APARTMENT INVESTMENT & MANAGEMENT CO
Form 10-Q
May 07, 2007

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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 March 31, 2007

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 (State or other jurisdiction of incorporation or organization)	**84-1259577** (I.R.S. Employer Identification No.)
4582 South Ulster Street Parkway, Suite 1100 **Denver, Colorado** (Address of principal executive offices)	**80237** (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 April 30, 2007: 97,155,000

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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)

	March 31, 2007 (Unaudited)	December 31, 2006
ASSETS		
Real estate:		
Land	$ 2,450,066	$ 2,408,175
Buildings and improvements	9,612,545	9,450,277
Total real estate	12,062,611	11,858,452
Less accumulated depreciation	(2,946,252)	(2,835,606)
Net real estate	9,116,359	9,022,846
Cash and cash equivalents	257,160	229,824
Restricted cash	314,734	347,076
Accounts receivable	66,439	85,772
Accounts receivable from affiliates	25,590	20,763
Deferred financing costs	75,579	73,130
Notes receivable from unconsolidated real estate partnerships	40,278	40,641
Notes receivable from non-affiliates	135,481	139,352
Investment in unconsolidated real estate partnerships	36,460	39,000
Other assets	195,402	202,760
Deferred income tax assets, net	2,719	
Assets held for sale	39,865	88,611
Total assets	$ 10,306,066	$ 10,289,775
LIABILITIES AND STOCKHOLDERS EQUITY		
Property tax-exempt bond financing	$ 946,348	$ 936,082
Property loans payable	5,529,828	5,265,698
Term loans	400,000	400,000
Credit facility	130,000	140,000
Other borrowings	60,557	67,660
Total indebtedness	7,066,733	6,809,440
Accounts payable	31,347	54,972
Accrued liabilities and other	281,654	409,991
Deferred income	134,761	142,701
Security deposits	45,920	43,919
Deferred income tax liabilities, net		4,379
Liabilities related to assets held for sale	27,734	86,885

Total liabilities	7,588,149	7,552,287
Minority interest in consolidated real estate partnerships	210,878	212,149
Minority interest in Aimco Operating Partnership	159,599	185,447
Stockholders equity:		
Preferred Stock, perpetual	723,500	723,500
Preferred Stock, convertible	100,000	100,000
Class A Common Stock, $0.01 par value, 426,157,976 shares authorized, 97,139,108 and 96,820,252 shares issued and outstanding, at March 31, 2007 and December 31, 2006, respectively	971	968
Additional paid-in capital	3,079,469	3,095,430
Notes due on common stock purchases	(3,794)	(4,714)
Distributions in excess of earnings	(1,552,706)	(1,575,292)
Total stockholders equity	2,347,440	2,339,892
Total liabilities and stockholders equity	$ 10,306,066	$ 10,289,775

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 March 31, 2007	Three Months Ended March 31, 2006
REVENUES:		
Rental and other property revenues	$ 417,036	$ 390,311
Property management revenues, primarily from affiliates	2,096	3,030
Activity fees and asset management revenues	11,630	9,539
Total revenues	430,762	402,880
OPERATING EXPENSES:		
Property operating expenses	196,671	183,397
Property management expenses	1,206	492
Activity and asset management expenses	5,654	4,898
Depreciation and amortization	123,990	105,709
General and administrative expenses	21,586	20,237
Other expenses (income), net	2,191	3,989
Total operating expenses	351,298	318,722
Operating income	79,464	84,158
Interest income	9,607	6,965
Provision for losses on notes receivable	(1,543)	(262)
Interest expense	(106,007)	(97,276)
Deficit distributions to minority partners, net	(1,270)	(2,102)
Equity in losses of unconsolidated real estate partnerships	(2,986)	(1,863)
Recoveries of real estate impairment losses, net		987
Gain on dispositions of unconsolidated real estate and other	20,422	9,696
Income (loss) before minority interests and discontinued operations	(2,313)	303
Minority interests:		
Minority interest in consolidated real estate partnerships	(5,726)	5,415
Minority interest in Aimco Operating Partnership, preferred	(1,782)	(1,798)
Minority interest in Aimco Operating Partnership, common	2,525	1,875
Total minority interests	(4,983)	5,492
Income (loss) from continuing operations	(7,296)	5,795
Income from discontinued operations, net	32,504	78,276

Net income	25,208	84,071
Net income attributable to preferred stockholders	16,348	24,054
Net income attributable to common stockholders	$ 8,860	$ 60,017
Earnings (loss) per common share basic:		
Loss from continuing operations (net of preferred dividends)	$ (0.25)	$ (0.19)
Income from discontinued operations	0.34	0.82
Net income attributable to common stockholders	$ 0.09	$ 0.63
Earnings (loss) per common share diluted:		
Loss from continuing operations (net of preferred dividends)	$ (0.25)	$ (0.19)
Income from discontinued operations	0.34	0.82
Net income attributable to common stockholders	$ 0.09	$ 0.63
Weighted average common shares outstanding	95,971	95,183
Weighted average common shares and equivalents outstanding	95,971	95,183
Dividends declared per common share	$ 0.00	$ 0.00

See notes to consolidated financial statements.

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

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 25,208	$ 84,071
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	123,990	105,709
Discontinued operations	(32,820)	(96,147)
Other adjustments	(16,806)	46,551
Net changes in operating assets and operating liabilities	(14,825)	(28,258)
Net cash provided by operating activities	84,747	111,926
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of real estate	(77,095)	
Capital expenditures	(121,306)	(112,603)
Proceeds from dispositions of real estate	64,540	382,741
Change in funds held in escrow from tax-free exchanges	25,710	
Cash from newly consolidated properties		22,432
Purchases of general and limited partnership interests and other assets	(11,997)	(5,170)
Originations of notes receivable from unconsolidated real estate partnerships	(4,322)	(209)
Proceeds from repayment of notes receivable	13,244	1,662
Distributions received from investments in unconsolidated real estate partnerships	3,633	4,509
Other investing activities	(2,746)	(1,895)
Net cash provided by (used in) investing activities	(110,339)	291,467
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from property loans	460,552	361,073
Principal repayments on property loans	(222,084)	(339,275)
Proceeds from tax exempt bonds	42,675	
Principal repayments on tax-exempt bond financing	(31,935)	(18,610)
Net borrowings (repayments) on term loans and revolving credit facility	(10,000)	(175,000)
Redemption of preferred stock		(113,250)
Repurchases of Class A Common Stock	(111,612)	
Proceeds from Class A Common Stock option exercises	52,507	38,867
Payment of Class A Common Stock dividends	(58,157)	(57,260)
Payment of preferred stock dividends	(16,371)	(22,844)
Payment of distributions to minority interest	(25,129)	(28,281)
Other financing activities	(27,518)	13,784
Net cash provided by (used in) financing activities	52,928	(340,796)

NET INCREASE IN CASH AND CASH EQUIVALENTS	27,336	62,597
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	229,824	161,730
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 257,160	$ 224,327

See notes to consolidated financial statements.

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APARTMENT INVESTMENT AND MANAGEMENT COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2007
(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 March 31, 2007, we owned or managed a real estate portfolio of 1,237 apartment properties containing 213,681 apartment units located in 46 states, the District of Columbia and Puerto Rico. Based on apartment unit data compiled by the National Multi Housing Council, as of January 1, 2007, we were the largest owner and operator of apartment properties in the United States.

As of March 31, 2007, we:

- owned an equity interest in and consolidated 160,986 units in 696 properties (which we refer to as consolidated), of which 160,268 units were also managed by us;

- owned an equity interest in and did not consolidate 11,591 units in 100 properties (which we refer to as unconsolidated), of which 5,466 units were also managed by us; and

- provided services or managed, for third-party owners, 41,104 units in 441 properties, primarily pursuant to long-term agreements (including 37,579 units in 401 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 March 31, 2007, we held approximately a 91% 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 March 31, 2007, 97,139,108 shares of our Common Stock were outstanding and the Aimco Operating Partnership had 9,685,789 common OP Units and equivalents outstanding for a combined total of 106,824,897 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.

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Note 2 Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles, or GAAP, 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 months ended March 31, 2007, are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

The balance sheet at December 31, 2006, has been derived from the audited financial statements at that date but does not include all of the information and 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, 2006. Certain 2006 financial statement amounts have been reclassified to conform to the 2007 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.

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.

Adoption of FIN 48

In June 2006, the Financial Accounting Standards Board, or FASB, issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109*, or FIN 48. FIN 48 prescribes a two-step process for the financial statement recognition and measurement of income 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.

We adopted FIN 48 as of January 1, 2007. Upon adoption, we recorded a $0.8 million charge to distributions in excess of earnings to reflect our measurement in accordance with FIN 48 of uncertain income tax positions that affect net operating loss carryforwards recognized as deferred tax assets. As of January 1, 2007, our unrecognized tax benefits totaled approximately $3.1 million. To the extent these unrecognized tax benefits are ultimately recognized, they will affect the effective tax rates in future periods. There were no changes in unrecognized tax benefits during the three months ended March 31, 2007. We do not anticipate any material changes in existing unrecognized tax benefits during the next 12 months. Our federal and state income tax returns for the year ended December 31, 2003, and subsequent years are currently subject to examination by the Internal Revenue Service or other taxing authorities. Certain of our state income tax returns for the year ended December 31, 2002, also are currently subject to examination. Our policy is to include interest and penalties related to income taxes in other expenses (income), net.

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.

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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 amount 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 amount of buildings that we plan to demolish in connection with a redevelopment project. These depreciation adjustments decreased net income by $10.9 million and $4.8 million, and resulted in a decrease in basic and diluted earnings per share of $0.11 and $0.05, for the three months ended March 31, 2007 and 2006, respectively.

Note 3 Commitments and Contingencies

Commitments

In connection with our redevelopment and capital improvement activities, we have commitments of approximately $167.5 million related to construction projects, most of which we expect to incur within one year. 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.

As discussed in Note 8, we have a commitment to acquire minority interests in VMS National Properties Joint Venture based on terms that will require us to transfer consideration totaling approximately $20 million, consisting of a combination of cash and common OP Units.

We have committed to fund an additional $11.8 million in second mortgage loans on certain properties in West Harlem, in New York City. In certain circumstances, we also could be required to acquire the properties for cash and/or assumption of first mortgage debt totaling approximately $139 million to $206 million, in addition to amounts funded and committed under the related loan agreement.

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 March 31, 2007, 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 our general liability insurance program, 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.

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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 March 31, 2007 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. against XL Reinsurance America, Inc. (XL), Greenwich Insurance Company (Greenwich) and Lumbermens in which we were made a third party defendant was settled on March 23, 2007, in advance of the April 10, 2007 trial date. Aimco agreed to pay Greenwich and XL $3.8 million in exchange for a release of all claims asserted by Greenwich and XL and recorded a $3.8 million loss for this matter during the three months ended March 31, 2007. Aimco is pursuing claims against its professional liability carrier for its failure to defend and pay for these claims, and is seeking contribution from third parties for this loss from other parties, including its professional liability carrier.

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 August 2003 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

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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 into the class. On March 28, 2007, the court issued an opinion decertifying the collective action on both issues. The court held that the members of the collective action are not similarly situated and the case may not proceed as a collective action. The nine named plaintiffs still maintain their individual causes of action, and the court is transferring their individual cases to a federal court in the state where each of the named plaintiffs resides. In addition to the District of Columbia case described above, in 2005 the plaintiffs filed class actions with the same allegations in the Superior Court of California (Contra Costa County) and in Montgomery County Maryland Circuit Court. These cases were 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

During the three months ended March 31, 2007, we repurchased 1,766,300 shares of Common Stock at an average price of $57.35 per share (including commissions) for cash totaling $101.3 million. We also paid cash totaling $10.3 million in January 2007 to settle repurchases of Common Stock in December 2006.

During the three months ended March 31, 2007 and 2006, we issued approximately 442,000 and 29,000 shares, respectively, of Common Stock in exchange for common OP Units tendered for redemption. In addition, we issued approximately 246,000 and 402,000 restricted shares of Common Stock to certain officers and employees during the three months ended March 31, 2007 and 2006, respectively. The restricted shares are subject to vesting over periods of predominantly four or five years. During the three months ended March 31, 2007 and 2006, we issued 20,000 and 15,000 unrestricted shares, respectively, of Common Stock to independent members of our Board of Directors.

During the three months ended March 31, 2007 and 2006, we issued 7,409 shares and 7,359 shares, respectively, of Common Stock to certain non-executive officers at fair value. In exchange for common shares purchased, those non-executive officers executed promissory notes payable totaling $0.4 million and $0.3 million, respectively. Total payments on all such notes from all officers for the three months ended March 31, 2007 and 2006 were $1.3 million and $16.5 million, respectively.

During the three months ended March 31, 2007 and 2006, we granted options to certain executive officers to purchase approximately 314,000 and 636,000 shares, respectively, of Common Stock. The options all have exercise prices equal to the fair market value at the date of grant. The stock options had a weighted average grant-date fair value of $11.30 and $5.23 per share, respectively, and are subject to vesting over periods of predominantly four or five years. During the three months ended March 31, 2007 and 2006, stock option exercises resulted in the issuance of approximately 1,370,000 and 1,049,000 shares, respectively, of Common Stock and generated net proceeds of $52.5 million and $38.9 million, respectively.

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Note 5 Discontinued Operations and Assets Held for Sale

At March 31, 2007, we had six properties with an aggregate of 1,248 units classified as held for sale. During the three months ended March 31, 2007, we sold 12 properties with an aggregate of 1,913 units. During the year ended December 31, 2006, we sold 77 properties with an aggregate of 17,307 units and closed the sale of a portion of the Flamingo South Beach property, known as the South Tower, with an aggregate of 562 units. For the three months ended March 31, 2007 and 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 months ended March 31, 2007 and 2006 (in thousands):

	Three Months Ended March 31,	
	2007	**2006**
Rental and other property revenues	$ 5,549	$ 38,912
Property operating expense	(3,037)	(20,341)
Depreciation and amortization	(1,509)	(10,492)
Other (expenses) income, net	(748)	(1,608)
Operating income	255	6,471
Interest income	49	280
Interest expense	(1,965)	(8,171)
Gain on extinguishment of debt	22,852	
Minority interest in consolidated real estate partnerships	99	1,195
Income (loss) before gain on dispositions of real estate, impairment losses, deficit distributions to minority partners, income tax and minority interest in Aimco Operating Partnership	21,290	(225)
Gain on dispositions of real estate, net of minority partners interest	15,633	99,710
Real estate impairment losses, net	(843)	(203)
Recovery of deficit distributions (deficit distributions) to minority partners	(59)	14,276
Income tax arising from dispositions	(164)	(26,943)
Minority interest in Aimco Operating Partnership	(3,353)	(8,339)
Income from discontinued operations	$ 32,504	$ 78,276

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 $1.0 million and $27.4 million for the three months ended March 31, 2007 and 2006, 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 March 31, 2007, assets classified as held for sale of $39.9 million included real estate net book value of $39.1 million, and liabilities related to assets classified as held for sale of $27.7 million included mortgage debt of $27.3 million. At December 31, 2006, we had assets classified as held for sale of $88.6 million and liabilities related to assets classified as held for sale of $86.9 million. Impairment losses recorded in discontinued operations for the three months ended March 31, 2007 and 2006 were $0.8 million and $0.2 million, respectively. We are also marketing for sale certain other properties that do not meet the criteria to be classified as held for sale.

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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 months ended March 31, 2007 and 2006 (in thousands, except per share data):

	Three Months Ended March 31,	
	2007	**2006**
Numerator:		
Income (loss) from continuing operations	$ (7,296)	$ 5,795
Less net income attributable to preferred stockholders	(16,348)	(24,054)
Numerator for basic and diluted earnings per share Loss from continuing operations	$ (23,644)	$ (18,259)
Income from discontinued operations	$ 32,504	$ 78,276
Net income	$ 25,208	$ 84,071
Less net income attributable to preferred stockholders	(16,348)	(24,054)
Numerator for basic and diluted earnings per share Net income attributable to common stockh		