

AFFORDABLE RESIDENTIAL COMMUNITIES INC
Form DEFM14A
June 18, 2007

Use these links to rapidly review the document

[TABLE OF CONTENTS](#)
[TABLE OF CONTENTS 2](#)
[TABLE OF CONTENTS](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

AFFORDABLE RESIDENTIAL COMMUNITIES INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:
N/A

(2) Aggregate number of securities to which transaction applies:
N/A

(3)

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Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

ý Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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AFFORDABLE RESIDENTIAL COMMUNITIES INC.

**7887 E. Belleview Ave., Suite 200
Englewood, Colorado 80111
(303) 383-7500**

To Our Stockholders:

You are cordially invited to attend a special meeting of stockholders of Affordable Residential Communities Inc., a Maryland corporation, which will be held on July 27, 2007, at 9:00 a.m., local Denver, Colorado time, at the Wyndham Hotel Denver Tech Center, 7675 E. Union Avenue, Denver, CO 80237, and any adjournments or postponements thereof.

At the special meeting, you will be asked to:

consider and vote upon a proposal to approve the sale of substantially all of our assets, including the operating assets used in our manufactured home communities business and our retail sales and financing businesses, but excluding our recently acquired insurance subsidiary, NLASCO, Inc., pursuant to the Transaction Agreement, dated as of April 17, 2007, by and among Affordable Residential Communities Inc., Affordable Residential Communities LP, the other seller parties named in the Transaction Agreement and American Riverside Communities LLC, an affiliate of Farallon Capital Management, L.L.C.;

consider and vote upon a proposal to approve any motion to adjourn or postpone the special meeting to a later date to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve the foregoing proposal; and

transact any other business as may properly come before the special meeting or any adjournments or postponements of the special meeting.

More information about the asset sale is contained in the accompanying proxy statement, which we strongly encourage you to read in its entirety. A copy of the Transaction Agreement is attached as Annex A to the proxy statement.

After careful consideration, our board of directors has approved the Transaction Agreement and asset sale and has determined that it is in the best interest of ARC and ARC stockholders that we enter into the Transaction Agreement and consummate the asset sale. The asset sale cannot be completed unless, among other things, it is approved by the affirmative vote of holders of shares of our common stock and special voting stock entitled to cast at least a majority of all votes entitled to be cast on the matter at our special meeting, voting as a single class.

Our board of directors recommends that you vote "FOR" each proposal set forth above.

Your vote is important. Please read the proxy statement and the voting instructions on the enclosed proxy card. Then, whether or not you plan to attend the special meeting in person, and no matter how many shares of voting securities you own, please authorize a proxy by telephone, by

Internet or by signing, dating and promptly returning the enclosed proxy card in the enclosed envelope, which requires no additional postage if mailed in the United States.

Sincerely,

Larry D. Willard
Chairman of the Board and Chief Executive Officer

The transactions contemplated by the Transaction Agreement have not been approved or disapproved by the Securities and Exchange Commission or any state securities commission. Neither the Securities and Exchange Commission nor any state securities commission has passed upon the merits or fairness of the transactions contemplated by the Transaction Agreement or upon the adequacy or accuracy of the information contained in this proxy statement. Any representation to the contrary is a criminal offense.

This proxy statement is dated June 18, 2007 and is first being mailed to stockholders of record on or about June 22, 2007.

AFFORDABLE RESIDENTIAL COMMUNITIES INC.

**7887 E. Belleview Ave., Suite 200
Englewood, Colorado 80111
(303) 383-7500**

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS TO BE HELD JULY 27, 2007

A special meeting of the stockholders of Affordable Residential Communities Inc. will be held at the Wyndham Hotel Denver Tech Center, 7675 E. Union Avenue, Denver, CO 80237, on July 27, 2007 at 9:00 a.m., local Denver, Colorado time, to:

consider and vote upon a proposal to approve the sale of substantially all of our assets, including the operating assets used in our manufactured home communities business and our retail sales and financing businesses, but excluding our recently acquired insurance subsidiary, NLASCO, Inc., pursuant to the Transaction Agreement, dated as of April 17, 2007, by and among Affordable Residential Communities Inc., Affordable Residential Communities LP, the other seller parties named in the Transaction Agreement and American Riverside Communities LLC, an affiliate of Farallon Capital Management, L.L.C.;

consider and vote upon a proposal to approve any motion to adjourn or postpone the special meeting to a later date to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve the foregoing proposal; and

to transact any other business as may properly come before the special meeting or any adjournments or postponements of the special meeting.

For more information about the asset sale and the other transactions contemplated by the Transaction Agreement, we strongly encourage you to review the accompanying proxy statement and the Transaction Agreement attached as Annex A to the proxy statement, as well as the other information referenced herein.

After careful consideration, our board of directors has approved the Transaction Agreement and the asset sale, has determined that the asset sale is in the best interest of ARC and ARC stockholders and recommends that you vote "FOR" each proposal set forth above.

Only holders of our common stock and our special voting stock of record at the close of business on July 13, 2007, the record date for the special meeting, may vote at the special meeting and any adjournments or postponements of the special meeting.

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Your vote is important. Please read the proxy statement and the voting instructions on the enclosed proxy card. Then, whether or not you plan to attend the special meeting in person, and no matter how many shares of voting securities you own, please authorize a proxy by telephone, by Internet, or by signing, dating and promptly returning the enclosed proxy card in the enclosed envelope, which requires no additional postage if mailed in the United States.

By Order of the Board of Directors,

Scott L. Gesell
Executive Vice President, General Counsel
and Corporate Secretary

June 18, 2007
Englewood, Colorado

TABLE OF CONTENTS

SUMMARY TERM SHEET

The Companies
Description of the Assets to be Sold
Description of Liabilities to be Assumed by Buyer
Description of the Assets to be Retained by ARC
Description of Liabilities to be Retained by ARC
Purchase Price
Use of Proceeds
Reasons for the Asset Sale
Recommendation of Our Board of Directors
Opinion of Our Financial Advisor
Vote Required to Approve the Proposals
Covenants
Employee Matters
Tax Matters
Conditions to Completion of the Asset Sale
Termination of the Transaction Agreement
Termination Fees; Expense Reimbursement
Indemnification
Interests of Certain Directors and Executive Officers in the Asset Sale
Tax Consequences of the Asset Sale
No Appraisal Rights
Regulatory Approvals

QUESTIONS AND ANSWERS ABOUT THE ASSET SALE, THE TRANSACTION AGREEMENT AND THE SPECIAL MEETING

THE SPECIAL MEETING OF ARC STOCKHOLDERS

SUMMARY OF SELECTED HISTORICAL AND PRO FORMA FINANCIAL INFORMATION

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

ASSET SALE RISK FACTORS

INFORMATION ABOUT THE COMPANIES AND THE ASSET SALE

The Companies
Terms of the Transaction Agreement
Use of Proceeds
Background of the Asset Sale
Reasons for the Asset Sale
Recommendation of Our Board of Directors
Opinion of Our Financial Advisor
Vote Required to Approve the Asset Sale and the Transaction Agreement and Other Proposals; Stockholder Support Agreement
Nature of Our Business After the Asset Sale
Interests of Certain Directors and Executive Officers in the Asset Sale
Tax Consequences of the Asset Sale
No Appraisal Rights

Regulatory Approvals

Other Agreement

THE TRANSACTION AGREEMENT

Description of Assets to be Sold and Retained

Description of Liabilities to be Assumed and Retained

Purchase Price

Purchase Price Adjustments

Closing and Effective Time

Change in Transaction Structure

Delayed Acquired Assets

Representations and Warranties

Representations and Warranties of Sellers

Sellers' Representations and Warranties as to the Acquired Companies and the Acquired Assets

Representations and Warranties of Buyer

Covenants

Employee Matters

Tax Matters

Closing Conditions

Termination of the Transaction Agreement

Termination Fees; Expense Reimbursement

Indemnification

PRICE RANGE OF STOCK AND DIVIDEND INFORMATION

ADJOURNMENT OR POSTPONEMENT OF THE SPECIAL MEETING

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

BUSINESS, PROPERTIES AND LEGAL PROCEEDINGS

Business Overview

Recent Events

Employees

Properties

Legal Proceedings

STOCKHOLDER PROPOSALS

WHERE YOU CAN FIND MORE INFORMATION

INCORPORATION OF DOCUMENTS BY REFERENCE

OTHER MATTERS

ANNEXES

[Annex A](#)

[Annex B](#)

[Annex C](#)

[Annex D](#)

[Annex E](#)

SUMMARY TERM SHEET

This summary highlights selected information from this proxy statement and the Transaction Agreement and may not contain all of the information about the asset sale that is important to you. To understand the asset sale fully and for a more complete description of the legal terms of the asset sale, you should carefully read this proxy statement, the Transaction Agreement, the Support Agreement, the opinion of Sandler O'Neill & Partners, L.P. and the other documents to which this proxy statement refers you in their entirety.

The Companies (page 25)

The parties to the Transaction Agreement are Affordable Residential Communities Inc., a Maryland corporation ("ARC" or "the company"), Affordable Residential Communities LP, a Delaware limited partnership, ARC Dealership, Inc., a Colorado corporation ("ARC Dealership"), ARC Management Services, Inc., a Delaware corporation, ARCIV GV, Inc., a Delaware corporation, ARCMS, Inc., a Delaware corporation, ARC TRS, Inc., a Delaware corporation, Salmaho Irrigation Co., a Utah corporation, Windstar Aviation Corp., a Delaware corporation, ARC/DAM Management, Inc., a Delaware corporation, and Colonial Gardens Water, Inc., a Kansas corporation, as Sellers, and American Riverside Communities LLC, a Delaware limited liability company, as Buyer.

As used in the Transaction Agreement and for purposes of this proxy statement, "Acquired Business" means the business conducted by us and our subsidiaries, excluding the insurance business of NLASCO, Inc., or NLASCO, and related insurance activities, but including owning and operating our manufactured home communities, as well as providing related financing services and businesses related thereto; and "Acquired Companies" means ARC Real Estate, LLC, ARCAL LLC, ARC Real Estate Holdings, LLC and Enspire Finance LLC, and each of their respective subsidiaries that are treated as pass-through entities for U. S. federal income tax purposes.

Description of the Assets to be Sold (page 43)

We have agreed to sell to Buyer all of our and our subsidiaries' assets primarily relating to the manufactured home communities business, including the owning and operating of manufactured home communities, the provision of related financing services, and business related thereto, but excluding the insurance business of NLASCO and related insurance activities. Pursuant to the Transaction Agreement:

ARC LP agrees to sell to Buyer all of the issued and outstanding membership interests of ARC Real Estate and ARCAL;

ARC LP agrees to sell to Buyer all of the issued and outstanding membership interests of ARC Real Estate Holdings held by ARC LP; and

ARC Dealership agrees to sell to Buyer all of the issued and outstanding membership interests in Enspire Finance.

In addition, Sellers agree to sell to Buyer all assets owned, leased, licensed, used, held for use or held for sale by us or our subsidiaries, which are primarily related to the Acquired Business, including:

cash in an amount equal to the sum of the following:

petty cash-on hand;

proceeds of sales of assets held for sale;

proceeds of the sale of any manufactured home (i) not made in the ordinary course of business and on financial terms consistent with past practices, (ii) sold at a rate in excess of 110% of the number of homes budgeted to be sold by the Acquired Business between the

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date of the Transaction Agreement and the closing of the transaction, (iii) sold at a price resulting in gross profit margin of less than 15% with respect to such home, or (iv) made to buyers other than residents who execute an associated pad lease of at least one year with an Acquired Company;

cash received in respect of insurance and condemnation claims;

proceeds from the exercise of repurchase rights; and

cash held as security deposits;

all tangible personal property;

all fee interests in real property and all leases, easements, rights of access and other interests in real property;

all promissory notes or consumer credit contracts or other similar agreements payable to us or any of our subsidiaries;

all permits;

all contracts;

all records, files, personal files (only to the extent allowed by law), data, drawings, blueprints, schematics, reports, lists, plans and processes and all files of correspondence;

all guarantees, rebates under sales or purchase orders, representations, warranties, indemnities and similar rights in our favor or in the favor of any of our subsidiaries;

all sales and promotional literature, and all marketing information and market research data;

all of our intangible property, excluding intangible property primarily related to the insurance business of NLASCO, of which we refer to as the "Retained Business", and the "Enspire" and "NLASCO" trademarks;

all of our, and each of our subsidiaries', rights and claims against any Acquired Company, including under any contract, intercompany account payable or receivable, or otherwise;

all rights to insurance and condemnation proceeds received or receivable in respect of (i) any liabilities to be assumed by Buyer, (ii) any asset damaged, lost or condemned and which, if not so damaged, lost or condemned would have been an asset acquired by Buyer, and (iii) any business interruption of the Acquired Business to the extent relating to any period after the closing of the transaction; and

any aircraft.

As used in the Transaction Agreement and referred to in this proxy statement, such assets above will be referred to as the "Acquired Assets".

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Other than the liabilities described below under "Description of Liabilities to be Retained by ARC", in connection with the purchase of the assets Buyer agrees to assume liabilities of the Sellers to the extent related to the Acquired Business, our equity interests in the Acquired Companies and the Acquired Assets, including:

certain specified indebtedness existing as of the date of the Transaction Agreement, and indebtedness incurred in the ordinary course of business and in accordance with the Transaction Agreement between the date thereof and the closing of the transaction, but excluding liability for defaults or breaches of any material covenants occurring prior to closing and excluding

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indebtedness relating to the aircraft included in the Acquired Assets (we refer to this indebtedness as "Assumed Indebtedness");

all liabilities with respect to all pending, threatened or other actions, suits, proceedings, investigations or other claims to the extent relating to or arising from the Acquired Business or the Acquired Assets, or any asset in the Acquired Business;

all liabilities to the extent relating to or arising from the ownership, operation, possession or management of the Acquired Business or the Acquired Assets, or any asset in the Acquired Business, including accounts payable and trade obligations;

all liabilities under or in connection with any contracts included in the Acquired Assets;

all liabilities for any violation of law to the extent arising in connection with or related to the Acquired Business or the Acquired Assets;

all liabilities relating to the employment practices of the Sellers or any of their affiliates and to the extent arising from compliance with or violations of any labor laws prior to the closing of the transaction, in each case, other than liabilities related to employment discrimination;

all liabilities to the extent relating to the condition of the Acquired Business or the Acquired Assets or any asset in the Acquired Business or the presence of any hazardous materials on the properties to be acquired or otherwise arising under any environmental law or constituting an environmental claim to the extent related to the Acquired Business or the Acquired Assets or any asset in the Acquired Business;

all other liabilities to the extent resulting from, arising out of or relating to the Acquired Business, the Acquired Assets or any asset in the Acquired Business; and

the obligation to pay certain "stay bonuses" to certain of our employees.

Description of the Assets to be Retained by ARC (page 44)

We will retain all assets not sold to Buyer, including the Retained Business. We will also retain certain assets that may relate to the Acquired Business. These include cash and cash equivalents (with certain exceptions), equity interests in any Seller, all of our assets related solely to the Retained Business, our rights, claims and interests under the Transaction Agreement or any other transaction document, and all of our intangible property primarily related to the Retained Business, including the "Enspire" and "NLASCO" trademarks. In addition, we will retain certain assets related to previously sold communities and certain deferred assets.

Description of Liabilities to be Retained by ARC (page 45)

We will retain all liabilities not assumed by Buyer, including liabilities relating to:

the Retained Business;

any assets retained by Sellers (which we refer to as the "Excluded Assets");

our indebtedness or the indebtedness of any of our subsidiaries (including any Acquired Company), other than Assumed Indebtedness, including liabilities related to breaches of material covenants and indebtedness related to our aircraft;

any equity interest in us or our subsidiaries (other than the equity interests in the Acquired Companies) and related liabilities and obligations (including fiduciary obligations of our board of directors);

liabilities relating to taxes for any period ending on or before the closing date;

our employee benefit plans and employment practices prior to closing and certain related matters;

liabilities of Sellers under the Transaction Agreement or any other transaction document;

any liability for which Buyer and certain of its affiliates are indemnified pursuant to the Transaction Agreement, to the extent so indemnified; and

acts or omissions of us or our subsidiaries (excluding the Acquired Companies) after the effective time of the transaction.

Prior to the closing of the transaction, we or our designated affiliates will assume, pay, discharge and perform all of the above liabilities retained by us. In addition, the Sellers have assumed financial responsibility for the following expenses: costs of obtaining title policies and certain endorsements related to the acquired properties, costs of a survey for each acquired property, all costs related to debt and preferred stock retained by Sellers, all costs related to the unitholders of ARC LP, and all other costs incurred in connection with obtaining our or the other Sellers' required statutory approvals and other consents.

Purchase Price (page 45)

Upon consummation of the asset sale, we will receive cash in the amount of the excess of \$1.794 billion over the amount of Assumed Indebtedness as of the closing of the transaction, as such amount is adjusted as described under "The Transaction Agreement Purchase Price Adjustments".

Use of Proceeds (page 26)

Under the terms of the Transaction Agreement and after giving effect to estimated expenses and taxes, the amount realized by us is estimated to be approximately \$540 million to \$550 million net of retained debt and preferred stock as more fully described in Annex D, Selected ARC Historical Financial Data and Unaudited Proforma Condensed Consolidated Financial Statements Unaudited Pro Forma Condensed Consolidated Balance Sheet as of March 31, 2007, note (a). We will use a portion of the proceeds for general working capital, liquidation of OP units and to repay outstanding obligations. In addition, we currently anticipate seeking to make opportunistic acquisitions with certain of the proceeds. We do not intend to distribute any of the proceeds that we receive from the asset sale to our stockholders. Rather, we intend to use any proceeds from the transaction, along with our existing cash and cash equivalents, in connection with our future business plans.

Reasons for the Asset Sale (page 28)

We are proposing to sell all of our and our subsidiaries' assets primarily relating to the manufactured home communities business, including the owning and operating of manufactured home communities, the provision of related financing services, and business related thereto, but excluding the insurance business of NLASCO and related insurance activities, because we believe that the asset sale and the terms of the Transaction Agreement are in our best interest and in the best interest of our stockholders. In reaching its determination to approve the asset sale, the Transaction Agreement and related agreements, our board of directors consulted with senior management and our financial and legal advisors and considered a number of factors, including the opportunities and challenges facing us, the fairness opinion delivered by our financial advisor and the terms of the Transaction Agreement.

Recommendation of Our Board of Directors (page 29)

After careful consideration, our board recommends that you vote "FOR" (i) the proposal to approve the asset sale pursuant to the Transaction Agreement, and (ii) the proposal to approve any

motion to adjourn or postpone the special meeting to a later date to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve the foregoing proposal.

Opinion of Our Financial Advisor (page 29)

Our board of directors retained Sandler O'Neill & Partners, L.P., or Sandler O'Neill, to act as its financial advisor in connection with a possible business combination with a second party. As part of the engagement, Sandler O'Neill was asked to render a fairness opinion as to whether the consideration we are to receive from Buyer in connection with the asset sale is fair, from a financial point of view, to us. Sandler O'Neill delivered an opinion, attached as Annex C to this proxy statement, to our board of directors to the effect that, as of April 17, 2007, and subject to and based on the considerations referred to in its opinion, the consideration to be provided in connection with the asset sale is fair, from a financial point of view, to us.

Vote Required to Approve the Proposals (page 38)

The asset sale cannot be completed unless, among other things, it is approved by the affirmative vote of holders of shares of our common stock and special voting stock entitled to cast at least a majority of all votes entitled to be cast on the matter at our special meeting, voting as a single class. The proposal to approve any motion to adjourn or postpone the special meeting requires the affirmative vote of a majority of the votes cast by the holders of common stock and special voting stock. Only holders of our common stock and special voting stock of record at the close of business on July 13, 2007, the record date for the special meeting, may vote at the special meeting and any adjournments or postponements of the special meeting. If we fail to obtain the requisite vote for the proposed asset sale, we will not be able to consummate the asset sale and either party may terminate the Transaction Agreement.

Each of Gerald J. Ford, ARC Diamond, LP and Hunter's Glen/Ford, Ltd., who as of April 17, 2007 collectively beneficially owned an aggregate of 9,421,642 shares of voting securities, representing approximately 16.0% of the votes entitled to be cast at the special meeting, entered into a Support Agreement, a copy of which is included as Annex B to this proxy statement. Pursuant to such Support Agreement, each such person agreed to vote, or cause to be voted, all of the shares owned by such person in favor of the transaction and other proposals described in this proxy statement and against any alternative transaction. Also, Farallon has informed us that certain of its affiliates intend to vote their shares of our voting securities, representing approximately 9.6% of the votes entitled to be cast at the special meeting, in favor of the transaction and other proposals relating thereto.

Covenants (page 50)

Under the Transaction Agreement, the parties agreed to covenants with respect to our conducting of business, obtaining necessary regulatory approvals, using commercially reasonable efforts, access to information, non-solicitation, and other customary covenants.

Employee Matters (page 58)

Under the Transaction Agreement, Buyer will offer employment to all ARC employees and Buyer's offer will include (i) a rate of base salary or wages equal to at least 100% of the rate of base salary or wages in effect immediately prior to the closing of the transaction and (ii) amounts of cash incentive opportunities that are no less favorable than those in effect immediately prior to the closing of the transaction. Buyer will offer employee benefits that are substantially similar in the aggregate to those provided immediately prior to the closing of the transaction.

We and the other Sellers remain solely liable (including with respect to severance costs and related liabilities) for any company employee who does not accept Buyer's offer of employment. Pursuant to

the Transaction Agreement and under certain circumstances, we may award "stay bonuses" of up to an aggregate of \$4 million to help retain our employees, which bonuses will be paid (i) 100% by Buyer in the event they relate to our employees who are employed at properties that are marketed by the Buyer in accordance with the Transaction Agreement, or (ii) 50% by Buyer and 50% by us to the extent paid to any other of our employees.

Tax Matters (page 59)

Sellers will assume liability for and will pay all sales, transfer, stamp and similar taxes imposed on the sale of the Acquired Companies and Acquired Assets. Sellers have agreed to indemnify Buyer against all pre-closing taxes, and also against taxes arising from the transaction (including transfer taxes and taxes on gains of the Sellers).

Conditions to Completion of the Asset Sale (page 60)

The parties' obligations to consummate the asset sale are subject to satisfaction or waiver of a number of mutual closing conditions, including:

the absence of any injunction or order which prohibits the consummation of the transaction contemplated by the Transaction Agreement;

the expiration or termination of any applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, or the HSR Act;

the receipt of required statutory approvals;

the completion of certain consent solicitations, as discussed in the Transaction Agreement; and

the receipt of our stockholder approval.

Buyer's obligation to consummate the asset sale is also subject to the prior satisfaction or waiver of the additional conditions set forth below:

the performance in all material respects by Sellers and the Acquired Companies of their respective agreements and covenants under the Transaction Agreement;

the accuracy of our representations and warranties as of April 17, 2007 and the time at which the asset sale occurs, or the "effective time", other than those failures to be so accurate (disregarding all materiality or material adverse effect qualifiers in such representations and warranties), in the aggregate, that have not had or will not reasonably be expected to have a material adverse effect on the Sellers or a company material adverse effect;

the absence of any material adverse effect with respect to the Acquired Companies and the Acquired Business;

the delivery to Buyer of Sellers' officer's certificate certifying that the above conditions have been met;

the receipt of all required filings, permits, authorizations, consents and approvals with respect to Buyer;

the delivery to Buyer of title policies, surveys and related materials;

no company material adverse effect shall have occurred or be continuing; and

the aggregate value of any assets for which delivery will be delayed until after closing (the "Delayed Acquired Assets"), not exceeding \$20 million.

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Seller's to consummate the asset sale are also subject to the prior satisfaction or waiver of the additional conditions set forth below:

the performance in all material respects by Buyer of its agreements and covenants under the Transaction Agreement;

the accuracy of Buyer's representations and warranties as of April 17, 2007 and the effective time, other than those failures to be so accurate, in the aggregate, that have not had or would not reasonably be expected to have a material adverse effect on the Buyer's ability to consummate the transactions contemplated by the Transaction Agreement; and

the delivery of Buyer's officer's certificate certifying that the above conditions have been met.

Termination of the Transaction Agreement (page 61)

The Transaction Agreement may be terminated under certain circumstances, including:

by mutual written consent of us and Buyer;

by us or Buyer if the effective time has not occurred on or before December 31, 2007, (which we refer to as the "end date"), provided that the party seeking to terminate did not breach its obligations under the Transaction Agreement causing the failure to consummate the transaction before the end date;

by us or Buyer if an injunction, other legal restraint or order will have been entered permanently restraining or prohibiting the consummation of the transaction and such injunction or other order becomes final and non-appealable provided that the terminating party's breach did not cause such injunction, restraint or order;

by us or Buyer if we have our stockholder meeting and stockholder approval contemplated by the Transaction Agreement is not obtained;

by us if Buyer breaches or fails to perform any of its representations, warranties, covenants or other agreements contained in the Transaction Agreement and such breach or failure to perform (i) would result in a failure by Buyer of the conditions to the obligation of the Sellers relating to the performance of its obligations under the Transaction Agreement and to the accuracy of its representations and warranties, and (ii) is not curable or, if curable, is not cured prior to the earlier of 30 days after written notice of such breach is given by us to Buyer or one business day prior to the end date, provided that Sellers are not then in breach of the Transaction Agreement such that the conditions relating to the Sellers' performance of their obligations under the Transaction Agreement and to the accuracy of their representations and warranties would not be capable of being satisfied prior to the end date;

by us if all mutual conditions and Buyer's conditions to the Transaction Agreement are satisfied (other than conditions, the failure of which caused Buyer's breach, and conditions that, by their nature, were to be satisfied at closing and were capable of being satisfied at the time of termination) and Buyer fails to consummate the closing of the transaction within five business days after written notice by us of the satisfaction of closing conditions;

by us if prior to the receipt of our stockholder approval, our board of directors has received and approved a superior proposal and we concurrently enter into a definitive agreement relating to such superior proposal, provided that we have complied with the no solicitation covenant in the Transaction Agreement and have paid the termination fee and expenses of Buyer pursuant to the terms of the Transaction Agreement (as described below);

by Buyer if any of the Sellers have breached or failed to perform any of their representations, warranties, covenants or other agreements contained in the Transaction Agreement and such

breach or failure to perform (i) would result in a failure by Sellers of the conditions to the obligation of the Buyer relating to the performance of its obligations under the Transaction Agreement and to the accuracy of their representations and warranties and (ii) is not curable or, if curable, is not cured prior to the earlier of 30 days after written notice thereof is given by Buyer to us or one business day prior to the end date, provided that Buyer is not then in breach of the Transaction Agreement such that any of the conditions to the obligation of the Sellers relating to the Buyer's performance of its obligations under the Transaction Agreement and to the accuracy of its representations and warranties would not be capable of being satisfied prior to the end date;

by Buyer prior to the receipt of our stockholder approval, if (i) our board of directors makes a change in recommendation (as described under "The Transaction Agreement Covenants No Solicitation") or (ii) there is a material breach of the no solicitation covenant; or

by Buyer if, since April 17, 2007, there shall have been a company material adverse effect that is continuing and cannot be cured by the end date.

Termination Fees; Expense Reimbursement (page 62)

Termination fees will be paid under the following circumstances:

if the Transaction Agreement is terminated (i) by us because we have received and approved a superior proposal (as described above under " Termination of the Transaction Agreement"), or (ii) by Buyer because our board of directors has made a change in recommendation or there is a material breach of the no solicitation covenant or, following a change in recommendation, pursuant to any other right of termination listed above, then in any such event we will pay to Buyer a termination fee of \$20 million in cash plus an amount equal to all of the fees and expenses of Buyer, its contemplated transaction partners and its and their representatives, including fees and expenses of financial advisors, outside legal counsel, accountants, experts and consultants, incurred by Buyer, its contemplated transaction partners and its and their representatives in connection with the Transaction Agreement, up to a maximum of \$5 million (which we refer to as the "Buyer Expenses");

if (i) an alternative proposal that reasonably appears to be a bona fide proposal is made known to us or directly to our stockholders or any person shall have publicly announced an intention (whether or not conditional or withdrawn) to make an alternative proposal that reasonably appears to be bona fide and thereafter (ii) the Transaction Agreement is terminated by either us or Buyer because stockholder approval was not obtained or by us if the transaction had not closed by the end date (in each case, other than a termination giving rise to a right of Buyer to receive the termination fee in the event described above), then we will pay to Buyer the Buyer Expenses;

if, following the termination of the Transaction Agreement giving rise to an obligation of us to pay the Buyer Expenses pursuant to the situation described immediately above, we enter into a definitive agreement with respect to, or consummate, a transaction contemplated by any alternative proposal within twelve months of said termination date (provided that the references to "20%" in the definition of alternative proposal will be deemed to be references to "50%"), then we will pay to Buyer the termination fee as redefined; and

if the Transaction Agreement is terminated by us because the transaction has not closed by the end date, or because of Buyer's breach or Buyer's failure to close (in each case as described above under " Termination of the Transaction Agreement") and at the time of termination all mutual closing conditions and Buyer's conditions have been satisfied (other than any condition the failure of which to be satisfied has been proximately caused by the Buyer's breach of the

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Transaction Agreement and conditions that, by their nature, are to be satisfied at closing and which were, at the time of termination capable of being satisfied), then:

if, at the time of such termination, the lender under Buyer's debt financing commitment has failed to fund the debt financing contemplated by such commitment, Buyer will pay us a termination fee of \$37.5 million; or

if, at the time of such termination, the financing party under Buyer's third party equity commitment has failed to fund the equity financing contemplated by such commitment, Buyer will pay us a termination fee of \$50 million;

provided that, if both termination fees are due, then only the equity commitment termination fee will be due.

The right to receive payment of any termination fees as described above will be the exclusive remedy of the party seeking the termination fees against the other party and its related parties and other representatives for the loss suffered as a result of the failure of the transaction to be consummated and any other losses, damages, obligations or liabilities suffered as a result of or under the Transaction Agreement. Except as set forth in the termination fees provision of the Transaction Agreement, such party owing the termination fees will have no further liability or obligation relating to or arising out of the Transaction Agreement.

Indemnification (page 63)

Both parties agree to indemnify the other party under certain circumstances after the closing of the transaction as more fully described in this proxy statement and the Transaction Agreement.

Interests of Certain Directors and Executive Officers in the Asset Sale (page 38)

When considering the recommendation by our board of directors, you should be aware that a number of our executive officers and directors have interests in the asset sale that are different from the interests of our other stockholders. Our board of directors was aware of these interests and considered them, among other matters, in unanimously approving and adopting the Transaction Agreement and the transactions contemplated by the Transaction Agreement, including the asset sale. Such interests relate to, or arise from, among other things:

the fact that pursuant to their original terms of issuance, unvested ARC equity awards held by all awards holders, which are comprised of our four executive officers, two of whom are also board members, will vest upon the closing of the asset sale; and

the potential of certain of our executive officers to receive payments under severance agreements.

Each of these additional interests is described in this proxy statement to the extent material, and, except as described in this proxy statement, such persons have to our knowledge no material interest in the asset sale apart from those of stockholders generally.

Tax Consequences of the Asset Sale (page 41)

The sale of our assets pursuant to the Transaction Agreement will be a taxable transaction to the Sellers for United States Federal income tax purposes as discussed in this proxy statement.

No Appraisal Rights (page 41)

The Maryland General Corporation Law provides for stockholder appraisal rights in connection with the sale of substantially all of a company's assets. However, pursuant to state law, we have

opted-out of such rights in our Charter. Accordingly, there are not any stockholder appraisal rights available to holders of our common stock or special voting stock in connection with the asset sale.

Regulatory Approvals (page 41)

The asset sale is not subject to review by the United States Federal Trade Commission, or FTC, and the Antitrust Division of the United States Department of Justice, or DOJ, under the HSR Act. Nevertheless, the FTC and DOJ may choose to review the transaction, although this would not be customary.

We are not aware of any other material regulatory requirements or governmental approvals or actions that may be required to consummate the asset sale, except for compliance with the applicable regulations of the Securities and Exchange Commission, or the SEC, in connection with this proxy statement and compliance with the Maryland General Corporation Law in connection with the asset sale. Should any such approval or action be required, it is presently contemplated that such approval or action would be sought. There can be no assurance, however, that any such approval or action, if needed, could be obtained and would not be conditioned in a manner that would cause the parties to abandon the asset sale.

**QUESTIONS AND ANSWERS ABOUT THE ASSET SALE,
THE TRANSACTION AGREEMENT AND THE SPECIAL MEETING**

Following are some commonly asked questions that may be raised by our stockholders and answers to each of those questions.

1. WHAT AM I BEING ASKED TO VOTE ON AT THE SPECIAL MEETING?

Our stockholders will be asked to:

consider and vote upon a proposal to approve the sale of substantially all of our assets, including the operating assets used in our manufactured home communities business and our retail sales and financing businesses, but excluding our recently acquired insurance subsidiary, NLASCO, pursuant to the Transaction Agreement, dated as of April 17, 2007, by and among Affordable Residential Communities Inc., Affordable Residential Communities LP, the other seller parties named in the Transaction Agreement and American Riverside Communities LLC, an affiliate of Farallon Capital Management, L.L.C.;

consider and vote upon a proposal to approve any motion to adjourn or postpone the special meeting to a later date to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve the foregoing proposal; and

transact any other business as may properly come before the special meeting or any adjournments or postponements of the special meeting.

All holders of our common stock, par value \$0.01 per share, and special voting stock, par value \$0.01 per share, as of the close of business on July 13, 2007, the record date for our special meeting, will vote collectively as one class on all matters submitted to a vote of stockholders at the special meeting.

2. WHAT WILL HAPPEN IF THE ASSET SALE IS APPROVED BY OUR STOCKHOLDERS?

If the asset sale pursuant to the Transaction Agreement is approved by our stockholders, we will sell substantially all of our assets, including our operating assets used to own and operate our manufactured home communities and business related thereto to Buyer under the terms of the Transaction Agreement, as more fully described in this proxy statement. Following the sale of the assets, we will only have the NLASCO business, the cash proceeds of the sale and certain retained obligations.

3. WHAT WILL HAPPEN IF THE ASSET SALE IS NOT APPROVED BY OUR STOCKHOLDERS?

If the asset sale is not approved by our stockholders, we will not sell our assets to Buyer at this time and we will continue to conduct our business in the ordinary course and evaluate all available strategic alternatives. Thereafter, either party would have the right to terminate the Transaction Agreement. Upon termination we would be required to pay to Buyer the amount of the Buyer Expenses and, under certain circumstances as described above under " Termination Fees; Expense Reimbursement" could be required to pay the termination fee to Buyer if we subsequently entered into an agreement for, or consummated, an alternative transaction.

4. WHEN IS THE ASSET SALE EXPECTED TO BE COMPLETED?

If the asset sale pursuant to the Transaction Agreement is approved at the special meeting, we expect to complete the asset sale as soon as practicable after all of the conditions in the Transaction Agreement have been satisfied or waived. The parties are working toward satisfying the conditions to

closing and completing the asset sale as soon as reasonably possible. We expect to be able to complete the asset sale by the end of 2007.

5. HOW WAS THE PURCHASE PRICE FOR THE ASSETS DETERMINED?

The purchase price for the assets proposed to be sold to Buyer was negotiated between our representatives and representatives of Buyer. We have received a fairness opinion from Sandler O'Neill that the consideration in the transaction is fair, from a financial point of view, to us. A copy of the fairness opinion of Sandler O'Neill is included as Annex C to this proxy statement.

6. AM I ENTITLED TO APPRAISAL RIGHTS IN CONNECTION WITH THE ASSET SALE?

No. Although the Maryland General Corporation Law provides for stockholder appraisal rights in connection with the sale of a company's assets, pursuant to state law we have opted-out of such rights in our Charter.

7. WHAT WILL HAPPEN TO MY ARC SHARES IF THE ASSET SALE IS APPROVED?

The asset sale will not alter the rights, privileges or nature of the outstanding shares of our stock. A stockholder who owns shares of our stock immediately prior to the closing of the asset sale will continue to hold the same number of shares immediately following the closing. We do not intend to distribute any of the proceeds that we receive from the transaction to our stockholders. Rather, we intend to use any proceeds from the transaction, along with our existing cash and cash equivalents, in connection with our future business plans. In addition, we currently anticipate seeking to make opportunistic acquisitions with the proceeds.

8. HOW DOES THE BOARD RECOMMEND THAT I VOTE ON THE PROPOSALS?

The board of directors recommends that you vote "FOR" (1) the proposal to approve the asset sale pursuant to the Transaction Agreement, and (2) the proposal to adjourn or postpone the special meeting to a later date to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve the foregoing proposals. Abstentions will have the same effect as a vote "AGAINST" the asset sale proposal and no effect on the vote on the adjournment or postponement proposal.

9. HOW DO I VOTE IF I DO NOT ATTEND THE SPECIAL MEETING?

If you hold your shares in your name, you may authorize a proxy by telephone, via the Internet or by mail, as specified below:

Authorizing a proxy by Telephone: You can authorize a proxy for your shares by telephone until 11:59 p.m. Eastern Standard Time on July 23, 2007 by calling the toll-free telephone number on the enclosed proxy card. Telephone proxy authorization is available 24 hours a day. Easy-to-follow voice prompts allow you to authorize a proxy for your shares and confirm that your instructions have been properly recorded. Our telephone proxy authorization procedures are designed to authenticate stockholders by using individual control numbers;

Authorizing a proxy via the Internet: You can authorize a proxy via the Internet until 11:59 p.m. Eastern Standard Time on July 23, 2007 by accessing the web site listed on your proxy card and following the instructions you will find on the web site. Internet proxy authorization is available 24 hours a day. As with telephone proxy authorization, you will be given the opportunity to confirm that your instructions have been properly recorded; and

Authorizing a proxy by Mail: If you choose to authorize a proxy by mail, simply mark the enclosed proxy card, date and sign it, and return it in the postage paid envelope provided.

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By casting your vote in any of the three ways listed above, you are authorizing the individuals listed on the proxy to vote your shares in accordance with your instructions. If your shares are held in the name of a bank, broker or other agent or nominee, you will receive instructions from the holder of record that you must follow for your shares to be voted. Please follow their instructions carefully.

10. CAN I CHANGE MY VOTE?

Yes. You may change your proxy instructions at any time before your proxy is voted at the special meeting. Proxies may be revoked by taking any of the following actions:

filing a written notice of revocation with our corporate secretary at our principal executive office (Affordable Residential Communities Inc., 7887 E. Belleview Ave., Suite 200, Englewood, CO 80111, attention: Scott L. Gesell, Executive Vice President, General Counsel and Corporate Secretary);

filing a properly executed proxy showing a later date with our corporate secretary at our principal executive office;

properly authorizing a proxy on a later date by telephone or via the Internet (only your last telephone or Internet proxy will be counted) before 11:59 p.m. Eastern Standard Time on July 23, 2007; or

attending the special meeting and voting in person (although attendance at the meeting will not, by itself, revoke a proxy).

11. WHAT SHARES ARE INCLUDED ON THE PROXY CARD(S)?

The shares on your proxy card(s) represent ALL of your shares. If you do not return your proxy card(s) or authorize a proxy by telephone or via the Internet your shares will not be voted.

12. WHAT DOES IT MEAN IF I GET MORE THAN ONE PROXY CARD?

If your shares are registered differently and are in more than one account, you will receive more than one proxy card. Sign and return, or vote pursuant to the above instructions, all proxy cards to ensure that all your shares are voted.

13. WHO IS ENTITLED TO VOTE AT THE SPECIAL MEETING?

Only holders of record of our common stock and special voting stock as of the close of business on July 13, 2007 are entitled to notice of and to vote at the special meeting.

14. HOW MANY SHARES WERE OUTSTANDING ON THE RECORD DATE?

As of June 18, 2007 there are, and as of July 13, 2007 there will be, 56,400,427 shares of common stock and 2,877,670 shares of special voting stock outstanding entitled to vote. A stockholder may vote (a) shares that are held of record directly in the stockholder's name, and (b) shares held for the stockholder, as the beneficial owner, through a broker, bank or other agent or nominee. At the meeting, each outstanding share of common stock will be entitled to one vote and each share of special voting stock will be entitled to 0.519 of a vote.

15. WHAT IS A "QUORUM" FOR PURPOSES OF THE SPECIAL MEETING?

In order to conduct business at the special meeting, a quorum must be present. The presence in person or by proxy of stockholders entitled to cast a majority of all the votes entitled to be cast at the special meeting will constitute a quorum. Both abstentions and broker non-votes, if any, are counted as shares present for the purpose of determining the presence of a quorum.

16. WHAT VOTE IS REQUIRED TO APPROVE EACH PROPOSAL?

Once a quorum has been established, for the asset sale to be approved, the affirmative vote of holders of shares of our common stock and special voting stock entitled to cast at least a majority of all votes entitled to be cast on the matter at our special meeting, voting as a single class, is required. Once a quorum has been established, for the adjournment or postponement proposal, the affirmative vote of a majority of the votes cast is required.

If your shares are held in street name, your broker will vote your shares for you for the approval of the transactions contemplated by the Transaction Agreement only if you provide instructions to your broker on how to vote your shares. You should follow the directions provided by your broker regarding how to instruct your broker to vote your shares. **Because the affirmative vote of holders of shares of our common stock and special voting stock entitled to cast at least a majority of all votes entitled to be cast on the matter at our special meeting, voting as a single class, is required to approve the asset sale, a failure to provide your broker with instructions on how to vote your shares will have the effect of a vote "AGAINST" that proposal.** Broker non-votes, if any, will not have an affect on the proposal to adjourn or postpone the special meeting, if necessary, to solicit additional proxies.

17. WHAT HAPPENS IF I ABSTAIN?

Proxies marked "abstain" will be counted as shares present for the purpose of determining the presence of a quorum, but for purposes of determining the outcome of the proposal to approve the transactions contemplated by the Transaction Agreement, shares represented by such proxies will be treated as a vote "AGAINST" such proposal. Abstentions will have no effect on the proposal to adjourn or postpone the special meeting, if necessary, to solicit additional proxies.

18. HOW WILL VOTING ON ANY OTHER BUSINESS BE CONDUCTED?

Although we do not know of any business to be considered at the special meeting other than the asset sale proposal described in this proxy statement, if any other business is properly presented at the special meeting, your signed proxy card gives authority to the proxy holders to vote on such matters at their discretion.

19. WHO WILL BEAR THE COST OF THIS SOLICITATION?

We are soliciting proxies and will pay the entire cost of preparing, assembling, printing, mailing and distributing these proxy materials. We will provide copies of these proxy materials to brokerages, banks and other agents or nominees holding in their names shares of our common stock and special voting stock beneficially owned by others so that they may forward these proxy materials to the beneficial owners. We may solicit proxies by personal interview, mail, telephone and electronic communications. We have retained MacKenzie Partners, Inc., as proxy solicitor, to assist with the solicitation of proxies for the special meeting and have agreed to pay them a fee for these services, which it reasonably estimates to be approximately \$25,000, plus reasonable expenses. Our directors, officers, and employees (acting without additional compensation) may assist in soliciting proxies by telephone, email, or direct contact. We may reimburse brokerage firms and other persons representing beneficial owners of shares for their expenses in forwarding solicitation materials to the beneficial owners.

20. WHO CAN I CALL WITH QUESTIONS ABOUT THE SPECIAL MEETING?

For more information, you should contact our proxy solicitor, MacKenzie Partners, Inc., toll-free at 1-(800)-322-2885, bankers and brokers may call collect at (212)-929-5500.

THE SPECIAL MEETING OF ARC STOCKHOLDERS

We are furnishing this proxy statement to holders of record of our common stock and our special voting stock as part of the solicitation of proxies by our board of directors for use at the special meeting.

When and Where the Special Meeting Will be Held

We will hold the special meeting at the Wyndham Hotel Denver Tech Center located at 7675 E. Union Avenue, Denver, CO 80237, on July 27, 2007 at 9:00 a.m., local Denver, Colorado time.

What Will be Voted Upon

At the special meeting, you will be asked to:

consider and vote upon a proposal to approve the sale of substantially all of our assets, including the operating assets used in our manufactured home communities business and our retail sales and financing businesses, but excluding our recently acquired insurance subsidiary, NLASCO, pursuant to the Transaction Agreement, dated as of April 17, 2007, by and among Affordable Residential Communities Inc., Affordable Residential Communities LP, the other seller parties named in the Transaction Agreement and American Riverside Communities LLC, an affiliate of Farallon Capital Management, L.L.C.;

consider and vote upon a proposal to approve any motion to adjourn or postpone the special meeting to a later date to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve the foregoing proposal; and

transact any other business as may properly come before the special meeting or any adjournments or postponements of the special meeting.

For more information about the asset sale and the other transactions contemplated by the Transaction Agreement, we strongly encourage you to review the accompanying proxy statement and the Transaction Agreement attached as Annex A to the proxy statement, as well as the other information referenced herein.

Voting Securities; Quorum

Only holders of record of our common stock and special voting stock at the close of business on July 13, 2007, the record date, are entitled to notice of and to vote at the special meeting. As of June 18, 2007 there are, and as of the record date there will be, 56,400,427 shares of our common stock and 2,877,670 shares of our special voting stock issued and outstanding. Holders of record of our common stock on the record date are entitled to one vote per share at the special meeting on each proposal and holders of record of our special voting stock on the record date are entitled to 0.519 of a vote per share at the special meeting on each proposal.

A quorum is necessary to hold a valid special meeting. The presence in person or by proxy of stockholders entitled to cast a majority of all the votes entitled to be cast at the special meeting on any matter will constitute a quorum. Both abstentions and broker non-votes, if any, are counted as present for the purpose of determining the presence of a quorum.

Votes Required for Approval

The asset sale cannot be completed unless, among other things, it is approved by the affirmative vote of holders of shares of our common stock and special voting stock entitled to cast at least a majority of all votes entitled to be cast on the matter at our special meeting, voting as a single class. An adjournment or postponement cannot occur unless it is approved by the affirmative vote of a

majority of the votes cast at our special meeting. If we fail to obtain the requisite vote for the asset sale proposal, we will not be able to consummate the asset sale and either party may terminate the asset purchase agreement. If we fail to obtain the requisite vote for the adjournment and postponement proposal, we will not be able to adjourn or postpone the special meeting, if necessary, to solicit additional proxies.

Each of Gerald J. Ford, ARC Diamond, LP and Hunter's Glen/Ford, Ltd., who as of April 17, 2007 collectively beneficially owned an aggregate of 9,421,642 shares of voting securities, representing approximately 16.0% of the votes entitled to be cast at the special meeting, entered into a Support Agreement, a copy of which is included as Annex B to this proxy statement. Pursuant to such Support Agreement, each such person agreed to vote, or cause to be voted, all of the shares owned by such person in favor of the transaction and other proposals described in this proxy statement and against any alternative transaction. Also, the Buyer has informed us that certain of its affiliates intend to vote their shares of our voting securities, representing approximately 9.6% of the votes entitled to be cast at the special meeting, in favor of the transaction and other proposals relating thereto.

Voting Your Shares and Changing Your Vote

You may vote by proxy, in person at the special meeting or by authorizing a proxy via telephone or the Internet.

Voting in Person

If you plan to attend the special meeting and wish to vote in person, you will be given a ballot at the special meeting. Please note, however, that if your shares are held in "street name," which means your shares are held of record by a broker, bank or other agent or nominee, and you wish to vote at the special meeting, you must bring to the special meeting a form of legal proxy requested through your broker, bank or other agent or nominee authorizing you to vote at the special meeting.

Voting by Proxy

All shares represented by properly executed proxies received in time for the special meeting will be voted at the special meeting in the manner specified by the stockholders giving those proxies. Properly executed proxies that do not contain voting instructions will be voted "FOR" each proposal.

Revocation of Proxy

Submitting a proxy on the enclosed form does not preclude a stockholder from voting in person at the special meeting. A stockholder of record may revoke a proxy at any time before it is voted by filing with our corporate secretary a duly executed revocation of proxy, by submitting a duly executed proxy to our corporate secretary with a later date, by calling the toll free telephone number on the proxy card, by logging on via the Internet and revoking your vote, or by appearing at the special meeting and voting in person. Attendance at the special meeting without voting will not itself revoke a proxy. If your shares are held in street name, you must contact your broker, bank or other agent or nominee to revoke your proxy. We have also made arrangements with Mackenzie Partners, Inc. to assist the board in soliciting proxies.

How Proxies are Counted

Only shares affirmatively voted "FOR" each proposal and shares represented by properly executed proxies that do not contain voting instructions will be counted as favorable votes for each proposal. Shares of our common stock and special voting stock held by persons attending the special meeting but not voting, and shares of our common stock and special voting stock for which we received proxies but with respect to which holders of those shares have abstained from voting, will have the same effect as

votes "AGAINST" the asset sale proposal for purposes of determining whether or not the requisite vote was received. Any signed proxies received by us will be voted in favor of an adjournment or postponement of the special meeting unless contrary voting instructions are given. Shares of our common stock and special voting stock for which we received proxies but with respect to which holders of those shares have abstained from voting will have no effect on the adjournment or postponement proposal for purposes of determining whether or not the requisite vote was received.

Cost of Solicitation

We are soliciting proxies for the special meeting from our stockholders. We will bear the entire cost of soliciting proxies from our stockholders. In addition to the solicitation of proxies by mail, Internet and telephone, we will request that banks, brokers and other record holders send proxies and proxy materials to the beneficial owners of our common stock and special voting stock held by them and secure their voting instructions, if necessary. We will reimburse those record holders for their reasonable expenses in so doing. We have also retained MacKenzie Partners, Inc. as proxy solicitor, to assist with the solicitation of proxies for the special meeting and have agreed to pay it a fee for these services, which it reasonably estimates to be approximately \$25,000, plus reasonable expenses.

SUMMARY OF SELECTED HISTORICAL AND PRO FORMA FINANCIAL INFORMATION

The following tables present summary and historical financial information and pro forma combined information for ARC. We have also provided summary historical financial information for NLASCO for periods prior to its acquisition by us. NLASCO is a property and casualty insurance business that we acquired on January 31, 2007.

Our pro forma condensed consolidated balance sheet reflects adjustments to our historical financial data to give effect to (i) the sale of the manufactured home communities business, (ii) the related repayment of other indebtedness and payment of other costs, and (iii) liquidation of OP units, as if each had occurred on March 31, 2007.

Our pro forma condensed consolidated statements of operations for the three months ended March 31, 2007 and the year ended December 31, 2006 reflect adjustments to our historical financial data to give effect to (i) the acquisition of NLASCO and related purchase transactions, (ii) the sale of the manufactured home communities business, and (iii) the related repayment of other indebtedness and payment of other costs, as if each had occurred as of January 1, 2006. Pro forma results incorporate only continuing operations.

The historical financial information of ARC for the years ended December 31, 2006, 2005 and 2004 is substantially representative of the financial results of the manufactured home communities business to be sold to the Buyer because the acquisition of NLASCO, a property and casualty insurance business which is being retained by ARC, did not occur until January 2007. We have included in Annex D the financial statements of the manufactured home communities business for the quarterly period ended March 31, 2007 that exclude the financial results of NLASCO. After the sale of the manufactured home communities business, the Senior Exchangeable Notes due 2025 and the Series A Preferred Stock will remain with ARC. The business to be sold encompasses the combined interests of ARC's common stockholders and OP Unitholders, whose interests are treated as minority interests in the consolidated financial statements.

The summary historical and pro forma financial data set forth below should be read in conjunction with the consolidated financial statements and accompanying notes for each of ARC and NLASCO appearing elsewhere in this proxy statement or incorporated by reference.

AFFORDABLE RESIDENTIAL COMMUNITIES INC.
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS DATA
(in thousands)

| | Pro Forma Three Months Ended March 31, 2007 | Three Months Ended March 31, | | Pro Forma Year Ended Dec. 31, 2006 | Year Ended December 31, | | |
|--|---|---------------------------------|-----------------|--|-------------------------|------------------|-----------------|
| | (unaudited) | 2007 | 2006 | (unaudited) | 2006 | 2005 | 2004 |
| Revenue | | | | | | | |
| Rental income | \$ | \$ 53,642 | \$ 50,906 | \$ | \$ 207,028 | \$ 191,235 | \$ 171,403 |
| Net premiums earned | 26,861 | 16,719 | | 126,602 | | | |
| Sales of manufactured homes | | 2,535 | 2,672 | | 9,648 | 39,331 | 14,224 |
| Utility and other income | | 7,120 | 6,477 | | 25,877 | 21,587 | 17,422 |
| Fee and other insurance income | 1,929 | 1,317 | | 4,854 | | | |
| Net investment income | 2,064 | 1,331 | | 7,729 | | | |
| Net realized gains on investments | 576 | 66 | | 1,334 | | | |
| Net consumer finance interest income | | 374 | 179 | | 1,558 | | |
| Total revenue | 31,430 | 83,104 | 60,234 | 140,519 | 244,111 | 252,153 | 203,049 |
| Expenses | | | | | | | |
| Property operations | | 17,589 | 16,422 | | 70,292 | 76,264 | 67,897 |
| Real estate taxes | | 4,837 | 5,136 | | 19,738 | 16,347 | 15,127 |
| Losses and loss adjustment expenses | 12,983 | 8,877 | | 54,802 | | | |
| Cost of manufactured homes sold | | 2,090 | 2,309 | | 8,122 | 37,104 | 17,302 |
| Retail home sales, finance and insurance | | 1,864 | 1,898 | | 8,934 | 17,422 | 7,934 |
| Property management | | 1,847 | 1,592 | | 6,772 | 9,356 | 7,127 |
| General and administrative | 894 | 5,385 | 4,421 | 2,273 | 19,651 | 27,634 | 29,372 |
| Underwriting expenses | 11,116 | 6,603 | | 49,826 | | | |
| Initial public offering related costs | | | | | | | 4,417 |
| Early termination of debt | | | | | 556 | | 16,685 |
| Depreciation and amortization | 532 | 21,865 | 21,611 | 2,214 | 85,841 | 77,810 | 61,063 |
| Real estate and retail home asset impairment | | | | | | 21,822 | 3,358 |
| Goodwill impairment | | | | | | 78,783 | 863 |
| Loss on sale of airplane | | | 541 | | 541 | | |
| Net consumer finance interest expense | | | | | | 525 | 1,319 |
| Interest expense | 2,544 | 18,488 | 19,581 | 11,475 | 77,052 | 72,534 | 58,337 |
| Total expenses | 28,069 | 89,445 | 73,511 | 120,590 | 297,499 | 435,601 | 290,801 |
| Interest income | | (494) | (423) | | (2,133) | (2,267) | (1,611) |
| Income (loss) before allocation to minority interest and provision for income taxes | 3,361 | (5,847) | (12,854) | 19,929 | (51,255) | (181,181) | (86,141) |
| Provision for income taxes | (1,177) | (687) | 1,199 | (6,976) | 13,615 | | |
| Income (loss) before allocation to minority interest | 2,184 | (6,534) | (11,655) | 12,953 | (37,640) | (181,181) | (86,141) |
| Minority interest | | 271 | 236 | | 523 | 7,313 | 5,557 |
| Income (loss) from continuing operations | 2,184 | (6,263) | (11,419) | 12,953 | (37,117) | (173,868) | (80,584) |
| Income (loss) from discontinued operations | | (128) | 1,692 | | 2,166 | (10,403) | 3,144 |
| Gain (loss) on sale of discontinued operations | | | 10,296 | | 31,871 | (678) | (8,549) |
| Income tax expense on discontinued operations | | | (4,795) | | (13,615) | | |

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| | Pro Forma Three Months Ended March 31, | | Three Months Ended March 31, | | Pro Forma Year Ended Dec. 31, | | | | |
|---|---|---------|---------------------------------|------------|--|----------|-------------|--------------|-------------|
| Minority interest in discontinued operations | | | (253) | | | | (723) | 476 | 296 |
| Net income (loss) | 2007 | 2,184 | (6,387) | (4,479) | 2006 | 2,953 | (17,418) | (184,473) | (85,693) |
| Preferred stock dividend | | (2,578) | (2,578) | (2,578) | | (10,313) | (10,313) | (10,312) | (8,966) |
| Net income (loss) attributable to common stockholders | \$ | (394) | \$ (8,965) | \$ (7,057) | \$ | 2,640 | \$ (27,731) | \$ (194,785) | \$ (94,659) |

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| | | | | | | | | | | | | | | |
|--|----|--------|----|--------|------|--------|----|--------|----|--------|----|--------|----|--------|
| Loss per share from continuing operations | | | | | | | | | | | | | | |
| Basic income (loss) per share | \$ | (0.01) | \$ | (0.17) | \$ | (0.32) | \$ | 0.05 | \$ | (1.09) | \$ | (4.26) | \$ | (2.23) |
| <hr/> | | | | | | | | | | | | | | |
| Diluted income (loss) per share | \$ | (0.01) | \$ | (0.17) | \$ | (0.32) | \$ | 0.05 | \$ | (1.09) | \$ | (4.26) | \$ | (2.23) |
| <hr/> | | | | | | | | | | | | | | |
| Income (loss) per share from discontinued operations | | | | | | | | | | | | | | |
| Basic income (loss) per share | | \$ | | \$ | 0.16 | | \$ | 0.46 | \$ | (0.24) | \$ | (0.13) | | |
| <hr/> | | | | | | | | | | | | | | |
| Diluted income (loss) per share | | \$ | | \$ | 0.16 | | \$ | 0.46 | \$ | (0.24) | \$ | (0.13) | | |
| <hr/> | | | | | | | | | | | | | | |
| Loss per share attributable to common stockholders | | | | | | | | | | | | | | |
| Basic income (loss) per share | \$ | (0.01) | \$ | (0.17) | \$ | (0.16) | \$ | 0.05 | \$ | (0.63) | \$ | (4.50) | \$ | (2.36) |
| <hr/> | | | | | | | | | | | | | | |
| Diluted income (loss) per share | \$ | (0.01) | \$ | (0.17) | \$ | (0.16) | \$ | 0.05 | \$ | (0.63) | \$ | (4.50) | \$ | (2.36) |
| <hr/> | | | | | | | | | | | | | | |
| Weighted average share/unit information: | | | | | | | | | | | | | | |
| Common shares outstanding | | 55,982 | | 52,328 | | 43,576 | | 54,670 | | 43,681 | | 43,277 | | 40,178 |
| Common shares issuable upon exchange of OP Units and PPU's outstanding | | | | 1,944 | | 3,499 | | | | 3,222 | | 4,754 | | 3,584 |
| <hr/> | | | | | | | | | | | | | | |
| Diluted shares outstanding | | 55,982 | | 54,272 | | 47,075 | | 54,670 | | 46,903 | | 48,031 | | 43,762 |
| <hr/> | | | | | | | | | | | | | | |

AFFORDABLE RESIDENTIAL COMMUNITIES INC.
CONDENSED CONSOLIDATED BALANCE SHEET DATA
(in thousands)

| | Pro Forma March 31, 2007 | March 31, 2007 | December 31, | | |
|-----------------------------------|--------------------------------|-------------------|--------------|--------------|--------------|
| | | | 2006 | 2005 | 2004 |
| (unaudited) | | | | | |
| Rental and other property, net | \$ 361 | \$ 1,374,594 | \$ 1,390,564 | \$ 1,453,097 | \$ 1,406,743 |
| Cash and cash equivalents | 805,586 | 62,317 | 29,281 | 27,926 | 32,859 |
| Loan reserves and restricted cash | | 43,456 | 40,089 | 42,110 | 38,340 |
| Total assets | 1,040,517 | 1,789,845 | 1,542,701 | 1,728,481 | 1,813,002 |
| Notes payable | 148,118 | 1,107,213 | 1,046,500 | 1,146,331 | 946,863 |
| Total liabilities | 240,106 | 1,239,123 | 1,095,323 | 1,252,484 | 1,097,296 |
| Stockholders' equity | 800,411 | 539,752 | 419,236 | 444,095 | 659,047 |

NLASCO INC.
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS DATA
(in thousands)

| | Year Ended December 31, | | |
|--|-------------------------|------------------|------------------|
| | 2006 | 2005 | 2004 |
| | | | (unaudited) |
| Revenue | | | |
| Net premiums earned | \$ 126,602 | \$ 107,752 | \$ 92,289 |
| Net investment income | 9,403 | 6,362 | 4,367 |
| Other income | 4,854 | 3,827 | 3,102 |
| Total revenue | 140,859 | 117,941 | 99,758 |
| Expenses | | | |
| Losses and loss adjustment expenses | 54,802 | 48,569 | 42,998 |
| Policy acquisition and other underwriting expenses | 54,990 | 42,781 | 31,677 |
| Total expenses | 109,792 | 91,350 | 74,675 |
| Income before income taxes | 31,067 | 26,591 | 25,083 |
| Provision for income taxes | | | |
| Current | 7,795 | 8,227 | 10,317 |
| Deferred | 3,167 | 987 | (1,118) |
| Total income taxes | 10,962 | 9,214 | 9,199 |
| Net income | \$ 20,105 | \$ 17,377 | \$ 15,884 |
| Other data: | | | |
| Loss and loss adjustment expense ratio(1) | 43.3% | 45.1% | 46.6% |
| Underwriting expense ratio(2) | 36.4% | 32.4% | 28.6% |
| Combined ratio(3) | 79.7% | 77.5% | 75.2% |

- (1) Loss and loss adjustment expense ratio is the ratio (expressed as a percentage) of losses and loss adjustment expenses to net premiums earned. This is a basic measurement of underwriting profitability.
- (2) The underwriting expense ratio is the ratio (expressed as a percentage) of policy acquisition and other underwriting expenses, as adjusted, to net earned premiums. This is a measurement of management's relative efficiency in administering its operations. We adjust policy acquisition and other underwriting expenses by (a) other revenue that represents fee income and (b) interest expense included in underwriting expenses.
- (3) The combined ratio is the sum of the loss ratio and the expense ratio. If the combined ratio is at or above 100%, an insurance company generally cannot be profitable without sufficient investment income.

NLASCO, INC.
CONDENSED CONSOLIDATED BALANCE SHEET DATA
(in thousands)

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| | December 31, | | |
|-----------------------------------|--------------|------------|------------|
| | 2006 | 2005 | 2004 |
| Investments | \$ 131,036 | \$ 134,178 | \$ 121,432 |
| Cash and cash equivalents | 56,711 | 29,068 | 17,961 |
| Total assets | 256,462 | 253,017 | 222,493 |
| Loss and loss adjustment expenses | 20,512 | 41,379 | 24,648 |
| Unearned premiums | 67,978 | 70,661 | 70,377 |
| Notes payable | 60,802 | 56,382 | 59,333 |
| Total liabilities | 171,668 | 182,007 | 167,439 |
| Stockholders' equity | 84,794 | 71,010 | 55,054 |

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Those statements herein that involve expectations or intentions (such as those related to the closing of the transactions contemplated by the Transaction Agreement) are forward-looking statements within the meaning of the United States securities laws, involving risks and uncertainties, and are not guarantees of future performance. You are cautioned that these statements are only projections and that forward-looking statements are subject to a number of risks, assumptions and uncertainties that could cause actual results to differ materially from those projected in such forward-looking statements. These risks, assumptions and uncertainties include, but are not limited to: future decisions by the SEC, or other governmental or regulatory bodies; the vote of ARC stockholders; business disruptions resulting from the announcement of the asset sale; uncertainties related to litigation; economic and political conditions in the United States; and other risks outlined in our filings with the SEC, including the annual report on Form 10-K for the year ended December 31, 2006. All forward-looking statements are effective only as of the date they are made and we disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

ASSET SALE RISK FACTORS

You should carefully consider the following risk factors relating to the asset sale before you decide whether to vote for the proposal to approve the asset sale pursuant to the Transaction Agreement. You should also consider the other information in the proxy statement and the additional information in our other reports on file with the SEC.

Our business may be harmed if the proposed asset sale of our manufactured home communities business is not consummated.

On April 17, 2007, we entered into a Transaction Agreement with American Riverside Communities LLC, an affiliate of Farallon Capital Management, L.L.C., or Farallon, pursuant to which we agreed to sell all of our and our subsidiaries' assets primarily relating to the manufactured home communities business, including the owning and operating of manufactured home communities, the provision of related financing services, and business related thereto, but excluding the insurance business of NLASCO and related insurance activities. The asset sale is subject to a number of contingencies, including approval by our stockholders and other customary closing conditions. We cannot predict whether we will succeed in obtaining the approval of our stockholders. As a result, we cannot assure you that the asset sale will be completed. If the asset sale is not completed, we will be subject to several risks, including the following:

our cash flow and financial condition could be adversely affected if we are unable to complete the asset sale because, among other items, costs incurred could not be capitalized;

under certain specified circumstances, we may be required to pay Buyer a termination fee of \$20 million and reimburse it for transaction expenses up to \$5 million upon the termination of the Transaction Agreement;

the price of our common stock may decline to the extent that the current market price of our common stock reflects an assumption that the asset sale will occur or that failure to close reflects that our current market trading price is not accurate;

we must pay our accrued costs related to the asset sale, such as legal, accounting and certain financial advisory fees, even if the asset sale is not completed; and

the announcement of the transaction, the failure to close and the uncertainty caused by each might have a disruptive affect on our employees, residents and vendors, which in turn could have a disruptive or harmful affect on our ability to conduct our business.

If our stockholders do not approve the asset sale pursuant to the Transaction Agreement, we would have to continue to operate the manufactured home communities business if no other offers for their purchase were made and consummated.

If our stockholders do not approve the asset sale we may seek another strategic transaction, including the sale of all or part of our business. Although we have had such discussions with various parties in the past, none of these parties may now have an interest in a strategic transaction with us or be willing to offer a favorable purchase price.

By completing the asset sale with the Buyer, we will no longer be engaged in a business primarily based on real estate.

The most significant portion of our assets today are real estate assets. Following the asset sale, these real estate assets will be sold and the remaining assets will be non-real estate assets, including the NLASCO business, cash proceeds from the asset sale and ongoing net operating losses, or NOLs. By selling substantially all of our assets, including operating assets used in our manufactured home

communities business to Buyer, we will be exiting the manufactured home community business. We will subsequently become primarily focused on the NLASCO insurance business and the utilization of the cash proceeds from the asset sale.

We will engage in strategic acquisitions, and investments.

We anticipate seeking to make opportunistic acquisitions with certain of the proceeds from the asset sale. However, there is no assurance that we will be able to identify suitable acquisitions, consummate acquisitions or successfully integrate acquired personnel and operations. Even if we identify suitable acquisitions, we may not be able to make acquisitions or investments on commercially acceptable terms, if at all. The success of any acquisition will depend upon, among other things, the ability of management and our employees to integrate acquired personnel, operations, products and technologies into our organization effectively, to retain and motivate key personnel of acquired businesses and to retain customers and clients of acquired businesses. In addition, any acquisitions we undertake may involve certain other risks, including consumption of available cash resources, potentially dilutive issuances of equity securities and the diversion of management's attention from other business concerns. We may also need to make further investments to support the acquired company and may have difficulty identifying and acquiring the appropriate resources. There can be no assurance that any acquisitions we undertake will perform as expected. We may enter, on our own and through acquisitions, into new lines of business or initiate new service offerings, whether related or unrelated to our insurance business. Our success in any such endeavor will depend upon, among other things, the ability of management to identify suitable opportunities, successfully implement sound business strategies and avoid the legal and business risks of any new line of business or service offering and/or an acquisition related thereto. There can be no assurance that we will be able to do any of the foregoing. In addition, any such undertakings may result in additional costs without an immediate increase in revenues and may divert management's attention from the operation and growth of our core business.

INFORMATION ABOUT THE COMPANIES AND THE ASSET SALE

This section of the proxy statement describes certain aspects relating to the sale of substantially all of our operating assets used in our manufactured home communities business to Buyer. However, this description may not be complete or may not provide all the information that may be important to you. We highly recommend that you carefully read the complete Transaction Agreement included as Annex A to this proxy statement for the precise legal terms of the transaction and other information that may be important to you.

The Companies

Affordable Residential Communities Inc.

We are a Maryland corporation that is engaged in the renovation, repositioning and operation of primarily all-age manufactured home communities, the retail sale and financing of manufactured homes, the rental of manufactured homes and other related businesses including acting as agent in the sale of homeowners' insurance and related products, primarily to residents or prospective residents in our communities. Through NLASCO and its subsidiaries we also have a property and casualty insurance operation in Waco, Texas primarily providing fire and homeowners insurance for low value dwellings and manufactured homes. We were organized in July 1998 and operate primarily through Affordable Residential Communities LP, which we refer to as the Operating Partnership or OP, of which we are the sole general partner and owned 97.4% as of March 31, 2007, and its subsidiaries. On February 18, 2004, we completed our initial public offering, or IPO. Through the years ended December 31, 2005, we were organized as a fully integrated, self-administered and self-managed equity REIT for U.S. Federal income tax purposes. In March 2006, our board of directors decided to revoke our election as a REIT for U.S. Federal income tax purposes beginning for the year ending December 31, 2006. In January, 2007, we closed our acquisition of NLASCO.

Our principal executive, corporate and property management offices are located at 7887 E. Bellevue Avenue, Suite 200, Englewood, Colorado 80111, and our telephone number is (303) 383-7500. Our Internet address is www.aboutarc.com. The information contained on our website is not part of this proxy statement.

American Riverside Communities LLC

American Riverside Communities LLC, or Riverside, is affiliated with Farallon and was formed for the purpose of effecting the transactions contemplated by the Transaction Agreement and operating the Acquired Business following completion of the transaction.

Buyer's principal executive office is One Maritime Plaza, Suite 2100, San Francisco, CA 94111 and the number of its principal executive offices is (415) 421-2132.

Farallon Capital Management, L.L.C.

Farallon is a global, San Francisco-based investment management company. Farallon was founded in March 1986 by Thomas F. Steyer. Farallon invests in public and private debt and equity securities as well as direct investments in private companies and real estate. Farallon invests in real estate across all asset classes around the world, including the United States, Europe, Latin America and India.

Farallon's operating partner in the acquisition of our mobile home communities business is Riverside Management LLC (d.b.a. Riverside Communities), a Chicago-based private real estate investment management company whose team members have more than 40 years of experience in the manufactured home community business, including the acquisition of more than 75 communities across the United States. Riverside is led by David Helfand, formerly the President and Chief Executive Officer of Equity Lifestyle Properties.