LLC, ARC18FLSH LLC, ARCFLMC LLC and ARCFLSV LLC, as co-borrowers and Merrill Lynch Mortgage Lending, Inc.
10.5*	Guarantee of Non-Recourse Obligations dated July 11, 2006 between Affordable Residential Communities LP and Merrill Lynch Mortgage Lending, Inc.
10.6*	Rights Agreement, dated as of July 11, 2006, by and between the Company and American Stock Transfer & Trust Company.
10.7*	Second Amendment to Credit Agreement, dated as of April 5, 2006, by and among, ARC Housing LLC, ARC Housing TX LP, (Borrowers), and Merrill Lynch Mortgage Capital Inc., (Lender).
10.8*	Stock Purchase Agreement dated as of October 6, 2006 among Affordable Residential Communities Inc., ARC Insurance Holdings Inc., C. Clifton Robinson, C.C. Robinson Property, Ltd. and the Robinson Charitable Remainder Unitrust.
10.9*	Stock Purchase Agreement dated as of October 6, 2006 among Affordable Residential Communities Inc. and Flexpoint Fund, L.P.
10.10*	Investment Agreement dated as of October 13, 2006 among Affordable Residential Communities Inc., Gerald J. Ford, ARC Diamond, LP and Hunter s Glen/Ford, Ltd.
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