UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2004

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	**84-1038736**
(State or other jurisdiction of Incorporation or organization)	**(IRS Employer Identification No.)**

29399 U.S. Hwy 19 North, Suite 320

Clearwater, Florida	**33761**
(Address of Principal Executive Offices)	**(Zip Code)**

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

Indicate by check mark whether the registrant is an accelerated filer (As defined in Rule 126-2 of the Exchange Act). Yes x No ¨

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

As of May 7, 2004, approximately 7,225,000 shares of common stock were outstanding.

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AMERICAN LAND LEASE, INC. AND SUBSIDIARIES

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2004

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AMERICAN LAND LEASE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

	March 31, 2004 (Unaudited)	December 31, 2003
ASSETS		
Real estate, net of accumulated depreciation of $20,779 and $20,112, respectively, including real estate under development of $42,223 and $41,413, respectively	$ 231,293	$ 226,078
Cash and cash equivalents	776	2,064
Inventory	11,330	10,403
Other assets, net	8,566	8,162
Assets held for sale	361	389
Total Assets	$ 252,326	$ 247,096
LIABILITIES		
Secured long-term notes payable	$ 118,478	$ 119,194
Secured short-term financing	13,495	10,659
Accounts payable and accrued liabilities	9,883	8,423
Liabilities related to assets held for sale	4	5
	141,860	138,281
MINORITY INTEREST IN OPERATING PARTNERSHIP	14,319	14,014
STOCKHOLDERS EQUITY		
Preferred stock, par value $.01 per share, 1,000 shares authorized, no shares issued or outstanding		
Common stock, par value $.01 per share; 12,000 shares authorized; 8,951 and 8,830 shares issued; 7,225 and 7,104 shares outstanding (excluding treasury stock), respectively	90	88
Additional paid-in capital	285,207	282,818
Notes receivable from officers re common stock purchases	(785)	(799)
Deferred compensation re restricted stock	(3,049)	(1,354)
Dividends in excess of accumulated earnings	(158,704)	(159,340)
Treasury stock, 1,726 and 1,726 shares at cost, respectively	(26,612)	(26,612)
	96,147	94,801
Total Liabilities and Stockholders Equity	$ 252,326	$ 247,096

See Notes to Condensed Consolidated Financial Statements

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AMERICAN LAND LEASE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)

(unaudited)

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
RENTAL PROPERTY OPERATIONS		
Rental and other property revenues	$ 7,033	$ 6,381
Golf course operating revenues	403	338
Total property operating revenues	7,436	6,719
Property operating expenses	(2,549)	(2,347)
Golf course operating expenses	(308)	(303)
Total property operating expenses	(2,857)	(2,650)
Depreciation	(709)	(649)
Income from rental property operations	3,870	3,420
SALES OPERATIONS		
Home sales revenue	9,280	7,890
Cost of home sales	(6,204)	(5,784)
Gross profit on home sales	3,076	2,106
Commissions earned on brokered sales	185	126
Commissions paid on brokered sales	(100)	(65)
Gross profit on brokered sales	85	61
Selling and marketing expenses	(2,343)	(1,828)
Income from sales operations	818	339
General and administrative expenses	(911)	(618)
Interest and other income	272	296
Interest expense	(1,360)	(1,284)
Equity in income of unconsolidated real estate partnerships		20
Income before minority interest in Operating Partnership	2,689	2,173
Minority interest in Operating Partnership	(323)	(261)
Income from continuing operations	2,366	1,912
DISCONTINUED OPERATIONS		
	8	(71)

Income (loss) from discontinued operations, net of minority interest in Operating Partnership		
Net Income	$ 2,374	$ 1,841
Basic earnings from continuing operations	$ 0.34	$ 0.28
Basic (loss) earnings from discontinued operations	(0.00)	(0.01)
Basic earnings per share	$ 0.34	$ 0.27
Diluted earnings from continuing operations	$ 0.33	$ 0.28
Diluted (loss) earnings from discontinued operations	(0.00)	(0.02)
Diluted earnings per share	$ 0.33	$ 0.26
Weighted average common shares outstanding	6,938	6,838
Weighted average common shares and common share equivalents outstanding	7,301	6,951
Dividends paid per share	$ 0.25	$ 0.25

See Notes to Condensed Consolidated Financial Statements

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AMERICAN LAND LEASE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Three Months Ended March 31,	
	2004	**2003**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 2,374	$ 1,841
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	919	799
Revenue recognized related to acquired lease obligations	(20)	
Amortization of deferred compensation and expense of stock options	291	59
Minority interest in Operating Partnership	323	265
Minority interest attributable to discontinued operations	1	(2)
Loss on sale of discontinued operations, net of minority interest		86
Equity in earnings of unconsolidated real estate partnerships		(20)
Recovery of common stock escrowed to secure management contracts		(227)
Increase in inventory	(927)	(1,587)
Decrease (increase) in operating assets and liabilities	1,119	(491)
Net cash provided by operating activities	4,080	723
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of real estate	24	1,172
Purchase of real estate	(75)	
Capital replacements and enhancements	(357)	(215)
Purchases of and additions to real estate, including development	(4,415)	(2,391)
Capitalized interest	(886)	(845)
Notes receivable advances	(7)	(36)
Proceeds from notes receivable	10	179
Distributions received from investments in unconsolidated real estate partnerships		17
Principal collection and indemnifications on CMBS bonds		36
Net cash used in investing activities	(5,706)	(2,083)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds (principal payments on) from secured short-term financing	2,836	(1,890)
Proceeds from secured long-term notes payable		7,040
Principal payments on secured long-term notes payable	(716)	(653)
Payment of loan costs	(3)	(246)
Payments to escrow funds for capital improvement	(209)	(206)
Collections of escrowed funds	37	163
Collections of notes receivable on common stock purchases	14	3
Proceeds from stock options exercised	86	33
Proceeds from dividends reinvestment program	198	94
Proceeds from OP unit distribution reinvestment program	69	171

Payment of common stock dividends	(1,738)	(1,718)
Payment of distributions to minority interest in Operating Partnership	(236)	(232)
Net cash provided by financing activities	338	2,559
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,288)	1,199
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,064	1,223
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 776	$ 2,422

See Notes to Condensed Consolidated Financial Statements

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AMERICAN LAND LEASE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2004

(Unaudited)

A. The Company

American Land Lease, Inc. (ANL and, together with its subsidiaries, the Company) 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. The Company has elected to be taxed as a real estate investment trust (REIT). ANL s common stock, par value $.01 per share (the Common Stock), is listed on the New York Stock Exchange 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.

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 to holders of Common Stock. After holding the OP Units for one year, the 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 Common Stock in lieu of cash. At March 31, 2004, the Operating Partnership had approximately 950,000 OP units outstanding, excluding those owned by ANL, and ANL owned 88% of the Operating Partnership. As of March 31, 2004, based on total home sites, 76% of the Company s portfolio of manufactured home communities is located in Florida, 23% in Arizona and 1% in New Jersey.

B. Presentation of Financial Statements

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with 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 (the Exchange Act). Accordingly, they do not include all of the information and footnotes 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 months ended March 31, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004.

The balance sheet at December 31, 2003 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by GAAP.

For further information, refer to the statements and notes thereto included in ANL s 10-K for the year ended December 31, 2003. Certain 2003 financial statement amounts have been reclassified to conform to the 2004 presentation, including the treatment of discontinued operations and assets held for sale.

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C. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, 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.

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 Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations* which was effective for business combinations subsequent to June 30, 2001, the Company allocates the purchase price of real estate to land, land improvements, buildings, furniture, fixtures and 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 we acquire:

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), and 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 (based on the nature of our business, customer relationship value is assumed to be zero), 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; and

    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. 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 its 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.

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Development and Other Capital Expenditure Activities

Significant renovations and improvements that improve or extend the useful life of an asset are capitalized and depreciated over the remaining 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 manufactured home communities. Maintenance, repairs and minor improvements are expensed as incurred. Interest incurred relating to the development of communities is capitalized during the active 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 active development. For the three months ended March 31, 2004 and 2003, capitalized interest was approximately $886,000 and $845,000 respectively.

Impairment of Long-Lived Assets

Rental properties 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, the Company will make an assessment of its recoverability by estimating the future undiscounted cash flows, excluding interest charges, of 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.

Cash Equivalents

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

Inventory

The Company 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 market. If actual market conditions are less favorable than those projected 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 March 31, 2004, $1,025,000 of our total inventory investment of $11,330,000 was older than one year. For the three months ended March 31, 2004 and 2003, we recorded a charge of approximately $28,000 and $135,000, respectively, to write carrying amounts down to market value.

Non-agency MBS and CMBS Bonds

The Company is the beneficiary of certain grantor trusts formed coincident with the securitization and sale of mortgage assets owned by the Company until sold in 1997. The operation of these grantor trusts is vested with the indentured trustee and under the terms of the trust indenture, the Company does not control the management of the trust and the indentured trustee is an unrelated third party. As a result, the operation of the trust is not consolidated in the financial statements of the Company. The Company does not provide any credit enhancements to the trust and does not have contingent liability for the results of operation of the trust.

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The Company s non-agency mortgage backed securities bonds (MBS) and commercial mortgage backed securities bonds (CMBS) were acquired at a significant discount to par value. The amortized cost of the non-agency MBS and CMBS bonds was equal to the outstanding principal amount net of unamortized discount and allowances for credit losses. Earnings from non-agency MBS and CMBS bonds are recognized based upon the relationship of cash flows received during the period and estimates of future cash flows to be received over the life of the bonds. During the three month period ended March 31, 2004, the Company received cash distributions from the CMBS bonds equal to $245,000. These cash flows were in excess of the Company s estimate of future cash flows at December 31, 2003. This effect of this change increased net income (after minority interest in the Operating Partnership) for the three months ended March 31, 2004, by $183,000, or $0.03 per basic and diluted share.

The Company classifies its non-agency MBS and CMBS bonds as available-for-sale, carried at fair value in the financial statements. The Company generally estimates fair value of the non-agency MBS and CMBS bonds based on the present value of future expected cash flows of the bonds. The fair value of the non-agency MBS and CMBS bonds, based on the underlying assets that secure the bonds, are estimated using our best estimate of the future cash flows, capitalization rates and discount rates commensurate with the risks involved. The carrying amount of the MBS and CMBS assets at March 31, 2004 and 2003 was $0 and $240,000, respectively, and is included in other assets.

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 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. For the three months periods ended March 31, 2004 and 2003, advertising expenses were $505,000 and $296,000, respectively.

Equity in (Losses) Earnings of Unconsolidated Real Estate Partnerships

The Company owned an interest in two partnerships through joint ventures that develop, own and operate residential land lease communities. Investments in real estate partnerships in which the Company has influence, but does not have control, are accounted for under the equity method. Under the equity method, the Company s pro-rata share of the (losses) or earnings of the unconsolidated real estate partnership for the periods presented is included in equity in earnings (losses) from unconsolidated real estate partnerships.

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On July 25, 2003, the Company, through a real estate partnership, sold a residential land lease community consisting of 57 home sites and 12 recreational vehicle sites for $1,760,000. The Company received a distribution of $40,000 during the year coupled with a liquidating distribution from the partnership of $691,000 and recorded a gain of $165,000. On September 11, 2003, the Company consummated the sale of its partnership interest in a second real estate partnership. The Company received net proceeds of $1,961,000 and recorded a gain of $806,000. The Company has no further obligations to the partnerships.

Income Taxes

The Company has elected to be taxed as a real estate investment trust (a REIT) under the Internal Revenue Code of 1986, as amended (the Code). To qualify as a REIT, the Company must meet a number of organizational and operational requirements, including a requirement that it currently distribute at least 90% of its adjusted taxable income to its shareholders. It is management s current intention to adhere to these requirements and maintain the Company s REIT status. As a REIT, the Company generally will not be subject to corporate level federal income tax on taxable income that it distributes currently to its stockholders. If the company 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 may not be able to qualify as a REIT for four subsequent taxable years. Even if the Company qualifies for taxation as a REIT, the Company 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 its undistributed taxable income. In addition, taxable income from non-REIT activities conducted through taxable subsidiaries is subject to federal, state, and local income taxes.

Earnings and profits, which determine the taxability of dividends to stockholders, differ from net income reported for financial reporting purposes due to differences for U.S. Federal tax purposes in the estimated useful lives and methods used to compute depreciation and the carrying value (basis) of the investments in properties, among other things.

At March 31, 2004, the Company s net operating loss (NOL) carryover was approximately $64,100,000 for the parent REIT entity and $2,267,000 for the Company s taxable subsidiaries that are consolidated for financial reporting, but not for federal income tax purposes. Subject to certain limitations, the REIT s NOL carryover may be used to offset all or a portion of the Company s REIT taxable income, and as a result, to reduce the amount that the Company is required to distribute to stockholders to maintain its status as a REIT. It does not, however, affect the tax treatment to shareholders of any distributions that the Company does make. The REIT s and the taxable subsidiaries NOL carryovers are scheduled to expire between 2007 and 2009, and 2020 and 2022, respectively.

Earnings Per Share

Basic earnings per share are based upon the weighted-average number of shares of Common Stock outstanding during each year. Diluted earnings per share for the three months ended March 31, 2004 and 2003 reflect the effect of dilutive, unexercised stock options, both vested and unvested, and unvested restricted stock of 363,000 and 105,000 shares respectively, without regard to vesting restrictions on options issued. Vested and unvested stock options together with shares issued for non-recourse notes receivable and unvested restricted stock totaling 0 and 212,000 shares for the three months ended March 31, 2004 and 2003, respectively, have been excluded from diluted earnings per share as their effect would be anti-dilutive.

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Stock-Based Compensation

Effective January 1, 2003, the Company adopted the accounting provisions of SFAS, *Accounting for Stock-Based Compensation*, or (SFAS 123), as amended by Statement of Financial Accounting Standards No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure - an amendment of FASB Statement No. 123*, (SFAS 148), and applied the prospective method set forth in SFAS 148 with respect to the transition. Under this method, the Company now applies the fair value recognition provisions of SFAS 123 to all employee awards granted, modified, or settled on or after January 1, 2003, which has resulted in compensation expense being recorded based on the fair value of the stock options. Prior to January 1, 2003, the Company followed Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees,* (APB 25), and related interpretations in accounting. Under APB 25, because the exercise price of the employee stock options and warrants equaled the market price of the underlying stock on the date of grant, no compensation expense was recognized. The following table illustrates the effect on net income and earnings per share if the fair value based method had been applied to all outstanding and unvested awards in each period.

	Three Months Ended March 31,	
	2004	**2003**
Net Income, as reported	$ 2,374,000	$ 1,841,000
Add: Stock-based employee compensation expense included in reported net income		
Restricted stock awards	117,000	39,000
High Performance Shares	167,000	59,000
Stock options	2,000	1,000
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards		
Restricted stock awards	(117,000)	(39,000)
High Performance Shares	(167,000)	(59,0000)
Stock options	(7,000)	(12,000)
Add: Minority interest in Operating Partnership	1,000	1,000
Pro-forma net income	$ 2,370,000	$ 1,831,000
Basic earnings per common share:		
Reported	$ 0.34	$ 0.27
Pro forma	$ 0.34	$ 0.27
Diluted earnings per common share:		
Reported	$ 0.33	$ 0.27
Pro Forma	$ 0.32	$ 0.26

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Depreciation

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 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. 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. 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.

Depreciation of personal property is reported in property operating expenses, golf operating expenses, selling and marketing expenses, or general and administrative expenses, based upon the use of the associated asset. Depreciation expense relating to personal property totaled approximately $86,000 for the three months ended March 31, 2004 and $44,000 for the three months ended March 31, 2003, respectively.

Cash Equivalents

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

Legal Contingencies

The Company is currently involved in certain legal proceedings. The Company does not believe these proceedings will have a material adverse effect on its 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.

Use of Estimates

The preparation of the financial statements in conformity with United States GAAP 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

Certain reclassifications have been made in the 2003 consolidated financial statements to conform to the classifications used in the current period, including treatment of discontinued operations. Such reclassifications have no material effect on the amounts as originally presented.

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D. Real Estate

Real estate at March 31, 2004 and December 31, 2003 is as follows (in thousands):

	March 31, 2004	December 31, 2003
Land	$ 48,900	$ 48,825
Land improvements and buildings	203,172	197,365
	252,072	246,190
Less accumulated depreciation	(20,779)	(20,112)
Real estate, net	$ 231,293	$ 226,078

Land improvements and buildings consist primarily of infrastructure, roads, landscaping, clubhouses, maintenance buildings and common amenities.

The Company calculates depreciation using the straight-line method over an estimated useful life of 5 to 75 years for land improvements, 30 to 45 years for buildings and 5 years for furniture and other equipment. Land is not depreciated. The Company s real estate investment consists of buildings, land improvements, and land. Buildings consist primarily of the clubhouses at its residential land lease communities maintained as amenities for tenant 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 tenant amenities.

During the three months ended March 31, 2003, the Company sold a 28 home site community in Bensalem, Pennsylvania to a third party for an aggregate sales price of approximately $1,125,000. The net proceeds of $1,082,000 were used to repay a portion of the Company s outstanding short-term indebtedness and for other corporate purposes. The Company recognized a loss on the sale of approximately $86,000, net of minority interest in the Operating Partnership.

During the three months ended March 31, 2004, and 2003, the Company sold one and three home sites, respectively, for total consideration of approximately $24,000 and $90,000, respectively, to third parties.

E. Home Sales Business

The Company, through a taxable subsidiary corporation, owns an inventory of homes situated on developed vacant sites within our portfolio of residential land lease communities. In addition, the Company owns undeveloped land that is contiguous to existing occupied communities. The Company s home sales business seeks to facilitate the conversion of this inventory of unleased land into leased sites with long-term cash flows.

The Company s home sales business closed sales of 91 and 98 new homes for the three months ended March 31, 2004 and 2003, a decrease of 7.1%.

F. Discontinued Operations

The Financial Accounting Standards Board (FASB) issued SFAS No. 144, *for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed OF* (SFAS 144), to determine when a long-lived asset is classified as held for sale, and it provides a single accounting model for the disposal of

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long-lived assets. SFAS 144 was effective beginning January 1, 2002. Due to the adoption of SFAS 144, the Company now reports as discontinued operations real estate assets held for sale (as defined by SFAS 144) and real estate assets sold. All results of these discontinued operations, less applicable income taxes, are included in a separate component of income on the consolidated statements of income under the heading discontinued operations. This change has resulted in certain reclassifications of 2003 financial statement amounts.

The following is a summary of the components of income (loss) from discontinued operations for the three months ended March 31, 2004 and 2003 (in thousands):

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
Discontinued Property Operations:		
Rental and other property revenues	$ 13	$ 27
Property operating expenses	(4)	(10)
Depreciation		(1)
Income from discontinued operations before loss on disposition of discontinued operations	9	16
Loss on disposition of discontinued operations		(98)
Income from discontinued operations before minority interest	9	(82)
Minority interest attributed to discontinued operations	(1)	11
Income (Loss) from discontinued operations, net of minority interest	$ 8	$ (71)

As of March 31, 2004, the Company had one community in Arizona classified as held for sale. The results of operations of this community were included within discontinued operations for the three months ended March 31, 2004 and 2003.

G. Secured Long-Term Notes Payable

The following table summarizes the Company s secured long-term notes payable (in thousands):

	March 31, 2004	December 31, 2003
Fixed rate, ranging from 6.5% to 8.75%, fully amortizing, non-recourse notes maturing at various dates from 2018 through 2020	$ 76,971	$ 77,620
Fixed rate, ranging from 6.6% to 7.8%, partially amortizing, non- recourse notes maturing at various dates from 2007 through 2011	17,136	17,199

Variable rate, at LIBOR plus 300 basis points with a 6.5% floor, non-recourse notes maturing in 2005 and 2007	9,356	9,360
Variable rate, at LIBOR plus 250 basis points, non-amortizing, non-recourse notes maturing in 2013	15,015	15,015
	$ 118,478	$ 119,194

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H. Secured Short-Term Financing

The Company has a revolving line of credit with a bank with a total commitment of $16,000,000 that bears interest at the thirty-day London Interbank Offered Rate (LIBOR) plus 200 basis points (3.09% at March 31, 2004). The line of credit is secured by real property and improvements located in St. Lucie and Pasco County, Florida and Maricopa County, Arizona with a net book value of $29,155,000. The revolving line of credit matures in July 2005. At March 31, 2004, $4,418,000 was outstanding and $11,582,000 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 restrictions and other customary restrictions, including compliance with financial and other covenants thereunder. The financial covenants of the line of credit requires the Company to maintain a ratio of cash flow (as defined by the lender) on a trailing twelve-month basis to current annual debt service obligations (as defined by the lender) of not less than 1.25 to 1.0, to maintain a tangible net worth of $90,000,000 and to maintain a debt to net worth ratio of 2.0 to 1.0, among others. Based upon the application of these covenants as of March 31, 2004, $11,230,000 was available to the Company. The Company was in compliance with all financial covenant requirements at March 31, 2004.

The Company has a floor plan line of credit with a floor plan lender providing a credit facility of $15,000,000 with a variable interest rate linked to the prime rate and spreads varying from 1.5% to 4.5%, depending on the manufacturer and age of the inventory. The facility has a minimum interest rate of 5.5% based upon a minimum prime rate of 4.0%. Individual advances mature as early as 360 days or have no stated maturity, based upon the manufacturer. Amounts outstanding are nonrecourse to the Company for the period of time the financed home is subject to a repurchase agreement with the manufacturer of the home. 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 $9,520,000. At March 31, 2004, $9,077,000 was outstanding, of which $8,846,000 was non-recourse to the Company and $231,000 was recourse to the Company, and $5,923,000 was available under the floor plan credit facility.

I. Commitments and 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.

The Company entered into various construction contracts with third parties to develop subdivisions within the Company s existing portfolio of residential land lease communities. Certain of these contracts contain cancellation provisions at the option of the Company. The unpaid balance of these contracts remaining at March 31, 2004 is approximately $9,079,000.

As of March 31, 2004, the Company s outstanding purchase obligations with manufacturers of homes to be constructed in the Company s communities totaled $1,649,000.

In connection with the acquisition of a residential land lease community, the Company entered into an earn-out agreement with respect to 142 unoccupied home sites. The Company advances an additional $16,500 pursuant to the earn-out agreement for each newly occupied home site either in the form of cash

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or 1,178 OP Units, as determined by the seller. The Company paid $148,000 and $115,500 for the three months ended March 31, 2004 and 2003, respectively, in cash and OP Units for newly occupied home sites that was recorded as real estate. At March 31, 2004, there were 41 unoccupied home sites subject to the earnout.

J. Operating Segments

The Company has two reportable segments: rental property (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 rental property segment consists of residential land lease communities that generate rental and other property related income through the leasing of land to residents that are unrelated to 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 rental property segment coincident with the sale of a home, at which time the customer enters into a lease with the rental property segment. No revenues are generated from transactions with other segments and no single resident or customer contributed 10% or more of total revenues during the three months ended March 31, 2004 and 2003.

Non-segment revenue used to reconcile total revenue consists 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. 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 B.

SFAS No. 131, *Disclosure about Segments of an Enterprise and Related Information*, requires that segment disclosures present the measure(s) used by the chief operating decision maker for purposes of assessing such segments performance. The Company s chief operating decision maker is comprised of its executive senior management team who use several generally accepted industry financial measures to assess the performance of the business. Specifically, the Company s chief operating decision makers assess and measure segment operating activities based on contribution margins from each segment.

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The revenues, profit (loss), and assets for each of the reportable segments are summarized in the following tables for the periods ending March 31, 2004 and March 31, 2003 (in thousands):

	Three months ended March 31, 2004			
	Rental Property	Home Sales	Corporate, Interest and Other	Total
Revenues	$ 7,436	$ 9,280	$	$ 16,716
Contribution margin	3,870	818		4,688
General and administrative expenses	(399)	(498)	(14)	(911)
Interest expense			(1,360)	(1,360)
Interest and other income			272	272
Income from discontinued operations	8			8
Minority interest in earnings			(323)	(323)
Net income (loss)	$ 3,479	$ 320	$ (1,425)	$ 2,374
Assets	$ 237,138	$ 14,206	$ 982	$ 252,326
Capital Additions to:				
Real Estate	$ 5,882	$	$	$ 5,882
Other Assets	63	164	7	227
Total	$ 5,945	$ 164	$ 7	$ 6,109

	Three months ended March 31, 2003			
	Rental Property	Home Sales	Corporate, Interest and Other	Total
Revenues	$ 6,719	$ 7,890	$	$ 14,619
Contribution margin	3,420	339		3,759
General and administrative expenses	(279)	(327)	(12)	(618)
Interest expense			(1,284)	(1,284)
Interest and other income			296	296
Equity in earnings of unconsolidated real estate partnerships	20			20
Income from discontinued operations	(71)			(71)
Minority interest in earnings			(261)	(261)