

AMERICAN LAND LEASE INC
Form 10-Q
August 07, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2008

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number 1-9360

AMERICAN LAND LEASE, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of

84-1038736
(IRS Employer

Incorporation or organization)

Identification No.)

29399 U.S. Hwy 19 North, Suite 320

Clearwater, Florida
(Address of Principal Executive Offices)

33761
(Zip Code)

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

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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 No

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

Non-accelerated filer

Smaller reporting company

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

As of August 4, 2008, approximately 7,938,000 shares of common stock, par value \$.01 per share, were outstanding.

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AMERICAN LAND LEASE, INC. AND SUBSIDIARIES

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2008

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AMERICAN LAND LEASE, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(in thousands, except per share data)**

	June 30, 2008 (unaudited)	December 31, 2007
ASSETS		
Real estate, net of accumulated depreciation of \$34,145 and \$31,842, respectively, including real estate under development of \$128,277 and \$122,403, respectively	\$ 406,520	\$ 399,517
Cash and cash equivalents	142	541
Inventory	15,841	20,084
Other assets, net	17,999	16,391
Total Assets	\$ 440,502	\$ 436,533
LIABILITIES		
Secured notes payable	\$ 259,630	\$ 239,970
Secured credit facilities	21,219	30,932
Accounts payable and accrued liabilities	8,196	9,288
	289,045	280,190
MINORITY INTEREST IN OPERATING PARTNERSHIP	16,824	17,339
STOCKHOLDERS EQUITY		
Preferred stock, par value \$.01 per share; 3,000 shares authorized; 1,000 and 1,000 shares issued and outstanding, respectively	25,000	25,000
Common stock, par value \$.01 per share; 12,000 shares authorized; 9,595 and 9,485 shares issued, respectively; 7,625 and 7,553 shares outstanding (excluding treasury stock), respectively	96	95
Additional paid-in capital	295,266	293,821
Dividends in excess of accumulated earnings	(153,810)	(148,749)
Treasury stock, 1,970 and 1,932 shares at cost, respectively	(31,919)	(31,163)
	134,633	139,004
Total Liabilities and Stockholders Equity	\$ 440,502	\$ 436,533

See Notes to Condensed Consolidated Financial Statements

Table of Contents**AMERICAN LAND LEASE, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except per share data)

(unaudited)

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
RENTAL PROPERTY OPERATIONS				
Rental and other property revenues	\$ 9,733	\$ 9,334	\$ 19,450	\$ 18,670
Golf course operating revenues	217	219	656	649
Total property operating revenues	9,950	9,553	20,106	19,319
Property operating expenses	(3,156)	(3,111)	(6,319)	(6,300)
Golf course operating expenses	(348)	(357)	(680)	(692)
Total property operating expenses	(3,504)	(3,468)	(6,999)	(6,992)
Depreciation	(1,351)	(1,227)	(2,699)	(2,432)
Income from rental property operations	5,095	4,858	10,408	9,895
SALES OPERATIONS				
Home sales revenue	3,525	7,929	7,380	15,594
Cost of home sales	(2,814)	(5,658)	(5,651)	(11,291)
Gross profit on home sales	711	2,271	1,729	4,303
Commissions earned on brokered sales	39	44	84	119
Commissions paid on brokered sales	(23)	(19)	(42)	(54)
Gross profit on brokered sales	16	25	42	65
Selling and marketing expenses	(1,519)	(2,375)	(3,557)	(4,712)
Loss from sales operations	(792)	(79)	(1,786)	(344)
General and administrative expenses	(1,233)	(993)	(2,455)	(1,957)
Interest and other income	58	8	102	178
Loss on early debt retirement			(1,987)	
Interest expense	(2,198)	(2,142)	(4,446)	(4,251)
Income (loss) before minority interest in Operating Partnership and discontinued operations	930	1,652	(164)	3,521
Minority interest in Operating Partnership	(108)	(188)	19	(399)
Income (loss) from continuing operations	822	1,464	(145)	3,122
DISCONTINUED OPERATIONS				
Discontinued operations		109		220
Depreciation on discontinued operations		(24)		(48)
Minority interest in Operating Partnership attributable to discontinued operations		(10)		(20)
Income from discontinued operations, net of minority interest in Operating Partnership		75		152

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Net income (loss)	822	1,539	(145)	3,274
Cumulative preferred stock dividends	(485)	(485)	(969)	(969)
Net income (loss) available to common stockholders	\$ 337	\$ 1,054	\$ (1,114)	\$ 2,305
Earnings per common share basic:				
Income (loss) from continuing operations (net of preferred stock dividends)	\$ 0.04	\$ 0.13	\$ (0.15)	\$ 0.28
Income from discontinued operations		0.01		0.02
Net income (loss) attributable to common stockholders	\$ 0.04	\$ 0.14	\$ (0.15)	\$ 0.30
Earnings per common share diluted:				
Income (loss) from continuing operations (net of preferred stock dividends)	\$ 0.04	\$ 0.12	\$ (0.14)	\$ 0.27
Income from discontinued operations		0.01		0.02
Net income (loss) attributable to common stockholders	\$ 0.04	\$ 0.13	\$ (0.14)	\$ 0.29
Weighted average common shares outstanding	7,611	7,745	7,604	7,728
Weighted average common shares and common share equivalents outstanding	7,710	8,029	7,734	8,052
Dividends declared per common share	\$ 0.25	\$ 0.25	\$ 0.50	\$ 0.50
	See Notes to Condensed Consolidated Financial Statement			

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AMERICAN LAND LEASE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

(in thousands)

(unaudited)

	Preferred Stock		Common Stock		Additional	Dividends	Treasury	Total
	Shares	Amount	Shares	Amount	Paid-In	In	Stock	Stockholders
					Capital	Excess of		Equity
						Accumulated		
						Earnings		
BALANCES DECEMBER 31, 2007	1,000	\$ 25,000	9,485	\$ 95	\$ 293,821	\$ (148,749)	\$ (31,163)	\$ 139,004
Exercise of options			86	1	602			603
Vesting of restricted stock			15					
Equity compensation granted to the Board of Directors			9		175			175
Purchase of treasury stock							(756)	(756)
Stock-based compensation					668			668
Net loss						(145)		(145)
Dividends paid preferred stock						(969)		(969)
Dividends paid common stock						(3,947)		(3,947)
BALANCES JUNE 30, 2008	1,000	\$ 25,000	9,595	\$ 96	\$ 295,266	\$ (153,810)	\$ (31,919)	\$ 134,633

See Notes to Condensed Consolidated Financial Statements

Table of Contents**AMERICAN LAND LEASE, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)****(unaudited)**

	Six Months Ended June 30,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	\$ (145)	\$ 3,274
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	3,320	3,030
Loss on early debt retirement	1,987	
Revenue recognized related to acquired lease obligations	(142)	(263)
Stock-based compensation	648	611
Minority interest in Operating Partnership	(19)	399
Minority interest in Operating Partnership attributable to discontinued operations		20
Decrease in inventory	4,243	1,796
Net change in operating assets and liabilities	(1,038)	552
 Net cash provided by operating activities	 8,854	 9,419
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to real estate, including development	(4,741)	(11,762)
Capitalized interest	(4,456)	(4,423)
Capital replacements	(447)	(727)
Additions to fixed assets other than real estate classified as other assets	(89)	(246)
Construction loan advances	(2,227)	(89)
Proceeds from notes receivable	237	266
 Net cash used in investing activities	 (11,723)	 (16,981)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from secured credit facilities	48,795	55,030
Payments on secured credit facilities	(58,508)	(45,076)
Proceeds from secured notes payable	36,955	4,580
Principal payments on secured notes payable	(17,295)	(1,471)
Early debt retirement	(1,874)	
Payments of deferred financing costs		(73)
Payments to escrow funds	(281)	(172)
Collections of escrowed funds	243	92
Proceeds from stock options exercised	603	797
Purchase of treasury stock	(756)	(627)
Payments of common stock dividends	(3,947)	(3,994)
Payments of preferred stock dividends	(969)	(969)
Distributions to minority interest in Operating Partnership	(496)	(500)
 Net cash provided by financing activities	 2,470	 7,617
 NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	 (399)	 55
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	541	253

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CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$	142	\$	308
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See Notes to Condensed Consolidated Financial Statements

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AMERICAN LAND LEASE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2008

(unaudited)

A. The Company

American Land Lease, Inc. (ANL) is a Delaware corporation that owns home sites leased to owners of homes situated on the leased land and operates the communities composed of these homes. ANL has elected to be taxed as a real estate investment trust (REIT). ANL 's preferred stock, par value \$.01 per share, is listed on the New York Stock Exchange (NYSE) under the symbol ANLPRA. ANL 's common stock, par value \$.01 per share, is listed on the NYSE under the symbol ANL. In May 1997, ANL contributed its net assets to Asset Investors Operating Partnership, L.P. (the Operating Partnership) in exchange for the sole general partner interest in the Operating Partnership and substantially all of the Operating Partnership 's initial capital. Except as the context requires, we, our, us, ANL and the Company refer to American Land Lease, Inc., the Operating Partnership and all majority-owned subsidiaries.

Interests in the Operating Partnership held by limited partners other than ANL are referred to as OP Units. The Operating Partnership 's income is allocated to holders of OP Units based on the weighted average number of OP Units outstanding during the period. The holders of the OP Units receive distributions, prorated from the date of issuance, in an amount equivalent to the dividends paid, if any, to holders of ANL 's common stock. After holding the OP Units for one year, limited partners generally have the right to redeem their OP Units for cash. Notwithstanding that right, the Operating Partnership may elect to acquire some or all of the OP Units tendered for redemption in exchange for shares of ANL 's common stock in lieu of cash. At June 30, 2008, the Operating Partnership had approximately 993,000 OP Units outstanding, excluding those owned by ANL, and ANL owned 88% of the Operating Partnership.

As of June 30, 2008, based on total home sites, 72% of the Company 's portfolio of residential land lease communities is located in Florida, 24% in Arizona and 4% in Alabama.

B. Presentation of Financial Statements

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X under the Securities Exchange Act of 1934, as amended. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal recurring nature. Operating results for the three and six months ended June 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

The condensed consolidated balance sheet at December 31, 2007 has been derived from the audited financial statements at that date but does not include all of the information and notes required by GAAP.

For further information, refer to the statements and notes thereto included in ANL 's Annual Report on Form 10-K for the year ended December 31, 2007.

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C. Summary of Significant Accounting Policies

Principles of Consolidation

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

The Company applies Financial Accounting Standards Board (FASB) Interpretation No. 46, *Consolidation of Variable Interest Entities (revised December 2003)*, an interpretation of ARB No. 51 (FIN 46R). The objective of FIN 46R is to provide guidance on how to identify a variable interest entity (VIE) and determine when the assets, liabilities, non-controlling interests, and results of operations of a VIE need to be included in a company s consolidated financial statements. A company that holds variable interests in an entity will need to consolidate such entity if the company absorbs a majority of the entity s expected losses or receives a majority of the entity s expected residual returns if they occur, or both (i.e., the primary beneficiary).

Real Estate and Depreciation

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

1. Determine the as-if vacant fair value of the physical property acquired;
2. Allocate the as-if vacant fair value among land, land improvements, buildings, (based on real estate valuation techniques), furniture, fixtures and equipment; and
3. Compute the difference between the purchase price of the property and the as-if vacant fair value and allocate such difference to leases in-place, which will represent the total intangible assets or liabilities. The fair value of the leases in-place are comprised of:
 - a. The value of the above and/or below market leases in-place. Above-market and below-market in-place lease values are computed based on the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management s estimate of fair market lease rates and effective lease terms for the corresponding in-place leases, measured over a period equal to the estimated remaining effective terms of the leases.
 - b. Avoided leasing commissions and other costs that were incurred to execute leases.

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

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

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

Interest incurred relating to the development of communities is capitalized during the development period. The Company's strategy is to master plan, develop and build substantially all of the home sites in its communities. Accordingly, substantially all projects excluding finished lots where the home is available for occupancy, are undergoing development. The Company capitalized interest of approximately \$2,194,000 and \$2,248,000 for the three months ended June 30, 2008 and 2007, and \$4,456,000 and \$4,423,000 for the six months ended June 30, 2008 and 2007, respectively.

If events or circumstances indicate that the carrying amount of a property may be impaired, the Company will make an assessment of its recoverability by estimating the future undiscounted cash flows, excluding interest charges, of the property. 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, the Company would recognize an impairment loss to the extent the carrying amount exceeds the fair value of the property. There were no impairment losses recognized for the six months ended June 30, 2008 and 2007.

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.

Cash Equivalents

The Company considers highly liquid investments with an original maturity of three months or less to be cash equivalents.

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Inventory

The Company, through a taxable subsidiary corporation, maintains an inventory of manufactured homes situated within its residential land lease communities. Carrying amounts for inventory are determined on a specific identification basis and are stated at the lower of cost or estimated market value. If actual market conditions are less favorable than those projected by management and the market value of our inventory is lower than estimated by management, inventory write-downs may be required that could have a significant impact on the Company's results of operations and cash flows. As of June 30, 2008, \$12,370,000 of the Company's total inventory investment of \$15,841,000 was older than one year. The Company recorded charges of approximately \$256,000 and \$68,000 for the three months ended June 30, 2008 and 2007, and \$365,000 and \$200,000 for the six months ended June 30, 2008 and 2007, respectively, to adjust inventory carrying amounts to market value.

Revenue Recognition

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

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

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

Deferred Financing Costs

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

Advertising Costs

Costs of advertising are expensed the first time the advertising takes place. Direct response advertising conducted by the Company during the periods was expensed as incurred, as the Company could not define the expected period of future benefits. Advertising expenses were \$203,000 and \$575,000 for the three months ended June 30, 2008 and 2007, respectively, and \$552,000 and \$1,134,000 for the six months ended June 30, 2008 and 2007, respectively, and are included within golf course operating expenses and selling and marketing expenses in the consolidated statements of operations.

Income Taxes

ANL has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended. To qualify as a REIT, ANL must meet a number of organizational and operational requirements, including income, asset, and stockholder requirements, and a requirement that, in general, it must distribute

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

The Company files its tax returns as prescribed by the tax laws of the jurisdictions in which it operates. The Company's federal and state income tax returns for the years ended December 31, 2004, and subsequent years are currently subject to examination by the Internal Revenue Service or other taxing authorities. The Company recognizes accrued interest related to unrecognized tax benefits as a component of interest expense and penalties related to unrecognized tax benefits as a component of general and administrative expenses. In March 2008, the Company was notified by the Internal Revenue Service that it intends to examine the 2005 federal tax return for Asset Investors Operating Partnership. The Internal Revenue Service examined the 2005 federal tax return for Asset Investors Operating Partnership and concluded that no change was necessary to the return and accepted the return as filed.

Earnings Per Share

Basic earnings per share are based upon the weighted-average number of shares of common stock outstanding during each period. Diluted earnings per share reflect the effect of dilutive, unexercised stock options, both vested and unvested, and unvested restricted stock of 99,000 and 284,000 shares for the three months ended June 30, 2008 and 2007, respectively, and 130,000 and 324,000 shares for the six months ended June 30, 2008 and 2007, respectively. Vested and unvested stock options totaling 453,000 and 148,000 shares for the three months ended June 30, 2008 and 2007, respectively, and 448,000 and 148,000 shares for the six months ended June 30, 2008 and 2007, respectively, were excluded from diluted earnings as their effect was anti-dilutive.

Stock-based Compensation

The Company used the Black-Scholes-Merton formula to estimate the fair value of stock options, used the closing stock price at date of grant for time-based restricted stock and used a Monte Carlo model to estimate the fair value of market-based restricted stock for the six months ended June 30, 2008 and 2007. Stock-based compensation is reported in selling and marketing expenses and general and administrative expenses. The Company recorded stock-based compensation expense of \$364,000 and \$307,000 for the three months ended June 30, 2008 and 2007, respectively, and \$648,000 and \$611,000 for the six months ended June 30, 2008 and 2007, respectively.

Treasury Stock

On October 17, 2000, the Board of Directors authorized the Company to repurchase up to 2,000,000 shares of the outstanding common stock. The timing of stock purchases is at the discretion of

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management. The Company purchased 0 and 0 shares for the three months ended June 30, 2008 and 2007, respectively, and 29,000 and 27,000 shares for the six months ended June 30, 2008 and 2007, respectively. The Company has repurchased approximately 812,000 shares as of June 30, 2008 pursuant to this authorization.

Depreciation of Personal Property

Depreciation of personal property is reported in property operating expenses, selling and marketing expenses, or general and administrative expenses, based upon the use of the associated asset. The Company recorded depreciation expense related to personal property of \$111,000 and \$99,000 for the three months ended June 30, 2008 and 2007, respectively, and \$212,000 and \$192,000, for the six months ended June 30, 2008 and 2007, respectively. Depreciation is computed using the straight-line method over an estimated useful life of 5 to 15 years for furniture and other equipment, all of which are judgmental determinations. These determinations may prove to be different than the actual life of any individual asset.

Statements of Cash Flows

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

Non-cash financing activities for the period ended June 30, 2008 and 2007 were as follows:

	2008	2007
Issuance of common stock for:		
Services by directors	\$ 175,000	\$ 194,000

Fair Value of Financial Instruments

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 assets and financial liabilities for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued Staff Position No. 157-2, *Effective Date of FASB Statement No. 157*, which deferred the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 2008.

The implementation of SFAS 157 for financial assets and financial liabilities, effective January 1, 2008, did not have a material impact on the Company's consolidated financial position and results of operations. The Company is currently assessing the impact of SFAS 157 for nonfinancial assets and nonfinancial liabilities on its consolidated financial position and results of operations.

The estimated fair value of the Company's secured notes payable was \$260,475,000 at June 30, 2008 as compared to the carrying value of \$259,630,000 at June 30, 2008.

The aggregate fair value of cash and cash equivalents, receivables, accounts payable and accrued liabilities as of June 30, 2008 approximates their carrying value due to their relatively short-term nature.

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

Reclassifications

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144), certain reclassifications have been made in the 2007 consolidated financial statements to present the operations of one community as discontinued operations for all periods presented. Such reclassifications have no material effect on the amounts as originally presented.

Comprehensive Income

SFAS No. 130, *Reporting Comprehensive Income*, requires all components of comprehensive income be reported in the consolidated financial statements in the period in which they are recognized. For all periods reported, the Company's comprehensive income is equal to its net income reported in the accompanying consolidated statements of operations.

D. Real Estate

Real estate at June 30, 2008 and December 31, 2007 is as follows (in thousands):

	June 30, 2008	December 31, 2007
Land	\$ 92,900	\$ 92,664
Land improvements and buildings	347,765	338,695
	440,665	431,359
Less accumulated depreciation	(34,145)	(31,842)
Real estate, net	\$ 406,520	\$ 399,517

The Company's real estate investment consists of land, land improvements and buildings. Buildings consist primarily of clubhouses at its residential land lease communities maintained as amenities for resident use. A majority of the Company's investment in land improvements consists of long-lived assets such as lateral infrastructure at its residential land lease communities including sanitary sewer and storm water collection systems, potable water supply systems, roads and walkways. The balance of land improvements consists of assets with shorter lives such as marinas, fencing, swimming pools, spas, shuffleboard courts, tennis courts and other resident amenities. Depreciation is computed using the straight-line method over an estimated useful life of 5 to 75 years for land improvements and 5 to 50 years for buildings.

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The following table summarizes the Company's secured notes payable (in thousands):

	June 30, 2008	December 31, 2007
Fixed rate, ranging from 7.86% to 7.92%, fully amortizing, non-recourse notes maturing in 2020	\$ 7,659	\$ 9,882
Fixed rate, ranging from 5.48% to 7.17%, partially amortizing, non-recourse notes maturing at various dates from 2013 through 2021	229,865	207,982
Variable rate, at the three-month LIBOR rate plus 115 to 175 basis points, interest only non-recourse notes maturing at various dates from 2011 through 2012	22,106	22,106
	\$ 259,630	\$ 239,970

F. Secured Credit Facilities

The Company has a revolving line of credit with a bank with a total commitment of \$16,000,000 that bears interest at 175 basis points over the one-month LIBOR rate (4.2% at June 30, 2008 and 6.6% at December 31, 2007). The line of credit is secured by real property and improvements located in St. Lucie, Lake, and Pasco County, Florida and Maricopa County, Arizona with a net book value of \$44,067,000. The revolving line of credit matures December 31, 2008. At June 30, 2008, \$4,600,000 was outstanding and \$11,400,000 was not drawn under the revolving line of credit. The availability of funds to the Company under the line of credit is subject to certain borrowing base and other customary restrictions, including compliance with financial and other covenants thereunder. Based on the application of the borrowing base calculation, as of June 30, 2008, \$8,392,000 was available to the Company. The line of credit also includes certain financial covenants that require the Company to maintain an adjusted tangible net worth (as defined by the lender) of \$150,000,000 and to maintain a debt to adjusted tangible net worth ratio of not more than 1.75 to 1.0, among others. The Company believes it was in compliance with all financial covenant requirements at June 30, 2008.

The Company has a floor plan line of credit with a floor plan lender providing a committed credit facility of \$35,000,000 with a variable interest rate linked to the lender's prime rate, with a floor of 5.25%, plus 25 basis points (5.5% at June 30, 2008 and 7.8% at December 31, 2007). Individual advances mature the earlier of 1,080 days or upon sale of the home to a third party. This floor plan line of credit is secured by inventory located in the Company's residential land lease communities with a carrying value of approximately \$14,330,000. At June 30, 2008, approximately \$16,619,000 was outstanding, of which \$2,250,000 was recourse to the Company, and approximately \$18,381,000 was available under the floor plan credit facility. The financial covenants of the floor plan line of credit require the Company to maintain an adjusted tangible net worth (as defined by the lender) of \$150,000,000 and to maintain a debt to adjusted tangible net worth ratio of not more than 1.75 to 1.0, among others. The floor plan lender's commitment to fund future inventory purchases expires in September 2009. The Company believes it was in compliance with all financial covenant requirements at June 30, 2008.

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G. Commitments and Contingencies

Legal Contingencies

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

Commitments

In the ordinary course of business, the Company has entered into various construction contracts with third parties to develop subdivisions within the Company's existing portfolio of residential land lease communities. The unpaid balance of these contracts remaining at June 30, 2008 is approximately \$1,375,000.

During 2007, the Company issued a construction loan to a development company in Arizona. The maximum aggregate amount of advances available under the construction loan is \$8,080,000, subject to certain inventory level restrictions provided for in the loan documents that limit the aggregate amount of advances outstanding at any given time. The proceeds of the loan are to be used exclusively to develop a community for the Company in Mesa, Arizona. At June 30, 2008, the application of the inventory restriction limits the additional funds available to the development company to approximately \$4,052,000. At June 30, 2008, approximately \$1,082,000 was available under the construction loan.

H. Segment Reporting

The Company has 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). The real estate segment consists of residential land lease communities that generate rental and other property related income through the leasing of land to residents that are unaffiliated with the Company. The home sales segment sells manufactured homes to customers that are unrelated to the Company. The homes sold by the home sales segment are situated on land within the Company's portfolio of rental property. The customers of the home sales business become residents of the Company's real estate segment coincident with the sale of a home, at which time the customer enters into a lease with the real estate segment. The chief operating decision maker assesses the performance of the real estate segment using, among other measures, net operating income excluding depreciation as a key measurement of segment profit or loss. The chief operating decision maker assesses the performance of the home sales segment using, among other measures, contribution margin, excluding allocated corporate expenses as the best measure of the segments performance. Segment operating income is generally defined as segment revenues less direct segment operating expenses.

Non-segment revenue used to reconcile total revenue consists primarily of interest income and other income. Non-segment assets used to reconcile to total assets include cash and cash equivalents, cash in escrows, accounts receivable, prepaid expenses, investments, deferred charges and other assets.

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Overhead expenses, such as administrative expenses, are allocated to each segment based upon management's best estimate of the resources utilized in the management and operations of each segment. The accounting policies of the segments are the same as those described in Note C.

The revenues, net income (loss), and assets for each of the reportable segments are summarized in the following tables for the three and six months ended June 30, 2008 and June 30, 2007 (in thousands).

	Three months ended June 30, 2008			
	Real Estate	Home Sales	Corporate, (not allocated to segments)	Consolidated
Rental and other property revenues, net	\$ 9,950		\$	\$ 9,950
Home sales revenues		3,564		3,564
Total revenues	9,950	3,564		13,514
Net operating income gross profit for real estate segment	6,446			6,446
Home sales contribution margin		(792)		(792)
Adjustments to arrive at net income:				
Depreciation	(1,351)			(1,351)
General and administrative expenses	(904)	(324)	(5)	(1,233)
Interest expense			(2,198)	(2,198)
Interest and other income			58	58
Minority interest in earnings			(108)	(108)
Net income (loss)	\$ 4,191	\$ (1,116)	\$ (2,253)	\$ 822
Assets	\$ 412,419	\$ 23,826	\$ 4,257	\$ 440,502
Capital additions to:				
Real estate	\$ 4,194		\$	\$ 4,194
Capital replacements real estate	116			116
Capital replacements other assets	58			58
Other assets	28	24		52
Total	\$ 4,396	\$ 24	\$	\$ 4,420

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	Three months ended June 30, 2007			
	Real Estate	Home Sales	Corporate, (not allocated to segments)	Consolidated
Rental and other property revenues, net	\$ 9,553	\$	\$	\$ 9,553
Home sales revenues		7,973		7,973
Total revenues	9,553	7,973		17,526
Net operating income gross profit for real estate segment	6,085			6,085
Home sales contribution margin		(79)		(79)
Adjustments to arrive at net income:				
Depreciation	(1,227)			(1,227)
General and administrative expenses	(551)	(442)		(993)
Interest expense			(2,142)	(2,142)
Interest and other income			8	8
Income from discontinued operations	75			75
Minority interest in earnings			(188)	(188)
Net income (loss)	\$ 4,382	\$ (521)	\$ (2,322)	\$ 1,539
Assets	\$ 400,674	\$ 31,062	\$ 923	\$ 432,659
Capital additions to:				
Real estate	\$ 8,011	\$	\$	\$ 8,011
Capital replacements real estate	290			290
Capital replacements other assets	95			95
Other assets	69	27	1	97
Total	\$ 8,465	\$ 27	\$ 1	\$ 8,493

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	Six months ended June 30, 2008			
	Real Estate	Home Sales	Corporate, (not allocated to segments)	Consolidated
Rental and other property revenues, net	\$ 20,106		\$	\$ 20,106
Home sales revenues		7,464		7,464
Total revenues	20,106	7,464		27,570
Net operating income gross profit for real estate segment	13,107			13,107
Home sales contribution margin		(1,786)		(1,786)
Adjustments to arrive at net income:				
Depreciation	(2,699)			(2,699)
General and administrative expenses	(1,784)	(662)	(9)	(2,455)
Loss on early debt retirement			(1,987)	(1,987)
Interest expense			(4,446)	(4,446)
Interest and other income			102	102
Minority interest in earnings			19	19
Net income (loss)	\$ 8,624	\$ (2,448)	\$ (6,321)	\$ (145)
Assets	\$ 412,419	\$ 23,826	\$ 4,257	\$ 440,502
Capital additions to:				
Real estate	\$ 9,217			\$ 9,217
Capital replacements real estate	192			192
Capital replacements other assets	255			255
Other assets	30	58	1	89
Total	\$ 9,694	\$ 58	\$ 1	\$ 9,753

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	Six months ended June 30, 2007			
	Real Estate	Home Sales	Corporate, (not allocated to segments)	Consolidated
Rental and other property revenues, net	\$ 19,319		\$	\$ 19,319
Home sales revenues		15,713		15,713
Total revenues	19,319	15,713		35,032
Net operating income gross profit for real estate segment	12,327			12,327
Home sales contribution margin		(344)		(344)
Adjustments to arrive at net income:				
Depreciation	(2,432)			(2,432)
General and administrative expenses	(1,077)	(870)	(10)	(1,957)
Interest expense			(4,251)	(4,251)
Interest and other income			178	178
Income from discontinued operations	152			152
Minority interest in earnings			(399)	(399)
Net income (loss)	\$ 8,970	\$ (1,214)	\$ (4,482)	\$ 3,274
Assets	\$ 400,674	\$ 31,062	\$ 923	\$ 432,659
Capital additions to:				
Real estate	\$ 16,192			\$ 16,192
Capital replacements real estate	488			488
Capital replacements other assets	239			239
Other assets	135	105	6	246
Total	\$ 17,054	\$ 105	\$ 6	\$ 17,165

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I. Stock and Dividends

Dividends

ANL's common stock and preferred stock dividends are set quarterly by ANL's Board of Directors and are subject to change or elimination at any time. ANL paid quarterly dividends on common stock of \$0.25 per share totaling \$1,983,000 and \$2,004,000 for the three months ended June 30, 2008 and 2007, respectively, and \$3,947,000 and \$3,994,000 for the six months ended June 30, 2008 and 2007, respectively. ANL paid quarterly dividends on preferred stock of \$0.48 per share totaling \$485,000 and \$485,000 for the three months ended June 30, 2008 and 2007, respectively, and \$969,000 and \$969,000 for the six months ended June 30, 2008 and 2007, respectively.

The Company deducts cumulative paid and unpaid preferred stock dividends from net income to arrive at net income available to common stockholders. The Company deducted \$485,000 and \$485,000 for the three months ended June 30, 2008 and 2007, respectively, and \$969,000 and \$969,000 for the six months ended June 30, 2008 and 2007, respectively, related to cumulative paid and unpaid preferred stock dividends.

J. Stock-based Compensation

The Company's 1998 Plan provides for the issuance of up to 3,000,000 shares of common stock in the form of qualified and non-qualified stock options, stock appreciation rights, limited stock appreciation rights, restricted stock, deferred stock and performance shares to its directors, officers, employees and consultants. As of June 30, 2008, the Company has granted awards of stock options and restricted stock under the 1998 Plan. As of June 30, 2008, there was approximately \$3,808,000 of total unrecognized compensation costs related to nonvested stock-based compensation arrangements granted under the 1998 Plan. The cost is expected to be recognized over a weighted average period of 3.6 years. This expected cost does not include the impact of any future stock-based compensation awards.

The Company adopted a new stock incentive plan (2008 Plan) in April 2008, which provides for the issuance of up to 600,000 shares of common stock in the form of qualified and non-qualified stock options, stock appreciation rights, limited stock appreciation rights, restricted stock, deferred stock and performance shares to its directors, officers, employees and consultants. No shares were issued under the 2008 Plan during the six months ended June 30, 2008.

Stock Options

For the six months ended June 30, 2008 and 2007, the Company issued approximately 314,000 and 148,000 options, respectively. The Company estimates the fair value of stock options using the Black-Scholes-Merton formula and for the six months ended June 30, 2008 and 2007, the estimated weighted-average grant-date fair value of options granted was \$1.68 and \$3.68 per option, respectively.

Restricted Stock

The Company issued approximately 67,000 and 9,000 shares as time-based awards of restricted stock to members of management during the six months ended June 30, 2008 and 2007, respectively, with fair values per share of \$19.93 and \$27.02, respectively. The time-based awards of restricted stock were issued at the fair value of ANL's common stock on the date of issuance. The fair value of such restricted stock is amortized to compensation expense over the vesting period.

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The Company issued 65,000 and 65,000 shares as market-based awards of restricted stock to members of management during the six months ended June 30, 2008 and 2007, respectively. For the six months ended June 30, 2008 and 2007, the weighted average per share fair values of the market-based restricted stock was \$10.03 and \$7.38, respectively. In the event the market-based performance objectives are not attained, the market-based awards of restricted stock are forfeited, but the dividends paid are not forfeited.

The fair value of the market-based awards of restricted stock is amortized to compensation expense over the requisite service period. The requisite service period for market-based restricted stock awards granted during the six months ended June 30, 2008 and 2007 was three years for both grants. The principal terms of the market-based awards of restricted stock, also known as high performance shares (HPS Shares), are more fully described below.

The HPS Shares vest to the extent, if any, that the total return realized by stockholders during the measurement period exceeds the ten-year return for the Equity REIT Index prior to the date of grant, as reported by the National Association of Real Estate Investment Trusts. Total return is defined as the total of the closing price at year-end plus any dividends paid, less the closing price for the prior year-end. The total return for the Company is measured over a three-year period that ends on the final valuation date specified in connection with each grant of HPS Shares. To the extent that HPS Shares are not vested as of the final valuation date, such shares are forfeited and are returned to the Company. Vesting is achieved ratably on the final valuation date to the extent that excess value has been realized. In order for management's HPS Shares to vest in full at a given final valuation date, the actual total return to stockholders over the applicable three-year period is required to exceed the Equity REIT Index total return by 5% per year on a compounded basis.

The Company granted 65,000 HPS Shares in February 2008 with a final measurement date of December 31, 2010. The Equity REIT Index annual compounded total return over the trailing ten years as of December 31, 2007 was 10.5%. For the 2008 HPS Shares to fully vest, the actual total return over the three-year period is required to be 15.5%. If the actual total return is between 10.5% and 15.5%, then a ratable portion of the HPS Shares would vest (for example, one half of the HPS Shares would vest if the actual total return is 13.0%). If the actual total return does not exceed 10.5%, all of the 2008 HPS Shares would be forfeited, but none of the dividends paid during the three-year period would be forfeited.

K. Discontinued Operations

In accordance with SFAS 144, the Company reports as discontinued operations real estate assets held for sale and real estate assets sold in the current period. All results of these discontinued operations are included in a separate component of income on the consolidated statements of operations under the heading DISCONTINUED OPERATIONS.

During the year ended December 31, 2007, the Company sold an age-restricted community located in Florida with 261 home sites. The sale of this community resulted in reclassifications of 2007 financial statement amounts. The following is a summary of the components of income from discontinued operations for the three and six months ended June 30, 2008 and 2007 (in thousands):

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	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Discontinued property operations:				
Rental and other property revenues	\$	\$ 381	\$	\$ 766
Property operating expenses		(136)		(276)
Interest expense		(136)		(270)
Depreciation		(24)		(48)
Income from discontinued operations before minority interest		85		172
Minority interest expense attributed to discontinued operations		(10)		(20)
Income from discontinued operations, net of minority interest	\$	\$ 75	\$	\$ 152

As of June 30, 2008, the Company did not have any assets classified as held for sale.

L. Recent Accounting Developments

In February 2007, the FASB issued SFAS No. 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 adopted SFAS 159 on January 1, 2008. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletin No. 51* (SFAS 160). 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 SFAS No. 141 (revised 2007), *Business Combinations* (SFAS 141R). SFAS 141R replaces SFAS 141, *Business Combinations* (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 141R also establishes principles and requirements for how the acquirer: (a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities

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assumed, and any non-controlling interest in the 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 141R replaces, with limited exceptions as specified in the Statement, the cost allocation process in SFAS 141 with a fair value based allocation process. SFAS 141R 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 141R and has not yet determined the impact the adoption will have on the consolidated financial statements.

M. Subsequent Events

ANL's common stock dividend is set quarterly and is subject to change or elimination at any time. On July 29, 2008, the Board of Directors declared a quarterly cash dividend of \$0.25 per share of common stock for the quarter ended June 30, 2008, payable on August 29, 2008 to stockholders of record on August 15, 2008.

ANL's preferred stock dividend is set quarterly and is subject to change or elimination at any time. On July 29, 2008, the Board of Directors declared a cash dividend of \$0.4844 per share of Series A Preferred Stock for the quarter ended June 30, 2008, payable on August 29, 2008 to stockholders of record on August 15, 2008.

Table of Contents**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****Introduction**

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements in certain circumstances. Certain information included in this report and our other 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, opportunities to acquire additional communities and future stock repurchases. 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; demand for new homes; 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 our 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 the documents we file from time to time with the SEC. American Land Lease, Inc. assumes no obligation and does not intend to update forward-looking statements.

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

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 C to the condensed consolidated financial statements), 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 or the cessation of such activities may have a significant impact on our financial results.

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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 get the asset ready 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. We capitalized interest of \$2,194,000 and \$2,248,000 for the three months ended June 30, 2008 and 2007, respectively, and \$4,456,000 and \$4,423,000 for the six months ended June 30, 2008 and 2007, 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 for the period ended June 30, 2008, 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 \$446,000. 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 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 estate 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; plus 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

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (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

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expands disclosures about fair value measurements. SFAS 157 is effective for financial assets and financial liabilities for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued Staff Position No. 157-2, *Effective Date of FASB Statement No. 157*, which deferred the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 2008.

The implementation of SFAS 157 for financial assets and financial liabilities, effective January 1, 2008, did not have a material impact on the Company's consolidated financial position and results of operations. The Company is currently assessing the impact of SFAS 157 for nonfinancial assets and nonfinancial liabilities on its consolidated financial position and results of operations.

The estimated fair value of the Company's secured notes payable was \$260,475,000 at June 30, 2008 as compared to the carrying value of \$259,630,000 at June 30, 2008.

The aggregate fair value of cash and cash equivalents, receivables, accounts payable and accrued liabilities as of June 30, 2008 approximates their carrying value due to their relatively short-term nature.

Rental 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 estimated market value. 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, the market value of our inventory may be lower than estimated and 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 our inventory 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 June 30, 2008, \$12,370,000 of our total inventory of \$15,841,000 was older than one year. We recorded charges of approximately \$256,000 and \$68,000 for the three months ended June 30, 2008 and 2007, respectively, and \$365,000 and \$200,000 for the six months ended June 30, 2008 and 2007, respectively, to adjust inventory carrying amounts to market value. If our estimate of fair market value was overstated by 10%, we would record an additional write down to fair market value, less a normalized margin, of \$1,210,000 based upon the carrying value of inventory as of June 30, 2008.

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

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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 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.

Recent Accounting Pronouncements

In February 2007, the FASB issued SFAS No.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 adopted SFAS 159 on January 1, 2008. 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 Statements an amendment of Accounting Research Bulletin No. 51* (SFAS 160). 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. 141 (revised 2007), *Business Combinations* (SFAS 141R). SFAS 141R replaces SFAS 141, *Business Combinations*

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(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 141R 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 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 141R 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 141R 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 141R 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, 2007	7,984	1,370	1,191	129	10,674
New lots purchased		3			3
New leases originated	49	(49)			
Properties developed		100	(100)		
As of June 30, 2008	8,033 ⁽¹⁾	1,424	1,091	129	10,677

(1) As of June 30, 2008, 7,784 of these operational home sites were occupied.

Occupancy Roll Forward

	Occupied Home sites	Operational Home sites	Occupancy
As of December 31, 2007	7,748	7,984	97.0%
New home sales	57	49	
Used home sales	4		
Used homes acquired	(10)		
Homes constructed by others	1		
Homes removed from previously leased sites	(16)		
As of June 30, 2008	7,784	8,033	96.9%

Table of Contents**Operating Strategy**

One of the measures we use to analyze our economic profitability is FFO less capital replacement spending for developed home sites. For the six months ended June 30, 2008, our capital replacement spending was \$447,000, which averaged to \$48 per developed home site.

We believe that the presentation of FFO, when considered with the financial data determined in accordance with GAAP, provides a useful measure of our performance. We use FFO in measuring our operating performance because we believe that the items that result in a difference between FFO and net income have a different impact to the ongoing operating performance of a real estate company than to other businesses. FFO should not be considered an alternative to net income or net cash flows from operating activities, as calculated in accordance with GAAP, as an indication of our performance or as a measure of liquidity. FFO is not necessarily indicative of cash available to fund our cash needs, including our ability to make distributions, since FFO does not consider recurring capital expenditures, debt maturities or other capital expenditure commitments of the Company. The Board of Governors of the National Association of Real Estate Investment Trusts (NAREIT) defines FFO as net income (loss), computed in accordance with U. S. generally accepted accounting principles, excluding gains and losses from sales of property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. We calculate FFO beginning with the NAREIT definition as further adjusted for the minority interest in the Operating Partnership owned by persons other than us. Our basis of computing FFO is not necessarily comparable with that of other REITs.

For the three and six months ended June 30, 2008 and 2007, our FFO was (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net income (loss) available to common stockholders ⁽¹⁾	\$ 337	\$ 1,054	\$ (1,114)	\$ 2,305
Adjustments:				
Cumulative preferred stock dividends	485	485	969	969
Minority interest in Operating Partnership	108	188	(19)	399
Real estate depreciation	1,351	1,227	2,699	2,432
Discontinued Operations:				
Real estate depreciation attributable to discontinued operations		24		48
Minority interest in Operating Partnership attributable to discontinued operations		10		20
Funds From Operation (FFO)	2,281	2,988	2,535	6,173
Cumulative preferred stock dividends	(485)	(485)	(969)	(969)
FFO available to common stockholders	\$ 1,796	\$ 2,503	\$ 1,566	\$ 5,204
Weighted average common shares, common shares equivalents and OP Units outstanding	8,703	9,022	8,727	9,045

(1) Represents the numerator for earnings per common share calculated in accordance with GAAP

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For the six months ended June 30, 2008 and 2007, net cash flows were as follows (in thousands):

	Six Months Ended June 30,	
	2008	2007
Net cash provided by operating activities	\$ 8,854	\$ 9,419
Net cash used in investing activities	\$ (11,723)	\$ (16,981)
Net cash provided by financing activities	\$ 2,470	\$ 7,617

RESULTS OF OPERATIONS FOR THE**THREE AND SIX MONTHS ENDED JUNE 30, 2008****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 (94% of our total home sites at June 30, 2008); 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 homes 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.

Changes in the credit market may have an adverse impact on our ability to obtain additional capital needed to fund our operations.

Older homes may depreciate or become obsolete, thereby reducing the value of the property that effectively secures our lease.

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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 homeowners' policies, thereby limiting residents' ability to restore their homes to 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.

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. Beginning in 2007 and continuing in 2008, our ability to fill unoccupied sites in our land lease communities with new homes was significantly impacted by the slowdown in 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 homes and the direct and indirect impact of the turmoil in the mortgage loan market. Industry conditions deteriorated significantly during 2007 and continued in 2008. We attribute the reduction in our 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 our 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 home buyers. The weakened demand for new homes has negatively impacted our profitability, cash flow, liquidity and returns on newly leased sites.

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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 and into 2009.

Comparison of Three Months Ended June 30, 2008 to Three Months Ended June 30, 2007

Rental Property Operations

Rental and other property revenues from our owned properties totaled \$9,733,000 for the three months ended June 30, 2008 compared to \$9,334,000 for the three months ended June 30, 2007, an increase of \$399,000 or 4.3%. The increase in property operating revenue was a result of:

\$403,000 increase in base rental income driven by increases in rental rates and the origination of leases of new home sites at our development properties, and a

\$36,000 increase in the pass on of utilities to tenants correlated with the increase in utilities expenses, all offset by a

\$24,000 decrease in revenue recognized related to acquired lease obligations, and a

\$16,000 decrease in other miscellaneous income.

Golf course operating revenues totaled \$217,000 for the three months ended June 30, 2008 compared to \$219,000 for the three months ended June 30, 2007, a decrease of \$2,000 or 0.9%.

Property operating expenses from our owned properties totaled \$3,156,000 for the three months ended June 30, 2008 compared to \$3,111,000 for the same period in 2007, an increase of \$45,000 or 1.4%. The increase in property operating expenses was a result of:

\$35,000 increase in salaries, wages and benefits,

\$17,000 increase in utility expense partially correlated with an increase in billings to tenants reported as rental and other property revenue,

\$14,000 increase in property taxes, and a

\$12,000 increase in property insurance, all offset by a

\$33,000 decrease in other property level expenses.

Golf course operating expenses totaled \$348,000 for the three months ended June 30, 2008 compared to \$357,000 for the three months ended June 30, 2007, a decrease of \$9,000 or 2.5%. The decrease in operating expenses at two golf courses was partially offset by an increase at one golf course.

Depreciation expense was \$1,351,000 during the three months ended June 30, 2008 compared to \$1,227,000 during the same period in 2007. The increase was as a result of an increase in depreciable property attributable to the continued development of previously undeveloped home

sites.

Same store property revenues, a non-GAAP financial measure, for the three months ended June 30, 2008 increased by 4.8% from the three months ended June 30, 2007, consisting of a 3.1% increase from same site rental revenues and a 1.7% increase from absorption rental site revenues. Expenses related to those revenues increased 1.0% over that same period consisting of a 0.6% increase in same site rental expenses, a 0.6% increase from absorption rental site expenses and a (0.2%) decrease in golf expenses.

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Same store property net operating income, a non-GAAP financial measure, increased 6.6% for the three months ended June 30, 2008. Our same store base included 99.5% of our property operating revenues for the three months ended June 30, 2008.

We believe 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 same store operating results used in the above calculation to total operating revenues and total expenses for the three months ended June 30, 2008 and 2007, determined in accordance with U.S. generally accepted accounting principles, is reflected in the following table (in thousands):

		Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Change	% Change	Contribution to Same Store % Change ⁽¹⁾
Same site rental revenues	C	\$ 9,441	\$ 9,152	\$ 289	3.2%	3.1%
Absorption rental revenues		239	73	166	227.4%	1.7%
Same store golf revenues		217	219	(2)	(0.9)%	
Same store revenues	A	9,897	9,444	453	4.8%	4.8%
Other ancillary revenues ⁽²⁾		53	109	(56)	(51.4)%	
Total property revenues	E	\$ 9,950	\$ 9,553	\$ 397	4.2%	
Same site rental expenses	D	\$ 2,713	\$ 2,694	\$ 19	0.7%	0.6%
Absorption rental expenses		19		19	100.0%	0.6%
Same store golf expenses		348	357	(9)	(2.5)%	(0.2)%
Same store expenses	B	3,080	3,051	29	1.0%	1.0%
Expenses related to offsite management ⁽³⁾		424	417	7	1.7%	
Total property operating expenses	F	\$ 3,504	\$ 3,468	\$ 36	1.0%	
Same store net operating income	A-B	\$ 6,817	\$ 6,393	\$ 424	6.6%	
Same site net operating income	C-D	\$ 6,728	\$ 6,458	\$ 270	4.2%	
Total net operating income	E-F	6,446	\$ 6,085	\$ 361	5.9%	

⁽¹⁾ 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 2007 period. For example, same site rental revenue increase of \$289 as compared to the total same store revenues in 2007 of \$9,444 is a 3.1% increase ($\$289 / \$9,444 = 3.1\%$).

⁽²⁾ Other ancillary revenues consist of amortization of deferred income recognized related to acquired lease obligations, intercompany revenues and other miscellaneous income not attributable to land leases.

⁽³⁾ Expenses related to offsite management reflect portfolio property management costs not attributable to a specific property.

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Revenues for the home sales business totaled \$3,525,000 for the three months ended June 30, 2008 as compared to \$7,929,000 for the three months ended June 30, 2007. The decrease in revenues compared to the same period in the prior year was primarily due to decreased sales at twelve of our expansion communities. The average selling price of new homes closed was \$120,000 and \$122,000 for the three months ended June 30, 2008 and 2007, respectively. Homes sold totaled 29 for the three months ended June 30, 2008 compared to 65 homes for the three months ended June 30, 2007, a decrease of 55.4%.

A summary of our home sales activities for the three months ended June 30, 2008 and 2007 is highlighted in the following table:

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Unit Change	Percent Change
New home closings	29	65	(36)	(55.4)%
New home contracts	29	56	(27)	(48.2)%
Home resales	2	1	1	100.0%
Brokered home sales	19	18	1	5.6%
New home contract backlog ⁽¹⁾	9	48	(39)	(81.3)%

⁽¹⁾ Balance as of June 30, 2008 and 2007, respectively.

Total cost of sales for the three months ended June 30, 2008 was \$2,814,000 compared to \$5,658,000 for the three months ended June 30, 2007. Resulting margin decreases are attributable to a decrease in manufacturer rebates associated with lower purchasing, increases in costs of homes purchased, and an increase in inventory write downs pursuant to our valuation discipline as a result of lower sales volumes. Selling and marketing expense for the three months ended June 30, 2008 decreased \$856,000 from the three months ended June 30, 2007 as a result of lower commission expense associated with lower sales volumes coupled with decreased marketing expense in the current year.

We reported a loss from the home sales business of \$792,000 for the three months ended June 30, 2008 as compared to a loss of \$79,000 for the three months ended June 30, 2007.

General and Administrative Expenses

Our general and administrative expenses were \$1,233,000 for the three months ended June 30, 2008 and \$993,000 for the three months ended June 30, 2007. The \$240,000 increase in expense was a result of:

\$145,000 increase in salaries, wages and benefits,

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\$54,000 increase in stock based compensation expense,

\$26,000 increase in regulatory compliance and public company reporting costs,

\$8,000 increase in acquisition costs, and a

\$7,000 increase in professional fees.

Interest and Other Income

During the three months ended June 30, 2008 and 2007, interest and other income were \$58,000 and \$8,000, respectively. The increase of \$50,000 was a result of interest earned on a construction loan made to an unaffiliated home builder during 2008, which did not occur in 2007.

Interest Expense

During the three months ended June 30, 2008 and 2007, interest expense was \$2,198,000 and \$2,142,000, respectively, which was net of capitalized interest of \$2,194,000 and \$2,248,000, respectively. The increase is primarily a result of higher outstanding balances offset by decreased interest rates on variable rate debt carried by us.

Cumulative Preferred Stock Dividends

During the three months ended June 30, 2008 and 2007, cumulative preferred stock dividends were \$485,000 and \$485,000, respectively.

Comparison of Six Months Ended June 30, 2008 to Six Months Ended June 30, 2007

Rental Property Operations

Rental and other property revenues from our owned properties totaled \$19,450,000 for the six months ended June 30, 2008 compared to \$18,670,000 for the six months ended June 30, 2007, an increase of \$780,000 or 4.2%. The increase in property operating revenue was a result of:

\$811,000 increase in base rental income driven by increases in rental rates and the origination of leases of new home sites at our development properties,

\$107,000 increase in the pass on of utilities to tenants correlated with the increase in utilities expenses,

\$35,000 increase in rents for recreational vehicle sites, all offset by a

\$121,000 decrease in revenue recognized related to acquired lease obligations,

\$27,000 decrease in the pass on of property tax allocations to tenants, and a

\$25,000 decrease in other miscellaneous income.

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Golf course operating revenues totaled \$656,000 for the six months ended June 30, 2008 compared to \$649,000 for the six months ended June 30, 2007, an increase of \$7,000 or 1.1%. Golf revenues increased at one community and decreased at two communities that have adjacent golf courses.

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Property operating expenses from our owned properties totaled \$6,319,000 for the six months ended June 30, 2008 compared to \$6,300,000 for the same period in 2007, an increase of \$19,000 or 0.3%. The increase in property operating expenses was a result of:

\$40,000 increase in salaries, wages and benefits,

\$32,000 increase in utility expense partially correlated with an increase in billings to tenants reported as rental & other property revenue,

\$27,000 increase in property taxes, and a

\$25,000 increase in property insurance, all offset by a

\$50,000 decrease in legal fees,

\$23,000 decrease in repairs and maintenance costs,

\$21,000 decrease in other property level expenses, and a

\$11,000 decrease in property operating overhead.

Golf course operating expenses totaled \$680,000 for the six months ended June 30, 2008 compared to \$692,000 for the six months ended June 30, 2007, a decrease of \$12,000 or 1.7%. Golf expenses decreased at one community and increased at two communities that have adjacent golf courses.

Depreciation expense was \$2,699,000 during the six months ended June 30, 2008 compared to \$2,432,000 during the same period in 2007. The increase was as a result of an increase in depreciable property attributable to the continued development of previously undeveloped home sites.

Same store property revenues, a non-GAAP financial measure, for the six months ended June 30, 2008 increased by 5.2% from the six months ended June 30, 2007, consisting of a 3.1% increase from same site rental revenues, a 2.0% increase from absorption rental site revenues and a 0.1% increase from golf revenues. Expenses related to those revenues increased 0.2% over that same period consisting of a 0.2% increase in same site rental expenses, a 0.2% increase from absorption rental site expenses and a 0.2% decrease in golf expenses. Same store property net operating income, a non-GAAP financial measure, increased 7.5% for the six months ended June 30, 2008. Our same store base included 99.5% of our property operating revenues for the six months ended June 30, 2008.

We believe 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 same store operating results used in the above calculation to total operating revenues and total expenses for the six months ended June 30, 2008 and 2007, determined in accordance with U.S. generally accepted accounting principles, is reflected in the following table (in thousands):

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		Six Months Ended June 30, 2008	Six Months Ended June 30, 2007	Change	% Change	Contribution to Same Store % Change ⁽¹⁾
Same site rental revenues	C	\$ 18,940	\$ 18,341	\$ 599	3.3%	3.1%
Absorption rental revenues		467	86	381	443.0%	2.0%
Same store golf revenues		656	649	7	1.1%	0.1%
Same store revenues	A	20,063	19,076	987	5.2%	5.2%
Other ancillary revenues ⁽²⁾		43	243	(200)	(82.3)%	
Total property revenues	E	\$ 20,106	\$ 19,319	\$ 787	4.1%	
Same site rental expenses	D	\$ 5,418	\$ 5,405	\$ 13	0.2%	0.2%
Absorption rental expenses		13		13	100.0%	0.2%
Same store golf expenses		680	692	(12)	(1.7)%	(0.2)%
Same store expenses	B	6,111	6,097	14	0.2%	0.2%
Expenses related to offsite management ⁽³⁾		888	895	(7)	(0.8)%	
Total property operating expenses	F	\$ 6,999	\$ 6,992	\$ 7	0.1%	
Same store net operating income	A-B	\$ 13,952	\$ 12,979	\$ 973	7.5%	
Same site net operating income	C-D	13,522	12,936	586	4.5%	
Total net operating income	E-F	\$ 13,107	\$ 12,327	\$ 780	6.3%	

⁽¹⁾ 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 2007 period. For example, same site rental revenue increase of \$599 as compared to the total same store revenues in 2007 of \$19,076 is a 3.1% increase ($\$599 / \$19,076 = 3.1\%$).

⁽²⁾ Other ancillary revenues consist of amortization of deferred income recognized related to acquired lease obligations, intercompany revenues and other miscellaneous income not attributable to land leases.

⁽³⁾ Expenses related to offsite management reflect portfolio property management costs not attributable to a specific property.

Home Sales Operations

Revenues for the home sales business totaled \$7,380,000 for the six months ended June 30, 2008 as compared to \$15,594,000 for the six months ended June 30, 2007. The decrease in revenues compared to the same period in the prior year was primarily due to decreased sales at fourteen of our expansion communities. The average selling price of new homes closed was \$130,000 and \$128,000 for the six months ended June 30, 2008 and 2007, respectively, an increase of 1.6%. Homes sold totaled 57 for the six months ended June 30, 2008 compared to 120 homes for the six months ended June 30, 2007, a decrease of 52.5%.

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A summary of our home sales activities for the six months ended June 30, 2008 and 2007 is highlighted in the following table:

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007	Unit Change	Percent Change
New home closings	57	120	(63)	(52.5)%
New home contracts	52	152	(100)	(65.8)%
Home resales	4	4		
Brokered home sales	41	49	(8)	(16.3)%
New home contract backlog ⁽¹⁾	9	48	(39)	(81.3)%

⁽¹⁾ Balance as of June 30, 2008 and 2007, respectively.

Total cost of sales for the six months ended June 30, 2008 was \$5,651,000 compared to \$11,291,000 for the six months ended June 30, 2007. Resulting margin decreases are attributable to a decrease in manufacturer rebates associated with lower purchasing, increases in costs of homes purchased, and an increase in inventory write downs pursuant to our valuation discipline as a result of lower sales volumes partially offset by increases attributable to increased selling prices. Selling and marketing expenses for the six months ended June 30, 2008 decreased \$1,155,000 from the six months ended June 30, 2007 as a result of lower commission expense associated with lower sales volumes coupled with decreased marketing expense in the current year.

We reported a loss from the home sales business of \$1,786,000 for the six months ended June 30, 2008 as compared to a loss of \$344,000 for the six months ended June 30, 2007.

General and Administrative Expenses

Our general and administrative expenses were \$2,455,000 for the six months ended June 30, 2008 and \$1,957,000 for the six months ended June 30, 2007. The \$498,000 increase in expense was a result of:

\$245,000 increase in salaries, wages and benefits,

\$111,000 increase in acquisition costs,

\$80,000 increase in regulatory compliance and public company reporting costs,

\$37,000 increase in various other costs, and a

\$25,000 increase in stock-based compensation expense.

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Interest and Other Income

During the six months ended June 30, 2008 and 2007, interest and other income were \$102,000 and \$178,000, respectively. The decrease of \$76,000 was a result of a one-time fee paid to us for delays caused by a prior owner of a community in first quarter 2007 offset by interest earned on a construction loan made to an unaffiliated home builder.

Interest Expense

During the six months ended June 30, 2008 and 2007, interest expense was \$4,446,000 and \$4,251,000, respectively, which was net of capitalized interest of \$4,456,000 and \$4,423,000, respectively. The increase is primarily a result of higher outstanding balances offset by decreased interest rates on variable rate debt carried by us.

Loss on Early Debt Retirement

The Company incurred a \$1,987,000 prepayment fee associated with refinancing three loans during the six months ended June 30, 2008. There were no such fees incurred in 2007.

Cumulative Preferred Stock Dividends

During the six months ended June 30, 2008 and 2007, cumulative preferred stock dividends were \$969,000 and \$969,000, respectively.

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.

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.

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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 41 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.

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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 our Annual Report for the year ended December 31, 2007. We undertake no obligation to update such projections to reflect events or circumstances occurring after the date of this report.

The leases facilitated by the home sales business during the three months ended June 30, 2008 and 2007 are estimated to provide a stabilized first year return on investment of 4.3% and 7.0%, respectively. These returns are shown on the following table and are based upon unaudited projected information. This compares to our realized returns from operational home sites of 8.3% for the year ended December 31, 2007. The decrease in return on expansion home sites is driven primarily by (i) the decreased profitability of our home sales business resulting from fewer home sales over which the fixed costs are allocated, and (ii) increases in the per site cost of development. Our future returns are dependent upon a number of factors including changes in the per site cost of development, changes in 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 first year return from leases originated on expansion home sites for three months ended June 30, 2008 and 2007 is shown on the following table (in thousands, except expansion sites leased):

		Three Months Ended June 30, 2008	Three Months Ended June 30, 2007
Expansion sites leased during the period		29	60
Estimated stabilized first year profit on leases originated during the period	A	\$ 106	\$ 191
Allocated costs, including development costs of sites leased		\$ 1,648	\$ 2,636
Home sales loss attributable to sites leased		814	110
Total costs incurred to originate ground leases	B	\$ 2,462	\$ 2,746
Estimated stabilized first year returns from the leases originated on expansion home sites during the period	A/B	4.3%	7.0%

For the three months ended June 30, 2008 and 2007, we estimate our profit or loss attributable to the sale of homes situated on expansion home sites as follows (in thousands):

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007
Reported loss from sales operations	\$ (792)	\$ (79)
Brokerage business income	(16)	(25)
Used home sales	(6)	(6)
Adjusted (loss) income for projection analysis	\$ (814)	\$ (110)

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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.

Comparison of the Six Months Ended June 30, 2008 and 2007

The leases facilitated by the home sales business during the six months ended June 30, 2008 and 2007 are estimated to provide a stabilized first year return on investment of 4.6% and 6.7%, respectively. These returns are shown on the following table and are based upon unaudited projected information. This compares to our realized returns from operational home sites of 8.3% for the year ended December 31, 2007. The decrease in return on expansion home sites is driven primarily by (i) the decreased profitability of our home sales business resulting from fewer home sales over which the fixed costs are allocated, and (ii) increases in the per site cost of development. Our future returns are dependent upon a number of factors including changes in the per site cost of development, changes in 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 first year return from leases originated on expansion home sites for the six months ended June 30, 2008 and 2007 is shown in the following table (in thousands, except expansion sites leased):

		Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Expansion sites leased during the period		56	113
Estimated stabilized first year profit on leases originated during the period	A	\$ 226	\$ 366
Allocated costs, including development costs of sites leased		\$ 3,099	\$ 5,032
Home sales loss attributable to sites leased		1,846	471
Total costs incurred to originate ground leases	B	\$ 4,945	\$ 5,503
Estimated stabilized first year returns from the leases originated on expansion home sites during the period	A/B	4.6%	6.7%

For the six months ended June 30, 2008 and 2007, we estimate our profit or loss attributable to the sale of homes situated on expansion home sites as follows (in thousands):

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Reported loss from sales operations	\$ (1,786)	\$ (344)
Brokerage business income	(42)	(65)
Used home sales	(18)	(62)
Adjusted loss for projection analysis	\$ (1,846)	\$ (471)

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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 projected first year return from leases originated on expansion home sites, a projection, to our return on investment in operational home sites for the year ended December 31, 2007 in accordance with GAAP is shown in the following table (in thousands):

		Total Portfolio for Year Ended December 31, 2007
Property income before depreciation ¹	A	\$ 24,686
Total investment in operational home sites ¹	B	\$ 295,821
Return on investment from earning home sites ¹	A/B	8.3%

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

	December 31, 2007
Rental and other property revenues	\$ 38,651
Property operating expenses	(13,965)
Property income before depreciation (A)	\$ 24,686
Real estate assets, net	\$ 399,517
Add: Accumulated depreciation	31,842
Less: Real estate under development	(122,403)
Less: Cost of home sites ready for intended use	(13,135)
Investment in operational sites (B)	\$ 295,821
Return on investment in operational sites (A/B) ¹	8.3%

¹ Our return on investment in operational sites reflects our income from and investment in sites that were leased for the first time during the year ended December 31, 2007. For these leases, the income reported above includes less than a full twelve months of operating results. Consequently, when compared to the investment we have made in these home sites, the return on investment during the year ended December 31, 2007 is less than the return when measured using a full twelve months of operating results.

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LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2008, we had cash and cash equivalents of \$142,000. Our principal activities that demand liquidity include our normal operating activities, development expenditures, payments of principal and interest on outstanding debt, acquisitions of and additional investments in properties, and payments of distributions to preferred and common stockholders and OP Unit holders. We expect to utilize cash provided by operating activities and short-term borrowings to meet short-term liquidity demands. We expect to meet our long-term liquidity requirements, such as debt maturities and property acquisitions, through long-term borrowings, both secured and unsecured, the issuance of debt or equity securities (including OP Units or other partnership interests), the sales of properties and cash generated from operations.

In the event that economic downturn continues and the cash provided by operating activities is reduced or if access to short-term borrowing sources becomes restricted, the Company may be required to reduce or eliminate expenditures for the continued development of its communities and/or reduce or eliminate its preferred and common dividend.

We have a revolving line of credit with a bank with a total commitment of \$16,000,000 that bears interest at 175 basis points over the one-month LIBOR rate (4.2% at June 30, 2008). The line of credit is secured by real property and improvements located in St. Lucie, Lake, and Pasco Counties, Florida and Maricopa County, Arizona with a net book value of \$44,067,000. The revolving line of credit matures on December 31, 2008. At June 30, 2008, \$4,600,000 was outstanding and \$11,400,000 was not drawn under the revolving line of credit. The availability of funds to the Company under the line of credit is subject to certain borrowing base and other customary restrictions, including compliance with financial and other covenants thereunder. Based on the application of the borrowing base calculation, as of June 30, 2008, \$8,392,000 was available to the Company. The line of credit also includes certain financial covenants that require the Company to maintain a tangible net worth (as defined by lender) of \$150,000,000 and to maintain a debt to adjusted tangible net worth ratio (as defined by lender) of not more than 1.75 to 1.0, among others. The Company believes it was in compliance with all financial covenant requirements under this revolving line of credit at June 30, 2008.

We have a floor plan line of credit with a floor plan lender providing a committed credit facility of \$35,000,000 with a variable interest rate linked to the lender's prime rate, with a floor of 5.25%, plus 25 basis points (5.5% at June 30, 2008). Individual advances mature the earlier of 1,080 days or upon sale of the home to a third party. The floor plan line of credit is partially recourse to the Company and at June 30, 2008, \$2,250,000 of the outstanding balance under the floor plan was recourse to the Company. This floor plan line of credit is secured by inventory located in the Company's residential land lease communities with a carrying value of approximately \$14,330,000. The financial covenants of the floor plan line of credit require the Company to maintain a tangible net (as defined by lender) worth of \$150,000,000 and to maintain a debt to adjusted tangible net worth (as defined by lender) ratio of not more than 1.75 to 1.0, among others. The Company believes it was in compliance with all financial

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covenant requirements under this floor plan facility at June 30, 2008. The floor plan lender's commitment to fund future inventory purchases expires in September 2009. At June 30, 2008, \$16,619,000 was outstanding, and approximately \$18,831,000 was available under the floor plan facility.

Our ability to access secured and unsecured borrowings as a source of liquidity is dependent upon factors outside of our control including economic trends that impact the availability of credit from lending sources we currently utilize. Our ability to issue additional equity in the form of equity securities (including the issuance by the Operating Partnership of OP Units) is dependent upon certain factors outside of our control, including returns available on alternative investments and other economic factors. The amount of cash generated by our operations is dependent upon our ability to operate the existing portfolio of revenue earning sites and to originate new earning sites through new lease originations generated by our home sales business. Our ability to generate cash through the operation of the current portfolio is dependent upon the costs we pay to acquire the goods and services required to operate the portfolio, the absence of natural disasters, such as hurricanes, that would disrupt the flow of rental income for an undeterminable time period and other factors. Our ability to generate cash through the origination of new earning sites is dependent upon our ability to market effectively to our target market customers, to originate contracts for sale of homes at our properties, thereby generating income producing leases and to develop the undeveloped land within our portfolio in a timely fashion, and on a cost effective basis. Our ability to generate cash through the origination of new earning sites is dependent on market factors as well, including demand for new homes.

Operating Activities

Our net cash provided by operating activities was \$8.9 million during the six months ended June 30, 2008 compared to \$9.4 million during the same period in 2007. The \$0.5 million decrease was primarily the result of:

\$1.3 million decrease in home sales earnings due to lower sales volumes,

\$0.5 million increase in general and administrative costs,

\$0.2 million increase in interest costs,

\$0.1 million decrease in income from discontinued operations,

\$1.6 million decrease in other assets and other liabilities, all offset by a

\$0.8 million increase in property operating income,

\$2.4 million decrease in cash used to fund inventory in 2008 as compared to cash used to fund inventory decreases in 2007.

Investing Activities

During the six months ended June 30, 2008, the net cash used in investing activities was \$11.7 million, compared with \$17.0 million net cash used during the same period in 2007. The \$5.3 million decrease in net cash used for investing activities is primarily the result of:

\$7.3 million decrease in expenditures for capital replacements, development and improvements in the 2008 period as compared to the 2007 period, offset by a

\$2.0 million increase in construction loan advances.

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Financing Activities

Net cash provided by financing activities was \$2.5 million for the six months ended June 30, 2008 compared with net cash provided during the same period in 2007 of \$7.6 million.

The \$5.1 million decrease in cash provided by financing activities is primarily the result of:

Decreases

\$15.8 million increase in principal payments on secured notes payable,

\$13.4 million increase in payments on secured credit facilities,

\$6.2 million decrease in proceeds from secured credit facilities,

\$1.9 million increase in payments on early extinguishment of debt, and a

\$0.2 million decrease in proceeds from stock options exercised, all offset by a

Increases

\$32.4 million increase in proceeds from secured notes payable.

Dividends and Distributions

Our dividends on common and preferred stock are set quarterly by the Board of Directors and are subject to change or elimination at any time. Our primary financial objective is to maximize long term, risk adjusted returns on investment for common stockholders. 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 our profitability, capital expenditure plans, obligations related to principal payments and capitalized interest, and the availability of debt and equity capital at terms deemed attractive by us to finance these expenditures. Our Board of Directors has and will continue to consider the downturn in new home sales in the context of its quarterly review and dividend decision. In addition, the Board of Directors may consider the Company's dividend policy as a part of its previously announced review of strategic alternatives. Our net operating loss 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.

Historically, the combination of dividend payments, capital expenditures, capitalized interest and debt repayment has exceeded funds provided from operating activities, and we have funded a portion of these expenditures from debt financings. However, there is no assurance that we will be able to continue to do so on terms deemed acceptable in the future. In the event that we are unable to do so or decide not to pursue such financing, we will be required to reduce or eliminate dividends, reduce or eliminate capital expenditures, or both.

The Board of Directors authorized the Company to repurchase up to 2,000,000 shares of the outstanding common stock. During the three months ended June 30, 2008, the Company repurchased 0 shares of the outstanding common stock and has repurchased a total of approximately 812,000 shares pursuant to this authorization. The Company has and will continue to evaluate this investment opportunity in the context of its primary financial objective to maximize long term, risk adjusted returns on investment for common stockholders.

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Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our principal exposure to market risk is changes in interest rates relating to our various debt instruments and borrowings. As compared to the six months ended June 30, 2007, our exposure to changes in interest rates at June 30, 2008 for repricing and refunding as to unpaid principal balances (i) increased from \$179.0 million to \$193.0 million for partially amortizing secured notes payable; (ii) increased from \$11.4 million to \$22.1 million for variable rate secured notes payable; (iii) decreased from \$20.5 million to \$16.6 million for variable rate secured floor plan facility; and (iv) decreased from \$9.5 million to \$4.6 million for variable rate secured mortgage credit facility. The following is a discussion of the potential impact of changes in interest rates on our debt instruments at June 30, 2008.

We have \$7.7 million of fixed rate, fully amortizing, non-recourse, secured notes payable. We do not have exposure to changing interest rates on these notes as the rates are fixed and the notes are fully amortizing.

We have \$229.9 million of fixed rate, partially amortizing, non-recourse, secured notes payable. We do not have significant exposure to changes in interest rates since the interest rates are fixed. We have repricing and refunding risks as to the unpaid balance on these notes of \$193.0 million due at maturity between 2013 and 2021, with an average maturity of 9.2 years.

We have \$22.1 million interest only, non-recourse, secured notes payable. These variable rate loans bear interest at the three-month LIBOR rate plus 1.15 and 1.75 basis points, respectively. If LIBOR increased immediately by 1%, then our annual income before minority interest in the Operating Partnership and cash flows would decrease by \$221,000 due to an increase in interest expense based on the outstanding balance at June 30, 2008. We have repricing and refunding risks as to the unpaid balance due at maturity of these notes of \$22.1 million due at maturity between 2011 and 2012, with an average maturity of 3.6 years.

We have a revolving line of credit with a bank that bears interest at 175 basis points over the one-month LIBOR rate. If the LIBOR rate increased immediately by 1%, then our annual income before minority interest in the Operating Partnership and cash flows would decrease by \$46,000 due to an increase in interest expense on this line of credit, based on the approximately \$4.6 million outstanding balance at June 30, 2008. We have repricing and refunding risks as to the unpaid balance due at the maturity of this note in December 2008.

We have a secured floor plan facility that bears interest at the lender's prime rate plus 25 basis points. If the lender's prime rate increased immediately by 1%, then our annual income before minority interest in the Operating Partnership and cash flows would decrease by \$166,000 due to an increase in interest expense on this line of credit, based on the approximately \$16.6 million outstanding balance at June 30, 2008. We have repricing and refunding risks as to the unpaid balance due at the maturity of this note.

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Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our senior management, including our chief executive officer, chief operating officer and chief financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this quarterly report (the evaluation date). Based upon this evaluation, our chief executive officer, chief operating officer, and chief financial officer concluded as of the evaluation date that our disclosure controls and procedures were effective such that the information relating to American Land Lease, including our consolidated subsidiaries, required to be disclosed in our SEC filings (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to American Land Lease's management, including our chief executive officer, chief operating officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting during the three months ended June 30, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II.

OTHER INFORMATION

Item 1A. RISK FACTORS

The formal strategic alternatives process initiated by the Company may not result in a completed transaction.

The Company has commenced a formal process to pursue strategic alternatives that may include the sale of some assets, all of its assets or other sale transaction. The Company is seeking proposals from interested parties. There can be no assurance that the initiation of a formal process will result in the completion of any transaction.

Additionally, the results of this strategic alternatives process may affect the Company's stock price. To the extent that the market price reflects an assumption that such a transaction would be completed or the decision by the Company to continue the Company's current business, the Company's stock price may be affected.

The formal process to pursue strategic alternatives may divert management attention and the Company may not be able to retain key personnel.

The formal process initiated by the Company to pursue strategic alternatives may require management to divert some of its focus from the day to day operations of the business. Additionally, the Company may not be able to retain key personnel, who may choose to leave the Company as a result of the uncertainty created by or the outcome of the formal process. A significant diversion of management focus from the day to day operations of the business or the loss of key personnel could have an adverse impact on the Company's results of operations.

The formal strategic alternatives process initiated by the Company may negatively affect home sales.

The formal process initiated by the Company to pursue strategic alternatives may cause potential homebuyers to defer their purchase until resolution of the process or to purchase elsewhere. One of the components of the home sales process has been the presence of the Company as the operator of the community. To the extent that the strategic process creates uncertainty in the view of the buyer, they may choose to defer their purchase until future community ownership is clear. During this period they may elect to make their home purchase at a community where the community ownership is not currently under review.

Consummation of a strategic transaction may impact our future financial condition or results of operations.

If the formal process initiated by the Company to pursue strategic alternatives results in the consummation of a strategic transaction, it may impact our future financial condition or results of operations. For example, if the Company consummates a sale of a portion of its assets as a result of the strategic process, the sale of those assets, receipt of the proceeds of the sale and subsequent loss of any

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related income would impact our future results of operations. The net impact of any such sale on our results of operations is difficult to predict due to the number of uncertain variables involved. Our previously disclosed financial projections and earnings guidance and, unless otherwise stated, the forward-looking statements in this report and in other disclosures by the Company assume that we will continue to operate our business in its current form. Accordingly, the consummation of a strategic transaction, if any, could impact those projections, guidance and forward-looking statements.

For a discussion of additional potential risks or uncertainties, please see Part I, Item 1A., of the Company's 2007 Annual Report on Form 10-K for the fiscal year ended December 31, 2007, filed with the Securities and Exchange Commission on March 11, 2008.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

We held our annual meeting of stockholders on April 30, 2008. At the annual meeting, the stockholders elected Thomas L. Rhodes and Bruce E. Moore as Class III directors, each to serve until the 2011 annual meeting of stockholders and until his respective successor is duly elected and shall have qualified.

Additionally, at the annual meeting, the stockholders approved the following proposals by the votes indicated below:

1. Proposal to ratify the selection of Ernst & Young LLP, to serve as our independent registered public accounting firm for the fiscal year ending December 31, 2008:

Votes For	Votes Against	Abstentions	Broker Non-Votes
7,000,053	15,741	24,822	

2. Proposal to approve the American Land Lease, Inc. 2008 Stock Award and Incentive Plan:

Votes For	Votes Against	Abstentions	Broker Non-Votes
3,587,787	1,187,390	49,055	2,216,384

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Item 6. EXHIBITS

Exhibit No. Description

- 3.1 Third Amended and Restated Certificate of Incorporation of American Land Lease, Inc. (incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, dated May 4, 2005 and filed on May 4, 2005).
- 3.2 Fourth Amended and Restated By-laws of American Land Lease, Inc. (incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, dated April 4, 2005 and filed on April 5, 2005).
- 31.1 Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of COO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.3 Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of CEO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 furnished herewith.
- 32.2 Certification of COO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 furnished herewith.
- 32.3 Certification of CFO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 furnished herewith.

SIGNATURES

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

AMERICAN LAND LEASE INC.
(Registrant)

Date: August 7, 2008

By /s/ Shannon E. Smith
Shannon E. Smith
Chief Financial Officer