AMERICAN LAND LEASE INC
Form 10-K
March 11, 2008
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

ANNUAL REPORT

PURSUANT TO SECTIONS 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

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

For the fiscal year ended December 31, 2007

OR

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

For the transition period from to

Commission file number 1-9360

AMERICAN LAND LEASE, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**84-1038736**

(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
29399 U.S. Hwy 19 North, Suite 320 Clearwater, Florida, 33761	**727-726-8868**
(Address of Principal Executive Offices)	**(Registrant s Telephone Number)**

Securities registered pursuant to section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $0.01 per share	**New York Stock Exchange, Inc.**
Class A Cumulative Redeemable Preferred Stock, par value $0.01 per share	**New York Stock Exchange, Inc.**

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

The aggregate market value of the voting common stock held by non-affiliates of the registrant was approximately $164.9 million as of June 30, 2007. For purposes of this determination, the registrant excluded shares of Common Stock known to be held by officers, directors and each person who or which owns 10% or more of the registrant s outstanding common stock because those person might be deemed affiliates. This determination of affiliate status is not necessarily conclusive for other purposes. As of February 27, 2008, there were approximately 7,866,000 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents if incorporated by reference and the Part of the Form 10 K (e.g., Part I, Part II, etc.) into which the document is incorporated:

Portions of the Proxy Statement for the registrant s 2008 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

Table of Contents

AMERICAN LAND LEASE, INC.

Table of Contents

Annual Report on Form 10-K

For the Fiscal Year Ended December 31, 2007

Table of Contents

PART I

Forward Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements in certain circumstances. Certain information included in this Annual Report on Form 10-K (Annual Report) and our filings with the Securities and Exchange Commission (the SEC) under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, as well as information communicated orally or in writing between the dates of these SEC filings, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements may include projections relating to our results of operations, cash flow, dividends, anticipated returns on real estate investments and opportunities to acquire additional communities. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include: general economic and business conditions; interest rate changes; financing and refinancing risks; risks inherent in owning real estate or debt secured by real estate; future development rate of home sites; competition; the availability of real estate assets at prices which meet our investment criteria; our ability to reduce expense levels, implement rent increases, use leverage and other risks set forth in this Annual Report and our other SEC filings. In addition, American Land Lease, Inc. s current and continuing qualification as a real estate investment trust (REIT) involves the application of highly technical and complex provisions of the Internal Revenue Code and depends on our ability to meet the various requirements imposed by the Internal Revenue Code through actual operating results, distribution levels and diversity of stock ownership. Readers should carefully review our financial statements and the notes thereto, as well as the risk factors described in this Annual Report and the other the documents that we file from time to time with the SEC. American Land Lease, Inc. assumes no obligation and does not intend to update these forward-looking statements.

Item 1. Business
The Company

American Land Lease, Inc. (ANL), a Delaware corporation, is a self-administered and self-managed REIT engaged in the ownership, development, expansion, management, financing and refinancing, acquisition and disposition of residential land lease communities. Residential land lease communities own home sites that are leased to owners of homes situated on the leased land and own various amenities provided for common use by the homeowners. The amenities may include features that support the lifestyle of the community such as a clubhouse, pool, tennis courts, golf course, or marina. The communities consist of one or more subdivisions with features comparable to any typical residential subdivision, including central entrances, paved streets, signage and monumentation, and in some instances, sidewalks and street lights. We collect various amounts from the homeowners in our communities related to the lease of the home site, use of common facilities and areas, maintenance of lawns and common areas, collection of trash, providing water and wastewater services, payment of ad valorem taxes, operation of security services and maintenance of common infrastructure. The extent of the services provided varies by community.

In May 1997, American Land Lease, Inc. contributed its net assets to Asset Investors Operating Partnership, L.P. (the Operating Partnership) in exchange for the sole general partner interest in the Operating Partnership and substantially all of the Operating Partnership s initial capital. We conduct our business through the Operating Partnership. We do not own all of the interests in the Operating Partnership. Interests in the Operating Partnership held by limited partners other than ANL are referred to as OP Units. The holders of OP Units receive distributions, prorated from the date of issuance, in an amount equivalent to the dividends, if any, paid to holders of our common stock. After holding OP Units for one year, limited partners generally have the right to redeem their OP Units for cash. Notwithstanding that right, the Operating Partnership may elect to acquire some or all of the OP Units tendered for redemption by exchanging shares of our common stock in lieu of cash. At

Table of Contents

December 31, 2007, the Operating Partnership had a total of 8,546,000 partnership units outstanding and we owned 7,553,000 partnership units comprising 89% of the Operating Partnership. As of December 31, 2007, 100%, or approximately 993,000, of the OP Units held by limited partners had been held for at least one year and were eligible for redemption by the holders thereof.

Except as the context otherwise requires, we, our, us, ANL and the Company refer to American Land Lease, Inc., the Operating Partnership all majority-owned subsidiaries.

As of December 31, 2007, we held interests as owner in 30 residential land lease communities, one of which includes a recreational vehicle park, with an approximate total of 7,984 operational home sites, 1,370 developed home sites, 1,191 undeveloped home sites and 129 recreational vehicle sites. Based on total home sites, 72% of the Company s portfolio of residential land lease communities is located in Florida, 24% in Arizona and 4% in Alabama. An operational home site is defined as a home site that is or has been occupied by a home owned by a resident. A developed home site is defined as a home site for which infrastructure is complete, but either a home has not yet been constructed or the home constructed has not been occupied by a resident. An undeveloped home site is defined as a planned home site under active development for which the infrastructure is not complete. A recreational vehicle site is defined as a site that is equipped to allow a recreational vehicle to connect to water and electricity.

In support of the development, redevelopment, and expansion of our residential land lease communities, we are engaged, through a taxable subsidiary corporation, in the sale of homes to future residents. The home sales business is operated like other homebuilders with sales presentation centers, model homes designated for presentation, an inventory of completed homes and the ability to supply custom designed homes based upon the requirements of the new homeowners.

Our principal executive offices are located at 29399 U.S. Hwy 19 North, Suite 320, Clearwater, Florida 33761, and our telephone number is (727) 726-8868. Our common stock, par value $.01 per share and our preferred stock, par value $.01, are listed on the New York Stock Exchange (NYSE) under the symbol ANL and ANLPRA, respectively. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, amendments to such reports and other documents we file or furnish pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, are available as soon as reasonably practicable after we electronically file such material and free of charge through our internet Web site at www.americanlandlease.com. Additionally, we intend to provide any information otherwise required by Item 5.05 of Form 8-K by the alternative of disclosure on our aforementioned internet website. The information contained on our Web site is not incorporated into this Annual Report.

Recent Developments

2007 Events

Change in General Business Conditions

During 2007, our new home sales business was significantly impacted by the slowdown in the U.S. housing market while our portfolio of land leases produced solid results and demonstrated the strength of our business model. The decline in our new homes sales business has negatively impacted our profitability, cash flows and growth rate. See also Item 1A. Risk Factors.

We believe this slowdown is attributable to a decline in consumer confidence, an overall softening of demand for new homes, an oversupply of homes available for sale, the inability of some of our home buyers to sell their current homes and the direct and indirect impact of the turmoil in the mortgage loan market. In our markets, industry conditions deteriorated during the year. We attribute the reduction in new home sales demand to concerns on the part of prospective home buyers about the direction of home prices and concerns by prospective home buyers about being able to sell their existing homes. The potential of mortgage foreclosures, price reductions and increased sales incentives advertised by homebuilders have contributed to home buyers concerns and provide impediments to our new home sales process.

Table of Contents

We continue to operate our business with the expectation that difficult market conditions will continue to impact us for at least the near term. We expect these trends in our new home sales activities to continue and the majority of the markets we serve to remain challenging throughout 2008. We have adjusted our approach to inventory construction, limited land development expenditures, and balanced home price and profitability with sales pace. While these difficult market conditions persist, improving the efficiency of our selling, general and administrative expenses will continue to be a significant area of increasing focus.

Continuing Conversion of Undeveloped Home Sites and Developed Home Site Inventory to Leased Sites

We own an inventory of developed vacant sites within our portfolio of residential land lease communities. In addition, we own undeveloped land that is contiguous to existing occupied communities, and we own two communities that we are developing from raw land. Our development activities convert the undeveloped land into developed home sites. As of December 31, 2007, 533 of our total 1,191 undeveloped lots were being improved pursuant to construction contracts with the remaining 658 lots in various stages of permitting and design. Our home sales business facilitates the conversion of these developed home sites into leased sites with long-term cash flows through the sale of homes to future residents. In 2007, we entered into 198 new land leases in connection with the purchase of new homes, a 34.0% decrease in this activity compared to the prior year. The changes in our leased sites for the year ended December 31, 2007 are shown in the following table:

	Changes in Leased Sites for Year Ended December, 31, 2007
New leases facilitated by home sales	198
Leases terminated through:	
removal of home by tenant	(18)
removal of home to facilitate redevelopment	(11)
acquisition of home by tenant transferring title to ANL	(25)
Sales of homes previously repossessed	21
Leased sites sold	(255)
New leases originated as a result of homes sold by others	5
Net decrease in leased sites	(85)

Debt Financings

During 2007, we closed one fixed rate loan for $4.6 million with an interest rate of 5.89% and we closed variable rate loans totaling $10.8 million with a variable rate at the three-month London Interbank Offered Rate (LIBOR) plus 115 basis points, which was 6.35% at December 31, 2007.

Consideration of Acquisitions, Dispositions, and Financing Transactions

In the ordinary course of business, we engage in discussions and negotiations regarding the acquisition of residential land lease properties, including interests in entities that own residential land lease properties. We frequently enter into contracts and non-binding letters of intent with respect to the purchase of properties. These contracts are typically subject to certain conditions and permit us to terminate the contract in our sole and absolute discretion if we are not satisfied with the results of our due diligence investigation of the properties. We believe that such contracts essentially result in the creation of an option to acquire the subject properties and give us greater flexibility in seeking to acquire properties.

From time to time we offer for sale certain real estate properties that are inconsistent with our long-term investment strategies.

Additionally, we actively consider a broad range of debt and equity financing and refinancing transactions with respect to our real estate portfolio. These transactions are considered and may be pursued to modify our capital structure, generate additional capital for future operations, fund acquisitions or for other uses.

Table of Contents

Industry and Business Background

A residential land lease community is a residential subdivision designed and improved with sites for the placement of homes together with related improvements and amenities. At this time, the homes constructed in residential land lease communities are generally, but not always, manufactured homes. Manufactured homes are detached, single-family homes which are produced off-site by manufacturers and installed on sites within the community. These homes are often improved with the addition of features constructed on site, including garages, screened rooms and carports. Manufactured homes are available in a variety of designs and floor plans, offering many amenities and custom options.

Modern residential land lease communities are similar to typical residential subdivisions containing central entrances, paved streets, curbs and gutters, and parkways. The communities frequently provide a clubhouse for social activities and recreation and other amenities, which may include golf courses, marinas, swimming pools, shuffleboard courts and laundry facilities. Utilities are provided, or arranged for, by the owner of the community. Community lifestyles, promoted by community managers, include a wide variety of social activities that promote a sense of neighborhood. The communities provide attractive and affordable housing for retirees, empty nesters and start-up or single parent families.

Residential land lease communities are primarily characterized as all age communities or age-restricted communities. In age-restricted communities, one of the residents must be at least 55 years old in a minimum of 80% of the homes, and in all age communities, there are no age restrictions on residents. We generally invest in age-restricted communities. At December 31, 2007, 95% of our total home sites were in age-restricted communities.

The owner of a home in our communities leases from us the site on which the home is located and acquires the right to utilize the community common areas and amenities. Typically, the leases are on a month-to-month or year-to-year basis, renewable upon the consent of both parties or, in some instances, as provided by statute for a term of four years. In some circumstances, we offer a 99-year non-transferable lease to residents in order to enable the resident to have some of the benefits of an owner of real property, including creditor protection laws in some states. In one instance, we acquired leases that contained 35 year original terms and were transferable to successor residents. These leases can be cancelled, depending on state law, for non-payment of rent, violation of community rules and regulations, or other specified defaults. Generally, rental rate increases are made on an annual basis. The size of these rental rate increases depends upon the policies that are in place at each community. We may, as an inducement to new homebuyers, make rent concessions, including fixed rental rates. Rental increases may be based on fixed dollar amounts, percentage amounts, inflation indices, or they may depend entirely on local market conditions. We own interests in the underlying land, utility connections, streets, lighting, driveways, common area amenities and other capital improvements and are responsible for enforcement of community guidelines and maintenance. Each homeowner within the residential land lease communities is responsible for the maintenance of his or her home and leased site, including lawn care in some communities.

Residential land lease communities, once fully occupied, tend to be a stable, predictable asset class. The investment by the individual in the ownership of a home on our land, combined with the cost and effort involved in relocating the home to another location, promote a high level of home maintenance and encourage the owner to resell the home as located within the community. Additionally, the number of individual homeowners within a community provides a diversification of risk.

Financial Information about Industry Segments

We operate in two reportable segments: real estate (ownership of land leases, land development, investment acquisition and disposition) and home sales (sale of homes, both new and used, to be sited on land owned by the Company). See the consolidated financial statements and related notes, in Item 8 of this Annual Report.

Table of Contents

Growth and Operating Strategies

Our primary objective is to maximize total risk-adjusted stockholder returns over the long term by increasing our operating cash flow and increasing our net asset value (as defined by NAREIT, the net market value of all of a company s assets, including but not limited to its properties, after subtracting all its liabilities and other obligations). Increasing our operating cash flow increases our net asset value and increases the amount and predictability of Funds From Operations (FFO) (as defined by the National Association of Real Estate Investment Trusts). For a description of the meaning of FFO, see the discussion entitled, Funds From Operations, in Item 7 of this Annual Report.

We implement operating and financing strategies to achieve our objectives, which include but are not limited to the following:

- improving net operating income from our existing portfolio of residential land lease communities;
- redeveloping residential land lease communities;
- leasing unoccupied sites in our development portfolio, through the sale of homes by our home sales subsidiary;
- acquiring additional communities at values that are accretive on a per share basis; and
- acquiring additional development property that is suitable for development as a residential land lease community.

We seek to increase our net asset value through a number of financing strategies, which include but are not limited to the following:

- use of leverage with attractively priced debt capital;
- consideration of asset disposals where the use of sales proceeds provides for an accretion to net asset value; and
- continuing evaluation of our equity capital sources including common stock issuances, preferred stock issuances, joint ventures and property sales.

Company Policies

Management has adopted specific policies to accomplish our primary objective of increasing net asset value and increasing the amount and predictability of our FFO on a per share basis, less capital replacements. These policies include:

- acquiring residential land lease communities that have potential for long-term appreciation of value through, among other things, rent increases, expense efficiencies and in-community home site development;
- improving the profitability of our communities through management of occupancy, rent collection, rent increases based upon community enhancements and operating expense controls;

making capital replacement expenditures to maintain the physical condition of our communities (expenditures per developed home site were approximately $126, $184 and $149 for 2007, 2006 and 2005, respectively);

developing and maintaining resident satisfaction and a reputation for quality communities through maintenance of the physical condition of our communities and by providing activities that improve the community lifestyle;

using our home sales subsidiary to increase the occupancy rate at our communities by selling homes to be situated on presently unoccupied sites at our development communities and selling previously owned homes in all communities;

- using our home sales subsidiary to upgrade the quality of homes placed on home sites within the community;
- developing additional home sites on land we own that may or may not be contiguous to existing communities;
- seeking to limit our exposure to downturns in regional real estate markets by diversifying the location of our portfolio of communities (at the end of year 2007, based on total home sites, 72% of our properties were in Florida, 24% were in Arizona and 4% were in Alabama);
- increasing our financial returns through the use of leverage, including long-term, non-recourse debt, joint venture equity, and preferred stock;
- managing our exposure to interest rate fluctuations by utilizing primarily long-term, fixed-rate debt (80% of our total debt was fixed rate at the end of year 2007); and
- recruiting and retaining capable management and professional staff at the community management level and above.

Future Acquisitions

Our acquisition of interests in residential land lease communities may take many forms. In many cases, we acquire title in fee simple to the community or acquire ownership of entities that have fee simple title to the community. Alternatively, we may accomplish this goal by making participating loans to others that are non-recourse to the borrowers and secured by the properties. In general, these participating mortgages earn interest at fixed rates and, in addition, participate in profits or revenues from the community. We may undertake these activities directly or through joint venture arrangements.

We believe that acquisition opportunities for residential land lease communities are attractive at this time because of:

- the increasing quality of manufactured homes, as shown by the number of individuals living in manufactured homes;
- the substantial price paid for, and further investment by the owner in, manufactured homes; and
- the continued constraints on development of new residential land lease communities.

We are actively seeking to acquire additional communities and we are currently engaged in various stages of negotiations relating to the possible acquisitions of a number of communities. The acquisitions of interests in additional communities or other business activities could result in changes in our capital structure through the issuance, or assumption, of additional debt and the issuance of equity.

When evaluating and structuring potential acquisitions, we consider several factors including, but not limited to, the cost, location, amenities, current and projected cash flow, regulatory environment and the effects the acquisitions would have on our REIT status.

Expansion of Existing Communities

We expect to increase the number of leased home sites and the amount of earnings generated from our existing portfolio of residential land lease communities through marketing campaigns aimed at increasing new home sales that result in the origination of new leases and increased occupancy. We also expect to seek expansion through future acquisitions and expansion of the number of sites available to be leased to residents at our existing communities, if justified by local market conditions and permitted by zoning and other applicable laws. As of December 31, 2007, we held interests in 30 communities with approximately 7,984 operational home sites, 1,370 developed home sites, 1,191 undeveloped home sites and 129 recreational vehicle sites.

Table of Contents

Dispositions

We regularly monitor and adjust our assets to increase the quality and performance of our portfolio. At certain points in time, we may sell properties in an effort to increase the quality and performance of our portfolio and in pursuit of increasing our net asset value.

There can be no assurance that the growth and operating strategies can be achieved, in whole or in part. For additional risk factors related to our business, see Item 1A on page 13 of this Annual Report.

Competition

There are numerous housing alternatives that compete with our residential land lease communities in attracting residents. Our properties compete for residents with other residential land lease communities, multifamily rental apartments, single-family homes and condominiums. The number of competitors and relative price of competing alternatives in a particular area have a material effect on our ability to attract and retain residents, and on the rents we are able to charge for home sites. The relative price of competing products are measured based upon the total cost of occupancy to the resident. Historically, mortgage finance rates for homes situated in land lease communities have been higher for borrowers of equivalent credit when compared to mortgage finance rates available for single-family, site-built housing on land owned in fee simple. In addition, the cost of insurance for manufactured homes has increased and, in certain instances, insurance has not been available for a period of time in prior years.

In acquiring assets, we compete with other REITs, pension funds, insurance companies, and other investors, many of which have greater financial resources than we do and the ability to procure more attractively priced capital.

Acquisition of Our Inventory of Homes

We do not manufacture the homes we sell. Generally, we purchase them directly from various companies engaged in manufacturing homes. We do not believe we have undue concentration risk with respect to the suppliers of our inventory of homes. However, in some instances, our purchasing volume is significant to a manufacturer and we are able to negotiate favorable pricing, delivery schedules and other terms. As a result of the deterioration in the overall U.S. housing market, we have seen reduction in production capacity by a number of our suppliers. These reductions have not, to date, limited our ability to acquire the homes we sell or the price we pay to our suppliers. From time to time, we have also acquired homes for resale through acquisitions of other residential land lease communities and foreclosures.

Taxation of the Company

We have elected to be taxed as a REIT under the Internal Revenue Code of 1986, commencing with our taxable year ended December 31, 1986, and we intend to continue to operate in such a manner. Our current and continuing qualification as a REIT depends on our ability to meet the various requirements imposed by the Internal Revenue Code of 1986 through actual operating results, including income and asset requirements, distribution levels and diversity of stock ownership.

If we qualify for taxation as a REIT, we will generally not be subject to federal corporate income tax on our net income that is currently distributed to stockholders. This treatment substantially eliminates the double taxation of income (at the corporate and stockholder levels) that results from investment in a corporation under current law. However, our stockholders are generally subject to tax on dividends received from us at regular ordinary income rates. They are generally not eligible for tax at the lower capital gain rates that apply, in the case of stockholders who are individuals, to dividends received from taxable domestic corporations under current law. The extent to which the dividends that we pay are treated as ordinary income varies, and portions of our dividends may be subject to more favorable tax treatment for our stockholders than ordinary income, such as the portion, if any, of the dividends that represent return of capital, capital gains, or unrecaptured Section 1250 gains.

If we fail to qualify as a REIT in any taxable year, our taxable income will be subject to federal income tax at regular corporate rates (including any applicable alternative minimum tax). Even if we qualify as a REIT, we may be subject to certain state and local income taxes, and to federal income and excise taxes and penalties, including taxes on our undistributed income.

If in any taxable year we fail to qualify as a REIT and incur additional tax liability, we may need to borrow funds or liquidate investments in order to pay the applicable tax, but we would not be compelled to make distributions under the Internal Revenue Code of 1986. Unless entitled to relief under certain statutory provisions, we would also be disqualified from treatment as a REIT for the four taxable years following the year during which qualification is lost. Although we currently intend to operate in a manner designed to qualify as a REIT, it is possible that future economic, market, legal, tax or other considerations may cause us to fail to qualify as a REIT, or may cause our Board of Directors to revoke our REIT election.

Certain of our operations, including our home sales business and golf course activities, are conducted through taxable REIT subsidiaries, which we refer to as taxable subsidiaries. A taxable subsidiary is a corporation that has not elected REIT status and, as such, is subject to federal corporate income tax. We use taxable subsidiaries to offer certain services to our residents and engage in activities that would not otherwise be permitted under the REIT rules if provided directly by us or by the Operating Partnership.

At December 31, 2007, our net operating loss (NOL) carryover was approximately $64.2 million for the parent REIT entity, and $9.0 million for our taxable subsidiaries that are consolidated for financial reporting, but not for federal income tax purposes. Subject to certain limitations, the REIT s NOL carryover may be used to offset all or a portion of our REIT taxable income and to reduce the amount that we are required to distribute to stockholders to maintain our status as a REIT. It does not, however, affect the tax treatment to stockholders of any distributions that we make. The REIT s and the taxable subsidiaries NOL carryovers are scheduled to expire between 2008 and 2009, and 2020 and 2026, respectively.

ANL and its stockholders may be subject to state or local taxation in various jurisdictions, including those in which ANL or they transact business or reside. The state and local tax treatment that ANL and its stockholders receive may not conform to the federal income tax treatment.

Regulation

General

Residential land lease communities, like other housing alternatives, are subject to various laws, ordinances and regulations, including regulations relating to recreational facilities such as swimming pools, clubhouses and other common areas. We believe that we have obtained the necessary permits and approvals to operate each of our properties in conformity with these laws. Changes in laws increasing the potential liability for environmental conditions existing on properties or increasing the restrictions on discharges or other conditions, as well as changes in laws affecting development, construction and safety requirements, may result in significant unanticipated expenditures, which would adversely affect our cash flows from operating activities. In addition, future enactment of rent control or rent stabilization laws, or other laws regulating housing, may reduce rental revenue or increase operating costs in particular markets.

Americans with Disabilities Act and Fair Housing Act

Our current properties and any newly acquired communities may be required to comply with the Americans with Disabilities Act (the ADA) and the Fair Housing Act (the FHA). The ADA generally requires that public facilities, such as clubhouses, swimming pools and recreation areas, be made accessible to people with disabilities. Many of our communities have public facilities. In order to comply with the ADA s requirements, we have made improvements at our communities to remove barriers to access. If we fail to comply with ADA regulations, we could be fined or forced to pay damages to private litigants. We have made those changes which we believe are appropriate and required by the ADA, and we believe that our properties are in compliance with the requirements of the ADA. In the event that we incur any further costs related to ADA compliance, we believe these costs can be recovered from cash flows from the individual properties without causing any material adverse effect. We may also seek to recover these costs immediately as a governmental pass-through charge that is included in selected leases. If required changes involve a greater expenditure than we currently anticipate, or if the changes must be made on a more accelerated basis than we anticipate, our ability to make distributions could be adversely affected. The FHA requires that we allow residents, at their own expense and subject to our review, to make private facilities within our communities accessible to people with disabilities. When requested by residents, we believe we have made the appropriate and required accommodations to enable them to make the improvements.

Rent Control Legislation

State and local laws might limit our ability to increase rents on some of our properties, and thereby limit our ability to recover increases in operating expenses and costs of capital improvements. Enactment of rent control laws has been considered from time to time in jurisdictions in which we operate. We expect to maintain residential land lease communities, and may purchase additional properties, in markets that are either subject to rent control laws, or in which such legislation may be enacted in the future.

Environmental

Various federal, state and local laws subject property owners or operators to liability for the costs of removal or remediation of certain hazardous substances present on a property. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence or release of the hazardous substances. The presence of, or the failure to remediate properly, hazardous substances may adversely affect occupancy at affected communities and our ability to sell or finance affected properties. In addition to the costs associated with investigation and remediation actions brought by governmental agencies, the presence of hazardous wastes on a property could result in claims by private plaintiffs for personal injury, disease, disability or other infirmities. Various laws also impose liability for the cost of removal or remediation of hazardous substances at the disposal or treatment facility. Anyone who arranges for the disposal or treatment of hazardous or toxic substances is potentially liable under such laws. These laws often impose liability whether or not the person arranging for the disposal ever owned or operated the disposal facility. In connection with the ownership, operation and management of our properties, we could potentially be liable for environmental liabilities or costs associated with our properties or properties we acquire or manage in the future.

Building Codes

The manufactured homes we purchase from our suppliers are subject to certain building codes and regulations, which vary from state to state. If building codes or regulations change such that new building codes increase our suppliers costs, the cost of the homes we purchase from our suppliers may increase. Increases in the cost of the homes we sell could reduce our margins and or sales volume, which could materially affect our future cash flows.

Land Use Regulations

The communities we own and the land that surrounds them are subject to land use regulations promulgated by local governmental bodies, including counties, towns and cities. These regulations may change, resulting in increases in our costs. There is also the potential for uses inconsistent with our residential communities being constructed on land adjoining our communities. These changes could reduce the value of our communities.

Insurance

We believe that our properties are covered by adequate fire, flood, property, terrorism, and business interruption insurance policies. It is our policy to purchase insurance policies that contain commercially reasonable deductibles and limits from reputable insurers. In the event of changes in the insurance markets, we may be unable to purchase policies with deductibles and limits equal to the coverage currently in place or the costs to procure such coverage may increase at a rate in excess of our ability to recover these costs through increased rental rates. We also believe that we have obtained adequate title insurance policies insuring fee title to properties we have acquired. We do not insure our residents homes. In the event that a community is subject to a casualty that results in our residents homes being destroyed, insurance proceeds to our residents (if any) may not be sufficient to replace or repair their homes. Additionally, in such event, our business interruption insurance may not be sufficient to replace the rental income lost from the termination of, or default under, residents leases until such time as we are able to originate new ground leases through our home sales division.

Capital Resources

We have used our available cash balances, our cash flow and our long-term and short-term financing arrangements to provide working capital to support our operations, fund development in our existing communities, pay dividends and acquire assets. Future acquisitions and continued development of our communities will be financed by the most appropriate sources of capital, which may include our available cash balances; undistributed FFO; long-term secured debt; short-term secured debt; the issuance of additional equity securities, including interests in the Operating Partnership or other partnership interests or joint venture transactions; or additional sources as determined by management. Our ability to offer interests in the Operating Partnership provides an additional acquisition currency to potential sellers of residential land lease communities, which may enable the seller to defer some or all of the tax consequences of a sale. We believe that this flexibility may offer sellers an incentive to enter into transactions with us on favorable terms.

Without further stockholder approval, we are authorized to issue up to an aggregate of 12,000,000 shares of common stock and 3,000,000 shares of preferred stock. As of February 27, 2008, approximately 7,866,000 shares of common stock were outstanding, and 1,000,000 shares of Class A Cumulative Redeemable Preferred Stock were outstanding. Additionally, as of February 27, 2008, we held approximately 1,961,000 shares of common stock in treasury, which are available for re-issuance. Under our Certificate of Incorporation, the Board of Directors has the authority to classify, reclassify and issue shares of preferred stock, including the determination of the preferences, rights, powers and restrictions of the preferred stock. Depending upon the terms set by our Board of Directors, the authorization and issuance of preferred stock or other new classes of stock could adversely affect existing stockholders. Future offerings of common or preferred stock may result in the reduction of the net tangible book value per outstanding share and a reduction in the market price of the stock. We are unable to estimate the amount, timing or nature of such future offerings, as any such offerings will depend on general market conditions or other factors.

Restrictions on Transfer and Ownership of Common Stock

To qualify to be taxed as a REIT, we must comply with certain ownership limitations with respect to shares of our common stock. Our Third Amended and Restated Certificate of Incorporation (the Certification of Incorporation) provides generally that no person is permitted to acquire or own, directly or indirectly, more than 5% of the aggregate value of the outstanding shares of any class of our stock unless our Board of Directors waives this restriction. Our Board of Directors has waived this ownership limitation for Mr. Terry Considine, our Chief Executive Officer, and for certain other stockholders, subject to such terms and conditions as determined by the Board of Directors.

If any transfer of shares of our stock that is not authorized by our Board of Directors would result in a person owning greater than 5% of the aggregate value of the outstanding shares of any class of our stock, all shares owned by that person that are in excess of the 5% limit will be transferred in trust for the benefit of a charitable beneficiary. Within 90 days of receiving notice from us that shares of stock have been transferred to the trust, the trustee of the trust shall sell the shares held in trust and distribute the proceeds from the sale of the shares in the following manner:

- the prohibited owner whose shares were transferred to the trust will receive the lesser of the amount that the prohibited owner paid for the shares or the amount the trustee receives for the shares; and

- any further amounts remaining from the sale will be transferred to a charitable beneficiary.

At the end of each year, every owner of more than a prescribed percentage (5% if there are more than 2,000 record stockholders, and 1% if there are more than 200 but less than 2,000 record stockholders) of the outstanding shares of our stock will be required to provide us with written notice stating the name and address of the owner, the number of shares held, and a description of the manner of ownership.

Employees

As of December 31, 2007, we employed 195 persons that devoted their full-time attention to our communities and certain part-time employees as seasonal or other circumstances dictate. Our employees are not represented by a union, and we have never experienced a work stoppage. We believe that we maintain satisfactory relations with our employees.

Company Web Site and Access to Filed Reports

The Company maintains an Internet Web site at *www.americanlandlease.com.* The Company provides access to its reports filed with the SEC, its Code of Business Conduct and Ethics, the Code of Ethics for Chief Executive and Senior Financial Officers, the charters of the Audit, Compensation and Nominating/Corporate Governance Committees of our Board of Directors and the Company s Governance Guidelines through this Web site. The Company s SEC reports are available as soon as reasonably practicable after they are filed or furnished electronically with the SEC. In addition, paper copies of annual and periodic reports filed with the SEC, the Code of Business Conduct and Ethics, the Code of Ethics for Chief Executive and Senior Financial Officers, committee charters and Corporate Governance Guidelines may be obtained free of charge by contacting the Company s headquarters at the address located within our SEC filings or under Investor Relations, Financials, on the aforementioned Web site.

Item 1A. Risk Factors.

Our debt service obligations could leave us with insufficient cash resources to meet our other working capital and dividend needs, limit our operational flexibility, or otherwise adversely affect our financial condition.

Our organizational documents do not limit the amount of debt that we may incur, and our strategy is generally to incur debt to increase the return on our equity. As part of our strategy, we most often utilize long-term, non-recourse fixed-rate debt, which comprises 80% of our total debt. As of December 31, 2007, we had approximately $270.9 million of total outstanding debt, consisting of approximately $247.8 million of secured debt that is secured by mortgage liens on 28 of our properties, and $23.1 million of secured debt that is secured by the Company s inventory. In addition, our credit facilities contain customary negative covenants and other financial and operating covenants that, among other things, require us to maintain certain financial coverage ratios and restrict our ability to incur additional indebtedness or make distributions to stockholders. In the event that new home sales activities continue at the same pace or decline further in 2008, we may not achieve certain covenants. If we do not achieve our financial covenants and the lender does not grant us a waiver, the lender could place restrictions upon us that could adversely affect our operations and our ability to make distributions to

Table of Contents

our stockholders. Our substantial indebtedness and the cash flow associated with servicing our indebtedness could have important consequences, including the risks that:

- payments of principal and interest may leave us with insufficient cash resources to operate our properties or pay distributions required to be paid in order to maintain our qualification as a REIT;
- our cash flow from operations may be insufficient to make required payments of principal and interest or to continue payment of dividends on common and preferred stock;
- our existing indebtedness may limit our operational flexibility due to financial and other restrictive covenants, including restrictions on incurring other debt;
- if we fail to meet our covenants under our credit facilities, our lenders could foreclose on the collateral securing the facilities or place restrictions that could adversely affect our operations.
- our debt service obligations could limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- if changes occur in the market such that our communities decline in value, we may not be able to refinance existing indebtedness which could lead to foreclosure, or the terms of any refinancing may not be as favorable as the terms of existing indebtedness;
- if we fail to make required payments of principal and interest on any debt, our lenders could foreclose on the properties securing the debt with a resulting loss of income and asset value to us; and
- if balloon maturities cannot be refinanced, extended or paid with proceeds of other capital transactions, such as new equity capital, our cash flow may not be sufficient to repay maturing debt.

The recent significant decline in demand for new homes has adversely affected our new home sales business.

Beginning in 2006 and continuing in 2007, the homebuilding industry, including manufactured housing, experienced a significant decline in demand for newly built homes in our markets. The decline followed an unusually long period of strong demand for new homes. Inventories of new homes have also increased as a result of increased cancellation rates on pending contracts as new homebuyers sometimes find it more advantageous to forfeit a deposit than to complete the purchase of the home. This industry downturn has negatively impacted our profitability, cash flow, liquidity and returns on newly leased sites. We believe these conditions will continue in 2008. We are unable to predict with confidence how long demand and supply will remain out of balance in markets where we operate. Additionally, there can be no assurances that if demand and supply come back in balance, sales volumes or pricing will return to prior levels. Further, an extended period of decline may reduce the number of manufactured housing suppliers. In turn, this reduction may increase the price we pay or reduce the supply of new homes.

There are numerous risks associated with our development activities.

The development and expansion of residential land lease communities is another principal component of our growth strategy. When we develop or expand properties, we are subject to the risks that:

costs may exceed original estimates resulting in lower than expected returns; which may adversely affect our cash flow, net income, funds from operations and net asset value;

we may be unable to obtain construction financing on satisfactory terms or at all, in which case we may be unable to fund development or expansion of our properties to achieve our growth objectives;

governmental jurisdiction impacting our properties may change, which may result in additional costs and delays not contemplated in our original estimates;

Table of Contents

we may experience delays in obtaining, or may not be able to obtain, anticipated zoning and other regulatory approvals; which may adversely affect our cash flow, net income, fund from operations and net asset value.

construction and lease-up may not be completed on schedule, which may adversely affect our cash flow, net income, funds from operations and net asset value; and

we may be unable to obtain long-term financing upon completion of the development process which may adversely affect our return on equity.

We are subject to substantial legal and regulatory requirements regarding the development of land, the homebuilding process and protection of the environment, which can cause us to suffer delays and incur costs associated with compliance and which can prohibit or restrict homebuilding activity in some regions or areas.

Our homebuilding business is heavily regulated and subject to an increasing degree of local, state and federal regulations concerning zoning, resource protection and other environmental impacts, building design, construction and similar matters. These regulations often provide broad discretion to governmental authorities that regulate these matters, which can result in unanticipated delays or increases in the cost of a specified project or a number of projects in particular markets. We may also experience periodic delays in homebuilding projects due to building moratoria in any of the areas in which we operate.

We are also subject to a variety of local, state and federal statutes, ordinances, rules and regulations concerning the environment. These laws and regulations may cause delays in construction and delivery of new homes, may cause us to incur substantial compliance and other costs, and can prohibit or severely restrict homebuilding activity in certain environmentally sensitive regions or areas. In addition, environmental laws may impose liability for the costs of removal or remediation of hazardous or toxic substances whether or not the developer or owner of the property knew of, or was responsible for, the presence of those substances. The presence of those substances on our properties may prevent us from selling our homes and we may also be liable, under applicable laws and regulations or lawsuits brought by private parties, for hazardous or toxic substances on properties that we own or have owned.

Our Certificate of Incorporation limits the amount of outstanding shares of common stock that our stockholders may purchase or own.

Our Certificate of Incorporation limits the amount of outstanding shares of common stock that our stockholders may purchase or own in various ways. First, it limits direct or indirect ownership of our common stock by any person to 5% of the outstanding shares unless our Board of Directors grants an exemption to a stockholder. Second, our Certificate of Incorporation also prohibits anyone from buying shares if the purchase could adversely affect our REIT status. This could happen if a share transaction results in fewer than 100 persons owning all of our shares, or if five or fewer individuals, applying broad attribution rules of the Internal Revenue Code of 1986, collectively own 50% or more of our shares. Third, our Certificate of Incorporation limits purchases of our common stock if such purchases would cause us to undergo an ownership change that would limit the availability of our net operating losses. Our Certificate of Incorporation also prohibits ownership of our common stock by any person or persons that would cause us to receive income of a nature that would prevent us from satisfying the gross income requirements that apply to REITs. If any person is in violation of the ownership provisions described above, the shares of our stock, which caused the affected person to violate the ownership requirements, would be automatically transferred to a trust for the benefit of a charitable beneficiary and such person will be deemed to never have had an interest in those shares of stock. The trust will sell those shares, within a designated period, at which time the affected person will receive the lesser of the price paid for the shares or the price received by the trustee upon the sale. If the transfer to the trust should not be effective for any reason, the transaction, such as a purchase of shares, would be treated as void and the affected person, the intended owner, would acquire no rights to those shares.

Table of Contents

Our Certificate of Incorporation may limit the ability of a third party to acquire control of us.

The ownership limits in our Certificate of Incorporation discussed above may have the effect of precluding the acquisition of control of us by a third party without the consent of our Board of Directors. In addition, our Certificate of Incorporation authorizes the Board of Directors to issue up to 3,000,000 shares of preferred stock. Under our Certificate of Incorporation, the Board of Directors has the authority to classify, reclassify and issue shares of preferred stock, including the determination of the preferences, rights, powers and restrictions of the preferred stock. The authorization and issuance of preferred stock could have the effect of delaying or preventing someone from taking control of us, even if a change of control were in our stockholders best interests.

There are numerous risks associated with our acquisition activities.

The selective acquisition of residential land lease communities is a principal component of our growth strategy. We intend to continue to acquire properties. We compete with other real estate investors, many with greater capital resources, for attractive properties that meet our long-term investment goals. Such competition increases prices of properties; therefore, we may be unable to identify suitable acquisition opportunities, either as stand-alone assets or as components of operating businesses, or complete transactions in the future, which may negatively impact our growth objectives. In addition, the acquisition of residential land lease communities is subject to the risks that:

- we may be unable to obtain acquisition financing on satisfactory terms or at all, in which case we may be unable to sufficiently leverage our capital to achieve our desired return on investment;
- once acquired, our residential land lease communities may not perform as projected, and we may be unable to realize projected occupancy and rental rates, in which case these acquisitions may adversely affect our cash flow, net income, funds from operations and net asset value;
- we may assume or be subject to liabilities in connection with these residential land lease communities for which adequate indemnification from the seller or our insurance carriers may not be available;
- we may be unable to successfully integrate the personnel and operations of the business we acquire, in which case we may be unable to effectively operate residential land lease communities owned by these businesses, which may, in turn, adversely affect our returns; and
- we may encounter zoning or governmental regulations that may prohibit or delay the development or home building process, thereby slowing or eliminating our ability to originate residential land leases on home sites we acquire.

We depend on distributions and other payments from our subsidiaries.

All of our properties are owned, and all of our operations are conducted, by the Operating Partnership and its subsidiaries. As a result, we depend on distributions and other payments from our subsidiaries in order to satisfy our financial obligations and make payments to our investors. The ability of our subsidiaries to make such distributions and other payments depends on their earnings and may be subject to statutory or contractual limitations. Our ability to pay dividends to holders of common stock depends on the Operating Partnership s ability first to satisfy its obligations to its creditors and make distributions payable to third party holders of its preferred Units and then to make distributions to us. In addition, as an equity investor in our subsidiaries, our right to receive assets upon their liquidation or reorganization will be effectively subordinated to the claims of their creditors.

Increases in interest rates may increase our interest expense.

From time to time, we may incur debt that is subject to variable interest rates. An increase in interest rates could increase our interest expense and adversely affect our cash flow and our ability to service our indebtedness and make distributions. At December 31, 2007, 20% of our aggregate debt was subject to variable rates. The base rates for our variable rate debt instruments are based upon either the lender s prime rate or the one-month or three-month LIBOR, plus a spread.

Our real estate investments are subject to numerous risks that are beyond our control.

Our ability to make payments to our investors depends on our ability to generate cash from operations in excess of required debt payments and capital expenditures. Our cash from operations and the value of our properties may be adversely affected by events or conditions, which are beyond our control, including the following material risks:

- the general economic climate;
- competition from other housing alternatives;
- local conditions, such as increases in unemployment, oversupply of housing or a reduction in demand, that might adversely affect occupancy or rental rates;
- increases in operating costs, including real estate taxes, due to inflation and other factors, which may not necessarily be offset by increased rents;
- changes in governmental regulations and the related costs of compliance;
- changes in tax laws and housing laws, including the enactment of rent control laws or other laws regulating housing;
- changes in the interest rate levels and the availability of financing used by our tenants to acquire the homes situated on land we lease;
- changes in interest rate levels and the availability of financing;
- availability of property insurance for our tenants;
- the relative illiquidity of real estate investments as these investments generally can not be sold quickly, which limits our ability to respond promptly to changes in economic or market conditions and could cause us to accept lower than market value for our properties; and
- the liquidity of the for sale residential real estate market which often provides the source of funds for our tenant s purchase of a home situated in our communities.

We are subject to risks relating to the manufacturers that supply our inventory of homes.

We rely on our home sales business to facilitate the conversion of developed home sites into leased sites through the sale of homes to future residents. An interruption or reduction in our supply of homes, or an increase in our acquisition costs for our inventory of homes, could negatively impact our sales efforts and have and adverse effect on our business.

We have a significant concentration of properties in Florida and Arizona, and natural disasters or other catastrophic events in these states could adversely affect the value of our properties and our cash flow.

As of December 31, 2007, we owned 30 properties located in three states, including 19 properties located in Florida, 10 properties located in Arizona and 1 property in Alabama. The occurrence of a natural disaster or other catastrophic event in Florida, Arizona, or Alabama may cause a sudden decrease in the value of our properties. While we may obtain insurance policies providing certain coverage against damage from fire, flood, property damage, earthquake, wind storm and business interruption, these insurance policies contain coverage limits, limits on covered property and various deductible amounts that the Company must pay before insurance proceeds are available. Such insurance may therefore be insufficient to restore our economic position with respect to damage or destruction to our properties caused by such occurrences. Moreover, each of these coverages must be renewed every year and there is the possibility that all or some of the coverages may not be available at a reasonable cost. In addition, in the event of such natural disaster or other catastrophic event, the process of obtaining reimbursement for covered losses, including the lag between expenditures incurred by us and reimbursements received from the insurance providers, could adversely affect our economic performance. Further, the occurrence of a natural disaster may reduce demand for housing thereby limiting our ability to originate new leases.

Our properties may be subject to environmental liabilities.

Various federal, state and local laws subject property owners or operators to liability for the costs of removal or rededication of hazardous substances released on a property. These laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release of the hazardous substances. The presence of, or the failure to properly remediate, hazardous substances may adversely affect occupancy at contaminated residential land lease communities and our ability to sell, rent or borrow against contaminated properties. In addition to the costs associated with investigation and rededication actions brought by governmental agencies, the presence of hazardous wastes on a property could result in personal injury or similar claims by private plaintiffs.

Various laws also impose, on persons who arrange for the disposal or treatment of hazardous or toxic substances, liability for the cost of removal or rededication of hazardous substances at the disposal or treatment facility. These laws often impose liability whether or not the person arranging for the disposal ever owned or operated the disposal facility.

Laws benefiting disabled persons may result in unanticipated expenses.

A number of federal, state and local laws exist to ensure that disabled persons have reasonable access to public buildings. For example, the Americans with Disabilities Act of 1990 requires that all places of public accommodation meet federal requirements related to access and use by disabled persons. Common areas on our properties that are used by our tenants on the property, such as clubhouses, may be subject to the Americans with Disabilities Act. These laws may require modifications to our properties or restrict renovations of our properties. Failure to comply with these laws could result in the imposition of fines, an award of damages to private litigants and/or an order to correct any non-complying feature, which could result in substantial capital expenditures. Although we believe that our properties are substantially in compliance with present requirements, incurrence of unanticipated expenses to comply with laws requiring equal access to the disabled may adversely affect our financial condition.

Our properties may become subject to rent control and other legislation affecting rents, which could decrease our revenues.

We may purchase residential land lease communities in markets that are either subject to rent control laws or in which such legislation may be enacted. Enactment of rent control laws has been considered from time to time in jurisdictions in which we operate. State and local laws might limit our ability to increase rents on some of our properties, and thereby, limit our ability to recover increases in operating expenses and the costs of capital improvements. Currently, no community in our portfolio is subject to legislated or regulatory rent control.

Our directors and executive officers have significant influence on us and may exert this influence to affect decisions made by the Company and its stockholders.

As of February 27, 2008, our executive officers and directors held in the aggregate approximately 19.1% of our common stock, excluding shares of common stock that are issuable upon exercise of stock options and upon redemption of units of the Operating Partnership. In addition, as of February 27, 2008, they could acquire an additional 5.4% of our common stock assuming that the outstanding OP Units held by our executive officers and directors, were not redeemed by the Operating Partnership, and the Company issued common stock in lieu of the cash redemption. Furthermore, as of February 27, 2008, they could acquire an additional 10.9% of our common stock, assuming all stock options they have been granted are exercised. Although there is no current agreement, understanding or arrangement for these stockholders to act together on any matter, if they were to act together in the future these stockholders could be in a position to exercise significant influence and control over any decisions made by the Company and stockholders, including the election of directors or potential changes of control or ownership contests.

Table of Contents

Our Board of Directors may unilaterally implement changes in our investment and financing policies that may affect the interests of our stockholders.

Our investment and financing policies, and our policies with respect to other activities, including growth, debt, capitalization, REIT status and operating policies, are determined by the Board of Directors. Although the Board of Directors has no present intention to do so, these policies may be amended or revised from time to time at the discretion of the Board of Directors without notice to stockholders or a vote of our stockholders. Accordingly, stockholders have no direct control over changes in our policies and changes in our policies may affect them.

The loss of key executive officers could have an adverse effect on us.

We are dependent on the efforts of our Chairman and Chief Executive Officer, Terry Considine, our President and Chief Operating Officer, Robert G. Blatz, and our Chief Financial Officer and Treasurer, Shannon E. Smith. The loss of their services could have an adverse effect on our operations. We do not currently have employment agreements with, or maintain or contemplate obtaining any key man life insurance on, our executive officers.

Mr. Considine does not devote his full time to our business. He is the Chief Executive Officer of another public company, which is significantly larger than ours and has other business interests. Each of Mr. Blatz and Mr. Smith devotes substantially all of his time to our business.

If we fail to qualify as a REIT, we would be subject to tax at corporate rates and we would not be able to deduct distributions to our stockholders for tax purposes.

Adverse consequences of failure to qualify as a REIT. Although we believe that we operate in a manner that enables us to meet the requirements for qualification as a REIT for federal income tax purposes, the rules regarding REIT qualification are highly technical and complex, and no assurance can be given that the Internal Revenue Service, or the IRS, will not challenge our qualification, or that we will be able to operate in accordance with the REIT requirements in the future.

If we fail to qualify as a REIT, we would not be allowed a deduction for distributions to stockholders in computing our taxable income and we would be subject to federal income tax at regular corporate rates. Unless we were entitled to relief under the tax law, we could not elect to be taxed as a REIT for four years following the year during which we were disqualified. However, if we lose our REIT qualification, our net operating loss, the majority of which expires between 2008 and 2009, may be available to reduce the amount of income that would otherwise be taxable.

Possible legislative or other acts affecting REITs could have an adverse effect on us. The rules dealing with federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Treasury Department. Changes to the tax law could adversely affect our investors. We cannot predict with certainty whether, when, in what forms, or with what effective dates, the tax laws applicable to us or our investors will be changed.

Even if we qualify as a REIT, other tax liabilities could negatively affect us, and we and our subsidiaries may be subject to federal, state and local income, property, payroll, excise and other taxes that could reduce operating cash flow.

If we experience an ownership change, our use of net operating losses would be limited. We have a net operating loss carryover at our parent REIT entity of approximately $64.6 million, which is scheduled to expire between 2008 and 2009. Under the Internal Revenue Code of 1986, if a corporation experiences an ownership change, the aggregate amount of net operating losses available to offset otherwise taxable income is generally limited each year to an amount equal to the value of the corporation s stock at the time of the ownership change multiplied by the long-term tax-exempt rate. In general, an ownership change occurs if one or more large stockholders, including groups of stockholders in some cases, increase their aggregate percentage interest in us by more than 50 percentage points over a three-year period. It is possible that transactions over which we do not have control could cause an ownership change, and result in a limitation on our ability to utilize our net operating losses.

We are dependent on external sources of capital.

To qualify as a REIT, we must distribute to our stockholders each year at least 90% of our REIT taxable income (excluding any net capital gains). In addition, we may distribute all or substantially all of our taxable income so that we will generally not be subject to U.S. federal income tax on our earnings. Because of these distribution requirements, it is not likely that we will be able to fund all future capital needs, including capital for property development and acquisitions, from income from operations. We therefore will have to relay on third-party sources of debt and equity capital financing, which may or may not be available on favorable terms or at all. Our access to third party sources of capital depends on a number of things, including conditions in the capital markets generally and the market s perception of our growth potential and our current and potential future earnings. Moreover, additional equity offerings may result in substantial dilution of stockholders interests, and additional debt financings may substantially increase our leverage.

Potential losses may be uninsured.

We maintain comprehensive liability, fire, terrorism, flood (where appropriate), extended coverage, and rental loss insurance with respect to the properties that we own with policy specifications, limits, and deductibles customarily carried for similar properties. Some types of losses, however, may be either uninsurable or not economically insurable, such as losses due to earthquakes, hurricanes, floods (in some circumstances), riots, acts of war or terrorism. In particular, because many of our properties are located in Florida, we and our tenants may be more susceptible to losses due to hurricanes and floods. We do not insure our residents homes. In the event that a community is subject to a casualty that results in our residents homes being destroyed, insurance proceeds to our residents (if any) may not be sufficient to replace or repair their homes. Additionally, in such event, our business interruption insurance may not be sufficient to replace the rental income lost from the termination of, or default under, residents leases until such time as we are able to originate new ground leases through our home sales operation.

An increase in prevailing interest rates, a decrease in our annual distributions, or an increase in dividends on comparable REIT securities could adversely affect the market price of our common and preferred stock.

An increase in prevailing interest rates, a modification or elimination of our distributions or an increase in distributions on comparable REIT securities could adversely affect the market price of our common and preferred stock.

The price of our common and preferred stock may be volatile.

The trading price of our common and preferred stock may fluctuate widely as a result of a number of factors, many of which are outside our control. In addition, the stock market has experienced, from time to time, price and volume fluctuations that have affected the market prices of many companies. Such broad market fluctuations could adversely affect the market price of our common and preferred stock. A significant decline in our common and preferred stock prices could result in substantial losses for individual stockholders and could lead to costly and disruptive securities litigation.

Table of Contents

Changes in Accounting Standards Could Adversely Affect Our Reported Financial Results.

The bodies that set accounting standards for public companies, including the Financial Accounting Standards Board, the Securities and Exchange Commission and others, periodically change or revise existing interpretations of the accounting and reporting standards that govern the way that we report our financial condition and results of operations. These changes can be difficult to predict and can materially impact our reported financial results. In some cases, we could be required to apply a new or a revised accounting standard, or a revised interpretation of an accounting standard, retroactively, which could have a negative impact on reported results or result in the restatement of our financial statements for prior periods.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

The residential land lease communities in which we have interests are primarily located in Florida and Arizona and are concentrated in or around five metropolitan areas: Tampa, West Palm Beach, Fort Myers and Orlando, Florida and Phoenix, Arizona. We hold interests in each of these communities as owner in fee simple. The following table sets forth the states in which the communities we held an interest on December 31, 2007 are located:

		Number of Sites			
	Number of Communities	Operational Home Sites	Developed Home Sites	Undeveloped Home Sites	Recreational Vehicle Sites
Florida	19	5,885	848	931	
Arizona	10	1,997	459		129
Alabama	1	102	63	260	
Total	30	7,984	1,370	1,191	129

19

Table of Contents

The following table sets forth information as of December 31, 2007 regarding each residential land lease community in which we held an interest.

Community	Location	Operational Home Sites(1)	Occupancy	Average Monthly Rent	Developed Home Sites	Undeveloped Home Sites	RV Sites	Year(s) First Developed
Owned Communities								
Blue Heron Pines	Punta Gorda, FL	345	100%	$ 351	44			1983/1999
Brentwood Estates	Hudson, FL	143	98%	280	48			1984
Cypress Greens	Lakeland, FL	230	100%	267	28			1986
Forest View	Homosassa, FL	273	100%	328	31			1987/1997
Gulfstream Harbor	Orlando, FL	382	98%	427		50		1980
Gulfstream Harbor II	Orlando, FL	306	100%	429	1	37		1988
Gulfstream Harbor III.	Orlando, FL	176	97%	398	108			1984
Lakeshore Villas	Tampa, FL	281	96%	437				1972
Park Place	Sebastian, FL	374	100%	336	93			1994/2003/2005
Park Royale	Pinellas Park, FL	297	93%	441	12			1971
Pleasant Living	Riverview, FL	245	95%	387				1979
Riverside GCC	Ruskin, FL	472	100%	535	158	311		1981/2002
Royal Palm Village	Haines City, FL	288	96%	359	99			1971
Savanna Club	Port St Lucie, FL	1,003	100%	301	64			1999/2001
Sebastian Beach	Grant-Valkaria, FL		0%			533		NA(2)
Serendipity	Ft. Myers, FL	338	96%	365				1971/1974
Stonebrook	Homosassa, FL	198	100%	314	3			1987/1997
Sunlake Estates	Grand Island, FL	366	100%	370	35			1980
Woodlands	Groveland, FL	168	99%	289	124			1979
	Sub-total Florida	5,885	99%	370	848	931		
Blue Star	Apache Junction, AZ	22	50%	320			129	1955
Brentwood West	Mesa, AZ	350	94%	471				1972/1987
The Villages	Mesa, AZ		0%		375			NA(3)
Desert Harbor	Apache Junction, AZ	205	100%	376				1997
Fiesta Village	Mesa, AZ	172	86%	402				1962
La Casa Blanca	Apache Junction, AZ	197	100%	400				1993
Lost Dutchman	Apache Junction, AZ	215	77%	320	27			1971/1979/1999
Rancho Mirage	Apache Junction, AZ	312	96%	435				1994
The Reserve at Fox Creek	Bullhead City, AZ	256	100%	331	57			2000/2004
Sun Valley	Apache Junction, AZ	268	91%	364				1984
	Sub-total Arizona	1,997	93%	394	459		129	
The Grove	Foley, AL	102	100%	291	63	260		1998
Total Communities	30	7,984	97%	$ 374	1,370	1,191	129	

(1) We define operational home sites as those sites within our portfolio that have been leased to a resident during our ownership of the community. Since our portfolio contains a large inventory of developed home sites that have not been occupied during our ownership, we have expressed occupancy as the number of occupied sites as a percentage of operational home sites. We believe this measure most accurately describes the performance of an individual property relative to prior periods and other properties within our portfolio. Occupancy figures in the above table are based on operational home sites. The occupancy of all developed sites was 82.8% across the entire portfolio at December 31, 2007. Including sites not yet developed, occupancy was 73.5% at December 31, 2007

(2) Development of property began in 2005. At December 31, 2007 the property is still under development.

(3) This property was first developed in 1970. At December 31, 2007 it is under redevelopment.

At December 31, 2007, these properties contain, on average, 356 sites, with the largest property containing 1,067 home sites. These properties offer residents a range of amenities, including swimming pools, clubhouses, marinas, golf courses and tennis courts.

At December 31, 2007, 24 of these properties were encumbered by long-term fixed rate mortgage indebtedness totaling $240.0 million. These mortgaged properties represent approximately 83.5% of our total home sites. The 24 properties securing our mortgage indebtedness have a combined net book value of approximately $333.4 million, and the indebtedness has a weighted average effective interest rate of 6.4% and a weighted average maturity of 8.82 years. In addition, one of these properties secures a construction loan totaling $11.4 million. This property represents 5.1% of our total home sites. The property securing this variable rate mortgage indebtedness has a net book value of $36.0 million, and the indebtedness bears interest at a variable rate of 175 basis points over the three-month LIBOR (7.0% at December 31, 2007). As of December 31, 2007,

Table of Contents

97.6% of our outstanding debt secured by properties was long-term (maturities over one year) and 2.4% was short-term (maturities less than one year).

At December 31, 2007, five of these properties were encumbered by our line of credit. These properties represent approximately 8.9% of our total home sites and have a combined net book value of approximately $43.3 million, and the indebtedness bears interest at a variable rate ranging from 150 to 175 points over the one-month LIBOR (6.6% at December 31, 2007).

See the consolidated financial statements, including their notes, in Item 8 of this Annual Report for additional information about our indebtedness.

Item 3. Legal Proceedings.

We are party to various legal actions resulting from our operating activities. These actions are routine litigation and administrative proceedings arising in the ordinary course of business, some of which are covered by liability insurance, and none of which are expected to have a material adverse effect on our consolidated financial condition or results of operations taken as a whole.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock is listed on the New York Stock Exchange (the NYSE) under the symbol ANL. The following table sets forth the quarterly high and low sales prices of ANL s common stock, as reported on the NYSE, and the dividends paid by us for the periods indicated:

	High	Low	Dividends
2007			
First Quarter	$ 28.75	$ 24.02	$ .25
Second Quarter	26.14	23.42	.25
Third Quarter	25.46	19.00	.25
Fourth Quarter	22.90	19.83	.25
2006			
First Quarter	$ 28.54	$ 23.76	$ .25
Second Quarter	27.58	23.01	.25
Third Quarter	24.90	21.65	.25
Fourth Quarter	26.75	23.24	.25

On February 27, 2008 we had approximately 7,866,000 shares of common stock outstanding, held by approximately 1,200 stockholders of record, and the Operating Partnership had approximately 993,000 OP Units outstanding, of which 100% had been held for more than one year and were eligible for redemption.

As a REIT, we are required to distribute annually to holders of common stock at least 90% of our real estate investment trust taxable income, which, as defined by the Internal Revenue Code of 1986 and Treasury regulations, is generally equivalent to net taxable ordinary income. However, subject to certain limitations, our NOL may be used to offset all or a portion of our REIT taxable income, which may allow us to reduce or eliminate our dividends paid and still maintain our REIT status.

One of the measures we use to analyze our economic profitability is FFO, less capital replacements during the relevant period. The future payment of dividends by us will be at the discretion of the Board of Directors and will depend on numerous factors, including our financial condition, our capital requirements, the annual distribution requirements applicable to REITs, and such other factors as the Board of Directors deems relevant. During 2007, payments of dividends exceed this measure of profitability.

From time to time, we may issue shares of common stock in exchange for OP Units tendered to the Operating Partnership for redemption in accordance with the terms and provisions of the limited partnership agreement of the Operating Partnership. Such shares are issued based on an exchange ratio of one share for each OP Unit. The shares are issued in exchange for OP Units in private transactions exempt from registration under the Securities Act of 1933, as amended, pursuant to Section 4(2) thereof. During the year ended December 31, 2007, we did not exchange any shares of common stock for OP Units.

Table of Contents

On October 17, 2000, the Board of Directors authorized the Company to repurchase up to 2,000,000 shares of common stock. The Company has repurchased 206,000, 0 and 0 shares in 2007, 2006 and 2005, respectively. The Company has repurchased 783,000 shares as of December 31, 2007 under this authorization. At December 31, 2007, 1,217,000 remains available for the purchase of common stock under the current Board authorizations. The following table presents repurchases by the Company of our common stock during the fourth quarter of 2007:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Number of Shares that May Yet be Purchased Under the Plan
October 1 through October 31, 2007				
November 1 through November 30, 2007	16,000	$ 20.75	783,000	1,217,000
December 1 through December 31, 2007			783,000	1,217,000
Total	16,000	$ 20.75	783,000	1,217,000

Additionally, from time to time the Board of Directors has evaluated and will continue to evaluate various alternatives for the use of cash generated from operations, dispositions or extraordinary events. Among other things, the Board of Directors has evaluated and may continue to evaluate using such cash for acquisitions, major capital improvements to existing properties, special cash dividends, market or private repurchases of our common stock pursuant to the authorization noted above, a self-tender for our common stock, a reverse stock split or other uses. There is no assurance that the Company will take any one or more of the foregoing actions.

NYSE and Sarbanes-Oxley Act Certifications

The most recent certifications by our Chief Executive Officer, Chief Operating Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 are filed as exhibits to this Annual Report on Form 10-K. Additionally, we submitted our 2007 Domestic Company Section 303A Annual CEO Certification to the New York Stock Exchange on May 31, 2007.

Table of Contents

Item 6. Selected Financial Data.

The following selected financial data for the Company is based on audited historical consolidated financial statements. This information should be read in conjunction with such consolidated financial statements, including the notes thereto, and Management s Discussion and Analysis of Financial Condition and Results of Operations included herein or in previous filings with the SEC.

Selected Financial Data (in thousands, except per share data):

	For the fiscal year ended December 31,				
	2007	**2006**	**2005**	**2004**	**2003**
RENTAL PROPERTY OPERATIONS					
Income from rental property operations	$ 19,729	$ 17,478	$ 15,227	$ 13,807	$ 12,330
HOME SALES OPERATIONS					
(Loss) income from home sales operations	(1,265)	5,387	5,640	3,820	3,324
OTHER OPERATIONS					
General and administrative expenses	(4,292)	(3,995)	(3,353)	(3,995)	(2,722)
Interest and other income	207	293	23	365	521
Gain on sale of real estate				101	
Gain on sale of unconsolidated real estate partnerships					971
Casualty gain			237	337	
Interest expense	(8,699)	(7,378)	(5,258)	(5,112)	(4,723)
Equity in income of unconsolidated entities					37
INCOME BEFORE TAXES AND MINORITY INTEREST IN OPERATING PARTNERSHIP AND DISCONTINUED OPERATIONS	5,680	11,785	12,516	9,323	9,738
Income tax benefit			600		
INCOME BEFORE MINORITY INTEREST IN OPERATING PARTNERSHIP AND DISCONTINUED OPERATIONS	5,680	11.785	13,116	9,323	9,738
Minority interest in Operating Partnership	(651)	(1,380)	(1,562)	(1,173)	(1,210)
INCOME FROM CONTINUING OPERATIONS	5,029	10,405	11,554	8,150	8,528
DISCONTINUED OPERATIONS					
Discontinued operations	270	615	611	652	520
Depreciation on discontinued operations	(64)	(165)	(161)	(163)	(163)
Gain (loss) on disposition of discontinued real estate	10,302	1,006		43	(83)
Minority interest (expense) benefit in Operating Partnership attributable to discontinued operations	(1,181)	(170)	(54)	(8)	16
Income from discontinued operations	9,327	1,286	396	524	290
NET INCOME	14,356	11,691	11,950	8,674	8,818
Cumulative preferred stock dividends	(1,938)	(1,938)	(1,647)		
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	$ 12,418	$ 9,753	$ 10,303	$ 8,674	$ 8,818
Basic earnings per share from continuing operations (net of preferred stock dividends)	$ 0.40	$ 1.13	$ 1.37	$ 1.16	$ 1.24
Basic earnings from discontinued operations	1.22	0.17	0.05	0.08	0.04
Basic earnings per common share	$ 1.62	$ 1.30	$ 1.42	$ 1.24	$ 1.28
Diluted earnings per share from continuing operations (net of preferred stock dividends)	$ 0.39	$ 1.08	$ 1.30	$ 1.12	$ 1.20
Diluted earnings from discontinued operations	1.18	0.16	0.05	0.07	0.04

Diluted earnings per common share	$ 1.57	$ 1.24	$ 1.35	$ 1.19	$ 1.24
Dividends declared per common share	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ 1.00
Weighted average common shares outstanding	7,661	7,487	7,263	7,013	6,877
Weighted average common shares and common share equivalents outstanding	7,923	7,883	7,648	7,293	7,093

Table of Contents

	For the fiscal year ended December 31, 2007	2006	2005	2004	2003
BALANCE SHEET DATA					
Real estate, before accumulated depreciation	$ 431,359	$ 412,074	$ 323,814	$ 271,671	$ 246,585
Real estate, net of accumulated depreciation	399,517	383,006	297,800	248,868	226,463
Total assets	436,533	422,055	329,689	275,956	247,096
Secured notes payable	239,970	235,567	151,656	127,019	116,827
Secured credit facilities	30,932	20,059	19,669	24,644	10,659
Minority interest in Operating Partnership	17,339	16,502	15,945	14,746	14,014
Stockholders equity	139,004	136,711	129,909	99,433	94,801
CASH FLOW DATA					
Net cash flow from:					
Operating activities	$ 12,522	$ 12,919	$ 20,712	$ 8,432	$ 13,246
Investing activities	(11,892)	(87,904)	(53,144)	(25,037)	(18,487)
Financing activities	(342)	73,443	33,407	15,361	6,082
OTHER DATA					
Portfolio components:					
Operational home sites continuing operations	7,984	7,783	6,932	6,580	6,212
Operational home sites discontinued operations		261	351	351	367
Developed home sites	1,370	1,192	976	1,101	979
Undeveloped home sites	1,191	1,566	1,270	960	1,437
Total	10,545	10,802	9,529	8,992	8,995

Table of Contents

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.
Executive Overview

We are in the business of owning and leasing residential land. Our current business focuses on the ownership of land and generation of these leases primarily within adult or retirement (55+) communities (95% of our total home sites at December 31, 2007); we focus on these communities for the following reasons:

- Current demographic projections predict that the customer base for this asset class will grow for the next 20+ years.
- The residents have established credit histories and therefore are able to obtain favorable financing or pay cash for their home making significant equity investments to improve the leasehold estate that effectively secures our lease.
- The residents, as a result of their retired or semi-retired status, are less affected by current economic changes thereby making their continued rental payments more stable and the continued sales of homes in our communities more consistent year to year.
- The Company is able to leverage its current marketing, brand, and management expertise.

We seek growth through home sales to fill unoccupied home sites in current subdivisions, development of our land portfolio to increase the inventory of available home sites, and the selective acquisition of communities and development opportunities.

This business model presents a number of challenges and risks for the Company s management. Several of these risks are:

- Community operations require management of expenses throughout the year while revenue increases are established on an annual basis and in some instances, are fixed at lease origination.
- The continued development of additional home sites is a capital-intensive activity that requires substantial investments to be made in advance of returns.
- Older homes may depreciate or become obsolete, thereby reducing the value of the property that effectively secures our lease.
- Changes in the interest rate environment may have an adverse impact on our new home buyers ability to realize sufficient proceeds from the sale of their present homes or finance new purchases, thereby limiting their financial ability to acquire new homes in our communities.
- The cost of developing additional home sites and communities may increase at a rate or to a level that may exceed the costs projected at the point of the initial investment by the Company, and increases in rental rates may not be sufficient to offset the increased development costs.
- Based upon the above and other factors, the rate of sales of new homes may be substantially slower than projected at the point of the initial investment by the Company, resulting in returns on investment materially different from original projections.

There are additional challenges that might occur as a result of natural disasters such as hurricanes:

Our residents homes may have damage that exceeds the insurance proceeds available under their homeowner s policies, thereby limiting residents ability to restore their home to its pre-hurricane condition. In some instances, this may result in a loss of occupancy for an unknown period of time. This occupancy loss may be insured under the Company s business interruption policies.

The extent of claims made against properties in our asset class may continue to have a material impact on the cost of insurance for both the Company and our residents, thereby increasing the Company s operating costs at a rate in excess of rental rate increases and limiting our residents ability to reinvest in their homes at the same rate enjoyed before the natural disaster.

Table of Contents

The severity and number of natural disasters that impact Florida may result in a slowing rate of new customers to buy homes on our expansion sites, thereby reducing the rate of absorption and lowering the Company s return on investment.

The costs of hurricane clean-up and repair may not be fully covered by insurance policies, resulting in higher than projected capital spending.

Hurricanes may significantly disrupt our sales and marketing activities, thereby reducing home sales and revenue growth from new home site rentals during the impacted fiscal periods.

During 2007, our ability to fill unoccupied sites in our land lease communities with new homes was significantly impacted by the U.S. housing market.

We believe this slowdown is attributable to a decline in consumer confidence, an overall softening of demand for new homes, an oversupply of homes available for sale, the inability of some of our home buyers to sell their current home and the direct and indirect impact of the turmoil in the mortgage loan market. Industry conditions deteriorated significantly during the year. We attribute the reduction in new home sales demand to concerns on the part of prospective home buyers about the direction of home prices and concerns by prospective home buyers about being able to sell their existing homes. The potential of mortgage foreclosures, price reductions and increased sales incentives advertised by homebuilders have contributed to home buyers concerns and provide impediments to our new home sales process. The result has been weakened demand for new homes, slower sales, lower prices for homes at time of resale, higher cancellation rates, and increased price discounts and other sales incentives to attract homebuyers. The weakened demand for new homes has negatively impacted our profitability, cash flow, liquidity and returns on newly leased sites.

We continue to operate our business with the expectation that difficult market conditions will continue to impact us for at least the near term. We expect these trends in our new home sales activities to continue and the majority of the markets we serve to remain challenging throughout 2008.

In addition to the risks noted above, we have additional business risks which are noted in Item 1A on page 13 of this Annual Report.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP), which require us to make estimates and assumptions. We believe that of our significant accounting policies (see Note B to the consolidated financial statements in Item 8 of this Annual Report), the following may involve a higher degree of judgment and complexity.

Capitalized Costs

We capitalize direct and indirect costs (including interest, real estate taxes, and other costs) in connection with initial capital expenditures, capital enhancements, and capital replacements, as well as similar spending for development and redevelopment of our properties. Indirect costs that are not capitalized, including general and administrative expenses, are charged to expense as incurred. The amounts capitalized vary with the volume, cost and timing of these activities and, especially, with the pace of development and redevelopment activities. As a result, changes in the volume, cost and timing of these activities may have a significant impact on our financial results.

The most significant capitalized cost is interest. We capitalize interest when the following three conditions are present: (i) expenditures for the asset have been made, (ii) activities necessary to prepare the asset for its intended use are in progress and (iii) interest cost is being incurred. Our determination of the activities in progress for a development property is subject to professional judgment. The most significant judgment is the determination to capitalize interest relating to the ownership of land being developed as new home sites. In many cases, the development of such land is expected to take place over several years and in multiple phases. In such instances, it is our conclusion that the entirety of each parcel is under development and is a qualifying asset. Accordingly, interest is capitalized with respect to the entire parcel until such time as all development activities cease or the individual home site is ready for its intended use. During 2007, 2006, and 2005, we capitalized interest of $8,992,000 $7,620,000, and $5,554,000, respectively. We regularly review the amount of capitalized costs in conjunction with our review of impairment of long-lived assets. Based on the level of development activity in 2007, if our development activities decreased such that 10% of our assets qualifying for capitalization of interest are no longer qualified, the amount of capitalized interest would have been reduced by $899,000. Reducing capitalized interest would increase interest expense, resulting in lower net income, which would be offset in future periods by lower depreciation expense.

Impairment of Long-Lived Assets

Real estate and other long-lived assets are recorded at cost, less accumulated depreciation, unless they are considered impaired. If events or circumstances indicate that the carrying amount of a property may be impaired, we will make an assessment of its recoverability by estimating the undiscounted future cash flows, excluding interest charges, of the property. In the event the property is under development, the estimate of future cash flows includes all future expenditures necessary to develop the property. If the carrying amount exceeds the aggregate future cash flows, we would recognize an impairment loss to the extent the carrying amount exceeds the fair market value of the property.

Real property investments are subject to varying degrees of risk. Several factors may adversely affect the economic performance and value of our real estate investments. These factors include changes in the national, regional and local economic climates; local conditions, such as an oversupply of residential land lease properties or a reduction in the demand for our residential land lease properties; competition from other housing sources, including single and multifamily properties; and changes in market rental rates. Additional factors that may adversely affect the economic performance and value of our development properties include regulatory changes that impact the number of home sites that can be built on our undeveloped land, changes in projected costs to construct new subdivisions in our communities and regulatory changes made by local, regional, state or national authorities. Any adverse changes in these factors could cause impairment in our real estate.

Fair Value of Financial Instruments

The aggregate fair value of our cash and cash equivalents, receivables, accounts payable, accrued liabilities and short-term secured debt as of December 31, 2007 approximates their carrying value due to their relatively short-term nature. Management further believes that the fair value of our variable rate secured notes payable approximates carrying value. For the fixed rate secured notes payable, fair values have been based upon estimates using present value techniques. These techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent market quotes and, in many cases, may not be realized in immediate settlement of the instrument. The estimated fair value of the Company s secured notes payable was $243,747,000 and $243,114,000 at December 31, 2007 and 2006, respectively, as compared to the carrying value of $239,970,000 and $235,567,000 at December 31, 2007 and 2006, respectively.

Rental and Personal Property Depreciation

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

Inventory

Carrying amounts for inventory are determined on a specific identification basis and are stated at the lower of cost or market. If actual market conditions are less favorable than those projected by management, if customer preferences change, or if material improvements are made by suppliers that are preferred by our customers compared to inventory we own, inventory write-downs may be required. Any such write-downs may have a significant impact on our financial results. On a quarterly basis, we review each home in inventory that is older than one year and evaluate our carrying amount versus recent offers, comparable sales, and our asking price in order to derive an estimate of its market value. In the event that the carrying amount exceeds our estimate of market value, less a normalized margin, we record a write-down of the carrying amount as a charge to the cost of home sales in the current period. As of December 31, 2007, approximately $9,453,000 of our total inventory of $20,084,000 was older than one year. For the years ended December 31, 2007, 2006 and 2005 we recorded charges of $414,000, $407,000 and $396,000, respectively, to adjust inventory carrying amounts to market value. If the Company s estimate of fair market value was overstated by 10%, the Company would record an additional write down to fair market value, less a normalized margin, of $190,000 based upon the carrying value of inventory as of December 31, 2007.

Stock-based Compensation

Stock-based compensation expense is recorded at the fair value of awards at the date of issuance over the requisite service period. The determination of fair value of market-based restricted stock and stock options requires the application of complex financial models and assumptions. The fair value assigned to awards at the date of issuance determines the amount of compensation expense that will be recognized over the vesting period for the award. There are alternative valuation models that may result in a valuation for awards that differs from our assessment of fair value. The application of alternative models or different valuation assumptions within the models we use will result in a fair value that is greater than or less than the fair value we assign to awards. To the extent that the alternative fair value is greater than the fair value we assign to awards, compensation expense over the vesting term of the award would increase resulting in lower net income. In 2007, we changed our valuation model for our market-based restricted stock from a barrier option model to a Monte Carlo model. We reviewed various models in 2007 and determined that the output derived from the Monte Carlo model is more reflective of the economic substance of our market-based restricted stock awards. The change in estimate of fair value of the market-based awards resulting from this change in valuation models did not have a material effect on the consolidated financial statements for the year ended December 31, 2007. In addition, management must estimate the number of shares and options that will be forfeited by employees before the vesting requirements are met. We base our estimate of forfeitures on the historical forfeiture rate realized on prior awards. We revise our estimate on an ongoing basis to reflect actual forfeitures.

Legal Contingencies

We are currently involved in certain legal proceedings. We do not believe these proceedings will have a material adverse effect on our consolidated financial position. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in assumptions and the effectiveness of strategies related to these proceedings. The amount of loss contingencies involving litigation, for which a loss is probable and can be reasonably estimated, is determined through consultation with legal counsel representing the Company. Our evaluation of loss contingencies arising from litigation, claims and assessments, considers unasserted claims and associated estimates of loss, if any, are provided to the extent probable and reasonably estimable. See Item 3. Legal Proceedings.

Recent Accounting Pronouncements

On January 1, 2007, the Company adopted Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of SFAS 109* (FIN 48). FIN 48 provides interpretative guidance for the financial statement recognition and measurement of a tax position taken or

Table of Contents

expected to be taken in a tax return. The adoption of this standard did not have a material impact on the Company s consolidated financial statements for the year ended December 31, 2007.

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). SFAS 159 permits entities to choose to measure financial assets and liabilities (except for those that are specifically scoped out of the statement) at fair value. The election to measure a financial asset or liability at fair value can be made on an instrument-by-instrument basis and is irrevocable. The difference between carrying value and fair value at the election date is recorded as a transition adjustment to opening retained earnings. Subsequent changes in fair value are recognized in earnings. The effective date for SFAS 159 is as of the beginning of an entity s first fiscal year that begins after November 15, 2007. The Company is evaluating SFAS 159 and has not yet determined the impact the adoption will have on the consolidated financial statements, but it is not expected to be material.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurement* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is evaluating SFAS 157 and has not yet determined the impact the adoption will have on the consolidated financial statements, but it is not expected to be material.

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets*, which was effective for the fiscal year ended December 31, 2007. This statement amends SFAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a replacement of FASB Statement 125* (SFAS 140), regarding (1) the circumstances under which a servicing asset or servicing liability must be recognized, (2) the initial and subsequent measurement of recognized servicing assets and liabilities, and (3) information required to be disclosed relating to servicing assets and liabilities. The adoption of this standard did not have a material impact on the Company s consolidated financial statements.

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments* (SFAS 155), which was effective for the fiscal year ended December 31, 2007. This statement amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, to narrow the scope exception for interest-only and principal-only strips on debt instruments to include only such strips representing rights to receive a specified portion of the contractual interest or principal cash flows. SFAS 155 also amends SFAS 140 to allow qualifying special-purpose entities to hold a passive derivative financial instrument pertaining to beneficial interests that itself is a derivative financial instrument. The adoption of this standard did not have a material impact on the Company s consolidated financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, *Non-controlling Interests in Consolidated Financial Statement,* (SFAS 160) an amendment of Accounting Research Bulletin No. 51. The Statement seeks to improve uniformity and transparency in reporting of the net income attributable to non-controlling interests in the consolidated financial statements of the reporting entity. The statement requires, among other provisions, the disclosure, clear labeling and presentation of non-controlling interests in the Consolidated Balance Sheet and Consolidated Income Statement. SFAS 160 is effective for fiscal years beginning after December 15, 2008, early adoption is prohibited. The Company is evaluating SFAS 160 and has not yet determined the impact the adoption will have on the consolidated financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standard No. 141R, *Business Combinations* (SFAS 141(R)). SFAS 141(R) replaces SFAS 141 but retains the fundamental requirements in SFAS 141 that the acquisition method of accounting (also known as the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. SFAS 141(R) also establishes principles and requirements for how the acquirer: (a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the

Table of Contents

acquired entity; (b) improves the completeness of the information reported about a business combination by changing the requirements for recognizing assets acquired and liabilities assumed arising from contingencies; (c) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (d) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) replaces, with limited exceptions as specified in the Statement, the cost allocation process in SFAS 141(R) with a fair value based allocation process. SFAS 141(R) is required to be adopted concurrently with SFAS 160 and is effective for business combination transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early adoption is prohibited. The Company is evaluating SFAS 141(R) and has not yet determined the impact the adoption will have on the consolidated financial statements.

Portfolio Summary

	Operational Home sites	Developed Home sites	Undeveloped Home sites	RV sites	Total
As of December 31, 2006	8,044	1,192	1,566	129	10,931
Properties developed		375	(375)		
New lots purchased / (sold)	(261)				(261)
New leases originated	199	(199)			
Adjust for site plan changes	2	2			4
As of December 31, 2007	7,984(1)	1,370	1,191	129	10,674

(1) As of December 31, 2007, 7,748 of these operational home sites were occupied.

Occupancy Roll Forward

	Occupied Home sites	Operational Home sites	Occupancy
As of December 31, 2006	7,833	8,044	97.4%
New home sales	209	198	
Used home sales	10	2	
Used homes acquired through tenant eviction or tenant transferring title to ANL	(25)		
Lots acquired / (sold)	(255)	(261)	
Homes constructed by others	5	1	
Homes removed from previously leased sites by tenants	(18)		
Homes removed from previously leased sites to facilitate redevelopment	(11)		
As of December 31, 2007	7,748	7,984	97.0%

Table of Contents

RESULTS OF OPERATIONS FOR THE

YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

The following discussion and analysis of the consolidated results of our operations and financial condition should be read in conjunction with the consolidated financial statements included in this Annual Report.

Comparison of 2007 to 2006

Net Income

We recognized net income attributable to common stockholders of $12,418,000 for the year ended December 31, 2007, compared to net income attributable to common stockholders of $9,753,000 for the year ended December 31, 2006. The following paragraphs discuss the results of operations in detail.

Rental Property Operations

Rental and other property revenues from our owned properties totaled $37,587,000 for the year ended December 31, 2007 compared to $33,756,000 for the year ended December 31, 2006, an increase of $3,831,000, or 11.3%. The increase in property operating revenues was a result of:

- $1,733,000 increase in revenues from communities acquired in 2006,
- $1,890,000 increase in base rental income driven by increases in rental rates and the origination of leases of home sites at our development properties,
- $143,000 increase in the pass on of utility expenses to tenants correlated with the related expenses,
- $26,000 increase in the collection of late fees, net of amounts written off as uncollectible,
- $23,000 increase in rental income from recreational vehicle sites, and a
- $16,000 increase in other property income.

Golf course operating revenues totaled $1,064,000 for the year ended December 31, 2007 compared to $1,086,000 for the year ended December 31, 2006, a decrease of $22,000, or 2.0%. Golf revenues decreased at all three communities that have adjacent golf courses.

Property operating expenses for our owned properties totaled $12,596,000 for the year ended December 31, 2007 compared to $11,769,000 for the same period in 2006, an increase of $827,000, or 7.0%. Our property operating expenses as a percent of revenues were 33.5% for the year ended December 31, 2007 compared to 34.9% for the same period in 2006, a decrease of 1.4%. The increase in property operating expenses was a result of:

- $401,000 increase as a result of newly acquired communities

$284,000 increase in utility expense partially correlated with an increase in billings to tenants reported as rental and other property revenues,

$102,000 increase in insurance expense,

$79,000 increase in property operating overhead

$79,000 increase in maintenance and repairs, and a

$57,000 increase in salaries, wages and benefits, all partially offset by a

$81,000 decrease in property taxes,

$67,000 decrease in tenant-related legal costs, and a

$27,000 decrease in other property operating expenses.

Table of Contents

Golf course operating expenses totaled $1,369,000 for the year ended December 31, 2007 compared to $1,347,000 for the year ended December 31, 2006, an increase of $22,000, or 1.6%. Our golf course operating expense as a percent of revenue were 128.7% for the year ended December 31, 2007 compared to 124.0% for the same period in 2006, an increase of 4.7%.

Depreciation expense was $4,957,000 during the year ended December 31, 2007 compared to $4,248,000 during the same period in 2006. The increase was due to an increase in depreciable property attributable to the continued development of previously undeveloped home sites and the acquisition of three communities in 2006.

Same store property revenues for the year ended December 31, 2007 increased by 6.6% from the year ended December 31, 2006, consisting of a 3.3% increase from same site rental revenues, a 3.4% increase from absorption revenues and a (0.1%) decrease from golf revenues. Expenses related to those revenues increased 3.4% over that same period, consisting of a 1.6% increase in same site rental expenses, a 1.6% increase in absorption expenses, and a 0.2% increase in golf expenses. Same store property net operating income increased 8.2% for the year ended December 31, 2007 consisting of 4.2% increase in same site net operating income, a 4.3% increase in net operating income from newly leased sites and a (0.2%) decrease in net operating income from golf operations. Our same store base included 91.1% of our property operating revenues for year ended December 31, 2007.

The Company believes that the same store information provides the users of these financial statements with a comparison of the profitability for properties owned during both reporting periods that cannot be obtained from a review of the consolidated income statement. This comparison can be useful to an understanding of the parts in addition to an understanding of the whole. A reconciliation of the same store operating results used in the above calculation to total operating revenues and total expenses for the years ended December 31, 2007 and 2006, determined in accordance with U.S. generally accepted accounting principles, is reflected in the table on the following page (in thousands):

		Year Ended December 31, 2007	Year Ended December 31, 2006	Change	% Change	Contribution to Same Store % Change(1)
Same site rental revenues	C	$ 32,367	$ 31,277	$ 1,090	3.5%	3.3%
Absorption rental revenues		1,763	645	1,118	173.3%	3.4%
Same store golf revenues		1,064	1,086	(22)	(2.0%)	(0.1%)
Same store revenues	A	35,194	33,008	2,186	6.6%	6.6%
Re-development newly acquired property revenues		3,599	1,834	1,765	96.2%	
Intercompany revenues		(142)		(142)	(100.0%)	
Total property revenues	E	$ 38,651	$ 34,842	$ 3,809	10.9%	
Same site property expense	D	$ 9,558	$ 9,388	$ 170	1.8%	1.6%
Absorption rental expense		170		170	100.0%	1.6%
Same store golf expenses		1,369	1,347	22	1.6%	0.2%
Same store expenses	B	11,097	10,735	362	3.4%	3.4%
Newly acquired property expenses		1,025	617	408	66.1%	
Expenses related to offsite management(2)		1,843	1,764	79	4.5%	
Total property operating expenses	F	$ 13,965	$ 13,116	$ 849	6.5%	
Same store net operating income	A-B	$ 24,097	$ 22,273	$ 1,824	8.2%	
Same site net operating income	C-D	$ 22,809	$ 21,889	$ 920	4.2%	
Total net operating income	E-F	$ 24,686	$ 21,726	$ 2,960	13.6%	

Table of Contents

(1) Contribution to Same Store % Change is computed as the change in the individual component of same store revenue or expense divided by the total applicable same store base (revenue or expense) for the 2006 period. For example, the change in same site rental revenues of $1,090 as compared to the total same store revenues in 2006 of $33,008 is a 3.3% increase ($1,090/$33,008=3.3%).

(2) Expenses related to offsite management reflect portfolio property management costs not attributable to a specific property.

Home Sales Business

Revenues for the home sales business totaled $27,264,000 for the year ended December 31, 2007 as compared to $47,238,000 for the year ended December 31, 2006. The decrease in revenues compared to the same period in the prior year was primarily due to decreased sales at six of the Company s expansion communities, which comprised 80% of the reduction in sales volume. The units sold totaled 209 for the year ended December 31, 2007 compared to 362 units for the year ended December 31, 2006, a decrease of 42.3%. For the years ended December 31, 2007 and 2006, the average selling price of new homes closed was $130,000 and $129,000, respectively.

A summary of our home sales activities for the years ended December 31, 2007 and 2006 is highlighted in the following table:

	Year Ended December 31, 2007	Year Ended December 31, 2006	Unit Change	Percent Change
New home closings-Same Store	183	323	(140)	(43.3%)
New home closings-Acquisitions	26	39	(13)	(33.3%)
Total new home closings	209	362	(153)	(42.3%)
New home contracts-Same Store(1)	198	341	(143)	(41.9%)
New home contracts-Acquisition(1)	35	55	(20)	(36.4%)
Total new home contracts(1)	233	396	(163)	(41.2%)
Home resales	10	6	4	66.7%
Brokered home sales	97	163	(66)	(40.5%)
New home contract backlog-Same Store(2)	20	29	(9)	(31.0%)
New home contract backlog-Acquisitions(2)	3	5	(2)	(40.0%)
Total new home contract backlog(2)	23	34	(11)	(32.4%)

(1) New contracts are reported net of cancellations.

(2) Balance as of December 31, 2007 and 2006, respectively.

Total cost of sales for the year ended December 31, 2007 was $19,551,000 compared to $31,525,000 for the year ended December 31, 2006. The resulting margin decreases were a result of increases in costs of homes purchased and lower relative selling prices. Selling and marketing expenses in 2007 decreased $1,439,000 from 2006 primarily as a result of lower commission expense associated with lower sales volumes, lower wages due to personnel reductions, lower marketing costs; partially offset by increased insurance and utilities costs.

We reported a loss from the home sales business of $1,265,000 for the year ended December 31, 2007 as compared to income of $5,387,000 for the year ended December 31, 2006.

General and Administrative Expenses

Our general and administrative expenses were $4,292,000 for the year ended December 31, 2007 and $3,995,000 for the year ended December 31, 2006. The $297,000 increase in expense was a result of:

$87,000 increase in professional fees,

Table of Contents

- $86,000 increase in directors fees and travel as a result of adding a new member to the Board and increased fees paid to existing Board members,
- $59,000 increase in failed acquisition costs,
- $31,000 increase in compensation expense related to restricted stock and stock option awards,
- $31,000 increase in compensation costs,
- $31,000 increase in various other costs, and a
- $23,000 increase in travel related costs, all partially offset by a
- $51,000 decrease in regulatory compliance and public company reporting costs.

Interest and Other Income

During the years ended December 31, 2007 and 2006, interest and other income were $207,000 and $293,000, respectively. The decrease of $86,000 was a result of interest earned on bank accounts in 2006 offset by interest income related to a construction loan extended to a third party for one of our development communities.

Interest Expense

During the years ended December 31, 2007 and 2006, interest expense was $8,699,000 and $7,378,000 respectively, which was net of capitalized interest of $8,992,000 and $7,620,000, respectively. The increase is primarily a result of:

- new debt secured by our communities, which was used primarily to acquire three age-restricted communities and to fund development expenditures made in advance of home sales,
- rising interest rates on our variable-rate debt coupled with higher outstanding balances under the Company s line of credit, all partially offset by
- scheduled amortization of existing secured notes payable,
- lower average outstanding balance under the Company s floorplan facility coupled with a reduction in interest rate, and
- additional capitalized interest as a result of purchasing three development communities and continued development of our existing communities.

Discontinued Operations

During the year ended December 31, 2007, we sold a 261 home site community in Florida to a third party for an aggregate sales price of approximately $17,600,000. During the years ended December 31, 2007 and 2006, income from discontinued operations, net of minority interest was $9,327,000 and $1,286,000, respectively. The increase was the result of recording a gain of approximately $10,302,000 on the sale of the community. The net proceeds were used to repay a portion of our outstanding short-term indebtedness, repurchase common stock and for other corporate purposes.

Cumulative Preferred Stock Dividends

During the years ended December 31, 2007 and 2006, we deducted cumulative paid and unpaid preferred stock dividends of $1,938,000 and $1,938,000, respectively, for the 1,000,000 outstanding shares of our Series A Cumulative Redeemable Preferred Stock.

Table of Contents

Comparison of 2006 to 2005

Net Income

We recognized net income attributable to common stockholders of $9,753,000 for the year ended December 31, 2006, compared to net income attributable to common stockholders of $10,303,000 for the year ended December 31, 2005. The following paragraphs discuss the results of operations in detail.

Rental Property Operations

Rental and other property revenues from our owned properties totaled $33,756,000 for the year ended December 31, 2006 compared to $29,113,000 for the year ended December 31, 2005, an increase of $4,643,000, or 15.9%. The increase in property operating revenues was a result of:

- $2,528,000 increase in base rental income driven by increases in rental rates and the origination of leases of new home sites at our development properties,
- $1,687,000 increase in revenues from newly communities acquired in 2006,
- $496,000 increase in the pass on of real estate taxes and utility expenses to tenants correlated with an increase in the related expenses, all partially offset by a
- $68,000 decrease in other property income.

Golf course operating revenues totaled $1,086,000 for the year ended December 31, 2006 compared to $956,000 for the years ended December 31, 2005, an increase of $130,000, or 13.6%. Golf revenue increases were attributable to additional membership fees and additional green fees from non-members in 2006 as compared to 2005.

Property operating expenses for our owned properties totaled $11,769,000 for the year ended December 31, 2006 compared to $10,256,000 for the same period in 2005, an increase of $1,513,000, or 14.8%. The increase in property operating expenses was a result of:

- $586,000 increase as a result of newly acquired communities
- $422,000 increase in utility expense partially correlated with an increase in billings to tenants reported as rental and other property revenues,
- $119,000 increase in property taxes partially correlated with an increase in billings to tenants reported as rental and other property revenues,
- $101,000 increase in insurance expense.
- $86,000 increase in property operating overhead,

$58,000 increase in maintenance and repairs,

$57,000 increase in salaries, wages and benefits,

$45,000 increase in tenant-related legal costs, and a

$39,000 increase in other property operating expenses.

Recoveries of casualty expenses totaled $150,000 for the year ended December 31, 2005, which did not recur in 2006. In August and September 2004, several of our properties were impacted by the four hurricanes that traversed central Florida. Hurricanes Charley, Frances, Ivan and Jeanne damaged community amenities and resident homes. At December 31, 2004, we recorded $97,000 as a receivable from our insurer and had additional

Table of Contents

claims with this insurer related to recoveries of damages caused during the hurricanes in 2004. During 2005, the Company was successful in obtaining $991,000 in additional proceeds from its insurers related to the 2004 hurricanes. During 2005, the proceeds were accounted for as a gain of approximately $237,000 and reimbursements of residual hurricane expenses of approximately $657,000, resulting in net recoveries of expenses of approximately $150,000.

Golf course operating expenses totaled $1,347,000 for the year ended December 31, 2006 compared to $1,341,000 for the year ended December 31, 2005. The increase in operating expenses at one golf course was partially offset by a decrease in operating expenses at two other golf courses.

Depreciation expense was $4,248,000 during the year ended December 31, 2006 compared to $3,395,000 during the same period in 2005. The increase was due to an increase in depreciable property attributable to the continued development of previously undeveloped home sites and the acquisition of three communities in 2006.

Same store property revenues for the year ended December 31, 2006 increased by 10.7% from the year ended December 31, 2005, consisting of a 4.7% increase from same site rental revenues, a 5.5% increase from absorption revenues and a 0.5% increase from golf revenues. Expenses related to those revenues increased 9.1% over that same period, consisting of a 4.5% increase in same site rental expenses, a 4.5% increase in absorption expenses and a 0.1% increase in golf expenses. Same store property net operating income increased 11.5% for the year ended December 31, 2006 consisting of 4.8% increase in same site net operating income, a 6.0% increase in net operating income from newly leased sites and a 0.6% increase in net operating income from golf operations. Our same store base included 92.4% of our property operating revenues for year ended December 31, 2006.

Table of Contents

The Company believes that the same store information provides the users of these financial statements with a comparison of the profitability for properties owned during both reporting periods that cannot be obtained from a review of the consolidated income statement. This comparison can be useful to an understanding of the parts in addition to an understanding of the whole. A reconciliation of the same store operating results used in the above calculation to total operating revenues and total expenses for the years ended December 31, 2006 and 2005, determined in accordance with U.S. generally accepted accounting principles, is reflected in the table on the following page (in thousands):

		Year Ended December 31, 2006	Year Ended December 31, 2005	Change	% Change	Contribution to Same Store % Change(1)
Same site rental revenues	C	$ 28,946	$ 27,574	$ 1,372	5.0%	4.7%
Absorption rental revenues		2,151	541	1,610	297.6%	5.5%
Same store golf revenues		1,086	956	130	13.6%	0.5%
Same store revenues	A	32,183	29,071	3,112	10.7%	10.7%
Re-development property revenues		2,659	998	1,661	166.4%	
Total property revenues	E	$ 34,842	$ 30,069	$ 4,773	15.9%	
Same site property expense	D	$ 8,638	$ 8,205	$ 433	5.3%	4.5%
Absorption rental expense		434		434	100.0%	4.5%
Same store golf expenses		1,347	1,341	6	0.4%	0.1%
Same store expenses	B	10,419	9,546	873	9.1%	9.1%
Re-development and newly acquired property expenses		933	359	574	159.9%	
Recoveries of expenses from casualty events			(150)	150	100.0%	
Expenses related to offsite management(2)		1,764	1,692	72	4.3%	
Total property operating expenses	F	$ 13,116	$ 11,447	$ 1,669	14.6%	
Same store net operating income	A-B	$ 21,764	$ 19,525	$ 2,239	11.5%	
Same site net operating income	C-D	$ 20,308	$ 19,369	$ 939	4.8%	
Total net operating income	E-F	$ 21,726	$ 18,622	$ 3,104	16.7%	

(1) Contribution to Same Store % Change is computed as the change in the individual component of same store revenue or expense divided by the total applicable same store base (revenue or expense) for the 2005 period. For example, the change in same site rental revenues of $1,372 as compared to the total same store revenues in 2005 of $29,070 is a 4.7% increase ($1,372/$29,070=4.7%).

(2) Expenses related to offsite management reflect portfolio property management costs not attributable to a specific property.

Home Sales Business

Revenues for the home sales business totaled $47,238,000 for the year ended December 31, 2006 as compared to $51,450,000 for the year ended December 31, 2005. The decrease in revenues compared to the same period in the prior year was primarily due to decreased sales at three of the Company s expansion communities in Florida. The units sold totaled 362 for the year ended December 31, 2006 compared to 435 units for the year ended December 31, 2005, a decrease of 16.8%. The decrease in units sold was partially offset by a 10.3% increase in average selling price of new homes closed. For the years ended December 31, 2006 and 2005, the average selling price of new homes closed was $129,000 and $117,000, respectively.

Table of Contents

A summary of our home sales activities for the years ended December 31, 2006 and 2005 is highlighted in the following table:

	Year Ended December 31, 2006	Year Ended December 31, 2005	Unit Change	Percent Change
New home closings-Same Store	323	435	(112)	(25.7%)
New home closings-Acquisitions	39		39	100.0%
Total new home closings	362	435	(73)	(16.8%)
New home contracts-Same Store(1)	341	486	(145)	(29.8%)
New home contracts-Acquisition(1)	55		55	100.0%
Total new home contracts(1)	396	486	(90)	(18.5%)
Home resales	6	12	(6)	(50.0%)
Brokered home sales	163	247	(84)	(34.0%)
New home contract backlog-Same Store(2)	29	93	(64)	(68.8%)
New home contract backlog-Acquisitions(2)	5		5	100%
Total new home contract backlog(2)	34	93	(59)	(63.4%)

(1) New contracts are reported net of cancellations.

(2) Balance as of September 30, 2007 and 2006, respectively.

Total cost of sales for the year ended December 31, 2006 was $31,525,000 compared to $35,508,000 for the year ended December 31, 2005. The resulting margin increases were attributable to increased selling prices, which were partially offset by increases in costs of homes purchased. Selling and marketing expenses in 2006 decreased $41,000 from 2005 primarily as a result of lower commission expense associated with lower sales volumes offset by increased marketing costs for newly constructed subdivisions within existing communities, new communities acquired in 2006 and increased operating expenses including utilities and insurance.

We reported income from the home sales business of $5,387,000 for the year ended December 31, 2006 as compared to $5,640,000 for the year ended December 31, 2005.

General and Administrative Expenses

Our general and administrative expenses were $3,995,000 for the year ended December 31, 2006 and $3,353,000 for the year ended December 31, 2005. The $642,000 increase in expense was a result of:

- $279,000 increase in the amortization of deferred compensation relating to restricted stock awards largely driven by the correction of our accounting for stock-based compensation, including amounts related to expenses from prior periods (see note I of the Consolidated Financial Statements),

- $278,000 increase in compensation expense for dividends on non-vested restricted stock largely driven by the correction of our accounting for stock-based compensation, including amounts related to expenses from prior periods (see note I of the Consolidated Financial Statements),

- $137,000 increase in stock option expense as a result of the 2006 stock option award,

$39,000 increase in directors fees and travel,

$32,000 increase in other costs, and a

$21,000 increase in compensation costs, all partially offset by a

$144,000 decrease in regulatory compliance and public company reporting costs, including Sarbanes-Oxley Act compliance.

Interest and Other Income

During the years ended December 31, 2006 and 2005, interest and other income were $293,000 and $23,000, respectively. The increase of $270,000 was a result of:

- $174,000 increase in interest earned on higher cash balances maintained in 2006,
- $59,000 non-recurring fee collected from an adjacent property owner,
- $51,000 received as final settlement of our claim under our business interruption policy related to the 2004 hurricanes, all partially offset by a
- $14,000 decrease in interest income related to repayment in full of officer loans in 2005.

Interest Expense

During the years ended December 31, 2006 and 2005, interest expense was $7,378,000 and $5,258,000, respectively, which was net of capitalized interest of $7,620,000 and $5,554,000, respectively. The increase was primarily a result of new debt secured by our properties to support development expenditures made in advance of home sales, an increase in the amount outstanding on the floor plan facility on home sales inventory and increasing interest rates on our variable rate debt. These increases were partially offset by scheduled amortization of existing secured notes payable and an increase in capitalized interest as a result of additional development expenditures made in advance of home sales.

Discontinued Operations

During the year ended December 31, 2006, we sold a 90 home site community in New Jersey to a third party for an aggregate sales price of approximately $5,083,000. During the years ended December 31, 2006 and 2005, income from discontinued operations, net of minority interest was $1,286,000 and $116,000, respectively. The increase was primarily a result of recording a gain of $1,006,000 on the sale of the community. The net proceeds were used to repay a portion of our outstanding short-term indebtedness and for other corporate purposes.

NOL Carryover

At December 31, 2007, the Company s net operating loss (NOL) carryovers were approximately $64,248,000 for the parent REIT entity and $8,999,000 for the Company s taxable subsidiaries that are consolidated for financial reporting but not for federal income tax purposes. Subject to certain limitations, the REIT s NOL carryover may be used to offset all or a portion of the Company s REIT taxable income, and as a result, to reduce the amount that the Company is required to distribute to stockholders to maintain our status as a REIT. It does not, however, affect the tax treatment to stockholders of any distributions that the Company does make. The Company did not utilize any of its NOL carryover in 2006. The parent REIT s and the taxable subsidiaries NOL carryovers are scheduled to expire in 2008 and 2009 and between 2020 and 2027, respectively.

Dividends and Distributions

During the year ended December 31, 2007, we distributed $8,831,000 ($1.00 per share) to holders of common stock and OP Units, compared to distributions in the year ended December 31, 2006 of $8,832,000 ($1.00 per share) and distributions in the year ended December 31, 2005 distributions of $8,522,000 ($1.00 per share). The tax treatment to stockholders of the dividends paid, if any, is generally determined based upon the character and amount of our taxable income for the relevant year.

Table of Contents

For income tax purposes, dividends to common stockholders may consist of ordinary income, capital gains (including unrecaptured gain under Section 1250 of the Internal Revenue Code of 1986, which is taxable to stockholders who are individuals at a maximum federal rate of 25%), return of capital or a combination thereof. For the years ended December 31, 2007, 2006 and 2005, dividends paid per share were taxable as follows:

	2007		2006		2005	
	Amount	**Percentage**	**Amount**	**Percentage**	**Amount**	**Percentage**
Return of capital			$ 0.95	95.0%	$ 0.815	81.5%
Ordinary income	$ 0.411	41.1%			0.185	18.5%
Capital gain	0.587	58.7%				
Unrecaptured Section 1250 gain	0.002	0.2%	0.05	5.0%		
Total	$ 1.00	100.0%	$ 1.00	100.0%	$ 1.00	100.0%

During the year ended December 31, 2007, ANL distributed $1,938,000 ($1.938 per share) to holders of preferred stock compared to distributions in the years ended December 31, 2006 and 2005 of $1,938,000 and $1,485,000, respectively.

The tax treatment to stockholders of the preferred dividends paid, if any, is generally determined based upon the character and amount of our taxable income for the relevant year.

	2007		2006		2005	
	Amount	**Percentage**	**Amount**	**Percentage**	**Amount**	**Percentage**
Ordinary income	$ 0.796	41.1%	$ 1.938	100.0%	$ 1.485	100.0%
Capital gain	1.138	58.7%				
Unrecaptured Section 1250 gain	0.004	0.2%				
Total	$ 1.938	100.0%	$ 1.938	100.0%	$ 1.485	100.0%

The Board of Directors reviews the dividend policy quarterly. The Company s dividends are set quarterly and are subject to change or elimination at any time. The Company s primary financial objective is to maximize long term, risk adjusted returns on investment for common shareholders. While the dividend policy is considered within the context of this objective, maintenance of past dividend levels is not a primary investment objective of the Company and is subject to numerous factors, including the Company s profitability, capital expenditure plans, competing uses of capital, obligations related to principal payments and capitalized interest, and the availability of debt and equity capital at terms deemed attractive by the Company to finance these expenditures. Further, the Board has and will continue to consider the downturn in new home sales and the opportunity for share repurchases in the context of its quarterly review and dividend decision. The Company s net operating loss may be used to offset all or a portion of its real estate investment trust (REIT) taxable income, which may allow the Company to reduce or eliminate its dividends and still maintain its REIT status.

Returns from Home Sales Business

We engage in the home sales business for four reasons:

1) to lease expansion home sites within our portfolio, thereby increasing the profitability and value of our communities,

2) to upgrade existing leased home sites with new and more valuable homes, thereby increasing the long-term value of the lease income stream,

3) to broker the resale of homes in order to support investment values in the homes and to attract good neighbors all so as to promote the long term values of the communities, both for the residents who are our customers and for the long-term growth and security of our own investment, and

4) to resell any homes we acquire as a result of defaults in lease obligations owed to us.

Table of Contents

We measure the profitability of developing and leasing expansion home sites within our portfolio through identifying the following:

1) an estimate of the stabilized first year profit on the leases originated on expansion home sites,

2) an estimate of the total development costs of the expansion sites leased including all current and projected development costs, and

3) an estimate of the home sales profit or loss attributable to new homes sold on expansion sites, without consideration for the other aspects of the home sales business.

We believe that our projection of the stabilized first year returns from the leases originated on expansion home sites provides the user of our financial statements with a comparison of the profitability of the newly leased sites to our current portfolio and to alternative investments in stabilized communities. Our calculation of estimated stabilized first year returns from leases originated on expansion home sites is a projection. We project the amount of variable property operating expenses we will incur as a result of the newly leased home sites. In order to project our variable operating expenses, we begin with operating expenses determined in accordance with GAAP and deduct those expenses we believe will not increase with the addition of newly leased sites.

The most directly comparable financial measure that can be reconciled to GAAP is our historical return on investment in operational home sites for the year ended December 31, 2007, which is reconciled on page 46 in footnote 1. Our projection of the estimated stabilized first year return from leases originated on expansion home sites cannot be directly reconciled to a comparable GAAP measure, principally because there will be leases that begin during the period and we estimate the incremental operating expenses associated with these leases. The estimated stabilized first year return from leases originated on investment in expansion home sites should not be considered in isolation nor is it intended to represent an alternative measure of operating income or cash flow or any other measure of performance as determined in accordance with GAAP.

By comparing the projected stabilized first year profit on the expansion home site leases originated to the sum of total development costs, as increased (in the event of a home sales loss) or decreased (in the event of a home sales profit) by the estimated home sales profit or loss, we are able to measure the projected stabilized first year return from leases originated on our expansion home sites. We believe that this measure provides a useful comparison to the returns available from investing in stabilized communities.

Our calculation of projected stabilized first year return from leases originated on expansion home sites includes the following components:

(a) We derive our projected stabilized first year profit on leases originated on expansion home sites by deducting estimated operating expenses from the stabilized contractual revenues from leases originated during the period. We estimate operating expenses using one half of the actual ratio of property operating expenses incurred to property revenue generated in the prior year. For example, if we originate a lease at a property where the ratio of operating expense to property revenues was 40% for the prior year, we apply a 20% expense ratio to project the additional expense associated with the newly leased home site for the first year. We believe that one half of the actual expenses is an appropriate estimate of the relationship between fixed and variable expenses of operating our communities.

(b) The total development costs of the expansion sites leased are based upon the sum of land, construction costs, and other capitalized costs, including interest expense, as allocated to the individual home sites based upon the leased value of each home site.

(c) We determine the home sales profit or loss that is attributable to sale of homes situated on expansion home sites by deducting from the reported home sales operating income the gross margin and commissions attributable to the (i) the sale of used homes, and (ii) brokerage of home sale transactions between third parties. We make no allocation of sales overhead to the transactions identified above.

Table of Contents

We believe that our home sales operations drive our projected stabilized first year return from leases originated on expansion home sites because most of our expansion home site leases originate with our sale of a home.

Our projections of the stabilized first year returns from the leases originated on expansion home sites constitute forward looking statements. Actual returns may be materially different than such projections as a result of the risks and other factors discussed throughout this Annual Report. We undertake no obligation to update such projections to reflect events or circumstances occurring after the date of this report.

Comparison of the Years ended December 31, 2007, 2006 and 2005

The leases facilitated by the home sales business during the years ended December 31, 2007, 2006 and 2005 are estimated to provide a stabilized first year return on investment of 6.5%, 14.0% and 12.9%, respectively. These returns are shown on the following page and are based upon management s projections. This compares to our realized returns from operational home sites of 8.3% for the year ended December 31, 2007, 7.6% for the year ended December 31, 2006 and 8.2% for the year ended December 31, 2005. The decrease in return on expansion home sites for 2007 as compared to 2006 is driven primarily by (i) increases in the per site cost of development, (ii) decreased profitability of our home sales business, and (iii) a decrease in projected stabilized first year profit as a result of offering lease incentives to increase leasing volume. Our future returns are dependent upon a number of factors including changes in the per site cost of development, changes in the cost of lease incentives utilized in support of the rate of new home sales, changes in the profitability of our home sales business, changes in the quantity of new homes sold and other factors.

The calculation of our projected stabilized first year return from leases originated on expansion home sites for the years ended December 31, 2007, 2006 and 2005 is shown in the following table (in thousands, except expansion sites leased):

		Year Ended December 31, 2007	Year Ended December 31, 2006	Year Ended December 31, 2005
Expansion sites leased during the year		198	300	352
Estimated stabilized first year profit on leases originated during the year	A	$ 668	$ 1,107	$ 1,387
Costs, including development costs of sites leased		$ 8,664	$ 13,042	$ 16,002
Home sales income attributable to sites leased		(1,538)	5,133	5, 258
Total costs incurred to originate ground leases	B	$ 10,202	$ 7,909	$ 10,744
Estimated stabilized first year returns from the leases originated on expansion home sites during the year	A/B	6.5%	14.0%	12.9%

For the years ended December 31, 2007, 2006 and 2005, we estimate our profit or loss attributable to the sale of homes situated on expansion home sites as follows (in thousands):

	Year Ended December 31, 2007	Year Ended December 31, 2006	Year Ended December 31, 2005
Reported (loss) income from sales operations	$ (1,265)	$ 5,387	$ 5,640
Brokerage business income	(143)	(234)	(291)
Used home sales	(130)	(20)	(91)
Adjusted (loss) income	$ (1,538)	$ 5,133	$ 5,258

Table of Contents

We have changed the method of estimating costs attributable to newly leased sites. Beginning with the third quarter 2007, we revised our estimate of home site costs with respect to indirect general community expenditures. Previously such indirect costs were allocated to remaining unleased lots; now such costs are allocated to all sites within the community. For example, the Company has constructed additional amenities such as an additional clubhouse at our Sunlake Community, which will benefit all sites in the community, whether leased or unleased. If calculated using the previous methodology, the estimated return for December 31, 2007, 2006 and 2005 would have been 4.5%, 8.7%, and 10.9%, respectively, instead of 6.5%, 14.0% and 12.9%, respectively.

We exclude the profits from our used home sales and brokerage business from our projection of return on investment in expansion home sites. The profits from these activities represent profits that are not directly related to our expansion activities.

The reconciliation of our estimated stabilized first year return from leases originated on expansion home sites to our return on investment in operational home sites in accordance with GAAP is shown in the following table (in thousands):

		Total Portfolio for Year Ended December 31, 2007	Total Portfolio for Year Ended December 31, 2006	Total Portfolio for Year Ended December 31, 2005
Property income before depreciation(1)	A	$ 24,686	$ 21,726	$ 18,622
Total investment in operating home sites(1)	B	$ 295,821	$ 287,305	$ 226,419
Return on investment from earning home sites(1)	A/B	8.3%	7.6%	8.2%

(1) A reconciliation of our return on investment for operational home sites for the years ended December 31, 2007, 2006 and 2005 to property income before depreciation and investment in operational sites is shown in the following table (in thousands):

	December 31, 2007	December 31, 2006	December 31, 2005
Rental and other property revenues	$ 38,651	$ 34,842	$ 30,069
Property operating expenses	(13,965)	(13,116)	(11,447)
Property income before depreciation (A)	$ 24,686	$ 21,726	$ 18,622