APARTMENT INVESTMENT & MANAGEMENT CO
Form 10-Q
November 07, 2006

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

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2006

OR

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

For the transition period from to

Commission File Number 1-13232

Apartment Investment and Management Company
(Exact name of registrant as specified in its charter)

Maryland	**84-1259577**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4582 South Ulster Street Parkway, Suite 1100 Denver, Colorado	**80237**
(Address of principal executive offices)	(Zip Code)

(303) 757-8101
(Registrant s telephone number, including area code)

Not Applicable
(Former name, former address, and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

The number of shares of Class A Common Stock outstanding as of October 31, 2006: 96,489,995

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

APARTMENT INVESTMENT AND MANAGEMENT COMPANY
CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Share Data)

	September 30, 2006 (Unaudited)	December 31, 2005
ASSETS		
Real estate:		
Land	$ 2,340,744	$ 2,233,630
Buildings and improvements	9,690,408	8,255,582
Total real estate	12,031,152	10,489,212
Less accumulated depreciation	(2,894,820)	(2,097,966)
Net real estate	9,136,332	8,391,246
Cash and cash equivalents	182,283	161,730
Restricted cash	348,320	283,955
Accounts receivable	56,569	59,889
Accounts receivable from affiliates	24,534	43,070
Deferred financing costs	75,173	64,873
Notes receivable from unconsolidated real estate partnerships	46,937	177,200
Notes receivable from non-affiliates	52,124	23,760
Investment in unconsolidated real estate partnerships	54,671	167,818
Other assets	233,259	216,863
Deferred income tax assets, net		9,835
Assets held for sale	11,163	418,921
Total assets	$ 10,221,365	$ 10,019,160
LIABILITIES AND STOCKHOLDERS EQUITY		
Property tax-exempt bond financing	$ 1,036,582	$ 1,035,584
Property loans payable	5,197,393	4,404,699
Term loans	400,000	400,000
Credit facility	155,000	217,000
Total indebtedness	6,788,975	6,057,283
Accounts payable	39,280	34,381
Accrued liabilities and other	406,306	423,633
Deferred income	158,156	46,837
Security deposits	44,623	37,577
Deferred income tax liabilities, net	3,934	
Liabilities related to assets held for sale	958	267,937

Total liabilities	7,442,232	6,867,648
Minority interest in consolidated real estate partnerships	215,099	217,679
Minority interest in Aimco Operating Partnership	190,634	217,729
Stockholders equity:		
Preferred Stock, perpetual	723,500	860,250
Preferred Stock, convertible	100,000	150,000
Class A Common Stock, $.01 par value, 426,157,736 shares authorized, 95,909,969 and 95,732,200 shares issued and outstanding, at September 30, 2006 and December 31, 2005, respectively	959	957
Additional paid-in capital	3,063,361	3,081,707
Notes due on common stock purchases	(5,029)	(25,911)
Distributions in excess of earnings	(1,509,391)	(1,350,899)
Total stockholders equity	2,373,400	2,716,104
Total liabilities and stockholders equity	$ 10,221,365	$ 10,019,160

See notes to consolidated financial statements.

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APARTMENT INVESTMENT AND MANAGEMENT COMPANY
CONSOLIDATED STATEMENTS OF INCOME
(In Thousands, Except Per Share Data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
REVENUES:				
Rental and other property revenues	$ 422,602	$ 354,262	$ 1,245,679	$ 1,025,891
Property management revenues, primarily from affiliates	2,599	6,094	9,221	18,684
Activity fees and asset management revenues, primarily from affiliates	10,470	8,018	32,143	22,715
Total revenues	435,671	368,374	1,287,043	1,067,290
EXPENSES:				
Property operating expenses	194,749	169,181	571,895	480,704
Property management expenses	984	1,928	3,627	5,674
Activity and asset management expenses	1,073	2,778	6,744	7,697
Depreciation and amortization	126,112	103,717	352,624	287,648
General and administrative expenses	25,262	23,095	72,769	65,663
Other expenses (income), net	(30)	330	9,843	5,717
Total expenses	348,150	301,029	1,017,502	853,103
Operating income	87,521	67,345	269,541	214,187
Interest income	7,580	7,279	20,209	21,989
Recovery of (provision for) losses on notes receivable	46	(206)	(718)	1,352
Interest expense	(105,889)	(90,700)	(309,396)	(261,318)
Deficit distributions to minority partners, net	(14,072)	(2,849)	(20,129)	(5,719)
Equity in losses of unconsolidated real estate partnerships	(169)	(552)	(2,606)	(1,871)
Recovery of (impairment losses) related to real estate partnerships	(158)	(1,178)	813	(1,709)
Gain on dispositions of real estate related to unconsolidated entities and other	7,641	8,387	21,397	13,670
Loss before minority interests and discontinued operations	(17,500)	(12,474)	(20,889)	(19,419)
Minority interests:				
Minority interest in consolidated real estate partnerships	(23,611)	3,836	(18,063)	7,381

Minority interest in Aimco Operating Partnership, preferred	(1,785)	(1,806)	(5,368)	(5,424)
Minority interest in Aimco Operating Partnership, common	6,548	3,287	10,549	8,547
Total minority interests	(18,848)	5,317	(12,882)	10,504
Loss from continuing operations	(36,348)	(7,157)	(33,771)	(8,915)
Income from discontinued operations, net	11,473	33,509	128,058	64,865
Net income (loss)	(24,875)	26,352	94,287	55,950
Net income attributable to preferred stockholders	21,656	21,693	64,744	66,255
Net income (loss) attributable to common stockholders	$ (46,531)	$ 4,659	$ 29,543	$ (10,305)
Earnings (loss) per common share basic:				
Loss from continuing operations (net of preferred dividends)	$ (0.60)	$ (0.31)	$ (1.03)	$ (0.80)
Income from discontinued operations	0.12	0.36	1.34	0.69
Net income (loss) attributable to common stockholders	$ (0.48)	$ 0.05	$ 0.31	$ (0.11)
Earnings (loss) per common share diluted:				
Loss from continuing operations (net of preferred dividends)	$ (0.60)	$ (0.31)	$ (1.03)	$ (0.80)
Income from discontinued operations	0.12	0.36	1.34	0.69
Net income (loss) attributable to common stockholders	$ (0.48)	$ 0.05	$ 0.31	$ (0.11)
Weighted average common shares outstanding	96,061	94,041	95,772	93,765
Weighted average common shares and equivalents outstanding	96,061	94,041	95,772	93,765
Dividends declared per common share	$ 0.60	$ 0.60	$ 1.20	$ 1.80

See notes to consolidated financial statements.

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APARTMENT INVESTMENT AND MANAGEMENT COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands, Unaudited)

	Nine Months Ended September 30,	
	2006	**2005**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 94,287	$ 55,950
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	352,624	287,648
Discontinued operations	(153,355)	(70,185)
Other adjustments	45,646	9,054
Net changes in operating assets and operating liabilities	52,577	(4,789)
Net cash provided by operating activities	391,779	277,678
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of real estate	(63,240)	(243,996)
Capital expenditures	(366,887)	(324,046)
Proceeds from dispositions of real estate	639,924	390,808
Cash from newly consolidated properties	22,432	2,211
Purchases of non-real estate related corporate assets	(5,738)	(11,090)
Purchases of general and limited partnership interests and other assets	(12,516)	(85,267)
Originations of notes receivable from unconsolidated real estate partnerships	(8,062)	(28,042)
Proceeds from repayment of notes receivable	6,074	16,402
Distributions received from investments in unconsolidated real estate partnerships	11,071	40,131
Other investing activities	(13,419)	(13,442)
Net cash provided by (used in) investing activities	209,639	(256,331)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from property loans	882,854	550,243
Principal repayments on property loans	(798,008)	(452,310)
Principal repayments on tax-exempt bond financing	(33,541)	(40,431)
Net borrowings (repayments) on term loans and revolving credit facility	(62,000)	263,300
Redemption of mandatorily redeemable preferred securities		(15,019)
Proceeds from issuance of preferred stock, net	97,517	
Redemption of preferred stock	(286,750)	(31,250)
Repurchases of Class A Common Stock	(100,000)	
Proceeds from Class A Common Stock option exercises	62,288	898
Principal repayments received on notes due on Class A Common Stock purchases	21,529	11,245
Payment of Class A Common Stock dividends	(173,532)	(169,967)
Contributions from minority interest	3,075	25,453
Payment of distributions to minority interest	(107,533)	(52,516)
Payment of preferred stock dividends	(58,261)	(64,889)
Other financing activities	(28,503)	(11,811)

Net cash provided by (used in) financing activities	(580,865)	12,946
NET INCREASE IN CASH AND CASH EQUIVALENTS	20,553	34,293
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	161,730	105,343
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 182,283	$ 139,636

See notes to consolidated financial statements.

APARTMENT INVESTMENT AND MANAGEMENT COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2006
(Unaudited)

Note 1 Organization

Apartment Investment and Management Company, or Aimco, is a Maryland corporation incorporated on January 10, 1994. We are a self-administered and self-managed real estate investment trust, or REIT, engaged in the acquisition, ownership, management and redevelopment of apartment properties. As of September 30, 2006, we owned or managed a real estate portfolio of 1,290 apartment properties containing 224,837 apartment units located in 47 states, the District of Columbia and Puerto Rico. Based on apartment unit data compiled by the National Multi Housing Council, as of January 1, 2006, we were the largest owner of apartment properties in the United States.

As of September 30, 2006, we:

- owned an equity interest in and consolidated 167,305 units in 721 properties (which we refer to as consolidated), of which 166,802 units were also managed by us;

- owned an equity interest in and did not consolidate 14,644 units in 109 properties (which we refer to as unconsolidated), of which 8,799 units were also managed by us; and

- provided services or managed, for third-party owners, 42,888 units in 460 properties, primarily pursuant to long-term agreements (including 39,278 units in 418 properties for which we provide asset management services only, and not also property management services), although in certain cases we may indirectly own generally less than one percent of the operations of such properties through a partnership syndication or other fund.

Through our wholly-owned subsidiaries, AIMCO-GP, Inc. and AIMCO-LP, Inc., we own a majority of the ownership interests in AIMCO Properties, L.P., which we refer to as the Aimco Operating Partnership. As of September 30, 2006, we held approximately a 90% interest in the common partnership units and equivalents of the Aimco Operating Partnership. We conduct substantially all of our business and own substantially all of our assets through the Aimco Operating Partnership. Interests in the Aimco Operating Partnership that are held by limited partners other than Aimco are referred to as OP Units. OP Units include common OP Units, partnership preferred units, or preferred OP Units, and high performance partnership units, or High Performance Units. The Aimco Operating Partnership s income is allocated to holders of common OP Units based on the weighted average number of common OP Units outstanding during the period. The Aimco Operating Partnership records the issuance of common OP Units and the assets acquired in purchase transactions based on the market price of Aimco Class A Common Stock (which we refer to as Common Stock) at the date of execution of the purchase contract. The holders of the common OP Units receive distributions, prorated from the date of issuance, in an amount equivalent to the dividends paid to holders of Common Stock. Holders of common OP Units may redeem such units for cash or, at the Aimco Operating Partnership s option, Common Stock. Preferred OP Units entitle the holders thereof to a preference with respect to distributions or upon liquidation. At September 30, 2006, 95,909,969 shares of our Common Stock were outstanding and the Aimco Operating Partnership had 10,174,988 common OP Units and equivalents outstanding for a combined total of 106,084,957 shares of Common Stock and OP Units outstanding (excluding preferred OP Units).

Except as the context otherwise requires, we, our, us and the Company refer to Aimco, the Aimco Operating Partnership and their consolidated entities, collectively.

Note 2 Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2006, are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

The balance sheet at December 31, 2005 has been derived from the audited financial statements at that date but does not include all of the information and disclosures required by generally accepted accounting principles for complete financial statements. For further information, refer to the financial statements and notes thereto included in Aimco s Annual Report on Form 10-K for the year ended December 31, 2005. Certain 2005 financial statement amounts have been reclassified to conform to the 2006 presentation.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Aimco, the Aimco Operating Partnership, and their consolidated entities. As used herein, and except where the context otherwise requires, partnership refers to a limited partnership or a limited liability company and partner refers to a limited partner in a limited partnership or a member in a limited liability company. Interests held in consolidated real estate partnerships by limited partners other than us are reflected as minority interest in consolidated real estate partnerships. All significant intercompany balances and transactions have been eliminated in consolidation. The assets of consolidated real estate partnerships owned or controlled by Aimco or the Aimco Operating Partnership generally are not available to pay creditors of Aimco or the Aimco Operating Partnership.

As a result of the adoption of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, or FIN 46, as of March 31, 2004, we consolidate all variable interest entities for which we are the primary beneficiary. Generally, we consolidate real estate partnerships and other entities that are not variable interest entities when we own, directly or indirectly, a majority voting interest in the entity or are otherwise able to control the entity. As a result of adopting EITF 04-5 as discussed further below, we are applying new criteria for determining whether we control certain partnerships.

Adoption of EITF 04-5

In June 2005, the Financial Accounting Standards Board ratified Emerging Issues Task Force Issue 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights*, or EITF 04-5. EITF 04-5 provides an accounting model to be used by a general partner, or group of general partners, to determine whether the general partner(s) controls a limited partnership or similar entity in light of substantive kick-out rights and substantive participating rights held by the limited partners, and provides additional guidance on what constitutes those rights. EITF 04-5 was effective after June 29, 2005 for general partners of (a) all newly formed limited partnerships and (b) existing limited partnerships for which the partnership agreements have been modified. We consolidated four partnerships in the fourth quarter of 2005 based on EITF 04-5 requirements. The consolidation of those partnerships had an immaterial effect on our consolidated financial statements. EITF 04-5 was effective on January 1, 2006, for general partners of all limited partnerships and similar entities. We applied EITF 04-5 as of January 1, 2006, using a transition method that does not involve retrospective application to our financial statements for prior periods.

We consolidated 156 previously unconsolidated partnerships as a result of the application of EITF 04-5 in 2006. Those partnerships own, or control other entities that own, 149 apartment properties. Our direct and indirect interests in the profits and losses of those partnerships range from less than one percent to 50 percent, and average approximately 22 percent. The initial consolidation of those partnerships resulted in increases (decreases), net of intercompany eliminations, in amounts reported in our consolidated balance sheet as of January 1, 2006, as follows (in thousands):

	Increase (decrease)
Real estate, net	$ 665,793
Accounts and notes receivable from affiliates	(150,057)
Investment in unconsolidated real estate partnerships	(64,419)
All other assets	122,545
Total assets	$ 573,862
Total indebtedness	$ 521,711
All other liabilities	81,950
Minority interest in consolidated real estate partnerships	53,258
Minority interest in Aimco Operating Partnership	(9,552)
Stockholders equity	(73,505)
Total liabilities and stockholders equity	$ 573,862

Our income from continuing operations for the three and nine months ended September 30, 2006 include the following amounts for the partnerships consolidated as of January 1, 2006, in accordance with EITF 04-5 (in thousands):

	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2006
Revenues	$ 40,317	$ 120,658
Operating expenses	28,512	86,000
Operating income	11,805	34,658
Interest expense	(8,505)	(25,096)
Interest income	973	2,703
Income (loss) before minority interests	$ 4,273	$ 12,265

In prior periods, we used the equity method to account for our investments in the partnerships that we consolidated in 2006 in accordance with EITF 04-5. Under the equity method, we recognized partnership income or losses based generally on our percentage interest in the partnership. Consolidation of a partnership does not ordinarily result in a change to the net amount of partnership income or loss that is recognized using the equity method. However, when a partnership has a deficit in equity, generally accepted accounting principles may require the controlling partner that

consolidates the partnership to recognize any losses that would otherwise be allocated to noncontrolling partners, in addition to the controlling partner s share of losses. Certain of the partnerships that we consolidated in accordance with EITF 04-5 had deficits in equity that resulted from losses or deficit distributions during prior periods when we accounted for our investment using the equity method. We would have been required to recognize the noncontrolling partners share of those losses had we applied EITF 04-5 in those prior periods. In accordance with our transition method for the adoption of EITF 04-5, we recorded a $73.5 million charge to retained earnings as of January 1, 2006, for the cumulative amount of additional losses that we would have recognized had we applied EITF 04-5 in prior periods. Substantially all of those losses were attributable to real estate depreciation expense. As a result of applying EITF 04-5 for the three and nine months ended September 30, 2006, our income from continuing operations includes partnership losses in addition to losses that would have resulted from continued application of the equity method of $8.5 million and $17.5 million, respectively.

Stock-Based Compensation

We adopted the Apartment Investment and Management Company 1997 Stock Award and Incentive Plan, or the 1997 Plan to attract and retain officers, key employees and independent directors. The 1997 Plan reserves for issuance a maximum of 20 million shares, which may be in the form of incentive stock options, non-qualified stock options and restricted stock, or other types of awards as authorized under the 1997 Plan. At September 30, 2006, there were approximately 3.4 million shares available to be granted. The 1997 Plan is administered by the Compensation and Human

Resources Committee of the Board of Directors. In the case of incentive stock options, the exercise price of the options granted may not be less than the fair market value of Common Stock at the date of grant. The term of the incentive and non-qualified options is generally ten years from the date of grant. The options typically vest over a period of one to five years from the date of grant. We generally issue new shares upon exercise of options. Restricted stock awards typically vest over a period of three to five years.

Prior to 2006, we applied the accounting provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation,* or SFAS 123, as amended by Statement of Financial Accounting Standards No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure an amendment of FASB Statement No. 123,* or SFAS 148, to all employee awards granted, modified, or settled on or after January 1, 2003, which resulted in recognition of compensation expense related to stock options based on the fair value of the stock options. For stock options granted prior to January 1, 2003, we applied Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, or APB 25, and related interpretations. Under APB 25, because the exercise price of our employee stock options equaled the market price of the underlying stock on the date of grant, no compensation expense related to such options was recognized. We recognized compensation expense for stock options accounted for under SFAS 123 and restricted stock awards ratably over the period the awards vested. Compensation cost was reversed as forfeitures occurred.

Effective January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*, or SFAS 123R, which superseded SFAS 123. SFAS 123R requires all share-based employee compensation, including grants of employee stock options, to be recognized in the financial statements based on fair value and provides for a modified prospective application method of adoption. Under this method, we are applying the provisions of SFAS 123R prospectively to new awards granted on or after January 1, 2006 and to existing awards that are modified after January 1, 2006, and are recognizing compensation cost over the remaining vesting period for the unvested portion of all outstanding awards granted prior to 2006. The measurement and recognition provisions of SFAS 123R that apply to our stock compensation arrangements are similar to those that we applied under SFAS 123 to awards granted on or after January 1, 2003. Under SFAS 123R, we continue to recognize the cost of stock-based compensation ratably over the vesting period. The primary change in our method of recognizing compensation cost relates to the treatment of forfeitures. Under SFAS 123R, expected forfeitures are required to be estimated in determining periodic compensation cost, whereas under SFAS 123 we recognized forfeitures as they occurred.

In connection with the adoption of SFAS 123R as of January 1, 2006, we estimated that forfeitures of unvested awards of stock options and restricted stock for which compensation expense was recognized prior to 2006 will total approximately $154,000. SFAS 123R provides that a cumulative effect of change in accounting principle be recognized for such estimated forfeitures as of the date of adoption. We believe the estimated forfeitures upon adoption of SFAS 123R are immaterial and have reported the cumulative effect adjustment in our general and administrative expenses for the three and nine months ended September 30, 2006. The adoption of SFAS 123R resulted in decreases in our net income for the three and nine months ended September 30, 2006, of $250,000 and $851,000, respectively, including the cumulative effect adjustment. We estimate that the adoption of SFAS 123R will result in a decrease in our net income for the year ending December 31, 2006, of approximately $1.2 million due to the recognition of compensation expense related to stock options granted prior to 2003. After 2006, SFAS 123R is not expected to have any significant effect on our financial statements other than the timing of recognition of forfeitures.

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We estimated the fair value of our options granted in 2006 and 2005 using a Black-Scholes closed-form valuation model using the assumptions set forth in the table below. For options granted in 2006, the expected term of the options reflects the average of the vesting period and the contractual term for the options. Expected volatility reflects the historical volatility of our Common Stock during the historical period commensurate with the expected term of the options that ended on the date of grant. The expected dividend yield reflects the actual amount per share paid on our Common Stock after 2003 and the risk-free interest rate reflects the annualized yield of a zero coupon U.S. Treasury security with a term equal to the expected term of the option. For options granted during the nine months ended September 30, 2006 and 2005, the weighted average fair value of options and our valuation assumptions were as follows:

	Nine Months Ended September 30,	
	2006	**2005**
Weighted average fair value of options granted during the period	$ 5.23	$ 3.57
Assumptions:		
Risk-free interest rate	4.58%	4.10%
Expected dividend yield	5.58%	6.31%
Expected volatility	20.15%	19.00%
Weighted average expected life of options	6.5 years	5.0 years

The following table summarizes activity for our outstanding stock options for the nine months ended September 30, 2006:

	Options (thousands)	**Weighted Average Exercise Price**	**Weighted Average Contractual Term**	**Aggregate Intrinsic Value** (thousands)
Outstanding at January 1, 2006	11,054	$ 38.78		
Granted	692	43.15		
Exercised	(1,617)	38.41		
Forfeited	(316)	39.38		
Outstanding at September 30, 2006	9,814	$ 39.13	4.4 years	$ 149,853
Exercisable at September 30, 2006	7,712	$ 39.24	3.5 years	$ 117,002

The intrinsic value of a stock option represents the amount by which the fair value of the underlying stock exceeds the exercise price of the option. The intrinsic value of stock options exercised during the nine months ended September 30, 2006 and 2005 was $11.7 million and $0.2 million, respectively. We may realize tax benefits in connection with the exercise of options by employees of our taxable subsidiaries. We realized tax benefits of approximately $0.6 million for the nine months ended September 30, 2006.

The following table summarizes activity for restricted stock awards for the nine months ended September 30, 2006:

	Nine Months Ended September 30, 2006	
	Shares (thousands)	**Weighted Average Grant-Date Fair Value**

Unvested at January 1, 2006	882	$	35.08
Granted	565		43.92
Vested	(223)		35.11
Forfeited	(158)		35.32
Unvested at September 30, 2006	1,066	$	39.73

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The aggregate fair value of shares that vested during the nine months ended September 30, 2006 and 2005 was $11.4 million and $7.4 million, respectively.

Total compensation cost recognized for restricted stock and stock option awards was $10.6 million and $7.6 million for the nine months ended September 30, 2006 and 2005, respectively. Of these amounts, $2.5 million and $1.4 million, respectively, were capitalized. At September 30, 2006, total unvested compensation cost not yet recognized was $36.8 million. We expect to recognize this compensation over a weighted average period of approximately 2.1 years. Certain awards of restricted stock and options granted after 2004 are subject to immediate vesting based on achievement of a specified annual financial performance target during the scheduled vesting period. Recognition of related compensation cost may be accelerated based on our ongoing assessment of whether the performance target is probable of being achieved. At this time, we do not believe that achievement of the performance target is probable.

The following table illustrates the pro forma effect on net income and earnings per share if the fair value based method under SFAS 123 had been applied to all outstanding and unvested awards for the three and nine months ended September 30, 2005 (in thousands, except per share data):

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Net income (loss) attributable to common stockholders, as reported	$ 4,659	$ (10,305)
Add stock-based employee compensation expense included in reported net income:		
Restricted stock awards	2,157	6,239
Stock options	466	1,389
Deduct total stock-based employee compensation expense determined under fair value based method for all awards:		
Restricted stock awards	(2,157)	(6,239)
Stock options	(877)	(2,631)
Add minority interest in Aimco Operating Partnership	41	127
Pro forma net income (loss) attributable to common stockholders	$ 4,289	$ (11,420)
Basic earnings (loss) per common share:		
Reported	$ 0.05	$ (0.11)
Pro forma	$ 0.05	$ (0.12)
Diluted earnings (loss) per common share:		
Reported	$ 0.05	$ (0.11)
Pro forma	$ 0.05	$ (0.12)

Tax Credit Arrangements

We sponsor certain partnerships that own and operate apartment properties that qualify for tax credits under Section 42 of the Internal Revenue Code and HUD subsidized rents under the Section 8 program. These partnerships acquire, develop and operate qualifying affordable housing properties and are structured to provide for the pass-through of tax credits and deductions to their partners. The tax credits are generally realized ratably over the first ten years of the tax credit arrangement and are subject to the partnership s compliance with applicable laws and regulations for a period of 15 years. Typically, we are the general partner with a legal ownership interest of one percent or less. We market limited partner interests of at least 99 percent to unaffiliated institutional investors (tax

credit investors or investors) and receive a syndication fee from each investor upon such investor s admission to the partnership. At inception, each investor agrees to fund capital contributions to the partnerships. We agree to perform various services to the partnerships in exchange for fees over the expected duration of the tax credit service period. The related partnership agreements generally require adjustment of each tax credit investor s required capital contributions if actual tax benefits to such investor differ from projected amounts.

In connection with our adoption of FIN 46 as of March 31, 2004, we determined that the partnerships in these arrangements are variable interest entities and, where we are general partner, we are the primary beneficiary that is required to consolidate the partnerships. During the period April 1, 2004, through June 30, 2006, we accounted for these partnerships as consolidated subsidiaries with a noncontrolling interest (minority interest) of at least 99 percent.

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Accordingly, we allocated to the minority interest substantially all of the income or losses of the partnerships, including the effect of fees that we charged to the partnerships. In the third quarter of 2006, in consultation with our independent auditors, we determined that we are required to revise our accounting treatment for tax credit transactions to comply with the requirements of FIN 46. We also determined that our accounting treatment did not fully reflect the economic substance of the arrangements wherein we possess substantially all of the economic interests in the partnerships. Based on the contractual arrangements that obligate us to deliver tax benefits to the investors, and that entitle us through fee arrangements to receive substantially all available cash flow from the partnerships, we concluded that these partnerships are most appropriately accounted for by us as wholly owned subsidiaries. We also concluded that capital contributions received by the partnerships from tax credit investors represent, in substance, consideration that we receive in exchange for our obligation to deliver tax credits and other tax benefits to the investors. We have concluded that these receipts are appropriately recognized as revenue in our consolidated financial statements when our obligation to the investors is relieved upon delivery of the expected tax benefits.

In summary, our revised accounting treatment recognizes the income or loss generated by the underlying real estate based on our economic interest in the partnerships. Proceeds received in exchange for the transfer of the tax credits are recognized as revenue proportionately as the tax benefits are delivered to the tax credit investors and our obligation is relieved. Syndication fees and related costs are recognized in income upon completion of the syndication effort. Other direct and incremental costs incurred in structuring these arrangements are deferred and amortized over the expected duration of the arrangement in proportion to the recognition of related income. Investor contributions in excess of recognized revenue are reported as deferred income in our consolidated balance sheet.

We are applying the revised accounting treatment described above effective July 1, 2006. We also recognized the effect of retroactive application of this revised accounting treatment in our operations for the three months ended September 30, 2006. Adjustments related to prior periods had the following effects on our net income for the three and nine months ended September 30, 2006 (in thousands):

	Increase (Decrease) in Net Income	
	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2006
Revenues	$ (580)	$ (1,542)
Operating expenses	4,184	3,054
Minority interest in consolidated real estate partnerships	(19,554)	(9,030)
Minority interest in Aimco Operating Partnership	1,546	734
Net decrease in net income	$ (14,404)	$ (6,784)

Use of Estimates

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

We test for the recoverability of real estate assets that do not currently meet all conditions to be classified as held for sale, but are expected to be disposed of prior to the end of their estimated useful lives. If events or circumstances indicate that the carrying amount of a property may not be recoverable, we make an assessment of its recoverability by comparing the carrying amount to our estimate of the undiscounted future cash flows of the property, excluding interest charges. If the carrying amount exceeds the estimated aggregate undiscounted future cash flows, we recognize

an impairment loss to the extent the carrying amount exceeds the estimated fair value of the property.

If an impairment loss is not required to be recorded under the provisions of Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* or SFAS 144, the recognition of depreciation is adjusted prospectively, as necessary, to reduce the carrying value of the real estate to its estimated disposition value over the remaining period that the real estate is expected to be held and used. We also may adjust depreciation prospectively to reduce to zero the carrying value of buildings that we plan to demolish in connection with a redevelopment project. These depreciation adjustments decreased net income by $11.4 million and $11.5 million, and resulted in a decrease in basic and diluted earnings per share of $0.12 and $0.12, for the three months ended September 30,

2006 and 2005, respectively. For the nine months ended September 30, 2006 and 2005, these depreciation adjustments decreased net income by $20.1 million and $25.0 million, and resulted in a decrease in basic and diluted earnings per share of $0.21 and $0.27, respectively.

Note 3 Commitments and Contingencies

Commitments

In connection with the March 2002 acquisition of Casden Properties, Inc., we committed to invest up to $50 million for an interest in Casden Properties LLC. As of September 30, 2006, we had invested $45.8 million. Casden Properties LLC is pursuing development opportunities in Southern California and other markets. We have an option, but not an obligation, to purchase at completion all multifamily rental projects developed by Casden Properties LLC. We also committed to pay an aggregate amount of $50 million to Casden Properties LLC as a retainer on account for redevelopment services. As of September 30, 2006, $45.0 million has been paid.

In connection with our redevelopment and capital improvement activities, we have commitments of approximately $61.0 million related to construction projects that are due to be substantially completed during 2006. Additionally, we enter into certain commitments for future purchases of goods and services in connection with the operations of our properties. Those commitments generally have terms of one year or less and reflect expenditure levels comparable to our historical expenditures.

Tax Credit Arrangements

We are required to manage certain consolidated real estate partnerships in compliance with various laws, regulations and contractual provisions that apply to our syndication of historic and low-income housing tax credits. In some instances, noncompliance with applicable requirements could result in projected tax benefits not being realized and require a refund or reduction of investor capital contributions, which are reported as deferred income in our consolidated balance sheet until such time as our obligation to deliver tax benefits is relieved. The remaining compliance periods for our tax credit syndication arrangements range from less than one year to 15 years. At September 30, 2006, we do not anticipate that any material refunds or reductions of investor capital contributions will be required in connection with these arrangements.

Legal Matters

In addition to the matters described below, we are a party to various legal actions and administrative proceedings arising in the ordinary course of business, some of which are covered by liability insurance, and none of which we expect to have a material adverse effect on our consolidated financial condition or results of operations.

Limited Partnerships

In connection with our acquisitions of interests in real estate partnerships, we are sometimes subject to legal actions, including allegations that such activities may involve breaches of fiduciary duties to the partners of such real estate partnerships or violations of the relevant partnership agreements. We may incur costs in connection with the defense or settlement of such litigation. We believe that we comply with our fiduciary obligations and relevant partnership agreements. Although the outcome of any litigation is uncertain, we do not expect any such legal actions to have a material adverse effect on our consolidated financial condition or results of operations.

Environmental

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

properties, we could potentially be liable for environmental liabilities or costs associated with our properties or properties we acquire or manage in the future.

We have determined that our legal obligations to remove or remediate hazardous substances may be conditional asset retirement obligations as defined in FASB Interpretation No. 47, *Conditional Asset Retirement Obligations*. Except in limited circumstances where the asset retirement activities are expected to be performed in connection with a planned construction project or property casualty, we believe that the fair value of our asset retirement obligations cannot be reasonably estimated due to significant uncertainties in the timing and manner of settlement of those obligations. Asset retirement obligations that are reasonably estimable as of September 30, 2006, are immaterial to our consolidated financial condition and results of operations.

Mold

We have been named as a defendant in lawsuits that have alleged personal injury and property damage as a result of the presence of mold. In addition, we are aware of lawsuits against owners and managers of multifamily properties asserting claims of personal injury and property damage caused by the presence of mold, some of which have resulted in substantial monetary judgments or settlements. We have only limited insurance coverage for property damage loss claims arising from the presence of mold and for personal injury claims related to mold exposure. We have implemented policies, procedures, third-party audits and training, and include a detailed moisture intrusion and mold assessment during acquisition due diligence. We believe these measures will prevent or eliminate mold exposure from our properties and will minimize the effects that mold may have on our residents. To date, we have not incurred any material costs or liabilities relating to claims of mold exposure or to abate mold conditions. Because the law regarding mold is unsettled and subject to change we can make no assurance that liabilities resulting from the presence of or exposure to mold will not have a material adverse effect on our consolidated financial condition or results of operations.

Unclaimed Property and Use Taxes

Based on inquiries from several states, we are reviewing our historic forfeiture of unclaimed property pursuant to applicable state and local laws. We are also reviewing our historic filing of use tax returns in certain state and local jurisdictions that impose such taxes. Although the outcome is uncertain, we do not expect the effect of any non-compliance to have a material adverse effect on our consolidated financial condition or results of operations.

Insurance Litigation

The previously disclosed litigation brought by WestRM West Risk Markets, Ltd. (WestRM) against XL Reinsurance America, Inc. (XL), Greenwich Insurance Company (Greenwich) and Lumbermens in which we have been made a third party defendant continues. Summary judgment has been entered against defendants XL and Greenwich. The court issued an opinion on the parties cross-motions for summary judgment on July 19, 2006, rejecting Greenwich/XL s motions in their entirety and granting partial summary judgment in favor of us, dismissing the claims for fraud, civil conspiracy, negligent supervision, and aiding and abetting fraud. The court left intact Greenwich/XL s claims for contractual indemnification, contractual subrogation, and unjust enrichment. Trial has been set for February 5, 2007. We believe that we have meritorious defenses to assert, and we will vigorously defend ourselves against the claims brought against us. In addition, we will vigorously prosecute our own claims. Although the outcome of any claim or matter in litigation is uncertain, we do not believe that we will incur any material loss or that the ultimate outcome of this matter will have a material adverse effect on our consolidated financial condition or results of operations.

FLSA Litigation

The Aimco Operating Partnership and NHP Management Company (NHPMN), our subsidiary, are defendants in a lawsuit alleging that they willfully violated the Fair Labor Standards Act (FLSA) by failing to pay maintenance workers overtime for time worked in excess of 40 hours per week. The complaint, filed in the United States District Court for the District of Columbia, attempts to bring a collective action under the FLSA and seeks to certify state subclasses in California, Maryland, and the District of Columbia. Specifically, the plaintiffs contend that the Aimco Operating Partnership and NHPMN failed to compensate maintenance workers for time that they were required to be on-call. Additionally, the complaint alleges the Aimco Operating Partnership and NHPMN failed to comply with the FLSA in compensating maintenance workers for time that they worked in excess of 40 hours in a week. In June 2005, the court conditionally certified the collective action on both the on-call and overtime issues. Approximately 1,049 individuals opted-in to the class. The Aimco Operating Partnership and NHPMN moved to decertify the collective

action on both issues and the plaintiffs have responded. Because the court denied plaintiffs motion to certify state subclasses, on September 26, 2005, the plaintiffs filed a class action with the same allegations in the Superior Court of California (Contra Costa County), and on November 5, 2005, in Montgomery County Maryland Circuit Court. The California and Maryland cases have been stayed pending the resolution of the decertification motion in the District of Columbia case. Although the

outcome of any litigation is uncertain, we do not believe that the ultimate outcome will have a material adverse effect on our consolidated financial condition or results of operations.

Note 4 Stockholders Equity

Preferred Stock

On July 20, 2006, we redeemed all 6,940,000 outstanding shares of our 10% Class R Cumulative Preferred Stock at a redemption price per share of $25.00 plus an amount equal to accumulated and unpaid dividends thereon to the redemption date for a total of $25.243 per share. The aggregate redemption price of $175.2 million was paid in cash.

On June 29, 2006, we sold 200 shares of our Series A Community Reinvestment Act Perpetual Preferred Stock, $0.01 par value per share (CRA Preferred Stock), with a liquidation preference of $500,000 per share, for proceeds of approximately $98 million. Holders of the CRA Preferred Stock are entitled to cumulative cash dividends payable quarterly in arrears on March 31, June 30, September 30, and December 31 of each year, when and as declared, beginning on September 30, 2006. For the period from June 29, 2006, the date of original issuance, through March 31, 2015, the dividend rate is a variable rate per annum equal to the Three-Month LIBOR Rate (as defined in the Articles Supplementary designating the CRA Preferred Stock) plus 1.25%, calculated as of the beginning of each quarterly dividend period. Upon liquidation, holders of the CRA Preferred Stock are entitled to a preference of $500,000 per share, plus an amount equal to accumulated, accrued and unpaid dividends, whether or not earned or declared. The CRA Preferred Stock ranks prior to our Common Stock and on the same level as our outstanding shares of preferred stock, with respect to the payment of dividends and the distribution of amounts upon liquidation, dissolution or winding up. The CRA Preferred Stock is not redeemable prior to June 30, 2011, except in limited circumstances related to REIT qualification. On and after June 30, 2011, the CRA Preferred Stock is redeemable for cash, in whole or from time to time in part, at our option, at a price per share equal to the liquidation preference, plus accumulated, accrued and unpaid dividends, if any, to the redemption date.

On March 31, 2006, we redeemed all 2.0 million outstanding shares of our privately held 8.5% Class X Cumulative Convertible Preferred Stock. The redemption price per share was $25.00 plus an amount equal to accumulated and unpaid dividends thereon to the redemption date of $0.53125, for a total redemption price of $25.53125 per share. The aggregate redemption price of $51.1 million was paid in cash.

On March 19, 2006, we redeemed all 2.53 million outstanding shares of our 10.1% Class Q Cumulative Preferred Stock. The redemption price per share was $25.00 plus an amount equal to accumulated and unpaid dividends thereon to the redemption date of $0.035, for a total redemption price of $25.035 per share. The aggregate redemption price of $63.3 million was paid in cash.

Net income attributable to preferred stockholders includes preferred stock dividend requirements of $17.4 million and $57.9 million, and issuance costs related to redemptions of preferred stock of $4.3 million and $6.8 million, for the three and nine months ended September 30, 2006, respectively.

Common Stock

During August and September 2006, we repurchased approximately 1,935,000 shares of Common Stock at an average price of $51.68 per share (including commissions) for cash totaling approximately $100.0 million.

During the three and nine months ended September 30, 2006, approximately 28,000 and 63,000 shares of Common Stock, respectively, were issued in exchange for common OP Units tendered for redemption. During the three and nine months ended September 30, 2005, approximately 289,000 and 420,000 shares of Common Stock, respectively, were issued in exchange for common OP Units tendered for redemption. In addition, during the three and nine months ended September 30, 2006, we issued approximately 113,000 and 565,000 restricted shares of Common Stock, respectively, to certain officers and employees compared to 46,000 and 393,000 shares for the three and nine months ended September 30, 2005. See *Stock-Based Compensation* in Note 2 for additional information about our stock-based compensation arrangements.

During the three and nine months ended September 30, 2006, we issued approximately 7,000 shares and 26,000 shares, respectively, of Common Stock to certain non-executive officers at fair value, compared to approximately 14,000 shares and 26,000 shares for the three and nine months ended September 30, 2005. In exchange for common shares purchased, those non-executive officers executed notes payable totaling $0.3 million and $1.1 million for the three and nine months ended September 30, 2006, respectively, and $0.6 million and $1.0 million for the three and

nine months ended September

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30, 2005, respectively, which notes are 25% recourse to the borrowers, have a 10-year maturity and bear interest either at a fixed rate of 6% annually or a floating rate based on the one-month LIBOR plus 3.85%, which is subject to an annual interest rate cap of 7.25%. Total payments on such notes from all officers for the three and nine months ended September 30, 2006 were $2.9 million and $21.5 million, respectively. Total payments on such notes from all officers for the three and nine months ended September 30, 2005 were $2.7 million and $11.2 million, respectively.

Note 5 Discontinued Operations and Assets Held for Sale

At September 30, 2006, we had two properties with an aggregate of 368 units classified as held for sale. During the nine months ended September 30, 2006, we sold 51 properties with an aggregate of 10,819 units. Additionally, on February 17, 2006, we closed the sale of a portion of the Flamingo South Beach property known as the South Tower with an aggregate of 562 units. During the year ended December 31, 2005, we sold 83 properties with an aggregate of 16,835 units and our interest in one partnership. For the three and nine months ended September 30, 2006, discontinued operations included the results of operations of all of the above properties prior to the date of sale.

The following is a summary of the components of income from discontinued operations for the three and nine months ended September 30, 2006 and 2005 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Rental and other property revenues	$ 2,876	$ 42,620	$ 33,800	$ 141,287
Property operating expense	(1,881)	(23,274)	(18,438)	(73,776)
Depreciation and amortization	(549)	(9,284)	(8,088)	(37,934)
Other (expenses) income, net	60	(495)	(3,307)	(1,587)
Operating income	506	9,567	3,967	27,990
Interest income	57	128	335	426
Interest expense	(646)	(8,838)	(7,475)	(30,887)
Minority interest in consolidated real estate Partnerships	1,189	23	2,454	1,733
Income (loss) before gain on dispositions of real state, impairment losses, deficit distributions to minority partners, income tax and minority interest in Aimco Operating Partnership	1,106	880	(719)	(738)
Gain on dispositions of real estate, net of minority partners interest	11,647	43,758	154,180	80,316
Recovery of impairment losses (impairment losses) on real estate assets sold or held for sale	131	(6,208)	123	(8,395)
Recovery of deficit distributions to minority partners	2,193	543	18,384	3,904
Income tax arising from dispositions	(2,211)	(1,630)	(30,197)	(2,849)
Minority interest in Aimco Operating Partnership	(1,393)	(3,834)	(13,713)	(7,373)
Income from discontinued operations	$ 11,473	$ 33,509	$ 128,058	$ 64,865

Gain on disposition of real estate is reported net of incremental direct costs incurred in connection with the transaction, including any prepayment penalties incurred upon repayment of mortgage loans collateralized by the property being sold. Such prepayment penalties totaled $10.5 million and $40.8 million for the three and nine months ended September 30, 2006, respectively, and $8.9 million and $12.0 million for the three and nine months ended September 30, 2005, respectively.

We are currently marketing for sale certain real estate properties that are inconsistent with our long-term investment strategy. We expect that all properties classified as held for sale will sell within one year from the date classified as held for sale. At September 30, 2006, assets classified as held for sale of $11.2 million included real estate net book value of $10.9 million and liabilities related to assets classified as held for sale of $1.0 million included mortgage debt of $0.9 million. At December 31, 2005, assets classified as held for sale of $418.9 million included real estate net book value of $413.4 million and liabilities related to assets classified as held for sale of $267.9 million included mortgage debt of $260.6 million, represented by 45 properties and the South Tower with 10,770 units that were classified as held for sale during 2006 and 2005. Net recoveries of impairment losses recorded for the three and nine months ended September 30, 2006 were $0.1 million and $0.1 million, respectively. Impairment losses recorded for the three and nine months ended September 30,

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2005 were $6.2 million and $8.4 million, respectively. We are also marketing for sale certain other properties that do not meet the criteria to be classified as held for sale.

Note 6 Earnings per Share

We calculate earnings per share based on the weighted average number of shares of Common Stock, common stock equivalents and dilutive convertible securities outstanding during the period. The following table illustrates the calculation of basic and diluted earnings per share for the three and nine months ended September 30, 2006 and 2005 (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Numerator:				
Loss from continuing operations	$ (36,348)	$ (7,157)	$ (33,771)	$ (8,915)
Less net income attributable to preferred stockholders	(21,656)	(21,693)	(64,744)	(66,255)
Numerator for basic and diluted earnings per share Loss from continuing operations	$ (58,004)	$ (28,850)	$ (98,515)	$ (75,170)
Income from discontinued operations	$ 11,473	$ 33,509	$ 128,058	$ 64,865
Net income (loss)	$ (24,875)	$ 26,352	$ 94,287	$ 55,950
Less net income attributable to preferred stockholders	(21,656)	(21,693)	(64,744)	(66,255)
Numerator for basic and diluted earnings per share Net income (loss) attributable to common stockholders	$ (46,531)	$ 4,659	$ 29,543	$ (10,305)
Denominator:				
Denominator for basic earnings per share weighted average number of shares of Common Stock outstanding	96,061	94,041	95,772	93,765
Effect of dilutive securities:				
Dilutive potential common shares				
Denominator for diluted earnings per share	96,061	94,041	95,772	93,765
Earnings (loss) per common share:				
Basic earnings (loss) per common share:				
Loss from continuing operations (net of preferred dividends)	$ (0.60)	$ (0.31)	$ (1.03)	$ (0.80)
Income from discontinued operations	0.12	0.36	1.34	0.69
Net income (loss) attributable to common stockholders	$ (0.48)	$ 0.05	$ 0.31	$ (0.11)
Diluted earnings (loss) per common share:				
Loss from continuing operations (net of preferred dividends)	$ (0.60)	$ (0.31)	$ (1.03)	$ (0.80)
Income from discontinued operations	0.12	0.36	1.34	0.69

Net income (loss) attributable to common stockholders	$ (0.48)	$ 0.05	$ 0.31	$ (0.11)

All of our convertible preferred stock is anti-dilutive on an if converted basis, therefore, we deduct all of the dividends payable on the convertible preferred stock to arrive at the numerator and no additional shares are included in the denominator when calculating basic and diluted earnings per common share. For the nine months ended September 30, 2006 and 2005, we have excluded from diluted earnings per share approximately 10.8 million and 12.6 million, respectively, in common share equivalents related to vested and unvested stock options, shares issued for the portions of notes receivable that are non-recourse, and restricted stock awards, because their effect would be anti-dilutive.

Note 7 Business Segments

We have two reportable segments: real estate (owning and operating apartments) and investment management business (providing property management and other services relating to the apartment business, primarily to affiliates). We own and operate properties throughout the United States and Puerto Rico that generate rental and other property-related income through the leasing of apartment units to a diverse base of residents. We separately evaluate the performance of each of our properties. However, because each of our properties has similar economic characteristics, the properties have been aggregated into a single real estate segment. All real estate revenues are from external customers and no real estate revenues

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are generated from transactions with other segments. No single resident or related group of residents contributed 10% or more of total revenues during the three and nine months ended September 30, 2006 or 2005. Portions of the gross revenues earned in the investment management business are from transactions with affiliates in the real estate segment.

Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of an Enterprise and Related Information*, or SFAS 131, requires that segment disclosures present the measure(s) used by the chief operating decision maker for purposes of assessing such segments performance. Our chief operating decision maker is comprised of several members of our executive management team who use several generally accepted industry financial measures to assess the performance of the business including net operating income, free cash flow, funds from operations, and adjusted funds from operations. The chief operating decision maker emphasizes net operating income as a key measurement of segment profit or loss. Accordingly, below we disclose net operating income for each of our segments. Net operating income is defined as segment revenues (after the elimination of intersegment revenues) less direct segment operating expenses.

The following table presents revenues and net operating income for the three and nine months ended September 30, 2006 and 2005, from these segments, and reconciles net operating income of reportable segments to operating income as reported in the Consolidated Statements of Income. Additionally, total assets for our reportable segments is reconciled to total consolidated assets as reported in the Consolidated Balance Sheets (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	**2005**	**2006**	**2005**
Revenues:				
Real estate segment	$ 422,602	$ 354,262	$ 1,245,679	$ 1,025,891
Investment management segment:				
Gross revenues	34,819	34,255	111,200	101,312
Elimination of intersegment revenues	(21,750)	(20,143)	(69,836)	(59,913)
Net revenues after elimination	13,069	14,112	41,364	41,399
Total revenues of reportable segments	$ 435,671	$ 368,374	$ 1,287,043	$ 1,067,290
Net operating income:				
Real estate segment	$ 227,853	$ 185,081	$ 673,784	$ 545,187
Investment management segment	11,012	9,406	30,993	28,028
Total net operating income of reportable segments	238,865	194,487	704,777	573,215
Reconciliation of net operating income of reportable segments to operating income:				
Depreciation and amortization	(126,112)	(103,717)	(352,624)	(287,648)
General and administrative expenses	(25,262)	(23,095)	(72,769)	(65,663)
Other (expenses) income, net	30	(330)	(9,843)	(5,717)
Operating income	$ 87,521	$ 67,345	$ 269,541	$ 214,187

	September 30,	**December 31,**

	2006	2005
ASSETS:		
Total assets for reportable segments (1)	$ 9,968,436	$ 9,646,729
Corporate and other assets	252,929	372,431
Total consolidated assets	$ 10,221,365	$ 10,019,160

(1) Total assets for reportable segments include assets associated with both the real estate and investment management business segments.

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Note 8 Recent Accounting Developments

In September 2006, Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements, or SFAS 157. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. SFAS 157 applies whenever other standards require assets or liabilities to be measured at fair value and does not expand the use of fair value in any new circumstances. SFAS 157 establishes a hierarchy that prioritizes the information used in developing fair value estimates. The hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, such as the reporting entity s own data. SFAS 157 requires fair value measurements to be disclosed by level within the fair value hierarchy. SFAS 157 is effective for fiscal years beginning after November 15, 2007. We have not yet determined the effects that SFAS 157 will have on our financial statements.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, or FIN 48. FIN 48 prescribes a two-step process for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. The first step involves evaluation of a tax position to determine whether it is more likely than not that the position will be sustained upon examination, based on the technical merits of the position. The second step involves measuring the benefit to recognize in the financial statements for those tax positions that meet the more-likely-than-not recognition threshold. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. We have not yet determined the effects that FIN 48 will have on our financial statements.

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ITEM 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements in certain circumstances. Certain information included in this Report contains or may contain information that is forward-looking, including, without limitation, statements regarding the effect of acquisitions, our future financial performance and the effect of government regulations. Actual results may differ materially from those described in the forward-looking statements and will be affected by a variety of risks and factors that are beyond our control including, without limitation: natural disasters such as hurricanes; national and local economic conditions; the general level of interest rates; energy costs; the terms of governmental regulations that affect us and interpretations of those regulations; the competitive environment in which we operate; financing risks, including the risk that our cash flows from operations may be insufficient to meet required payments of principal and interest; real estate risks, including variations of real estate values and the general economic climate in local markets and competition for tenants in such markets; acquisition and development risks, including failure of such acquisitions to perform in accordance with projections; the timing of acquisitions and dispositions; litigation, including costs associated with prosecuting or defending claims and any adverse outcomes; and possible environmental liabilities, including costs, fines or penalties that may be incurred due to necessary remediation of contamination of properties presently owned or previously owned by us. In addition, our current and continuing qualification as a real estate investment trust 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 our Annual Report on Form 10-K for the year ended December 31, 2005, and the other documents we file from time to time with the Securities and Exchange Commission.

As used herein and except as the context otherwise requires, we, our, us and the Company refer to Aimco, AIMCO Properties, L.P. (which we refer to as the Aimco Operating Partnership) and Aimco s consolidated corporate subsidiaries and consolidated real estate partnerships, collectively.

Executive Overview

We are a self-administered and self-managed real estate investment trust, or REIT, engaged in the ownership, acquisition, management and redevelopment of apartment properties. Our property operations are characterized by diversification of product, location and price point. As of September 30, 2006, we owned or managed 1,290 apartment properties containing 224,837 units located in 47 states, the District of Columbia and Puerto Rico. Our primary sources of income and cash are rents associated with apartment leases.

The key financial indicators that we use in managing our business and in evaluating our financial condition and operating performance are: Funds From Operations, or FFO; FFO less spending for Capital Replacements, or AFFO; same store property operating results; net operating income; net operating income less spending for Capital Replacements, or Free Cash Flow; financial coverage ratios; and leverage as shown on our balance sheet. These terms are defined and described in the sections captioned Funds From Operations and Capital Expenditures below. The key macro-economic factors and non-financial indicators that affect our financial condition and operating performance are: rates of job growth; single-family and multifamily housing starts; and interest rates.

Because our operating results depend primarily on income from our properties, the supply and demand for apartments influences our operating results. Additionally, the level of expenses required to operate and maintain our properties, the pace and price at which we redevelop, acquire and dispose of our apartment properties, and the volume and timing of fee transactions affect our operating results. Our cost of capital is affected by the conditions in the capital and credit markets and the terms that we negotiate for our equity and debt financings.

For 2006, our focus includes the following: continue to improve operations so that customer satisfaction and occupancy increase to bring improved profitability; upgrade the quality of our portfolio through portfolio management and redevelopment; increase efficiency through improved business processes and automation; improve balance sheet flexibility; minimize our cost of capital in the face of rising interest rates; and monetize a portion of the value inherent in our properties with increased entitlements.

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

Results of Operations

Overview

Three months ended September 30, 2006 compared to three months ended September 30, 2005

We reported net loss of $24.9 million and net loss attributable to common stockholders of $46.5 million for the three months ended September 30, 2006, compared to net income of $26.4 million and net income attributable to common stockholders of $4.7 million for the three months ended September 30, 2005, which were decreases of $51.2 million. These decreases were principally due to the following items:

- a decrease in income from discontinued operations, primarily related to lower net gains on sales of real estate;
- an increase in interest expense, reflecting higher variable interest rates and interest incurred by newly consolidated properties;
- an increase in depreciation expense, which relates primarily to newly consolidated properties;
- a decrease in losses absorbed by minority interests, reflecting cumulative adjustments to our ownership of certain tax credit partnerships and the effect of newly consolidated partnerships; and
- an increase in deficit distributions to minority partners, which resulted primarily from distributions of mortgage loan refinancing proceeds.

The effects of these items on our operating results were partially offset by an increase in net operating income from property operations, which is primarily attributable to operations of newly consolidated properties and improved operating results of same store properties.

Nine months ended September 30, 2006 compared to nine months ended September 30, 2005

We reported net income of $94.3 million and net income attributable to common stockholders of $29.5 million for the nine months ended September 30, 2006, compared to net income of $56.0 million and net loss attributable to common stockholders of $10.3 million for the nine months ended September 30, 2005, which were increases of $38.3 million and $39.8 million, respectively. These increases were principally due to the following items:

- an increase in net operating income from property operations, which is primarily attributable to operations of newly consolidated properties and improved operating results of same store properties; and
- an increase in income from discontinued operations, primarily related to larger net gains on sales of real estate.

These increases were partially offset by higher depreciation and amortization and interest expense, which reflect amounts for newly consolidated properties, and a decrease in losses absorbed by minority interests in certain tax credit partnerships.

The following paragraphs discuss these and other items affecting the results of our operations in more detail.

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Rental Property Operations

Our operating income is primarily generated from the operations of our consolidated properties. The principal components within our total consolidated property operations are: consolidated same store properties, which consist of all conventional properties that were owned (and not classified as held for sale) and managed by us, stabilized and consolidated for all comparable periods presented, and other consolidated properties, which primarily include newly consolidated, acquisition, affordable and redevelopment properties.

The following table summarizes the overall performance of our consolidated properties for the three and nine months ended September 30, 2006 and 2005 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Rental and other property revenues	$ 422,602	$ 354,262	$ 1,245,679	$ 1,025,891
Property operating expenses	194,749	169,181	571,895	480,704
Net operating income	$ 227,853	$ 185,081	$ 673,784	$ 545,187

Newly consolidated properties had a significant effect on our reported consolidated property operating results for the three and nine months ended September 30, 2006. Newly consolidated properties are properties that: (i) are consolidated for all or part of the current year reporting period, (ii) were unconsolidated and accounted for by the equity method for all or part of the corresponding prior year reporting period, and (iii) were not sold or classified as held for sale during the current year reporting period. The consolidation of properties upon adoption of EITF 04-5, as discussed in Note 2 to the consolidated financial statements in Item 1, contributed to an unusually large number of newly consolidated properties in 2006.

For the three months ended September 30, 2006, compared to the three months ended September 30, 2005, net operating income for our consolidated property operations increased by $42.8 million, or 23.1%. This increase was primarily attributable to $22.2 million in net operating income from newly consolidated properties (140 properties first consolidated in 2006 and seven properties first consolidated in 2005) and a $14.5 million increase in consolidated same store net operating income, which is discussed further below under Consolidated Conventional Same Store Property Operating Results. Increases in net operating income from affordable, acquisition and redevelopment also contributed to the overall increase.

For the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, net operating income for our consolidated property operations increased by $128.6 million, or 23.6%. This increase was primarily attributable to $69.2 million in net operating income from newly consolidated properties (140 properties first consolidated in 2006 and 13 properties first consolidated in 2005) and a $46.4 million increase in consolidated same store net operating income, which is discussed further below under Conventional Same Store Property Operating Results. The operations of acquisition properties, consisting of six properties purchased in 2005 and four properties purchased in 2006, resulted in a $5.5 million increase in net operating income. Net operating income also reflects improvements in affordable and redevelopment property operations of $5.4 million and $2.0 million, respectively.

Conventional Consolidated Same Store Property Operating Results

Same store operating results is a key indicator we use to assess the performance of our property operations and to understand the period over period operations of a consistent portfolio of properties. We define consolidated same store properties as conventional properties (i) that we manage, (ii) in which our ownership interest exceeds 10%, (iii) the operations of which have been stabilized and consolidated for all periods presented and (iv) that have not been classified as held for sale. The rental property operations of our consolidated same store properties are as follows for the three and nine months ended September 30, 2006 and 2005 (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	**2005**	**2006**	**2005**
Consolidated same store revenues	$ 294,177	$ 280,791	$ 865,955	$ 806,148
Consolidated same store property operating expenses	123,317	124,394	365,548	352,095
Consolidated same store net operating income	**170,860**	**156,397**	**500,407**	**454,053**
Adjustments to reconcile same store net operating income to real estate segment net operating income (1)	56,993	28,684	173,377	91,134
Real estate segment net operating income	$ 227,853	$ 185,081	$ 673,784	$ 545,187
Consolidated Same Store Statistics				
Properties	398	398	395	395
Apartment units	117,368	117,368	116,869	116,869
Average physical occupancy	94.2%	93.2%	94.3%	92.5%
Average rent/unit/month	$ 817	$ 785	$ 802	$ 775

(1) Reflects property revenues and property operating expenses related to consolidated properties other than same store properties (e.g., affordable, acquisition and redevelopment properties) and casualty gains and losses.

For the three months ended September 30, 2006, compared to the three months ended September 30, 2005, consolidated same store net operating income increased by $14.5 million, or 9.2%. Revenues increased by $13.4 million, or 4.8%, primarily due to higher occupancy (up 1.0%), higher average rent (up $32 per unit) and higher utility reimbursements. Property operating expenses decreased by $1.1 million, or 0.9%, reflecting decreases totaling

$2.8 million in turnover, marketing and personnel expenses. These decreases were partially offset by a $1.8 million increase in utilities expense.

For the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, consolidated same store net operating income increased by $46.4 million, or 10.2%. Revenues increased by $59.8 million, or 7.4%, primarily due to higher occupancy (up 1.8%), higher average rent (up $27 per unit) and higher utility reimbursements. Expenses increased by $13.5 million, or 3.8%, primarily due to an $8.3 million increase in utilities and a $4.6 million increase in real estate taxes.

Property Management

We earn income from property management primarily from certain unconsolidated real estate partnerships for which we are the general partner. The income is primarily in the form of fees generated through property management and other associated activities. Reported revenue from property management decreases as we consolidate real estate partnerships because it is eliminated in consolidation. Additionally, our revenue decreases as properties within our unconsolidated real estate partnerships are sold. Offsetting the revenue earned in property management are the direct expenses associated with property management.

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The following table summarizes the overall performance of our property management business for the three and nine months ended September 30, 2006 and 2005 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Property management revenues, primarily from affiliates	$ 2,599	$ 6,094	$ 9,221	$ 18,684
Property management expenses	984	1,928	3,627	5,674
Net operating income from property management	$ 1,615	$ 4,166	$ 5,594	$ 13,010

For the three months ended September 30, 2006, compared to the three months ended September 30, 2005, net operating income from property management decreased by $2.6 million, or 61.2%. For the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, net operating income from property management decreased by $7.4 million, or 57.0%. These decreases were principally due to the consolidation of real estate partnerships, which resulted in the elimination of fee income and reclassification of related expenses to property operating expenses. Property management revenues that were eliminated in consolidation for our newly consolidated properties totaled $2.5 million and $7.1 million for the three and nine months ended September 30, 2006, respectively.

Activity Fees and Asset Management

Activity fees are generated from transactions, including dispositions, refinancings, and tax credit syndications and redevelopments. These transactions occur on varying timetables, thus the income varies from period to period. The majority of these fees are realized in connection with transactions related to affordable properties within the Aimco Capital portfolio. We have a large number of affiliated real estate partnerships for which we have identified a pipeline of transactional opportunities. As a result, we view activity fees as a predictable part of our core business strategy. Asset management revenue is from the financial management of partnerships, rather than management of day-to-day property operations. Asset management revenue includes certain fees that were earned in a prior period, but not recognized at that time because collectibility was not reasonably assured. Those fees may be recognized in a subsequent period upon occurrence of a transaction or improvement in operations that generates sufficient cash to pay the fees. Activity and asset management expenses are the direct expenses associated with transactional activities and asset management. These activities are conducted primarily by our taxable subsidiaries and the related operating income is generally subject to income taxes. As discussed in Note 2 to the consolidated financial statements in Item 1, effective July 1, 2006 we revised our treatment of income from certain tax credit arrangements.

The following table summarizes the operating results of our transactional and asset management activities for the three and nine months ended September 30, 2006 and 2005 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Activity fees and asset management revenues, primarily from affiliates	$ 10,470	$ 8,018	$ 32,143	$ 22,715
Activity and asset management expenses	1,073	2,778	6,744	7,697
Net operating income from activity fees and asset management	$ 9,397	$ 5,240	$ 25,399	$ 15,018

Activity fees and asset management revenues related to affordable properties within the Aimco Capital portfolio totaled $9.4 million and $7.8 million for the three months ended September 30, 2006 and 2005, respectively, and $28.2 million and $22.3 million for the nine months ended September 30, 2006 and 2005, respectively.

For the three months ended September 30, 2006, compared to the three months ended September 30, 2005, net operating income from activity fees and asset management increased by $4.2 million, or 79.3%. This increase is primarily attributable to the recognition upon collection in 2006 of $3.3 million in asset management fees that were earned but not recognized in prior periods. A $1.1 million increase in refinancing fees also contributed to the overall increase.

For the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, net operating income from activity fees and asset management increased by $10.4 million, or 69.1%. This increase reflects a $3.6 million increase in fees earned in prior periods that were recognized upon collection, primarily in connection with property sales and refinancing transactions. Income from tax credit arrangements and refinancing fees increased by $2.2 million and $1.5 million, respectively. Additionally, in 2006 we realized $3.5 million in promote distributions upon sales of properties for achieving financial returns to limited partners in excess of established targets.

Depreciation and Amortization

For the three months ended September 30, 2006, compared to the three months ended September 30, 2005, depreciation and amortization increased $22.4 million, or 21.6%. This increase was principally due to $10.4 million in depreciation related to newly consolidated properties, especially properties consolidated in 2006 as a result of adopting EITF 04-5 (see Note 2 to the consolidated financial statements in Item 1). The increase also reflects an additional $8.9 million in depreciation related to acquisition properties and capital projects placed in service after September 30, 2005.

For the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, depreciation and amortization increased $65.0 million, or 22.6%. This increase was principally due to $29.6 million in depreciation related to newly consolidated properties, especially properties consolidated in 2006 as a result of adopting EITF 04-5 (see Note 2 to the consolidated financial statements in Item 1). The increase also reflects $27.8 million in depreciation of capital projects placed in service after September 30, 2005 and $5.2 million related to a prospective change as of July 1, 2005 in the estimated useful lives that apply to capitalized payroll and certain indirect costs.

General and Administrative Expenses

For the three months ended September 30, 2006, compared to the three months ended September 30, 2005, general and administrative expenses increased $2.2 million, or 9.4%. This increase was principally due to higher accrued bonus compensation reflecting improved performance in relation to established targets.

For the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, general and administrative expenses increased $7.1 million, or 10.8%. This increase was principally due to higher compensation related expenses, including higher accrued bonus compensation reflecting improved performance in relation to established targets.

Other Expenses (Income), Net

Other expenses (income), net includes income tax provision/benefit, franchise taxes, risk management activities related to our unconsolidated partnerships, partnership administration expenses and certain non-recurring items.

For the three months ended September 30, 2006, compared to the three months ended September 30, 2005, other expenses (income), net changed favorably by $0.4 million. The net change reflects a $2.6 million reduction in partnership expenses and other favorable changes, partially offset by $2.7 million decrease in income tax benefits attributable to continuing operations of our taxable subsidiaries.

For the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, other expenses (income), net changed unfavorably by $4.1 million. The net change is primarily attributable to a $2.1 million decrease in income tax benefits attributable to continuing operations of our taxable subsidiaries and $1.7 million in separation costs for terminated employees in 2006.

Interest Income

Interest income consists primarily of interest on notes receivable from unconsolidated entities and interest earned on restricted and unrestricted cash balances. Reported interest income on notes receivable from unconsolidated real estate partnerships has declined in 2006 due to the elimination of interest income on notes receivable from newly consolidated properties, especially properties consolidated a result of adopting EITF 04-5 (see Note 2 to the consolidated financial statements in Item 1). The economic benefit for the minority partners share of interest on the eliminated notes is reflected in minority interest in consolidated real estate partnerships.

For the three months ended September 30, 2006, compared to the three months ended September 30, 2005, interest income increased $0.3 million, or 4.1%. For the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, interest income decreased $1.8 million, or 8.1%. These net changes reflect increases

resulting from interest income on cash balances maintained by newly consolidated properties, higher balances of notes receivable

from non-affiliates, and higher interest rates on cash balances. These increases were largely offset by decreases resulting from the elimination in 2006 of interest income on notes receivable from newly consolidated properties.

Interest Expense

For the three months ended September 30, 2006, compared to the three months ended September 30, 2005, interest expense, which includes the amortization of deferred financing costs, increased $15.2 million, or 16.7%. This increase was principally due to $9.4 million in interest on loans payable for newly consolidated properties, especially properties consolidated in 2006 as a result of adopting EITF 04-5 (see Note 2 to the consolidated financial statements in Item 1). Interest on property loans payable also increased $9.7 million primarily due to higher rates on variable rate loans and higher balances resulting from refinancing activities. These increases were partially offset by a $1.0 million net decrease in corporate interest expense, reflecting the net effect of lower outstanding borrowings and higher variable interest rates, and a $1.2 million increase in capitalized interest, reflecting higher levels of accumulated expenditures on redevelopment projects.

For the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, interest expense, which includes the amortization of deferred financing costs, increased $48.1 million, or 18.4%. This increase was principally due to $27.2 million in interest on loans payable for newly consolidated properties. Property interest expense also increased $27.1 million for acquisition and other properties, reflecting both higher balances and higher variable rates. Corporate interest expense increased by approximately $1.9 million, reflecting higher variable rates offset in part by lower balances of outstanding debt. The overall increase interest expense was partially offset by a $5.7 million increase in capitalized interest, reflecting higher levels of accumulated expenditures on redevelopment projects.

Gain on Dispositions of Real Estate Related to Unconsolidated Entities and Other

Gain on dispositions of real estate related to unconsolidated entities and other includes our share of gain related to dispositions of real estate within unconsolidated real estate partnerships, gain on dispositions of land and other non-depreciable assets and costs related to asset disposal activities. Changes in the level of gains recognized from period to period reflect the changing level of our disposition activity from period to period. Additionally, gains on properties sold are determined on an individual property basis or in the aggregate for a group of properties that are sold in a single transaction, and are not comparable period to period.

For the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, gain on disposition of real estate related to unconsolidated entities and other increased $7.7 million. This increase is primarily attributable to $8.1 million in gains on sale of land and other non-depreciable assets in 2006.

Minority Interest in Consolidated Real Estate Partnerships

Minority interest in consolidated real estate partnerships reflects minority partners share of operating results of consolidated real estate partnerships. This includes the minority partners share of property management fees, interest on notes and other amounts eliminated in consolidation that we charge to such partnerships. As a result of adopting EITF 04-5 and revising our treatment of certain tax credit arrangements (see Note 2 to the consolidated financial statements in Item 1), minority interests in our consolidated real estate partnerships have increased in 2006. However, we generally do not recognize a benefit for the minority interest share of partnership losses, which are typically attributable to real estate depreciation, for partnerships that have deficits in partners equity.

For the three months ended September 30, 2006, compared to the three months ended September 30, 2005, the net effect of minority interests changed unfavorably by $27.4 million. This change is primarily attributable to the reversal in 2006 of a previously recognized benefit of $19.6 million for losses of tax credit partnerships that were allocated to minority interests in prior periods, but which are absorbed by us under our revised accounting treatment of tax credit arrangements. The change also reflects a $2.9 million benefit recognized in 2005 for losses allocated to minority interests in tax credit partnerships, while no comparable amount was recognized in 2006 under our revised accounting treatment. The change also reflects our recognition of $8.5 million for minority partners share of losses of real estate partnerships with deficits in equity as a result of adopting EITF 04-5 in 2006. These unfavorable changes in minority interests were partially offset by a $3.6 million net increase in the minority interest share of other real estate partnership losses.

For the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, the net favorable effect of minority interests changed unfavorably by $25.4 million. This increase is primarily attributable to our recognition of $17.5 million for minority partners share of losses of partnerships with deficits in equity as a result of

adopting EITF 04-5 in 2006. The change also reflects (i) the reversal in 2006 of a previously recognized benefit of $9.0 million for losses of tax credit partnerships that were allocated to minority interests in prior years, but which are absorbed by us under our revised accounting treatment of tax credit arrangements and (ii) a $4.7 million benefit recognized in 2005 for losses allocated to minority interests in tax credit partnerships, while no comparable amount was recognized in 2006 under our revised accounting treatment. These unfavorable changes were partially offset by a $5.8 million net increase in the minority interest share of other real estate partnership losses.

Income from Discontinued Operations, Net

The results of operations for properties sold during the period or designated as held for sale at the end of the period are generally required to be classified as discontinued operations for all periods presented. The property-specific components of net earnings that are classified as discontinued operations include all property-related revenues and operating expenses, depreciation expense recognized prior to the classification as held for sale, property-specific interest expense to the extent there is secured debt on the property and the associated minority interest. In addition, any impairment losses on assets held for sale, and the net gain on the eventual disposal of properties held for sale are reported as discontinued operations.

For the three months ended September 30, 2006 and 2005, income from discontinued operations, net totaled $11.5 million and $33.5 million, respectively, which include income from operations after interest income, interest expense and minority interest of $1.1 million and $0.9 million in 2006 and 2005, respectively. For the nine months ended September 30, 2006 and 2005, income from discontinued operations, net totaled $128.1 million and $64.9 million, respectively, which include losses from operations after interest income, interest expense and minority interest of $0.7 million and $0.7 million, respectively. For 2006, income from discontinued operations included the operating results of 54 properties and one tower of the Flamingo South Beach property (the South Tower) that were sold or classified as held for sale during 2006. For 2005, income from discontinued operations included the operating results of 128 properties and the South Tower that were sold or classified as held for sale in 2005 or 2006. Due to the varying number of properties and the timing of sales, the income from operations is not comparable from year to year.

During the three months ended September 30, 2006, we sold 13 properties, resulting in a net gain on sale of approximately $9.4 million, net of $2.2 million of related income taxes. During the three months ended September 30, 2005, we sold 24 properties, resulting in a net gain on sale of approximately $42.1 million, net of $1.6 million of related income taxes. Additionally, we recognized recoveries of deficit distributions to minority partners of $2.2 million and $0.5 million in connection with the sale of properties in the three months ended September 30, 2006 and 2005, respectively. We also recognized a $6.2 million impairment loss in connection with the sale of properties in the three months ended September 30, 2005.

During the nine months ended September 30, 2006, we sold 51 properties, resulting in a net gain on sale of approximately $124.0 million, net of $30.2 million of related income taxes. During the nine months ended September 30, 2005, we sold 41 properties and our interest in one consolidated partnership, resulting in a net gain on sale of approximately $77.5 million, net of $2.8 million of related taxes. Additionally, we recognized recoveries of deficit distributions to minority partners of $18.4 million and $3.9 million in connection with the sale of properties in the nine months ended September 30, 2006 and 2005, respectively. We also recognized an $8.4 million impairment loss in connection with the sale of properties in the nine months ended September 30, 2005.

Changes in gains recognized from period to period reflect the changing level of our disposition activity from period to period. Additionally, gains on properties sold are determined on an individual property basis or in the aggregate for a group of properties that are sold in a single transaction, and are not comparable period to period. See Note 5 to the consolidated financial statements in Item 1 for more information on discontinued operations.

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in accordance with generally accepted accounting principles, which require us to make estimates and assumptions. We believe that the following critical accounting policies involve our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Impairment of Long-Lived Assets

Real estate and other long-lived assets to be held and used are stated at cost, less accumulated depreciation and amortization, unless the carrying amount of the asset is not recoverable. If events or circumstances indicate that the carrying amount of a property may not be recoverable, we make an assessment of its recoverability by comparing the carrying amount to our estimate of the undiscounted future cash flows of the property, excluding interest charges. If the carrying amount exceeds the estimated aggregate undiscounted future cash flows, we recognize an impairment loss to the extent the carrying amount exceeds the estimated fair value of the property.

Real estate investments are subject to varying degrees of risk. Several factors may adversely affect the economic performance and value of our real estate investments. These factors include:

- the general economic climate;
- competition from other apartment communities and other housing options;
- local conditions, such as loss of jobs or an increase in the supply of apartments, that might adversely affect apartment occupancy or rental rates;
- changes in governmental regulations and the related cost of compliance;
- increases in operating costs (including real estate taxes) due to inflation and other factors, which may not be offset by increased rents;
- changes in tax laws and housing laws, including the enactment of rent control laws or other laws regulating multifamily housing;
- changes in market capitalization rates; and
- the relative illiquidity of such investments.

Any adverse changes in these and other factors could cause an impairment in our long-lived assets, including real estate and investments in unconsolidated real estate partnerships. Based on periodic tests of recoverability of long-lived assets, we determined that the carrying amount for our properties to be held and used was recoverable and, therefore, we did not record any impairment losses related to such properties during the three or nine months ended September 30, 2006. For the three and nine months ended September 30, 2005, we recorded an impairment loss of $1.0 million for a property to be held and used.

Notes Receivable and Interest Income Recognition

Notes receivable from unconsolidated real estate partnerships consist primarily of notes receivable from partnerships in which we are the general partner. The ultimate repayment of these notes is subject to a number of variables, including the performance and value of the underlying real estate property and the claims of unaffiliated mortgage lenders. Our notes receivable include loans extended by us that we carry at the face amount plus accrued interest, which we refer to as par value notes, and loans extended by predecessors whose positions we generally acquired at a discount, which we refer to as discounted notes.

We record interest income on par value notes as earned in accordance with the terms of the related loan agreements. We discontinue the accrual of interest on such notes when the notes are impaired, as discussed below, or when there is otherwise significant uncertainty as to the collection of interest. We record income on such nonaccrual loans using the cost recovery method, under which we apply cash receipts first to the recorded amount of the loan; thereafter, any additional receipts are recognized as income.

We recognize interest income on discounted notes receivable based upon whether the amount and timing of collections are both probable and reasonably estimable. We consider collections to be probable and reasonably estimable when the borrower has entered into certain closed or pending transactions (which include real estate sales, refinancings, foreclosures and rights offerings) that provide a reliable source of repayment. In such instances, we recognize accretion income, on a prospective basis using the effective interest method over the estimated remaining term of the loans, equal to the difference between the carrying amount of the discounted notes and the estimated collectible value. We record income on all other discounted notes using the cost recovery method. Accretion income recognized in any given period is based on our ability

to complete transactions to monetize the notes receivable and the difference between the carrying value and the estimated collectible value of the notes; therefore, accretion income varies on a period-by-period basis and could be lower or higher than in prior periods.

Allowance for Losses on Notes Receivable

We assess the collectibility of notes receivable on a periodic basis, which assessment consists primarily of an evaluation of cash flow projections of the borrower to determine whether estimated cash flows are sufficient to repay principal and interest in accordance with the contractual terms of the note. We recognize impairments on notes receivable when it is probable that principal and interest will not be received in accordance with the contractual terms of the loan. The amount of the impairment to be recognized generally is based on the fair value of the partnership s real estate that represents the primary source of loan repayment. In certain instances where other sources of cash flow are available to repay the loan, the impairment is measured by discounting the estimated cash flows at the loan s original effective interest rate.

We recorded provisions for impairment losses on notes receivable of $0.7 million for the nine months ended September 30, 2006. We recorded $1.4 million in net recovery of impairment losses on notes receivable for the nine months ended September 30, 2005. We will continue to evaluate the collectibility of these notes, and we will adjust related allowances in the future due to changes in market conditions and other factors.

Capitalized Costs

We capitalize costs, including certain indirect costs, incurred in connection with our capital expenditure activities, including redevelopment and construction projects, other tangible property improvements, and replacements of existing property components. Included in these capitalized costs are payroll costs associated with time spent by site employees in connection with the planning, execution and control of all capital expenditure activities at the property level. Capitalized indirect costs represent an allocation of certain regional operating center and corporate level department costs, including payroll costs, that clearly relate to capital expenditure activities. We capitalize interest, property taxes and insurance during periods in which redevelopment and construction projects are in progress. Costs incurred in connection with capital expenditure activities are capitalized where the costs of the improvements or replacements exceed $250. We charge to expense as incurred costs that do not relate to capital expenditure activities, including ordinary repairs, maintenance, resident turnover costs and general and administrative expenses.

For the three months ended September 30, 2006 and 2005, for continuing and discontinued operations, we capitalized $6.1 million and $5.0 million of interest costs, respectively, and $18.0 million and $13.1 million of site payroll and indirect costs, respectively. For the nine months ended September 30, 2006 and 2005, for continuing and discontinued operations, we capitalized $18.1 million and $12.4 million of interest costs, respectively, and $50.1 million and $37.0 million of site payroll and indirect costs, respectively.

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Funds From Operations

Funds From Operations, or FFO, is a non-GAAP financial measure that we believe, when considered with the financial statements determined in accordance with GAAP, is helpful to investors in understanding our performance because it captures features particular to real estate performance by recognizing that real estate generally appreciates over time or maintains residual value to a much greater extent than do other depreciable assets such as machinery, computers or other personal property. The Board of Governors of the National Association of Real Estate Investment Trusts, or NAREIT, defines FFO as net income (loss), computed in accordance with GAAP, excluding gains from sales of depreciable property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. Adjustments for unconsolidated partnerships and joint ventures are calculated to reflect FFO on the same basis. We compute FFO for all periods presented in accordance with the guidance set forth by NAREIT s April 1, 2002 White Paper, which we refer to as the White Paper. We calculate FFO (diluted) by subtracting redemption related preferred stock issuance costs and dividends on preferred stock and adding back dividends/distributions on dilutive preferred securities. FFO should not be considered an alternative to net income or net cash flows from operating activities, as determined 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 future cash needs. 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.

For the three and nine months ended September 30, 2006 and 2005, our FFO is calculated as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	**2005**	**2006**	**2005**
Net income (loss) attributable to common stockholders (1)	$ (46,531)	$ 4,659	$ 29,543	$ (10,305)
Adjustments:				
Depreciation and amortization (2)	126,112	103,717	352,624	287,648
Depreciation and amortization related to non-real estate assets	(5,318)	(4,276)	(14,585)	(12,591)
Depreciation of rental property related to minority partners interest (3)	(5,543)	(10,139)	(19,101)	(27,910)
Depreciation of rental property related to minority partners interest adjustment (4)	18,831		7,377	
Depreciation of rental property related to unconsolidated entities	2,130	5,038	3,984	15,627
Gain on dispositions of real estate related to unconsolidated entities and other	(7,641)	(8,387)	(21,397)	(13,670)
Gain on dispositions of non-depreciable assets	2,887	1,657	9,259	2,449
Deficit distributions to minority partners, net (5)	14,072	2,849	20,129	5,719
Discontinued operations:				
Gain on dispositions of real estate, net of minority partners interest (3)	(11,647)	(43,758)	(154,180)	(80,316)
Depreciation of rental property, net of minority partners interest (3)	(466)	8,337	5,417	33,148
Recovery of deficit distributions to minority partners, net (4)	(2,193)	(543)	(18,384)	(3,904)
Income tax arising from disposals	2,211	1,630	30,197	2,849
Minority interest in Aimco Operating Partnership s share of above adjustments	(12,626)	(5,615)	(19,325)	(21,377)
Preferred stock dividends	17,382	21,693	57,896	65,132
Redemption related preferred stock issuance costs	4,274		6,848	1,123

Funds From Operations	$ 95,934	$ 76,862	$ 276,302	$ 243,622
Preferred stock dividends	(17,382)	(21,693)	(57,896)	(65,132)
Redemption related preferred stock issuance costs	(4,274)		(6,848)	(1,123)
Dividends/distributions on dilutive preferred securities	19		142	104
Funds From Operations attributable to common stockholders diluted	**$ 74,297**	**$ 55,169**	**$ 211,700**	**$ 177,471**
Weighted average number of common shares, common share equivalents and dilutive preferred securities outstanding:				
Common shares and equivalents (6)	99,957	95,013	97,990	94,377
Dilutive preferred securities	27		71	92
Total	99,984	95,013	98,061	94,469

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Notes:

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

(2) Includes amortization of management contracts where we are the general partner. Such management contracts were established in certain instances where we acquired a general partner interest in either a consolidated or an unconsolidated partnership. Because the recoverability of these management contracts depends primarily on the operations of the real estate owned by the limited partnerships, we believe it is consistent with the White Paper to add back such amortization, as the White Paper directs the add-back of amortization of assets uniquely significant to the real estate industry.

(3) Minority partners interest, means minority interest in our consolidated real estate partnerships.

(4) Represents prior period depreciation of certain tax credit redevelopment properties that Aimco included in an adjustment to minority interest in real estate partnerships for the three months ended September 30, 2006 (see Note 2 to the consolidated financial statements in Item 1). This prior period depreciation is added back to determine FFO in accordance with the NAREIT White Paper.

(5) In accordance with GAAP, deficit distributions to minority partners are charges recognized in our income statement when cash is distributed to a non-controlling partner in a consolidated real estate partnership in excess of the positive balance in such partner s capital account, which is classified as minority interest on our balance sheet. We record these charges for GAAP purposes even though there is no economic effect or cost. Deficit distributions to minority partners occur when the fair value of the underlying real estate exceeds its depreciated net book value because the underlying real estate has appreciated or maintained its value. As a result, the recognition of expense for deficit distributions to minority partners represents, in substance, either (a) our recognition of depreciation previously allocated to the non-controlling partner or (b) a payment related to the non-controlling partner s share of real estate appreciation. Based on White Paper guidance that requires real estate depreciation and gains to be excluded from FFO, we add back deficit distributions and subtract related recoveries in our reconciliation of net income to FFO.

(6) Represents the denominator for earnings per common share diluted, calculated in accordance with GAAP, plus additional common share equivalents that are dilutive for FFO.

Liquidity and Capital Resources

Liquidity is the ability to meet present and future financial obligations either through the sale or maturity of existing assets or by the acquisition of additional funds through working capital management. Both the coordination of asset and liability maturities and effective working capital management are important to the maintenance of liquidity. Our primary source of liquidity is cash flow from our operations. Additional sources are proceeds from property sales and proceeds from refinancings of existing mortgage loans and borrowings under new mortgage loans.

Our principal uses for liquidity include normal operating activities, payments of principal and interest on outstanding debt, capital expenditures, dividends paid to stockholders and distributions paid to partners, and acquisitions of, and investments in, properties. We use our cash provided by operating activities to meet short-term liquidity needs. In the event that the cash provided by operating activities is not sufficient to cover our short-term liquidity demands, we have additional means, such as short-term borrowing availability and proceeds from property sales and refinancings, to help us meet our short-term liquidity demands. We use our revolving credit facility for general corporate purposes and to fund investments on an interim basis. 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 sale of properties and cash generated from operations.

At September 30, 2006, we had $182.3 million in cash and cash equivalents, an increase of $20.6 million from December 31, 2005. At September 30, 2006, we had $348.3 million of restricted cash primarily consisting of reserves and escrows held by lenders for bond sinking funds, capital expenditures, property taxes and insurance. In addition, cash, cash equivalents and restricted cash are held by unconsolidated partnerships. The following discussion relates to changes in cash due to operating, investing and financing activities, which are presented in our Consolidated Statements of Cash Flows.

Operating Activities

For the nine months ended September 30, 2006, our net cash provided by operating activities of $391.8 million was primarily from operating income from our consolidated properties, which is affected primarily by rental rates, occupancy levels and operating expenses related to our portfolio of properties. Cash provided by operating activities increased $114.1 million compared with the nine months ended September 30, 2005. The increase in operating cash flow is primarily attributable to improved property operations and the consolidation of properties in connection with the adoption of EITF 04-5 (see Note 2 to the consolidated financial statements in Item 1). The increase also reflects deferred income taxes related to taxable gains on 2006 property sales, the treatment of receipts from tax credit investors as operating cash flow in 2006, and larger net releases of operating reserves from restricted cash.

Investing Activities

For the nine months ended September 30, 2006, net cash provided by our investing activities of $209.6 million primarily relates to proceeds received from the sale of properties, partially offset by capital expenditures.

Although we hold all of our properties for investment, we may sell properties when they do not meet our investment criteria or are located in areas that we believe do not justify our continued investment when compared to alternative uses for our capital. During the nine months ended September 30, 2006, we sold 48 consolidated properties and the South Tower of the Flamingo South Beach property. These properties and the South Tower were sold for an aggregate sales price of $745.8 million and generated proceeds totaling $639.9 million, after the payment of transaction costs and the assumption of debt. Sales proceeds were used to repay borrowings under our revolving credit facility and for other corporate purposes.

We are currently marketing for sale certain properties that are inconsistent with our long-term investment strategy. Additionally, from time to time, we may market certain properties that are consistent with our long-term investment strategy but offer attractive returns, such as sales to buyers who intend to convert the properties to condominiums. Gross sales proceeds from 2006 dispositions are expected to be $1,200 million to $1,400 million, and we plan to use our share of the net proceeds from such dispositions to reduce debt, fund capital expenditures on existing assets, fund property and partnership acquisitions and for other operating needs and corporate purposes.

Capital Expenditures

We classify all capital spending as Capital Replacements (which we refer to as CR), Capital Improvements (which we refer to as CI), casualties or redevelopment. Non-redevelopment and non-casualty capitalizable expenditures are apportioned between CR and CI based on the useful life of the capital item under consideration and the period we have owned the property (i.e., the portion that was consumed during our ownership of the item represents CR; the portion of the item that was consumed prior to our ownership represents CI).

For the nine months ended September 30, 2006, we spent a total of $60.1 million on CR, which represents the share of expenditures that are deemed to replace the portion of acquired capital assets that was consumed during the period we have owned the asset. For the nine months ended September 30, 2006, we spent a total of $72.5 million, $28.3 million and $163.6 million, respectively, on CI, casualties and redevelopment. CI expenditures represent all non-redevelopment and non-casualty capital expenditures that are made to enhance the value, profitability or useful life of an asset as compared to its original purchase condition. Casualty expenditures represent capitalized costs incurred in connection with casualty losses and are associated with the restoration of the asset. A portion of the restoration costs may be reimbursed by insurance carriers subject to deductibles associated with each loss. Redevelopment expenditures represent expenditures that substantially upgrade the property.

The table below details our share of actual spending, on both consolidated and unconsolidated real estate partnerships, for CR, CI, casualties and redevelopment for the nine months ended September 30, 2006 on a per unit and total dollar basis. Per unit numbers are based on approximately 138,135 average units in the quarter including 120,312 conventional and 18,225 affordable units. Average units are weighted for the portion of the period that we owned an interest in the property, represent ownership-adjusted effective units, and exclude non-managed units. Total capital expenditures are reconciled to our consolidated statement of cash flows for the same period (in thousands, except per unit amounts).

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	Actual Cost	Cost Per Unit
Capital Replacements Detail:		
Building and grounds	$ 18,061	$ 130
Turnover related	31,184	225
Capitalized site payroll and indirect costs and other	10,889	79
Our share of Capital Replacements	$ 60,134	$ 434
Capital Replacements:		
Conventional	$ 54,845	$ 456
Affordable	5,289	290
Our share of Capital Replacements	60,134	$ 434
Capital Improvements:		
Conventional	59,854	$ 497
Affordable	12,640	694
Our share of Capital Improvements	72,494	$ 524
Casualties:		
Conventional	26,206	
Affordable	2,121	
Our share of casualties	28,327	
Redevelopment:		
Conventional	113,836	
Affordable	49,803	
Our share of redevelopment	163,639	
Our share of capital expenditures	324,594	
Plus minority partners share of consolidated spending	44,884	
Less our share of unconsolidated spending	(2,591)	
Capital expenditures per consolidated statement of cash flows	$ 366,887	

Included in the above spending for CI, casualties and redevelopment, was approximately $34.7 million of our share of capitalized site payroll and indirect costs related to these activities for the nine months ended September 30, 2006.

We funded all of the above capital expenditures with cash provided by operating activities, working capital, property sales and borrowings under the revolving credit facility.

Financing Activities

For the nine months ended September 30, 2006, net cash used in financing activities of $580.9 million was primarily related to repayments of property loans, redemption of preferred stock, Common Stock and preferred stock dividends, distributions to minority interests, and repurchase of Common Stock. Proceeds from property loans, issuance of preferred stock, and stock option exercises partially offset the net cash outflow.

Mortgage Debt

At September 30, 2006, we had $6.2 billion in consolidated mortgage debt outstanding as compared to $5.4 billion outstanding at December 31, 2005. This increase largely reflects $483.1 million in mortgage loans related to newly consolidated properties, especially properties consolidated in connection with the adoption of EITF 04-5 (see Note 2 to consolidated financial statements in Item 1). During the nine months ended September 30, 2006, we refinanced or closed mortgage loans on 51 consolidated properties, generating $882.9 million of proceeds from borrowings with a weighted average interest rate of 5.71%. Our share of the net proceeds after repayment of existing debt, payment of transaction costs and distributions to limited partners, was $454.4 million. We used these total net proceeds for capital expenditures and other corporate purposes. We intend to continue to refinance mortgage debt to generate proceeds in amounts exceeding our scheduled amortizations and maturities.

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Revolving Credit Facility and Term Loans

We have an Amended and Restated Senior Secured Credit Agreement with a syndicate of financial institutions, which we refer to as the Credit Agreement. On March 22, 2006, we amended various terms in our Credit Agreement, including: the ability to request an increase in the aggregate commitments (which may be revolving or term loan commitments) by an amount not to exceed $150 million; a reduction in the interest rate spread applicable to revolving loans and letters of credit; a reduction in the spread applicable to term loans to LIBOR plus 1.5%; and an extension of the maturity dates from November 2, 2007 to May 1, 2009 for the revolver and from November 2, 2009 to March 22, 2011 for the term loan.

The aggregate amount of commitments and loans under the Credit Agreement is $850.0 million, comprised of $450.0 million of revolving loan commitments and $400.0 million in term loans. At September 30, 2006, the term loan had an outstanding principal balance of $400.0 million and an interest rate of 7.01%. At September 30, 2006, the revolving loan had an outstanding principal balance of $155.0 million and a weighted average interest rate of 6.70%. The amount available under the revolving credit facility at September 30, 2006 was $262.3 million (after giving effect to $32.7 million outstanding for undrawn letters of credit issued under the revolving credit facility). The proceeds of revolving loans are generally permitted to be used to fund working capital and for other corporate purposes.

Equity Transactions

During the nine months ended September 30, 2006, we redeemed all outstanding shares of our 10.0% Class R Cumulative Preferred Stock for $175.2 million, all outstanding shares of our 10.1% Class Q Cumulative Preferred Stock for $63.3 million, and all outstanding shares of our 8.5% Class X Cumulative Convertible Preferred Stock for $50.0 million in cash. On June 29, 2006, we sold 200 shares of Series A Community Reinvestment Act Perpetual Preferred Stock, $0.01 par value per share (CRA Preferred Stock), with a liquidation preference of $500,000 per share, for proceeds of approximately $98 million. See *Preferred Stock* in Note 4 to the consolidated financial statements in Item 1 for additional information about our preferred stock transactions during the nine months ended September 30, 2006.

Under our shelf registration statement, we had available for issuance approximately $877 million of debt and equity securities and the Aimco Operating Partnership had available for issuance $500 million of debt securities as of September 30, 2006.

Our Board of Directors has, from time to time, authorized us to repurchase shares of our outstanding capital stock. During the nine months ended September 30, 2006, we repurchased approximately 1,935,000 shares of Common Stock for cash totaling approximately $100.0 million. Currently, we are authorized to repurchase up to a total of 6.07 million shares of our Common Stock under an authorization that has no expiration date. These repurchases may be made from time to time in the open market or in privately negotiated transactions.

Future Capital Needs

We expect to fund any future acquisitions, additional redevelopment projects and capital improvements principally with proceeds from property sales (including tax-free exchange proceeds), short-term borrowings, debt and equity financings and operating cash flows.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Our primary market risk exposure relates to changes in interest rates. We are not subject to any material foreign currency exchange rate risk or any other material market rate or price risks.

Our capital structure includes the use of fixed-rate and variable rate indebtedness. As such, we are exposed to the impact of changes in interest rates. We use predominantly long-term, fixed-rate and self-amortizing non-recourse mortgage debt in order to avoid the refunding and repricing risks of short-term borrowings. We use short-term debt financing primarily to fund short-term uses and acquisitions and generally expect to refinance such borrowings with cash from operating activities, property sales proceeds, long-term debt or equity financings. We make limited use of derivative financial instruments and we do not use them for trading or other speculative purposes. In some situations, we may use interest rate caps or swaps to limit our exposure to interest rate risk.

See Item 7A. Quantitative and Qualitative Disclosures About Market Risk in our Annual Report on Form 10-K for the year ended December 31, 2005 for a more detailed discussion of interest rate sensitivity. As of September 30, 2006, our market risk had not changed materially from the amounts reported in our Annual Report on Form 10-K for the year ended December 31, 2005.

ITEM 4. Controls and Procedures

Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, has evaluated the effectiveness 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 (the Exchange Act)) as of the end of the period covered by this report. Based on such evaluation, our chief executive officer and chief financial officer have concluded that, as of the end of such period, our disclosure controls and procedures are adequate.

Changes in Internal Control over Financial Reporting

There have been no significant changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f)) under the Exchange Act) during third quarter 2006 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

See the information under the heading Legal Matters in Note 3 to the consolidated financial statements in this Quarterly Report on Form 10-Q for information regarding legal proceedings, which information is incorporated by reference in this Item 1.

ITEM 1A. Risk Factors

As of the date of this report, there have been no material changes from the Risk Factors in the Company s Annual Report on Form 10-K for the year ended December 31, 2005. There have been no material changes in these risk factors during the nine months ended September 30, 2006 and through the date of this report.

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

(a) *Unregistered Sales of Equity Securities.* From time to time during the three months ended September 30, 2006, we issued shares of Common Stock in exchange for common and preferred OP Units tendered to the Aimco Operating Partnership for redemption in accordance with the terms and provisions of the agreement of limited partnership of the Aimco Operating Partnership. Such shares are issued based on an exchange ratio of one share for each common OP Unit or the applicable conversion ratio for preferred OP Units. During the three months ended September 30, 2006, approximately 27,000 shares of Common Stock were issued in exchange for OP Units in these transactions. All of the foregoing issuances were made in private placement transactions exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended.

(c) *Repurchases of Equity Securities.* The following table summarizes repurchases of our equity securities for the three months ended September 30, 2006:

Fiscal period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)
July 1 July 31, 2006	0	N/A	0	8,000,000
August 1 August 31, 2006	604,220	$ 50.69	604,220	7,395,780
September 1 September 30, 2006	1,330,600	$ 52.13	1,330,600	6,065,180
Total	1,934,820	$ 51.68	1,934,820	

(1) Our Board of Directors has, from time to time, authorized us to repurchase shares of our outstanding capital stock. In April 2005, our

Board of Directors authorized us to repurchase up to a total of eight million shares of our Common Stock. We have approximately 6.07 million shares remaining on that authorization. This authorization has no expiration date. These repurchases may be made from time to time in the open market or in privately negotiated transactions.

Dividend Payments. Our Credit Agreement includes customary covenants, including a restriction on dividends and other restricted payments, but permits dividends during any 12-month period in an aggregate amount of up to 95% of our Funds From Operations for such period or such amount as may be necessary to maintain our REIT status.

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ITEM 6. Exhibits

The following exhibits are filed with this report:

EXHIBIT NO.	
3.1	Charter (Exhibit 3.1 to Aimco s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2006, is incorporated herein by reference)
3.2	Bylaws (Exhibit 3.2 to Aimco s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2001, is incorporated herein by this reference)
31.1	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.1	Agreement re: disclosure of long-term debt instruments

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APARTMENT INVESTMENT AND MANAGEMENT COMPANY
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.

APARTMENT INVESTMENT AND
MANAGEMENT COMPANY

By: /s/ THOMAS M. HERZOG

Thomas M. Herzog
Executive Vice President and
Chief Financial Officer
(duly authorized officer and
principal financial officer)

By: /s/ ROBERT Y. WALKER, IV

Robert Y. Walker, IV
Executive Vice President and
Chief Accounting Officer

Date: November 6, 2006

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