

Tamir Biotechnology, Inc.
Form 8-K
December 23, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 8-K

Current Report

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): December 16, 2011
Tamir Biotechnology, Inc.
(Exact name of registrant as specified in its charter)

0-11088
(Commission File Number)

Delaware
(State or other jurisdiction of
incorporation)

22-2369085

(I.R.S. Employer Identification No.)

11 Deer Park Drive, Suite 204, Princeton Corporate Plaza, Monmouth Junction, NJ 08852
(Address of principal executive offices, with zip code)

(732) 823-1003
(Registrant's telephone number, including area code)

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 5.02 Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers

On December 23, 2011, the Board of Directors (the “Board”) of Tamir Biotechnology, Inc. (“Tamir”) appointed Lawrence A. Kenyon as interim Chief Executive Officer and Chief Financial Officer of Tamir, effective immediately.

On December 16, 2011, the Board determined that the employment of Charles Muniz, President, Chief Executive Officer and Chief Financial Officer of Tamir, would end.

From December 2008 until July 2010, Mr. Kenyon, 46, was employed by Par Pharmaceuticals, Inc., a specialty pharmaceutical company, first as Executive Vice President, finance, and then as Executive Vice President and Chief Financial Officer. Prior to joining Par Pharmaceuticals, Inc., Mr. Kenyon was the President and also served as Chief Operating Officer, Executive Vice President, Chief Financial Officer and Corporate Secretary of Tamir (under its previous name, Alfacell Corporation) since joining the company in 2007. Mr. Kenyon also previously served as a Director at Alfacell from November 2007 until April 2009.

The compensation arrangements with respect to the appointment of Mr. Kenyon have not yet been finalized. It is expected that Mr. Kenyon will enter into a consulting agreement with the Company pursuant to which he will be entitled to a monthly salary of \$5,000.

There is no arrangement or understanding between Mr. Kenyon and any other persons pursuant to which Mr. Kenyon was selected as the Chief Executive Officer and Chief Financial Officer of Tamir. Mr. Kenyon does not have any family relationship with any of the directors and executive officers of Tamir.

SIGNATURES

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

TAMIR BIOTECHNOLOGY, INC.

Date: December 23, 2011

By: /s/Lawrence A. Kenyon
 Name: Lawrence A. Kenyon
 Title: Chief Executive Officer and Chief
 Financial Officer

HEETS

(in thousands, except per share data)

	June 30, 2007 (unaudited)	December 31, 2006
ASSETS		
Real estate, net of accumulated depreciation of \$31,191 and \$29,068, respectively, including real estate under development of \$119,602 and \$110,682, respectively	\$ 395,235	\$ 383,006
Cash and cash equivalents	308	253
Inventory	21,031	22,827
Other assets, net	16,085	15,969
Total Assets	\$ 432,659	\$ 422,055
LIABILITIES		
Secured long-term notes payable	\$ 238,676	\$ 235,567
Secured short-term financing	30,013	20,059
Accounts payable and accrued liabilities	11,545	13,216
	280,234	268,842
MINORITY INTEREST IN OPERATING PARTNERSHIP	16,421	16,502
STOCKHOLDERS EQUITY		
Preferred stock, par value \$.01 per share, 3,000 shares authorized, 1,000 and 1,000 shares issued and outstanding, respectively	25,000	25,000
Common stock, par value \$.01 per share; 12,000 shares authorized; 9,481 and 9,390 shares issued, respectively; 7,738 and 7,664 shares outstanding (excluding treasury stock), respectively	95	94
Additional paid-in capital	293,113	291,460
Dividends in excess of accumulated earnings	(154,920)	(153,231)
Treasury stock, 1,753 and 1,726 shares at cost, respectively	(27,284)	(26,612)
	136,004	136,711

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Total Liabilities and Stockholders Equity	\$ 432,659	\$ 422,055
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See Notes to Condensed Consolidated Financial Statements

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

(in thousands, except per share data)

(unaudited)

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
RENTAL PROPERTY OPERATIONS				
Rental and other property revenues	\$ 9,715	\$ 8,508	\$ 19,436	\$ 16,681
Golf course operating revenues	219	213	649	683
Total property operating revenues	9,934	8,721	20,085	17,364
Property operating expenses	(3,247)	(3,056)	(6,576)	(5,972)
Golf course operating expenses	(357)	(373)	(692)	(738)
Total property operating expenses	(3,604)	(3,429)	(7,268)	(6,710)
Depreciation	(1,251)	(1,032)	(2,480)	(2,011)
Income from rental property operations	5,079	4,260	10,337	8,643
SALES OPERATIONS				
Home sales revenue	7,929	12,052	15,594	25,548
Cost of home sales	(5,658)	(7,914)	(11,291)	(16,958)
Gross profit on home sales	2,271	4,138	4,303	8,590
Commissions earned on brokered sales	44	164	119	323
Commissions paid on brokered sales	(24)	(76)	(68)	(158)
Gross profit on brokered sales	20	88	51	165
Selling and marketing expenses	(2,370)	(2,754)	(4,698)	(5,554)
(Loss) income from sales operations	(79)	1,472	(344)	3,201
General and administrative expenses	(993)	(995)	(1,957)	(1,886)
Interest and other income	8	91	178	144
Interest expense	(2,278)	(1,832)	(4,521)	(3,411)
Income before minority interest in Operating Partnership and discontinued operations	1,737	2,996	3,693	6,691
Minority interest in Operating Partnership	(198)	(350)	(419)	(785)
Income from continuing operations	1,539	2,646	3,274	5,906
DISCONTINUED OPERATIONS				
Income from discontinued operations, net of minority interest in Operating Partnership		50		92
Net income	1,539	2,696	3,274	5,998
Cumulative preferred stock dividends	(485)	(484)	(969)	(968)

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Net income available to common stockholders	\$ 1,054	\$ 2,212	\$ 2,305	\$ 5,030
Earnings per common share basic:				
Income from continuing operations (net of preferred stock dividends)	\$ 0.14	\$ 0.29	\$ 0.30	\$ 0.66
Income from discontinued operations		0.01		0.01
Net income attributable to common stockholders	\$ 0.14	\$ 0.30	\$ 0.30	\$ 0.67
Earnings per common share diluted:				
Income from continuing operations (net of preferred stock dividends)	\$ 0.13	\$ 0.27	\$ 0.29	\$ 0.63
Income from discontinued operations		0.01		0.01
Net income attributable to common stockholders	\$ 0.13	\$ 0.28	\$ 0.29	\$ 0.64
Weighted average common shares outstanding	7,745	7,465	7,728	7,466
Weighted average common shares and common share equivalents outstanding	8,029	7,836	8,052	7,860
Dividends declared per common share	\$ 0.25	\$ 0.25	\$ 0.50	\$ 0.50

See Notes to Condensed Consolidated Financial Statement

Table of Contents**AMERICAN LAND LEASE, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY**

(in thousands)

(unaudited)

	Preferred Stock		Common Stock		Additional Paid-In Capital	Dividends In Excess of Accumulated Earnings	Treasury Stock	Total Stockholders Equity
	Shares	Amount	Shares	Amount				
BALANCES DECEMBER 31, 2006	1,000	\$ 25,000	9,390	\$ 94	\$ 291,460	\$ (153,231)	\$ (26,612)	\$ 136,711
Exercise of options			57	1	841			842
Purchase of treasury stock							(672)	(672)
Vesting of restricted stock			27					
Equity compensation granted to the Board of Directors			7		194			194
Stock-based compensation					618			618
Net income						3,274		3,274
Dividends paid preferred stock						(969)		(969)
Dividends paid common stock						(3,994)		(3,994)
BALANCES JUNE 30, 2007	1,000	\$ 25,000	9,481	\$ 95	\$ 293,113	\$ (154,920)	\$ 27,284	\$ 136,004

See Notes to Condensed Consolidated Financial Statements

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

	Six Months Ended June 30,	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 3,274	\$ 5,998
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,030	2,653
Revenue recognized related to acquired lease obligations	(263)	(27)
Stock-based compensation	611	642
Minority interest in Operating Partnership	419	785
Minority interest attributable to discontinued operations		12
Decrease (increase) in inventory	1,796	(4,829)
Net change in operating assets and liabilities	552	(2,703)
Net cash provided by operating activities	9,419	2,531
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of real estate		(15,166)
Additions to real estate, including development	(11,762)	(19,269)
Capitalized interest	(4,423)	(3,420)
Capital replacements	(727)	(1,189)
Additions to fixed assets other than real estate classified as other assets	(246)	(659)
Notes receivable advances	(89)	(180)
Proceeds from notes receivable	266	10
Net cash used in investing activities	(16,981)	(39,873)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from (principal payments on) secured short-term financing	9,954	(207)
Proceeds from secured long-term notes payable borrowings	4,580	51,917
Principal payments on secured long-term notes payable	(1,471)	(1,587)
Payments of deferred financing costs	(73)	(864)
Payments to escrow funds	(172)	(226)
Collections of escrowed funds	92	150
Proceeds from stock options exercised	797	258
Repurchase of common stock	(627)	
Payments of common stock dividends	(3,994)	(3,932)
Payments of preferred stock dividends	(969)	(968)
Payments of OP Unit distributions	(500)	(497)
Net cash provided by financing activities	7,617	44,044
NET INCREASE IN CASH AND CASH EQUIVALENTS	55	6,702
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	253	1,795
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 308	\$ 8,497

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See Notes to Condensed Consolidated Financial Statements

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AMERICAN LAND LEASE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2007

(unaudited)

A. The Company

American Land Lease, Inc. (ANL) is a Delaware corporation that owns home sites leased to owners of homes situated on the leased land and operates the communities composed of these homes. ANL has elected to be taxed as a real estate investment trust (REIT). ANL 's preferred stock, par value \$0.01 per share, is listed on the New York Stock Exchange (NYSE) under the symbol ANL-PA. ANL 's common stock, par value \$0.01 per share, is listed on the NYSE under the symbol ANL. In May 1997, ANL contributed its net assets to Asset Investors Operating Partnership, L.P. (the Operating Partnership) in exchange for the sole general partner interest in the Operating Partnership and substantially all of the Operating Partnership 's initial capital. Except as the context requires, we, our, us and the Company refer to ANL, the Operating Partnership and all majority-owned subsidiaries.

Interests in the Operating Partnership held by limited partners other than ANL are referred to as OP Units. The Operating Partnership 's income is allocated to holders of OP Units based on the weighted average number of OP Units outstanding during the period. The holders of the OP Units receive distributions, prorated from the date of issuance, in an amount equivalent to the dividends paid, if any, to holders of ANL 's common stock. After holding OP Units for one year, limited partners generally have the right to redeem their OP Units for cash. Notwithstanding that right, the Operating Partnership may elect to acquire some or all of the OP Units tendered for redemption in exchange for shares of ANL 's common stock in lieu of cash. At June 30, 2007, the Operating Partnership had approximately 993,000 OP Units outstanding, excluding those owned by ANL, and ANL owned 89% of the Operating Partnership.

As of June 30, 2007, based on total home sites, 72% of the Company 's portfolio of residential land lease communities is located in Florida, 24% in Arizona and 4% in Alabama.

B. Presentation of Financial Statements

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X under the Securities Exchange Act of 1934, as amended. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal recurring nature. Operating results for the three and six months ended June 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

The condensed consolidated balance sheet at December 31, 2006 has been derived from the audited financial statements at that date but does not include all of the information and notes required by GAAP.

For further information, refer to the financial statements and notes thereto included in ANL 's Annual Report on Form 10-K for the year ended December 31, 2006.

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C. Summary of Significant Accounting Policies

Principles of Consolidation

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

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 Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations*, the Company allocates the purchase price of real estate to land, land improvements, buildings, furniture, fixtures, equipment and intangibles, such as the value of above and below market leases and origination costs associated with the in-place leases. In order to allocate purchase price on these various components, the Company performs the following procedures for properties acquired:

1. Determine the as-if vacant fair value of the physical property acquired;
2. Allocate the as-if vacant fair value among land, land improvements, buildings (based on real estate valuation techniques), furniture, fixtures and equipment; and
3. Compute the difference between the purchase price of the property and the as-if vacant fair value and allocate such difference to leases in-place (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.
 - c. The value associated with lost rents during the absorption period (estimates of lost rental revenue during the expected lease-up periods based on current market demand).

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

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

Interest incurred relating to the development of communities is capitalized during the development period. The Company's strategy is to master plan, develop and build substantially all of the home sites in its communities. Accordingly, substantially all projects excluding finished lots where the home is available for occupancy are undergoing development. The Company capitalized interest of approximately \$2,248,000 and \$1,794,000 for the three months ended June 30, 2007 and 2006, and \$4,423,000 and \$3,420,000 for the six months ended June 30, 2007 and 2006, respectively.

If events or circumstances indicate that the carrying amount of a property may be impaired, the Company will make an assessment of its recoverability by estimating the future undiscounted cash flows, excluding interest charges, of the property. If the carrying amount exceeds the aggregate future cash flows, the Company would recognize an impairment loss to the extent the carrying amount exceeds the fair value of the property. There were no impairment losses recognized during the six months ended June 30, 2007 and 2006.

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

Inventory

The Company, through a taxable subsidiary corporation, maintains an inventory of manufactured homes situated within its residential land lease communities. Carrying amounts for inventory are determined on a specific identification basis and are stated at the lower of cost or 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 June 30, 2007, \$8,596,000 of the Company's total inventory investment of \$21,031,000 was older than one year. The Company recorded charges of approximately \$68,000 and \$83,000 for the three months ended June 30, 2007 and 2006, and \$200,000 and \$221,000 for the six months ended June 30, 2007 and 2006, respectively, to adjust inventory carrying amounts to market value.

Revenue Recognition

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

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

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

Deferred Financing Costs

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

Advertising Costs

Costs of advertising are expensed the first time the advertising takes place. Direct response advertising conducted by the Company during the periods was expensed as incurred, as the Company could not define the expected period of future benefits. Advertising expenses were \$575,000 and \$726,000 for the three months ended June 30, 2007 and 2006, respectively, and \$1,134,000 and \$1,369,000 for the six months ended June 30, 2007 and 2006, respectively, and are included within golf course operating expenses and selling and marketing expenses in the consolidated statements of income.

Income Taxes

ANL has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended. To qualify as a REIT, ANL must meet a number of organizational and operational requirements, including income, asset, and stockholder requirements, and a requirement that, in general, it must distribute currently at least 90% of its adjusted taxable income to its stockholders. It is management's current intention to adhere to these requirements and maintain ANL's REIT status. As a REIT, ANL generally will not be subject to corporate level federal income tax on taxable income that it distributes currently to its stockholders, by virtue of a deduction for dividends paid. If ANL fails to qualify as a REIT in any taxable year, it will be subject to federal income taxes at regular corporate rates (including any applicable alternative minimum tax) and, unless entitled to relief under certain statutory provisions, may not be able to qualify as a REIT for four subsequent taxable years. Even if ANL qualifies for taxation as a REIT, ANL may be subject to certain state and local taxes on its income and property, and to federal income and excise taxes and penalties, including taxes on ANL's undistributed taxable income. In addition, taxable income from non-REIT activities conducted through taxable subsidiaries of ANL is subject to federal, state, and local income taxes.

Earnings Per Share

Basic earnings per share are based upon the weighted-average number of shares of common stock outstanding during each period. Diluted earnings per share reflect the effect of dilutive, unexercised stock options, both vested and unvested, and unvested restricted stock of 284,000 and 371,000 shares for the three months ended June 30, 2007 and 2006, respectively, and 324,000 and 394,000 shares for the six months ended June 30, 2007 and 2006, respectively. Vested and unvested stock options totaling 148,000 and 0 shares for the three months ended June 30, 2007 and 2006, respectively, and 148,000 and 0 shares for the six months ended June 30, 2007 and 2006, respectively, were excluded from diluted earnings as their effect was anti-dilutive.

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Stock-based Compensation

Stock-based compensation is reported in selling and marketing expenses, and general and administrative expenses. The Company recorded stock-based compensation expense of \$307,000 and \$379,000 for the three months ended June 30, 2007 and 2006, respectively, and \$623,000 and \$642,000 for the six months ended June 30, 2007 and 2006, respectively. The Company used the Black-Scholes-Merton formula to estimate the fair value of stock options and used the closing stock price at date of grant for time-based restricted stock for the six months ended June 30, 2007 and 2006. In 2007, the Company changed its valuation model for its market-based restricted stock from a barrier option model to a Monte Carlo model. The Company reviewed various models in 2007 and determined that the output derived from the Monte Carlo model is more reflective of the economic substance of the Company's market-based restricted award. The change in valuation model to estimate the fair value of the market-based awards did not have a material effect on the consolidated financial statements for the three and six months ended June 30, 2007.

Treasury Stock

On October 17, 2000, the Board of Directors authorized the Company to repurchase up to 2,000,000 shares of the outstanding common stock. The timing of stock purchases is at the discretion of management. During the six months ended June 30, 2007 and 2006, the Company repurchased 27,000 and 0 shares of outstanding common stock, respectively. The Company has repurchased approximately 604,000 shares as of June 30, 2007 pursuant to this authorization.

Depreciation of Personal Property

Depreciation of personal property is reported in property operating expenses, selling and marketing expenses, or general and administrative expenses, based upon the use of the associated asset. The Company recorded depreciation expense related to personal property of \$99,000 and \$141,000 for the three months ended June 30, 2007 and 2006, respectively, and \$192,000 and \$288,000, for the six months ended June 30, 2007 and 2006, respectively. Depreciation is computed using the straight-line method over an estimated useful life of 5 to 15 years for furniture and other equipment, all of which are judgmental determinations. These determinations may prove to be different than the actual life of any individual asset.

Statements of Cash Flows

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

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Non-cash investing and financing activities for the period ended June 30, 2007 and 2006 were as follows:

	2007	2006
Issuance of common stock for:		
Services by directors	\$ 194,000	\$ 140,000
Acquisition of an age-restricted residential land lease community		\$ 1,000,000
Real estate acquired:		
By assumption of below market leases		\$ 864,000
Cashless exercise of options	\$ 45,000	

Fair Value of Financial Instruments

The aggregate fair value of cash and cash equivalents, receivables, payables and secured short-term financing as of June 30, 2007 approximates their carrying value due to their relatively short-term nature. Management further believes that the fair value of variable rate secured long-term notes payable approximates their carrying value. For the Company's fixed rate secured long-term notes payable, fair values have been based on estimates using present value techniques. These techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the calculated estimates of fair value cannot be substantiated by comparison to independent market quotes and, in many cases, may not be realized in immediate settlement of the instrument. The estimated fair value of the Company's secured long-term notes payable was \$239,272,000 and \$243,114,000 at June 30, 2007 and December 31, 2006, respectively, as compared to the carrying value of \$238,676,000 and \$235,567,000 at June 30, 2007 and December 31, 2006, respectively.

Use of Estimates

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

Reclassifications

In accordance with SFAS 144, *Accounting for the Impairment or Disposal of Long-lived Assets* (SFAS 144), certain reclassifications have been made in the 2006 consolidated financial statements to present the operations of one community as discontinued operations for all periods presented. Such reclassifications have no material effect on the amounts as originally presented.

D. Real Estate

Real estate at June 30, 2007 and December 31, 2006 is as follows (in thousands):

	June 30, 2007	December 31, 2006
Land	\$ 92,329	\$ 89,124
Land improvements and buildings	334,097	322,950
	426,426	412,074
Less accumulated depreciation	(31,191)	(29,068)
Real estate, net	\$ 395,235	\$ 383,006

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The Company's real estate investment consists of buildings, land improvements, and land. Buildings consist primarily of clubhouses at its residential land lease communities maintained as amenities for resident use. A majority of the Company's investment in land improvements consists of long-lived assets such as lateral infrastructure at its residential land lease communities including sanitary sewer and storm water collection systems, potable water supply systems, roads and walkways. The balance of land improvements consists of assets with shorter lives such as marinas, fencing, swimming pools, spas, shuffleboard courts, tennis courts and other resident amenities.

E. Secured Long-Term Notes Payable

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

	June 30, 2007	December 31, 2006
Fixed rate, ranging from 7.86% to 8.20%, fully amortizing, non-recourse notes maturing at various dates from 2015 through 2020	\$ 10,196	\$ 10,467
Fixed rate, ranging from 5.48% to 7.75%, partially amortizing, non-recourse notes maturing at various dates from 2007 through 2021	217,124	213,744
Variable rate, at the three-month LIBOR rate plus 175 basis points, non-recourse notes maturing in 2011	11,356	11,356
	\$ 238,676	\$ 235,567

F. 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 a variable rate ranging from 150 to 175 points over the one-month LIBOR rate (6.92% at June 30, 2007 and 7.0% at December 31, 2006). The line of credit is secured by real property and improvements located in St. Lucie, Lake, and Pasco County, Florida and Maricopa County, Arizona with a net book value of \$35,513,000. The revolving line of credit matures in May 2009. At June 30, 2007, \$9,505,000 was outstanding and \$6,495,000 was not drawn under the revolving line of credit. The availability of funds to the Company under the line of credit is subject to certain borrowing base and other customary restrictions, including compliance with financial and other covenants thereunder. Based on the application of the borrowing base calculation, as of June 30, 2007, \$5,260,000 was available to the Company. The line of credit also includes certain financial covenants that require the Company to maintain a ratio of cash flow (as defined by the lender) on a trailing twelve-month basis to pro forma annual fixed charge obligations (as defined by the lender) of not less than .85 to 1.0 during fiscal year 2007, and 1.0 to 1.0 during fiscal year 2008; to maintain an adjusted tangible net worth (as defined by the lender) of \$150,000,000 and to maintain a debt to adjusted tangible net worth ratio of not more than 1.75 to 1.0, among others. The Company believes it was in compliance with all financial covenant requirements under this revolving line of credit at June 30, 2007 with the exception of the cash flow ratio. The Company obtained a waiver with regard to this covenant from the bank.

The Company has a floor plan line of credit with a floor plan lender providing a committed credit facility of \$35,000,000 with a variable interest rate linked to the lender's prime rate plus 25 basis points (8.50% at June 30, 2007 and December 31, 2006). Individual advances mature between 360 days and 720 days

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based on the aging of the Company's inventory. 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 \$19,757,000. At June 30, 2007, approximately \$20,508,000 was outstanding, of which \$2,646,000 was recourse to the Company, and approximately \$14,492,000 was available under the floor plan credit facility. The financial covenants of the floor plan line of credit require the Company to maintain a tangible net worth of \$90,000,000 and to maintain a debt to net worth ratio of not more than 2.0 to 1.0, among others. The floor plan lender's commitment to fund future inventory purchases expires in September 2009. The Company believes it was in compliance with all financial covenant requirements under this floor plan line of credit at June 30, 2007.

G. Commitments and Contingencies

Commitments

In the ordinary course of business, the Company has entered into various construction contracts with third parties to develop subdivisions within the Company's existing portfolio of residential land lease communities. The unpaid balance of these contracts remaining at June 30, 2007 is approximately \$5,703,000.

As of June 30, 2007, the Company's outstanding purchase obligations with manufacturers of homes to be constructed in the Company's communities totaled \$1,378,000.

Legal Contingencies

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

H. Segment Reporting

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 and six months ended June 30, 2007 and 2006.

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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 C.

SFAS 131, *Disclosures 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 rental property operating activities based on income before depreciation and contribution margins for our home sales segment.

The revenues, net income (loss), and assets for each of the reportable segments are summarized in the following tables for the three and six months ended June 30, 2007 and June 30, 2006 (in thousands).

	Three months ended June 30, 2007			
	Rental Property	Home Sales	Corporate, Interest and Other	Total
Revenues	\$ 9,934	\$ 7,973	\$	\$ 17,907
Home sales contribution margin		(79)		(79)
Rental property income before depreciation	6,330			6,330
Depreciation	(1,251)			(1,251)
General and administrative expenses	(551)	(442)		(993)
Interest expense			(2,278)	(2,278)
Interest and other income			8	8
Minority interest in earnings			(198)	(198)
Net income (loss)	\$ 4,528	\$ (521)	\$ (2,468)	\$ 1,539
Assets	\$ 400,674	\$ 31,062	\$ 923	\$ 432,659
Capital additions to:				
Real estate	\$ 8,011	\$	\$	\$ 8,011
Capital replacements - real estate	290			290
Capital replacements - other assets	95			95
Other assets	69	27	1	97
Total	\$ 8,465	\$ 27	\$ 1	\$ 8,493

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	Three months ended June 30, 2006			
	Rental Property	Home Sales	Corporate, Interest and Other	Total
Revenues	\$ 8,721	\$ 12,216	\$	\$ 20,937
Home sales contribution margin		1,472		1,472
Rental property income before depreciation	5,292			5,292
Depreciation	(1,032)			(1,032)
General and administrative expenses	(417)	(574)	(4)	(995)
Interest expense			(1,832)	(1,832)
Interest and other income			91	91
Income from discontinued operations			50	50
Minority interest in earnings			(350)	(350)
Net income (loss)	\$ 3,843	\$ 898	\$ (2,045)	\$ 2,696
Assets	\$ 339,765	\$ 31,898	\$ 11,113	\$ 382,776
Capital additions to:				
Real estate	\$ 18,159	\$	\$	\$ 18,159
Capital replacements real estate	297			297
Capital replacements other assets	139			139
Other assets	152	216	3	371
Total	\$ 18,747	\$ 216	\$ 3	\$ 18,966

	Six months ended June 30, 2007			
	Rental Property	Home Sales	Corporate, Interest and Other	Total
Revenues	\$ 20,085	\$ 15,713	\$	\$ 35,798
Home sales contribution margin		(344)		(344)
Rental property income before depreciation	12,817			12,817
Depreciation	(2,480)			(2,480)
General and administrative expenses	(1,077)	(870)	(10)	(1,957)
Interest expense			(4,521)	(4,521)
Interest and other income			178	178
Minority interest in earnings			(419)	(419)
Net income (loss)	\$ 9,260	\$ (1,214)	\$ (4,772)	\$ 3,274
Assets	\$ 400,674	\$ 31,062	\$ 923	\$ 432,659
Capital additions to:				
Real estate	\$ 16,192	\$	\$	\$ 16,192
Capital replacements real estate	488			488
Capital replacements other assets	239			239
Other assets	135	105	6	246
Total	\$ 17,054	\$ 105	\$ 6	\$ 17,165

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	Six months ended June 30, 2006			
	Rental Property	Home Sales	Corporate, Interest and Other	Total
Revenues	\$ 17,364	\$ 25,871	\$	\$ 43,235
Home sales contribution margin		3,201		3,201
Rental property income before depreciation	10,654			10,654
Depreciation	(2,011)			(2,011)
General and administrative expenses	(762)	(1,117)	(7)	(1,886)
Interest expense			(3,411)	(3,411)
Interest and other income			144	144
Income from discontinued operations			92	92
Minority interest in earnings			(785)	(785)
Net income (loss)	\$ 7,881	\$ 2,084	\$ (3,967)	\$ 5,998
Assets	\$ 339,765	\$ 31,898	\$ 11,113	\$ 382,776
Capital additions to:				
Real estate	\$ 39,685	\$	\$	\$ 39,685
Capital replacements real estate	961			961
Capital replacements other assets	228			228
Other assets	348	264	47	659
Total	\$ 41,222	\$ 264	\$ 47	\$ 41,533

I. Stock and Dividends*Dividends*

ANL's common stock and preferred stock dividends are set quarterly by ANL's Board of Directors and are subject to change or elimination at any time. ANL paid quarterly dividends on common stock of \$0.25 per share totaling \$2,004,000 and \$1,961,000 for the three months ended June 30, 2007 and 2006, respectively, and \$3,994,000 and \$3,932,000 for the six months ended June 30, 2007 and 2006, respectively. ANL paid quarterly dividends on preferred stock of \$0.48 per share totaling \$485,000 and \$484,000 for the three months ended June 30, 2007 and 2006, respectively, and \$969,000 and \$968,000 for the six months ended June 30, 2007 and 2006, respectively.

The Company deducts cumulative paid and unpaid preferred stock dividends from net income to arrive at net income available to common stockholders. The Company deducted \$485,000 and \$484,000 for the three months ended June 30, 2007 and 2006, respectively, and \$969,000 and \$968,000 for the six months ended June 30, 2007 and 2006, respectively, related to cumulative paid and unpaid preferred stock dividends.

J. Stock-based Compensation

The Company's Plan provides for the issuance of up to 3,000,000 shares of common stock in the form of qualified and non-qualified stock options, stock appreciation rights, limited stock appreciation rights, restricted stock and deferred stock to its directors, officers, employees and consultants. As of June 30,

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2007, the Company has granted awards of stock options and restricted stock under the Plan. As of June 30, 2007, there was approximately \$2,469,000 of total unrecognized compensation cost related to non-vested stock-based compensation arrangements granted under the Plan. The cost is expected to be recognized over a weighted average period of 2.7 years. This expected cost does not include the impact of any future stock-based compensation awards.

Stock Options

For the six months ended June 30, 2007 and 2006, the Company issued approximately 148,000 and 236,000 options, respectively. The Company elected to continue to estimate the fair value of stock options using the Black-Scholes-Merton formula and for the six months ended June 30, 2007 and 2006, the estimated weighted-average grant-date fair value of options granted was \$3.68 and 2.84 per option, respectively.

Restricted Stock

The Company issued approximately 9,000 and 18,500 shares as time-based awards of restricted stock to members of management for the six months ended June 30, 2007 and 2006, respectively. The time-based awards of restricted stock were issued at the fair value of ANL's common stock on the date of issuance. For the six months ended June 30, 2007 and 2006, the weighted average per share fair value of the time-based restricted stock awarded was \$27.65 and \$24.80, respectively. The fair value of such restricted stock is amortized to compensation expense over the vesting period.

The Company issued 65,000 and 91,500 shares as market-based awards of restricted stock to members of management during the six months ended June 30, 2007 and 2006, respectively. In 2007, the Company changed its valuation model for its market-based restricted stock from a barrier option model to a Monte Carlo model. The Company reviewed various models in 2007 and determined that the output derived from the Monte Carlo model is more reflective of the economic substance of the Company's market-based restricted award. For the six months ended June 30, 2007 and 2006, the weighted average per share fair values of the market-based restricted stock was \$7.38 and \$8.09, respectively. In the event the market-based performance objectives are not attained, the market-based awards of restricted stock are forfeited, but the dividends paid are not forfeited.

The fair value of the market-based awards of restricted stock is amortized to compensation expense over the requisite service period. The requisite service period for market-based restricted stock awards granted during the six months ended June 30, 2007 and 2006 was three years for both grants. The principal terms of the market-based awards of restricted stock, also known as high performance shares (HPS Shares), are more fully described below.

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

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management's HPS Shares to vest in full at a given final valuation date, the actual total return to stockholders over the applicable three-year period is required to exceed the Equity REIT Index total return by 5% per year on a compounded basis.

The HPS Shares granted in January 2007 have a final measurement date of December 31, 2009. The Equity REIT Index annual compounded total return over the trailing ten years as of December 31, 2006 was 14.5%. For the 2007 HPS Shares to fully vest, the actual total return over the three-year period is required to be 19.5%. If the actual total return is between 14.5% and 19.5%, then a ratable portion of the HPS Shares would vest (for example, one half of the HPS Shares would vest if the actual total return is 17.0%). If the actual total return does not exceed 14.5%, all of the 2007 HPS Shares would be forfeited, but none of the dividends paid during the three-year period would be forfeited.

K. Discontinued Operations

In accordance with SFAS No. 144, the Company reports as discontinued operations real estate assets held for sale and real estate assets sold in the current period. All results of these discontinued operations are included in a separate component of income on the consolidated statements of income under the heading DISCONTINUED OPERATIONS.

During the year ended December 31, 2006, the Company sold an age-restricted community located in New Jersey with 90 home sites. The sale of this community resulted in reclassifications of 2006 financial statement amounts. The following is a summary of the components of income from discontinued operations for the three and six months ended June 30, 2007 and 2006 (in thousands):

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Discontinued property operations:				
Rental and other property revenues	\$	\$ 149	\$	\$ 287
Property operating expenses		(29)		(56)
Interest expense		(46)		(91)
Depreciation		(18)		(36)
Income from discontinued operations before minority interest		56		104
Minority interest expense attributed to discontinued operations		(6)		(12)
Income from discontinued operations, net of minority interest	\$	\$ 50	\$	\$ 92

As of June 30, 2007, the Company did not have any assets classified as held for sale.

L. Accounting for Uncertainty in Income Taxes

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

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In accordance with our accounting policy, we recognize accrued interest related to unrecognized tax benefits as a component of interest expense and penalties related to unrecognized tax benefits as a component of general and administrative expenses. This policy did not change as a result of the adoption of FIN 48.

The Company files its tax returns as prescribed by the tax laws of the jurisdictions in which it operates. The Company's federal and state income tax returns for the years ended December 31, 2003, and subsequent years are currently subject to examination by the Internal Revenue Service or other taxing authorities. As a result of the implementation of FIN 48, the Company did not recognize a liability for unrecognized tax benefits.

M. Recent Accounting Developments

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

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company does not anticipate adoption of this standard will have a material impact on its consolidated financial statements.

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets*, which will be effective for fiscal years that begin after December 15, 2006. This statement amends SFAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a replacement of FASB Statement 125* (SFAS 140), regarding (1) the circumstances under which a servicing asset or servicing liability must be recognized, (2) the initial and subsequent measurement of recognized servicing assets and liabilities, and (3) information required to be disclosed relating to servicing assets and liabilities. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments*, or SFAS 155, which will be effective for fiscal years that begin after December 15, 2006. This statement amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, to narrow the scope exception for interest-only and principal-only strips on debt instruments to include only such strips representing rights to receive a specified portion of the contractual interest or principal cash flows. SFAS 155 also amends SFAS 140 to allow qualifying special-purpose entities to hold a passive derivative financial instrument pertaining to beneficial interests that itself is a derivative financial instrument. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

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N. Subsequent Events

Prior to June 30, 2007, the Company was in receipt of signed contract for one of its properties. The purchaser had a due-diligence period until July 11, 2007, following which the deposit made on the contract would revert to the Company. Prior to receipt of the purchase contract, the Company did not actively market the property for sale. The Company determined the held-for-sale criteria date to be July 11, 2007, which is the date the purchaser is unable to cancel the contract. The Company has not classified the property as held-for-sale as of June 30, 2007 and has not presented discontinued operations information for this property as of June 30, 2007. The agreed upon sales price is above the Company's carrying costs and the closing is scheduled for third quarter 2007.

ANL's common stock dividend is set quarterly and is subject to change or elimination at any time. On August 7, 2007, the Board of Directors declared a quarterly cash dividend of \$0.25 per share of common stock for the quarter ended June 30, 2007, payable on August 31, 2007 to stockholders of record on August 15, 2007.

ANL's preferred stock dividend is set quarterly and is subject to change or elimination at any time. On August 7, 2007, the Board of Directors declared a cash dividend of \$0.48 per share of Series A Preferred Stock for the quarter ended June 30, 2007, payable on August 31, 2007 to stockholders of record on August 15, 2007.

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements in certain circumstances. Certain information included in this report and our other filings with the Securities and Exchange Commission (the SEC) under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, as well as information communicated orally or in writing between the dates of these SEC filings, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements may include projections relating to our results of operations, cash flow, dividends, anticipated returns on real estate investments and opportunities to acquire additional communities. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include: general economic and business conditions; interest rate changes; financing and refinancing risks; risks inherent in owning real estate or debt secured by real estate; future development rate of home sites; competition; the availability of real estate assets at prices which meet our investment criteria; our ability to reduce expense levels, implement rent increases, use leverage and other risks set forth in our SEC filings. In addition, our current and continuing qualification as a real estate investment trust (REIT) involves the application of highly technical and complex provisions of the Internal Revenue Code and depends on our ability to meet the various requirements imposed by the Internal Revenue Code, through actual operating results, distribution levels and diversity of stock ownership. Readers should carefully review our financial statements and the notes thereto, as well as the risk factors described in the documents we file from time to time with the SEC. The Company undertakes no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this report.

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

Critical Accounting Policies and Estimates

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

Capitalized Costs

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

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The most significant capitalized cost is interest. We capitalize interest when the following three conditions are present: (i) expenditures for the asset have been made, (ii) activities necessary to get the asset ready for its intended use are in progress and (iii) interest cost is being incurred. Our determination of the activities in progress for a development property is subject to professional judgment. The most significant judgment is the determination to capitalize interest relating to the ownership of land being developed as new home sites. In many cases, the development of such land is expected to take place over several years and in multiple phases. In such instances, it is our conclusion that the entirety of each parcel is under development and is a qualifying asset. Accordingly, interest is capitalized with respect to the entire parcel until such time as all development activities cease or the individual home site is ready for its intended use. We capitalized interest of \$2,248,000 and \$1,794,000 for the three months ended June 30, 2007 and 2006, and \$4,423,000 and \$3,420,000 for the six months ended June 30, 2007 and 2006, respectively. We regularly review the amount of capitalized costs in conjunction with our review of impairment of long-lived assets. Based on the level of development activity for the period ended June 30, 2007, if our development activities decreased such that 10% of our assets qualifying for capitalization of interest are no longer qualified, the amount of capitalized interest would have been reduced by \$225,000. Reducing capitalized interest would increase interest expense, resulting in lower net income, which would be offset in future periods by lower depreciation expense.

Impairment of Long-Lived Assets

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

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

Fair Value of Financial Instruments

The aggregate fair value of our cash and cash equivalents, receivables, payables and short-term secured debt as of June 30, 2007 approximates their carrying value due to their relatively short-term nature. Management further believes that the fair value of our variable rate secured long-term debt approximates carrying value. For the fixed rate secured long-term debt, fair values have been based upon estimates using present value techniques. These techniques are significantly affected by the assumptions used,

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including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent market quotes and, in many cases, may not be realized in immediate settlement of the instrument. The estimated fair value of our secured long-term notes payable was \$239,272,000 and \$243,114,000 at June 30, 2007 and December 31, 2006 as compared to the carrying value of \$238,676,000 and \$235,567,000 at June 30, 2007 and December 31, 2006, respectively.

Rental Property Depreciation

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

Inventory

Carrying amounts for inventory are determined on a specific identification basis and are stated at the lower of cost or market. If actual market conditions are less favorable than those projected by management, if customer preferences change, or if material improvements are made by suppliers that are preferred by our customers compared to inventory we own, inventory write-downs may be required. Any such write-downs may have a significant impact on our financial results. On a quarterly basis, we review each home in inventory that is older than one year and evaluate our carrying amount versus recent offers, comparable sales, and our asking price in order to derive an estimate of its market value. In the event that the carrying amount exceeds our estimate of market value, less a normalized margin, we record a write-down of the carrying amount as a charge to the cost of home sales in the current period. As of June 30, 2007, \$8,596,000 of our total inventory of \$21,031,000 was older than one year. We recorded charges of approximately \$68,000 and \$83,000 for the three months ended June 30, 2007 and 2006, and \$200,000 and \$221,000 for the six months ended June 30, 2007 and 2006, respectively, to adjust inventory carrying amounts to market value. If our estimate of fair market value was overstated by 10%, we would record an additional write down to fair market value, less a normalized margin, of \$506,000 based upon the carrying value of inventory as of June 30, 2007.

Stock-based Compensation

Stock-based compensation expense is recorded at the fair value of awards at the date of issuance. The determination of fair value of market-based restricted stock and stock options requires the application of complex financial models and assumptions. The fair value assigned to awards at the date of issuance determines the amount of compensation expense that will be recognized over the vesting period for the award. There are alternative valuation models that may result in a valuation for awards that differs from our assessment of fair value. The application of alternative models or different valuation assumptions within the models we use will result in a fair value that is greater than or less than the fair value we assign to awards. To the extent that the alternative fair value is greater than the fair value we assign to awards, compensation expense over the vesting term of the award would increase resulting in lower net income. In 2007, we changed our valuation model for our market-based restricted stock from a barrier option model to a Monte Carlo model. We reviewed various models in 2007 and determined that the output derived from the Monte Carlo model is more reflective of the economic substance of our market-based restricted award. The change in estimate of fair value of the market-based awards did not have a

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material effect on the consolidated financial statements for the three and six months ended June 30, 2007. In addition, management must estimate the number of shares and options that will be forfeited by employees before the vesting requirements are met. We base our estimate of forfeitures on the historical forfeiture rate realized on prior awards. We revise our estimate on an ongoing basis to reflect actual forfeitures.

Legal Contingencies

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

Recent Accounting Pronouncement

On January 1, 2007, the Company adopted Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an Interpretation of SFAS 109* (FIN 48). FIN 48 provides interpretative guidance for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The adoption of this standard did not have a material impact on the Company's consolidated financial statements for the six months ended June 30, 2007.

Portfolio Summary

	Operational	Developed	Undeveloped	RV	Total
	Home sites	Home sites	Home sites	Sites	
As of December 31, 2006	8,044	1,192	1,566	129	10,931
New lots purchased		4			4
New leases originated	114 ⁽¹⁾	(114)			
Adjust for site plan changes	2	(3)			(1)
As of June 30, 2007	8,160⁽²⁾	1,079	1,566	129	10,934

(1) During 2007, a new lease was originated for a used home at one community. The Company inadvertently reported the home site as non-operational.

(2) As of June 30, 2007, 7,935 of these operational home sites were occupied.

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	Occupied		
	Home sites	Operational Home sites	Occupancy
As of December 31, 2006	7,833	8,044	97.4%
New home sales	120	113	
Used home sales	4	2	
Used homes acquired	(4)		
Homes constructed by others	4	1	
Homes removed from previously leased sites	(22)		
As of June 30, 2007	7,935	8,160	97.2%

Operating Strategy

In addition to reviewing financial measures determined in accordance with GAAP, we assess the performance of the business by using several generally accepted industry financial measures, including funds from operations (FFO), a non-GAAP financial measure, which is defined below. We believe this measure provides useful information regarding our performance, but this measure should not be considered as an alternative to net income or net cash flow from operating activities, as determined in accordance with GAAP.

The Board of Governors of the National Association of Real Estate Investment Trusts (also known as NAREIT) defines FFO as net income or loss, computed in accordance with GAAP, excluding gains and losses from sales of property, plus depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. We calculate FFO beginning with the NAREIT definition and include adjustments for the minority interest in the Operating Partnership owned by persons other than us.

FFO should not be considered an alternative to net income or net cash flows from operating activities, as calculated in accordance with GAAP, as an indication of our performance or as a measure of liquidity. FFO is not necessarily indicative of cash available to fund our cash needs, including our ability to make distributions, since FFO does not consider recurring capital expenditures, debt maturities, capitalized interest or other capital commitments of the Company. In addition, although FFO is a measure used for comparability in assessing the performance of real estate investment trusts, there can be no assurance that our basis for computing FFO is comparable with that of other real estate investment trusts.

We use FFO in measuring our operating performance because we believe that the items that result in a difference between FFO and net income have a different impact to the ongoing operating performance of a real estate company than to other businesses.

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For the three and six months ended June 30, 2007 and 2006, our FFO was (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Net income available to common stockholders ⁽¹⁾	\$ 1,054	\$ 2,212	\$ 2,305	\$ 5,030
Adjustments:				
Cumulative preferred stock dividends	485	484	969	968
Minority interest in operating partnership	198	350	419	785
Real estate depreciation	1,251	1,032	2,480	2,011
Discontinued operations:				
Real estate depreciation, net of minority interest		18		36
Minority interest in operating partnership attributed to discontinued operations		6		12
FFO	2,988	4,102	6,173	8,842
Cumulative preferred stock dividends	(485)	(484)	(969)	(968)
FFO available to common stockholders	\$ 2,503	\$ 3,618	\$ 5,204	\$ 7,874
Weighted average common shares, common shares equivalents and OP Units outstanding	9,022	8,828	9,045	8,852

(1) Represents the numerator for earnings per common share calculated in accordance with GAAP
For the six months ended June 30, 2007 and 2006, net cash flows were as follows (in thousands):

	Six Months Ended June 30,	
	2007	2006
Net cash provided by operating activities	\$ 9,419	\$ 2,531
Net cash used in investing activities	\$ (16,981)	\$ (39,873)
Net cash provided by financing activities	\$ 7,617	\$ 44,044

**RESULTS OF OPERATIONS FOR THE
THREE AND SIX MONTHS ENDED JUNE 30, 2007**

Executive Overview

We are in the business of owning and leasing residential land. Our current business focuses on the ownership of land and generation of these leases primarily within adult or retirement (55+) communities (94% of our total home sites at June 30, 2007); we focus on these communities for the following reasons:

Current demographic projections predict that the customer base for this asset class will grow for the next 20+ years.

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The residents have established credit histories and are often able to obtain favorable financing or pay cash for their homes making significant equity investments to improve the leasehold estate that effectively secures our lease.

The residents, as a result of their retired or semi-retired status, are less affected by most economic changes thereby making their continued rental payments more stable.

The Company is able to leverage its current marketing, brand, and management expertise. We seek growth through home sales to fill unoccupied home sites in current subdivisions, development of our land portfolio to increase the inventory of available home sites, and the selective acquisition of communities and development opportunities.

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

Community operations require management of expenses throughout the year while revenue increases are established on an annual basis and in some instances, are fixed at lease origination.

The continued development of additional home sites is a capital-intensive activity that requires substantial investments to be made in advance of returns.

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

Changes in the interest rate environment may have an adverse impact on our new home buyers' ability to realize sufficient proceeds from the sale of their present homes or finance new purchases, thereby limiting their financial ability to acquire new homes in our communities.

The cost of developing additional home sites and communities may increase at a rate or to a level that may exceed the costs projected at the point of the initial investment by us, and increases in rental rates may not be sufficient to offset the increased development costs.

Changes in governmental or other regulatory agencies may adversely impact the timing of development.

Based upon the above and other factors, the rate of sales of new homes may be substantially slower than projected at the point of the initial investment by us, resulting in returns on investment materially different from original projections. There are additional challenges that might occur as a result of natural disasters such as hurricanes:

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

The extent of claims made against properties in our asset class may continue to have a material impact on the cost of insurance for both us and our residents, thereby increasing our operating costs at a rate in excess of rental rate increases and limiting our residents

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ability to reinvest in their homes at the same rate enjoyed before the natural disaster.

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

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

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

Comparison of Three Months Ended June 30, 2007 to Three Months Ended June 30, 2006

Rental Property Operations

Rental and other property revenues from our owned properties totaled \$9,715,000 for the three months ended June 30, 2007 compared to \$8,508,000 for the three months ended June 30, 2006, an increase of \$1,207,000 or 14.2%. The increase in property operating revenue was a result of:

\$591,000 increase in revenues from newly acquired communities during 2006,

\$575,000 increase in base rental income driven by increases in rental rates and the origination of leases of new home sites at our development properties,

\$60,000 increase in the pass on of utilities and property tax allocations to tenants correlated with the increase in certain expenses, all offset by a

\$19,000 decrease in rents for recreational vehicle sites and other miscellaneous income.

Golf course operating revenues totaled \$219,000 for the three months ended June 30, 2007 compared to \$213,000 for the three months ended June 30, 2006, an increase of \$6,000 or 2.8%. Golf revenues increased at two communities and decreased at one other community that have adjacent golf courses.

Property operating expenses from our owned properties totaled \$3,247,000 for the three months ended June 30, 2007 compared to \$3,056,000 for the same period in 2006, an increase of \$191,000 or 6.3%. The increase in property operating expenses was a result of:

\$116,000 increase as a result of newly acquired communities

\$72,000 increase in utility expense partially correlated with an increase in billings to tenants reported as rental and other property revenue,

\$28,000 increase in property-level expense related to repairs and maintenance, and a

\$23,000 increase in property insurance, all offset by a

\$34,000 decrease in property operating overhead, and a

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\$14,000 decrease in professional fees and other miscellaneous expenses.

Golf course operating expenses totaled \$357,000 for the three months ended June 30, 2007 compared to \$373,000 for the three months ended June 30, 2006, a decrease of \$16,000 or 4.3%.

Depreciation expense was \$1,251,000 during the three months ended June 30, 2007 compared to \$1,032,000 during the same period in 2006. The increase was as a result of an increase in depreciable property attributable to the continued development of previously undeveloped home sites and the acquisition of three communities in 2006.

Same store property revenues, a non-GAAP financial measure, for the three months ended June 30, 2007 increased by 7.5% from the three months ended June 30, 2006, consisting of a 4.0% increase from same

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site rental revenues, a 3.4% increase from absorption rental site revenues and a 0.1% increase from golf revenues. Expenses related to those revenues increased 3.2% over that same period consisting of a 1.9% increase in same site rental expenses, a 1.9% increase from absorption rental site expenses and a (0.6%) decrease in golf expenses. Same store property net operating income, a non-GAAP financial measure, increased 9.6% for the three months ended June 30, 2007. Our same store base included 93.9% of our property operating revenues for the three months ended June 30, 2007.

We believe that the same store information provides the users of these financial statements with a comparison of the profitability for properties owned during both reporting periods that cannot be obtained from a review of the consolidated income statement. This comparison can be useful to an understanding of the parts in addition to an understanding of the whole. A reconciliation of same store operating results used in the above calculation to total operating revenues and total expenses for the three months ended June 30, 2007 and 2006, determined in accordance with U.S. generally accepted accounting principles, is reflected in the following table (in thousands):

		Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Change	% Change	Contribution to Same Store % Change ⁽¹⁾
Same site rental revenues		\$ 8,699	\$ 8,350	\$ 349	4.2%	4.0%
Absorption rental revenues		412	120	292	243.3%	3.4%
Same store golf revenues		219	213	6	2.8%	0.1%
Same store revenues	A	9,330	8,683	647	7.5%	7.5%
Newly acquired property revenues		604	38	566	1489.5%	
Total property revenues	C	\$ 9,934	\$ 8,721	\$ 1,213	13.9%	
Same site rental expenses		\$ 2,632	\$ 2,577	\$ 55	2.1%	1.9%
Absorption rental expenses		55		55	100.0%	1.9%
Same store golf expenses		357	373	(16)	(4.3)%	(0.6)%
Same store expenses	B	3,044	2,950	94	3.2%	3.2%
Newly acquired property expenses		149	33	116	351.5%	
Expenses related to offsite management ⁽²⁾		411	446	(35)	(7.8)%	
Total property operating expenses	D	\$ 3,604	\$ 3,429	\$ 175	5.1%	
Same store net operating income	A-B	\$ 6,286	\$ 5,733	\$ 553	9.6%	
Total net operating income	C-D	\$ 6,330	\$ 5,292	\$ 1,038	19.6%	

⁽¹⁾ Computed as the change in the individual component of same store revenue or expense divided by the total applicable same store base (revenue or expense) for the 2006 period. For example, same store rental revenue increase of \$349 as compared to the total same store revenues in 2006 of \$8,683 is a 4.0% increase ($\$349 / \$8,683 = 4.0\%$).

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

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Revenues for the home sales business totaled \$7,929,000 for the three months ended June 30, 2007 as compared to \$12,052,000 for the three months ended June 30, 2006. The decrease in revenues compared to the same period in the prior year was primarily due to decreased sales at six of our expansion communities. The average selling price of new homes closed was \$122,000 and \$125,000, respectively, for the three months ended June 30, 2007 and 2006, a decrease of 2.4%. Homes sold totaled 65 for the three months ended June 30, 2007 compared to 95 homes for the three months ended June 30, 2006, a decrease of 31.6%.

A summary of our home sales activities for the three months ended June 30, 2007 and 2006 is highlighted in the following table:

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Unit Change	Percent Change
New home closings-Same Store	61	94	(33)	(35.1)%
New home closings-Acquisitions	4	1	3	300.0%
Total new home closings	65	95	(30)	(31.6)%
New home contracts-Same Store ⁽¹⁾	53	125	(72)	(57.6)%
New home contracts-Acquisition ⁽¹⁾	3		3	100%
Total new home contracts⁽¹⁾	56	125	(69)	(55.2)%
Home resales	1	3	(2)	(66.7)%
Brokered home sales	18	54	(36)	(66.7)%
New home contract backlog-Same Store ⁽²⁾	44	63	(19)	(30.2)%
New home contract backlog-Acquisitions ⁽²⁾	4	23	(19)	(82.6)%
Total new home contract backlog⁽²⁾	48	86	(38)	(44.2)%

⁽¹⁾ New contracts are reported net of cancellations.

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

Total cost of sales for the three months ended June 30, 2007 was \$5,658,000 compared to \$7,914,000 for the three months ended June 30, 2006. Resulting margin decreases are attributable to a decrease in manufacturer rebates associated with lower purchasing and increases in costs of homes purchased. Selling and marketing expenses for the three months ended June 30, 2007 decreased \$384,000 from the three months ended June 30, 2006 as a result of lower commission expense associated with lower sales volumes and decreased marketing costs.

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We reported a loss from the home sales business of \$79,000 for the three months ended June 30, 2007 as compared to income of \$1,472,000 for the three months ended June 30, 2006.

General and Administrative Expenses

Our general and administrative expenses were \$993,000 for the three months ended June 30, 2007 and \$995,000 for the three months ended June 30, 2006. The \$2,000 decrease in expense was a result of:

\$25,000 decrease in the stock-based compensation, and a

\$24,000 decrease in consulting and professional fees, offset by a

\$28,000 increase in proxy costs as a result of new regulatory rules in 2007, and a

\$24,000 increase in directors' fees as a result of adding a new member to the Board and increased fees paid to existing Board members.

Interest and Other Income

During the three months ended June 30, 2007 and 2006, interest and other income were \$8,000 and \$91,000, respectively. The decrease of \$83,000 was a result of an increase in interest earned on bank accounts in 2006 which did not recur in 2007.

Interest Expense

During the three months ended June 30, 2007 and 2006, interest expense was \$2,278,000 and \$1,832,000, respectively, which was net of capitalized interest of \$2,248,000 and \$1,794,000, respectively. The increase is primarily a result of new debt secured by our communities used primarily to acquire three age-restricted communities and to fund development expenditures made in advance of home sales, rising interest rates on our variable-rate debt coupled with higher outstanding balances under our line of credit and floor plan facility, all offset by scheduled amortization of existing long-term debt, a decrease in the amount of variable rate debt carried by us, and additional capitalized interest as a result of purchasing three development communities and continued development of our existing communities.

Cumulative Preferred Stock Dividends

During the three months ended June 30, 2007 and 2006, cumulative preferred stock dividends were \$485,000 and \$484,000, respectively.

Comparison of Six Months Ended June 30, 2007 to Six Months Ended June 30, 2006

Rental Property Operations

Rental and other property revenues from our owned properties totaled \$19,436,000 for the six months ended June 30, 2007 compared to \$16,681,000 for the six months ended June 30, 2006, an increase of \$2,755,000 or 16.5%. The increase in property operating revenue was a result of:

\$1,485,000 increase in revenues from newly acquired communities during 2006,

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\$1,142,000 increase in base rental income driven by increases in rental rates and the origination of leases of new home sites at our development properties,

\$140,000 increase in the pass on of utilities and property taxes to tenants correlated with the increase in utilities and property tax expenses, all offset by a

\$12,000 decrease in other miscellaneous income.

Golf course operating revenues totaled \$649,000 for the six months ended June 30, 2007 compared to \$683,000 for the six months ended June 30, 2006, a decrease of \$34,000 or 5.0%. Golf revenues decreased at all three communities that have adjacent golf courses.

Property operating expenses from our owned properties totaled \$6,576,000 for the six months ended June 30, 2007 compared to \$5,972,000 for the same period in 2006, an increase of \$604,000 or 10.1%. The increase in property operating expenses was a result of:

\$372,000 increase as a result of newly acquired communities

\$189,000 increase in utility expense partially correlated with an increase in billings to tenants reported as rental & other property revenue, and a

\$57,000 increase in property insurance, all offset by a

\$14,000 decrease in property operating overhead.

Golf course operating expenses totaled \$692,000 for the six months ended June 30, 2007 compared to \$738,000 for the six months ended June 30, 2006, a decrease of \$46,000 or 6.2%.

Depreciation expense was \$2,480,000 during the six months ended June 30, 2007 compared to \$2,011,000 during the same period in 2006. The increase was as a result of an increase in depreciable property attributable to the continued development of previously undeveloped home sites and the acquisition of three communities in 2006.

Same store property revenues, a non-GAAP financial measure, for the six months ended June 30, 2007 increased by 7.4% from the six months ended June 30, 2006, consisting of a 4.0% increase from same site rental revenues, a 3.6% increase from absorption rental site revenues and a 0.2% decrease from golf revenues. Expenses related to those revenues increased 3.5% over that same period consisting of a 2.2% increase in same site rental expenses, a 2.2% increase from absorption rental site expenses and a 0.9% decrease in golf expenses. Same store property net operating income, a non-GAAP financial measure, increased 9.3% for the six months ended June 30, 2007. Our same store base included 91.3% of our property operating revenues for the six months ended June 30, 2007.

We believe that the same store information provides the users of these financial statements with a comparison of the profitability for properties owned during both reporting periods that cannot be obtained from a review of the consolidated income statement. This comparison can be useful to an understanding of the parts in addition to an understanding of the whole. A reconciliation of same store operating results used in the above calculation to total operating revenues and total expenses for the six months ended June 30, 2007 and 2006, determined in accordance with U.S. generally accepted accounting principles, is reflected in the following table (in thousands):

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		Six Months Ended June 30, 2007	Six Months Ended June 30, 2006	Change	% Change	Contribution to Same Store % Change ⁽¹⁾
Same site rental revenues		\$ 16,921	\$ 16,239	\$ 682	4.2%	4.0%
Absorption rental revenues		766	154	612	397.4%	3.6%
Same store golf revenues		649	683	(34)	(5.0)%	(0.2)%
Same store revenues	A	18,336	17,076	1,260	7.4%	7.4%
Newly acquired property revenues		1,749	288	1,461	507.3%	
Total property revenues	C	\$ 20,085	\$ 17,364	\$ 2,721	15.7%	
Same site rental expenses		\$ 5,071	\$ 4,948	\$ 123	2.5%	2.2%
Absorption rental expenses		123		123	100.0%	2.2%
Same store golf expenses		692	738	(46)	(6.2)%	(0.9)%
Same store expenses	B	5,886	5,686	200	3.5%	3.5%
Newly acquired property expenses		498	126	372	295.2%	
Expenses related to offsite management ⁽²⁾		884	898	(14)	(1.6)%	
Total property operating expenses	D	\$ 7,268	\$ 6,710	\$ 558	8.3%	
Same store net operating income	A-B	\$ 12,450	\$ 11,390	\$ 1,060	9.3%	
Total net operating income	C-D	\$ 12,817	\$ 10,654	\$ 2,163	20.3%	

⁽³⁾ Computed as the change in the individual component of same store revenue or expense divided by the total applicable same store base (revenue or expense) for the 2006 period. For example, same store rental revenue increase of \$682 as compared to the total same store revenues in 2006 of \$17,076 is a 4.0% increase ($\$682 / \$17,076 = 4.0\%$).

⁽⁴⁾ Expenses related to offsite management reflect portfolio property management costs not attributable to a specific property.

Home Sales Operations

Revenues for the home sales business totaled \$15,594,000 for the six months ended June 30, 2007 as compared to \$25,548,000 for the six months ended June 30, 2006. The decrease in revenues compared to the same period in the prior year was primarily due to decreased sales at six of our expansion communities. The average selling price of new homes closed was \$128,000 and \$127,000, respectively for the six months ended June 30, 2007 and 2006, an increase of 0.08%. Homes sold totaled 120 for the six months ended June 30, 2007 compared to 199 homes for the six months ended June 30, 2006, a decrease of 39.7%.

A summary of our home sales activities for the six months ended June 30, 2007 and 2006 is highlighted in the following table:

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	Six Months Ended	Six Months Ended	Unit Change	Percent Change
	June 30, 2007	June 30, 2006		
New home closings-Same Store	106	192	(86)	(44.8)%
New home closings-Acquisitions	14	7	7	100.0%
Total new home closings	120	199	(79)	(39.7)%
New home contracts-Same Store ⁽¹⁾	119	170	(51)	(30.0)%
New home contracts-Acquisition ⁽¹⁾	14	30	(16)	(53.3)%
Total new home contracts⁽¹⁾	133	200	(67)	(33.5)%
Home resales	4	3	1	33.3%
Brokered home sales	49	116	(67)	(57.8)%
New home contract backlog-Same Store ⁽²⁾	44	63	(19)	(30.2)%
New home contract backlog-Acquisitions ⁽²⁾	4	23	(19)	(82.6)%
Total new home contract backlog⁽²⁾	48	86	(38)	(44.2)%

⁽¹⁾ New contracts are reported net of cancellations.

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

Total cost of sales for the six months ended June 30, 2007 was \$11,291,000 compared to \$16,958,000 for the six months ended June 30, 2006. Resulting margin decreases are attributable to a decrease in manufacturer rebates associated with lower purchasing and increases in costs of homes purchased. Selling and marketing expenses for the six months ended June 30, 2007 decreased \$856,000 from the six months ended June 30, 2006 as a result of lower commission expense associated with lower sales volumes and decreased marketing costs.

We reported a loss from the home sales business of \$344,000 for the six months ended June 30, 2007 as compared to income of \$3,201,000 for the six months ended June 30, 2006.

General and Administrative Expenses

Our general and administrative expenses were \$1,957,000 for the six months ended June 30, 2007 and \$1,886,000 for the six months ended June 30, 2006. The \$71,000 increase in expense was a result of:

\$70,000 increase in compensation expense for dividends on non-vested restricted stock as a result of changes in our forfeiture estimates in 2006,

\$36,000 increase in directors' fees as a result of adding a new member to the Board and increased fees paid to existing Board members.

\$31,000 increase in proxy costs and other miscellaneous costs, all offset by a

\$37,000 decrease in salaries, wages and benefits, and a

\$29,000 decrease in professional fees.

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Interest and Other Income

During the six months ended June 30, 2007 and 2006, interest and other income were \$178,000 and \$144,000, respectively. The increase of \$34,000 was a result of a one-time fee paid to us for delays caused by a prior owner of a community in first quarter 2007 offset by interest earned on bank accounts in 2006.

Interest Expense

During the six months ended June 30, 2007 and 2006, interest expense was \$4,521,000 and \$3,411,000, respectively, which was net of capitalized interest of \$4,423,000 and \$3,420,000, respectively. The increase is primarily a result of new debt secured by our communities used primarily to acquire three age-restricted communities and to fund development expenditures made in advance of home sales, rising interest rates on our variable-rate debt coupled with higher outstanding balances under our line of credit and floor plan facility, all offset by scheduled amortization of existing long-term debt, a decrease in the amount of variable rate debt carried by us, and additional capitalized interest as a result of purchasing three development communities and continued development of our existing communities.

Cumulative Preferred Stock Dividends

During the six months ended June 30, 2007 and 2006, cumulative preferred stock dividends were \$969,000 and \$968,000, respectively.

Returns from Home Sales Business

We engage in the home sales business for four reasons:

- 1) to lease expansion home sites within our portfolio, thereby increasing the profitability and value of our communities,
- 2) to upgrade existing leased home sites with new and more valuable homes, thereby increasing the long term value of the lease income stream,
- 3) to broker the resale of homes in order to support investment values in the homes and to attract good neighbors all so as to promote the long term values of the communities, both for the residents who are our customers and for the long term growth and security of our own investment, and
- 4) to resell any homes we acquire as a result of defaults in lease obligations owed to us.

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

- 1) an estimate of the first year annualized profit on the leases originated on expansion home sites,
- 2) an estimate of the total development costs of the expansion sites leased including all current and projected development costs, and
- 3) an estimate of the home sales profit or loss attributable to new homes sold on expansion sites, without consideration for the other aspects of the home sales business.

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

The most directly comparable financial measure that can be reconciled to GAAP is our historical return on investment in operational home sites for the year ended December 31, 2006, which is reconciled on page 39 in footnote 1. Our projection of the estimated first year return from leases originated on expansion home sites cannot be directly reconciled to a comparable GAAP measure, principally because there will be leases that begin during the period and we estimate the incremental operating expenses associated with these leases. The estimated first year return from leases originated on investment in expansion home sites should not be considered in isolation nor is it intended to represent an alternative measure of operating income or cash flow or any other measure of performance as determined in accordance with GAAP.

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

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

- (a) We derive our projected first year annualized profit on leases originated on expansion home sites by deducting estimated operating expenses from the contractual annual revenues from leases originated during the period. We estimate operating expenses using one half of the actual ratio of property operating expenses incurred to property revenue generated in the prior year. For example, if we originate a lease at a property where the ratio of operating expense to property revenues was 40% for the prior year, we apply a 20% expense ratio to project the additional expense associated with the newly leased home site for the first year. We believe that one half of the actual expenses is an appropriate estimate of the relationship between fixed and variable expenses of operating our communities.
- (b) The total development costs of the expansion sites leased are based upon the sum of land, construction costs, and other capitalized costs, including interest expense, as allocated to the individual home sites based upon the leased value of each home site.
- (c) We determine the home sales profit or loss that is attributable to the sale of homes situated on expansion home sites by deducting from the reported home sales operating income, the gross margin and commissions attributable to the (i) the sale of used homes, and (ii) brokerage of home sale transactions between third parties. We make no allocation of sales overhead to the transactions identified above.

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

Our projections of the first year returns from the leases originated on expansion home sites constitute forward-looking statements. Actual first year returns may be materially different than such projections as a result of the risks and other factors discussed throughout our Annual Report for the year ended December 31, 2006. We undertake no obligation to update such projections to reflect events or circumstances occurring after the date of this report.

Comparison of the Three Months Ended June 30, 2007 and 2006

The leases facilitated by the home sales business during the three months ended June 30, 2007 and 2006 are estimated to provide a first year return on investment of 5.1% and 8.4%, respectively. These returns are shown in the following table and are based upon unaudited projected information. This compares to our realized returns from earning sites of 7.8% for the year ended December 31, 2006. The decrease in return on expansion home sites is driven primarily by (i) the decreased profitability of our home sales business resulting from fewer home sales over which the fixed costs are allocated, (ii) increases in the per site cost of development as a result of larger lots to accommodate larger homes, (iii) increased lease incentives given in 2007 over 2006, and (iv) increases in the per site cost of development as a result of additional amenities. Our future returns are dependent upon a number of factors including changes in the per site cost of development, changes in lease incentives utilized in support of the rate of new home sales, changes in the profitability of our home sales business, changes in the quantity of new homes sold and other factors.

The calculation of our projected first year return from leases originated on expansion home sites for the three months ended June 30, 2007 and 2006 is shown in the following table (in thousands, except expansion sites leased):

		Three Months Ended	
		June 30, 2007	Three Months Ended June 30, 2006
Expansion sites leased during the period		60	83
Estimated first year annualized profit on leases originated during the period	A	\$ 191	\$ 305
Costs, including development costs of sites leased		\$ 3,613	\$ 5,006
Home sales (loss) income attributable to sites leased		(105)	1,369
Total costs incurred to originate ground leases	B	\$ 3,718	\$ 3,637
Estimated first year returns from the leases originated on expansion home sites during the period	A/B	5.1%	8.4%

For the three months ended June 30, 2007 and 2006, we estimate our profit or loss attributable to the sale of homes situated on expansion home sites as follows (in thousands):

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	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006
Reported (loss) income from sales operations	\$ (79)	\$ 1,472
Brokerage business income	(20)	(88)
Used home sales	(6)	(15)
Adjusted (loss) income for projection analysis	\$ (105)	\$ 1,369

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

Comparison of the Six Months Ended June 30, 2007 and 2006

The leases facilitated by the home sales business during the six months ended June 30, 2007 and 2006 are estimated to provide a first year return on investment of 5.0% and 9.2%, respectively. These returns are shown in the following table and are based upon unaudited projected information. This compares to our realized returns from earning sites of 7.8% for the year ended December 31, 2006. The decrease in return on expansion home sites is driven primarily by (i) the decreased profitability of our home sales business resulting from fewer home sales over which the fixed costs are allocated, (ii) increases in the per site cost of development as a result of larger lots to accommodate larger homes, (iii) increased lease incentives given in 2007 over 2006, and (iv) increases in the per site cost of development as a result of additional amenities. Our future returns are dependent upon a number of factors including changes in the per site cost of development, changes in lease incentives utilized in support of the rate of new home sales, changes in the profitability of our home sales business, changes in the quantity of new homes sold and other factors.

The calculation of our projected first year return from leases originated on expansion home sites for the six months ended June 30, 2007 and 2006 is shown in the following table (in thousands, except expansion sites leased):

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		Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Expansion sites leased during the period		113	168
Estimated first year annualized profit on leases originated during the period	A	\$ 366	\$ 638
Costs, including development costs of sites leased		\$ 6,897	\$ 9,943
Home sales (loss) income attributable to sites leased		(457)	3,021
Total costs incurred to originate ground leases	B	\$ 7,354	\$ 6,922
Estimated first year returns from the leases originated on expansion home sites during the period	A/B	5.0%	9.2%

For the six months ended June 30, 2007 and 2006, we estimate our profit or loss attributable to the sale of homes situated on expansion home sites as follows (in thousands):

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Reported (loss) income from sales operations	\$ (344)	\$ 3,201
Brokerage business income	(51)	(165)
Used home sales	(62)	(15)
Adjusted (loss) income for projection analysis	\$ (457)	\$ 3,021

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

The reconciliation of our projected first year return from leases originated on expansion home sites, a projection, to our return on investment in operational home sites for the year ended December 31, 2006 in accordance with GAAP is shown in the following table (in thousands):

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		Total Portfolio for Year Ended December 31, 2006
Property income before depreciation ¹	A	\$ 22,847
Total investment in operating home sites ¹	B	\$ 294,394
Return on investment from earning home sites ¹	A/B	7.8%

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

	December 31, 2006
Rental and other property revenues	\$ 35,148
Property operating expenses	(12,301)
Property income before depreciation (A)	\$ 22,847
Real estate assets, net	\$ 383,006
Add: Accumulated depreciation	29,068
Less: Real estate under development	(110,682)
Less: Cost of home sites ready for intended use	(6,998)
Investment in operational sites (B)	\$ 294,394
Return on investment in operational sites (A/B) ¹	7.8%

¹ Our return on investment in operational sites reflects our income from and investment in sites that were leased for the first time during the year ended December 31, 2006. For these leases, the income reported above includes less than a full twelve months of operating results. Consequently, when compared to the investment we have made in these home sites, the return on investment during the year ended December 31, 2006 is less than the return when measured using a full twelve months of operating results.

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2007, we had cash and cash equivalents of \$308,000. Our principal activities that demand liquidity include our normal operating activities, development expenditures, payments of principal and interest on outstanding debt, acquisitions of and additional investments in properties, and payments of distributions to preferred and common stockholders and OP Unit holders. We expect to utilize cash provided by operating activities and short-term borrowings to meet short-term liquidity demands. We expect to meet our long-term liquidity requirements, such as debt maturities and property acquisitions, through long-term borrowings, both secured and unsecured, the issuance of debt or equity securities (including OP Units), the sales of properties and cash generated from operations.

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

We have a revolving line of credit with a bank with a total commitment of \$16,000,000 that bears interest at a variable rate ranging from 150 to 175 basis points over the one-month LIBOR rate (6.92% at June 30, 2007). The line of credit is secured by real property and improvements located in St. Lucie, Lake, and Pasco Counties, Florida and Maricopa County, Arizona with a net book value of \$35,513,000. The revolving line of credit matures in May 2009. At June 30, 2007, \$9,505,000 was outstanding and \$6,495,000 was not drawn under the revolving line of credit. The availability of funds to us under the line of credit is subject to certain borrowing base and other customary restrictions, including compliance with financial and other covenants thereunder. Based on the application of the borrowing base calculation, as of June 30, 2007, \$5,260,000 was available to us. The line of credit also includes certain financial covenants that require us to maintain a ratio of cash flow (as defined by the lender) on a trailing twelve-month basis to pro forma annual fixed charge obligations (as defined by the lender) of not less than .85 to 1.0 during fiscal year 2007, and 1.0 to 1.0 during fiscal year 2008; to maintain a tangible net worth (as defined by lender) of \$150,000,000 and to maintain a debt to adjusted tangible net worth (as defined by lender) ratio of not more than 1.75 to 1.0, among others. We believe we were in compliance with all financial covenant requirements under this revolving line of credit at June 30, 2007 with the exception of the cash flow ratio. We obtained a waiver with regard to this covenant from the bank.

We have a floor plan line of credit with a floor plan lender providing a committed credit facility of \$35,000,000 with a variable interest rate of prime plus 25 basis points (8.50% at June 30, 2007). Individual advances mature between 360 days and 720 days based on the aging of our inventory of homes. The floor plan line of credit is partially recourse to us and at June 30, 2007, \$2,646,000 of the outstanding balance under the floor plan was recourse to us. This floor plan line of credit is secured by inventory located in our residential land lease communities with a carrying value of approximately \$19,757,000. The floor plan lender's commitment to fund future inventory purchases expires in September 2009. At June 30, 2007, \$20,508,000 was outstanding, and approximately \$14,492,000 was available under the floor plan facility. The financial covenants of the floor plan line of credit require us to maintain a tangible net worth of \$90,000,000 and to maintain a debt to net worth ratio of not more than 2.0 to 1.0, among others. We believe we were in compliance with all financial covenant requirements under this floor plan facility at June 30, 2007.

Our ability to access secured and unsecured borrowings as a source of liquidity is dependent upon factors outside of our control including economic trends that impact the availability of credit from lending sources we currently utilize. Our ability to issue additional equity in the form of equity securities (including the issuance by the Operating Partnership of OP Units) is dependent upon certain factors outside of our control including returns available on alternative investments and other economic factors. The amount of cash generated by our operations is dependent upon our ability to operate the existing portfolio of revenue earning sites and to originate new earning sites through new lease originations generated by our home sales business. Our ability to generate cash through the operation of the current portfolio is dependent upon the costs we pay to acquire the goods and services required to operate the portfolio, the absence of natural disasters, such as hurricanes, that would disrupt the flow of rental

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income for an undeterminable time period and other factors. Our ability to generate cash through the origination of new earning sites is dependent upon our ability to market effectively to our target market customers, to originate contracts for sale of homes at our properties, thereby generating income producing leases, and to develop the undeveloped land within our portfolio in a timely fashion, and on a cost effective basis.

Operating Activities

Our net cash provided by operating activities was \$9.4 million during the six months ended June 30, 2007 compared to \$2.5 million during the same period in 2006. The \$6.9 million increase was primarily the result of:

\$6.6 million decrease in cash used to fund inventory in 2007 as compared to the cash used to fund inventory increases in 2006. This decrease is a result of maintaining lower inventory levels in 2007 as compared to 2006, and a

\$3.3 million increase in cash provided by operating assets and liabilities as a result changes in business volumes, offset by a

\$3.0 million decrease in earnings before depreciation, amortization, stock-based compensation, and minority interest attributable to decreases in home sales income.

Investing Activities

During the six months ended June 30, 2007, the net cash used in investing activities was \$17.0 million, compared with \$39.9 net cash used during the same period in 2006. The \$22.9 million decrease in net cash used for investing activities is primarily the result of:

\$15.2 million decrease in expenditures related to the purchase of new development communities in 2006,

\$7.0 million decrease in expenditures for capital replacements, development and improvements in the 2007 period as compared to the 2006 period,

\$0.4 million decrease in expenditures for fix assets other than real estate classified as other assets, and a

\$0.3 million increase in proceeds from notes receivable.

Financing Activities

Net cash provided by financing activities was \$7.6 million for the six months ended June 30, 2007 compared with net cash provided during the same period in 2006 of \$44.0 million.

The \$36.4 million decrease in cash provided by financing activities is primarily the result of:

Decreases

\$47.3 million decrease in proceeds from secured long-term financing,

\$0.6 million decrease as a result of repurchasing common stock, and a

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\$0.1 million decrease in proceeds from the collection of escrow funds, all offset by a

Increases

\$10.2 million increase in net proceeds from secured short-term financing,

\$0.8 million decrease in payment of loan costs,

\$0.5 million increase in proceeds from stock options exercised, and a

\$0.1 million decrease in principal payments made on secured long-term notes payable.

Dividends and Distributions

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

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

The Board of Directors authorized the Company to repurchase up to 2,000,000 shares of the outstanding common stock. During the six months ended June 30, 2007, the Company repurchased 27,000 shares of outstanding common stock and has repurchased a total of approximately 604,000 shares pursuant to this authorization. The Company has and will continue to evaluate this investment opportunity in the context of its primary financial objective to maximize long term, risk adjusted returns on investment for common stockholders.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our principal exposure to market risk is changes in interest rates relating to our various debt instruments and borrowings. As compared to the six months ended June 30, 2006, our exposure to changes in interest rates at June 30, 2007 for repricing and refunding as to unpaid principal balances (i) increased from \$145.5 million to \$179.0 million for partially amortizing long-term notes payable; (ii) increased from \$10.8 million to \$11.4 million for variable rate long-term notes payable; (iii) increased from \$19.5 million to \$20.5 million for variable rate secured floor plan facility; and (iv) increased to \$9.5 million for variable rate secured short term mortgage financing. The following is a discussion of the potential impact of changes in interest rates on our debt instruments at June 30, 2007.

We have \$10.2 million of fixed rate, fully amortizing, non-recourse, secured long-term notes payable. We do not have exposure to changing interest rates on these notes as the rates are fixed and the notes are fully amortizing.

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We have \$217.1 million of fixed rate, partially amortizing, non-recourse, secured long-term notes payable. We do not have significant exposure to changes in interest rates since the interest rates are fixed. We have repricing and refunding risks as to the unpaid balance on these notes of \$179.0 million due at maturity between 2007 and 2021, with an average maturity of 10.0 years.

We have an \$11.4 million interest only, non-recourse, secured long-term note payable. This variable rate loan bears interest at the three-month LIBOR plus 1.75%. If LIBOR increased immediately by 1%, then our annual income before minority interest in the Operating Partnership and cash flows would decrease by \$114,000 due to an increase in interest expense based on the outstanding balance at June 30, 2007. We have repricing and refunding risks as to the unpaid balance due at maturity of these notes.

We have a revolving line of credit with a bank that bears interest at a variable rate ranging from 150 to 175 basis points over the one-month LIBOR rate. If the LIBOR rate increased immediately by 1%, then our annual income before minority interest in the Operating Partnership and cash flows would decrease by \$95,000 due to an increase in interest expense on this line of credit, based on the approximately \$9.5 million outstanding balance at June 30, 2007. We have repricing and refunding risks as to the unpaid balance due at the maturity of this note in 2009.

We have a secured floor plan facility that bears interest at the lender's prime rate plus 25 basis points. If the lender's prime rate increased immediately by 1%, then our annual income before minority interest in the Operating Partnership and cash flows would decrease by \$205,000 due to an increase in interest expense on this line of credit, based on the approximately \$20.5 million outstanding balance at June 30, 2007. We have repricing and refunding risks as to the unpaid balance due at the maturity of this note due in 2009.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting during the six months ended June 30, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**PART II.****OTHER INFORMATION****Item 1. LEGAL PROCEEDINGS**

The information disclosed under the heading "Legal Contingencies" in Note G of the condensed consolidated financial statements of this Form 10-Q and in Part I., Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations" is incorporated herein by reference.

Item 1A. RISK FACTORS

For discussion of our potential risks or uncertainties, please see Part 1., Item 1A., of our 2006 Annual Report on Form 10-K for the fiscal year ended December 31, 2006, filed with the Securities and Exchange Commission on March 12, 2007. There have been no material changes to the risk factors disclosed in Part 1., Item 1A., of our 2006 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

During the fiscal quarter ended June 30, 2007, the Company repurchased shares of its common stock as set forth below:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Number of Shares that May Yet be Purchased Under the Plan
April 1 through April 30, 2007		\$		
May 1 through May 31, 2007	27,000	24.64	604,000	1,396,000
June 1 through June 30, 2007				
Total	27,000	\$ 24.64	604,000	1,396,000

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

The 2007 annual meeting of the Company's stockholders was held on May 3, 2007. At the meeting, the following matters were approved by stockholders:

1. Election of Terry Considine as a Class II Director:

Votes For
6,896,326

Votes Withheld
728,378

2. Election of Bruce Benson as a Class II Director:

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Votes For
6,890,220

Votes Withheld
734,484

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3. Ratification of the prior election of Thomas Harvey as a Class I Director (to serve until 2009)

Votes For	Votes Against	Abstentions
6,882,307	136,033	606,364

4. Ratification of the selection of Ernst & Young LLP to serve as independent auditors for the Company for the fiscal year ending December 31, 2007:

Votes For	Votes Against	Abstentions	Broker Non-Votes
7,597,122	7,978	19,604	

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Item 6. EXHIBITS

Exhibit No. Description

- 3.1 Third Amended and Restated Certificate of Incorporation of American Land Lease, Inc. (incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, dated May 4, 2005 and filed on May 4, 2005).
- 3.2 Fourth Amended and Restated By-laws of American Land Lease, Inc. (incorporated herein by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, dated April 4, 2005 and filed on April 5, 2005).
- 10.1 Form of Amendment to Stock Option Agreement. (incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q, dated and filed on May 10, 2007).
- 31.1 Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of COO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.3 Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of CEO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 furnished herewith.
- 32.2 Certification of COO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 furnished herewith.
- 32.3 Certification of CFO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 furnished herewith.

SIGNATURES

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

AMERICAN LAND LEASE INC.
(Registrant)

Date: August 9, 2007

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