HICKORY TECH CORP
Form 10-K
March 09, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2003

Commission File Number: 0-13721

HICKORY TECH CORPORATION

Minnesota	**41-1524393**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

221 East Hickory Street
P.O. Box 3248
Mankato, Minnesota 56002
(Address of principal executive offices and zip code)

Registrant s telephone number, including area code: 800-326-5789

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, No Par Value
Preferred Stock Purchase Rights
Title of Class

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, and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by a check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ý No o

As of June 30, 2003, the aggregate market value of the common stock held by non-affiliates of the registrant was $153,317,388 based on the last sale price of $11.21 on The Nasdaq National Market.

The total number of shares of the registrant s common stock outstanding as of February 27, 2004: 12,967,886.

Documents Incorporated by Reference: Portions of the registrant s definitive Proxy Statement for the Annual Meeting of Shareholders to be held on April 26, 2004 (Proxy Statement) are incorporated by reference in Part III of this Form 10-K.

INDEX

PART I

Item 1:	Business
Item 2:	Properties
Item 3:	Legal Proceedings
Item 4:	Submission of Matters to a Vote of Security Holders

PART II

Item 5:	Market for Registrant s Common Equity and Related Stockholder Matters
Item 6:	Selected Financial Data
Item 7:	Management s Discussion and Analysis of Financial Condition and Results of Operations
Item 7A:	Quantitative and Qualitative Disclosures About Market Risk
Item 8:	Financial Statements and Supplementary Data
Item 9:	Changes in and Disagreements with Accountants on Accounting and Financial Disclosures
Item 9A:	Controls and Procedures

PART III

Item 10:	Directors and Executive Officers of HickoryTech
Item 11:	Executive Compensation
Item 12:	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters
Item 13:	Certain Relationships and Related Transactions
Item 14:	Principal Accounting Fees and Services

PART IV

Item 15:	Exhibits, Financial Statement Schedules, and Reports on Form 8-K

PART I

Item 1. Business.

GENERAL

Hickory Tech Corporation (HickoryTech) is a diversified communications company headquartered in Mankato, Minnesota. Incorporated in Minnesota in 1985, HickoryTech has over a 100-year history in the local telephone exchange business. From those roots, it has expanded into three business segments: Telecom Sector, Information Solutions Sector, and Enterprise Solutions Sector. HickoryTech s core business is its Telecom Sector, which consists of two businesses. One of these businesses is the operation of three incumbent local exchange carriers (ILECs). This business consists of connecting customers to the telephone network, providing switched service and dedicated private lines, connecting customers to long distance service providers and providing many other services commonly associated with ILECs. The second business of the Telecom Sector is competitive local exchange carrier (CLEC) services, which HickoryTech initiated in 1998, and its associated competitive businesses of long distance service and Internet access. This business leverages HickoryTech s expertise and expands its telecommunications service into areas served by other ILECs. In December of 2003, HickoryTech sold what had been a third business of the Telecom Sector, which provided wireless telecommunications services to customers in southern Minnesota and its surrounding area, along with an area surrounding Minneapolis/St. Paul. The wireless operations are reported as part of the Telecom Sector. All financial statements and schedules have been restated to reflect wireless operations as discontinued operations. In addition to the Telecom Sector, HickoryTech provides data processing services to the telecommunications industry (Information Solutions Sector) and provides telephone and data equipment sales and service as well as the sale, installation and ongoing service of voice over Internet Protocol equipment (Enterprise Solutions Sector).

The eight subsidiaries of HickoryTech and the business segments in which they operate are:

TELECOM SECTOR

Mankato Citizens Telephone Company (MCTC)

Mid-Communications, Inc. (Mid-Comm)

Heartland Telecommunications Company of Iowa, Inc. (Heartland)

Cable Network, Inc. (CNI)

Crystal Communications, Inc. (Crystal)

Minnesota Southern Wireless Company (MSWC) Discontinued Operations

INFORMATION SOLUTIONS SECTOR

National Independent Billing, Inc. (NIBI)

ENTERPRISE SOLUTIONS SECTOR

Collins Communications Systems Co. (Collins)

HickoryTech and its subsidiaries are engaged in businesses that provide services to their customers for a fee. Many of these services are recurring, and, as a result, backlog orders and seasonality are not significant factors. Working capital requirements primarily involve the funding of the construction of networks and switches and maintenance of a relatively high amount of fixed assets. Other working capital requirements include the payroll costs of highly skilled labor, the inventory to service its telephone equipment customers and the carrying value of trade accounts receivable for periods up to ninety days in the normal course of business.

The materials and supplies that are necessary for the operation of the businesses of HickoryTech and its subsidiaries are available from a variety of sources, and no future supply problems are anticipated. All of HickoryTech s central office switches, as well as a majority of HickoryTech s equipment sold in its Enterprise Solutions Sector, are supplied by Nortel. Nortel is a leading supplier of communications equipment, and HickoryTech s dependence on this brand is not viewed as a significant risk. An additional layer of network infrastructure equipment for broadband services is provided by Nextlevel. Nextlevel, a subsidiary of Motorola, is a newer supplier of communications equipment and the Company is monitoring the risk of maintaining Nextlevel as a supplier.

HickoryTech makes available, free of charge, copies of its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended (the Exchange Act). These reports are available on HickoryTech s Internet website http://www.hickorytech.com as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission.

As of December 31, 2003, HickoryTech had 414 full-time equivalent employees.

ACQUISITIONS

On June 26, 2001, HickoryTech acquired two digital personal communications services (PCS) licenses from McLeodUSA Incorporated for $11,100,000 in cash. The PCS licenses acquired by HickoryTech included the Minnesota Basic Trading Areas (BTAs) of Mankato-Fairmont and Rochester-Austin-Albert Lea, an area covering a population of approximately 493,000 people. The acquisition was a purchase of the licenses only. There were no customers, existing revenue stream or physical property and equipment included with this acquisition, as the BTAs were undeveloped. All FCC minimum buildout requirements were met, thus securing the FCC licenses. The operations of these PCS licenses are included in wireless operations, which are part of the Telecom Sector. As described below, the wireless business was sold in December 2003.

DISPOSITIONS

On December 15, 2003, HickoryTech sold its wireless business, Minnesota Southern Wireless Company (MSWC), to Western Wireless Corporation (WWC). The selling price was comprised of $16,246,000 in cash and 1,038,927 shares of HickoryTech common stock that were returned to HickoryTech by WWC and subsequently retired. The market value of these shares was $12,207,000 at December 15, 2003. Included in the cash proceeds above is $3,401,000 of cash received for construction in progress assets. HickoryTech recorded a pre-tax loss on the sale of $25,642,000 ($22,758,000 net of income taxes). HickoryTech used the proceeds from the sale to repay a portion of its outstanding debt. The wireless operations are reported as part of the Telecom Sector. The consolidated statements of operations for all periods presented have been restated to reflect wireless operations as discontinued operations (see Note 3 of the Notes to the Consolidated Financial Statements).

On August 6, 2001, HickoryTech sold its local telephone exchange in Amana, Iowa to South Slope Cooperative Telephone Company, Inc. for $6,500,000 in cash. The Amana operation, known as Amana Colonies Telephone Company (ACTC), served approximately 1,500 access lines in the seven communities of the Amana Colonies in east central Iowa. HickoryTech recorded a pre-tax gain on the sale of $1,015,000 ($566,000 net of tax). HickoryTech used the proceeds from the sale to repay a portion of its outstanding debt. The operations of ACTC were included in the Telecom Sector. For the years ended December 31, 2001 and 2000, ACTC generated revenues of $832,000 and $1,467,000, and generated an operating income (loss) of ($13,000) and $70,000, respectively.

INDUSTRY SEGMENTS FINANCIAL DATA

Financial information about HickoryTech s industry segments is included on pages 14 to 21 and pages 43 to 45 of this Form 10-K.

INDUSTRY SEGMENTS

HickoryTech reports the business operations of Telephone, Communications Services, and Wireless Services as a single segment referred to as the Telecom Sector. However, the consolidated statements of operations for all periods presented have been restated to reflect wireless operations as discontinued operations (see Note 3 of the Notes to the Consolidated Financial Statements). The other two business segments are the Information Solutions and Enterprise Solutions Sectors and they continue to be reported as previously stated.

TELECOM SECTOR

HickoryTech s Telecom Sector provides local exchange wireline telephone service, long distance, Internet access and owns and operates fiber optic cable facilities. This sector includes three incumbent local exchange carriers (ILECs), MCTC, Mid-Comm and Heartland. MCTC and Mid-Comm provide telephone service in south central Minnesota, specifically Mankato (a regional hub) and eleven rural communities surrounding Mankato. The third ILEC, Heartland, provides telephone service for eleven rural communities in northwest Iowa.

The Telecom Sector also includes Crystal, a competitive local exchange carrier (CLEC). Crystal provides local telephone service, long distance and Internet access on a competitive basis. Crystal has customers in eight rural communities in Minnesota and two rural communities in Iowa that are not in HickoryTech s ILEC service areas. HickoryTech discontinued its service to four other Iowa communities in 2003.

HickoryTech also owns and operates fiber optic cable facilities in Minnesota in its subsidiary CNI. These facilities are used to transport interexchange communications as a service to telephone industry customers. HickoryTech s Minnesota ILECs and CLEC are the primary users of the fiber optic cable facilities.

The Telecom Sector included the operations of MSWC, which was sold December 15, 2003, and ACTC, which was sold on August 6, 2001. None of the remaining companies in the Telecom Sector experienced major changes in operations during 2003.

MCTC derives its principal revenues and income from local services charged to subscribers in its service area, access services charged to interexchange carriers and the operation of a toll tandem switching center in Mankato, Minnesota. Revenues and income for Mid-Comm are also derived from local service charges in its area of operation and by providing access to long distance services for its subscribers through the toll center in Mankato. Local and interexchange telephone access for the two companies is provided on an integrated basis. The local and interexchange telephone access for both telephone companies utilize the same facilities and equipment and is managed and maintained by a common workforce. Heartland derives its principal revenues and income from local services charged to subscribers in its service area in Iowa, as well as from providing interexchange access for its subscribers. Interexchange telephone access is provided by all three of HickoryTech s telephone subsidiaries by connecting the communications networks of interexchange and wireless carriers with the equipment and facilities of end users through its switched networks or private lines.

MCTC and Mid-Comm are Minnesota public utilities operating pursuant to indeterminate permits issued by the Minnesota Public Utilities Commission. Heartland is also a public utility, which operates pursuant to a certificate of public convenience and necessity issued by the Iowa Utilities Board. These state agencies regulate the services provided by MCTC, Mid-Comm and Heartland. CNI s operations are not subject to regulation by the state regulatory authority. Neither the Minnesota Public Utilities Commission nor the Iowa Utilities Board regulates the rate of return or profits of each of HickoryTech s ILEC operations due to the size of these companies relative to state regulation. In Minnesota, MCTC and Mid-Comm s price and service levels are monitored by regulators. MCTC s and Mid-Comm s local service rates are below those of most Minnesota ILECs. Regardless of whether a particular rate is subject to regulatory review, the ability of HickoryTech and its subsidiaries to change rates will be determined by various factors, including economic and competitive circumstances.

As local exchange telephone companies, MCTC, Mid-Comm and Heartland provide end office switching and dedicated circuits to interexchange carriers. These relationships allow HickoryTech s telephone subscribers to place long distance telephone calls and gain access to the telephone network. HickoryTech provides interexchange access for all of the individual customers who select an alternative long distance carrier. This interexchange access business is separate and distinct from HickoryTech s own long distance retail business, which is operated in its Crystal subsidiary. The long distance interexchange carriers are significant customers of HickoryTech, but no carrier represents more than ten percent of HickoryTech s consolidated revenues.

Alternatives to HickoryTech service include customers leasing private line switched voice and data services in or adjacent to the territories served by HickoryTech, which permits the bypassing of local telephone switching facilities. In addition, wireless communications, microwave transmission services, fiber optic and coaxial cable deployment and other services provided by other companies permit bypass of the local exchange network. These alternatives to local exchange service represent a potential threat to HickoryTech s long-term ability to provide local exchange service at economical rates.

Competition in HickoryTech s ILEC service area exists in one of Heartland s exchanges. In the city of Hawarden, Iowa, the municipal city government overbuilt the city s telephone service infrastructure and is providing an alternative to HickoryTech s telephone service. The Hawarden CLEC has acquired approximately 1,000 access lines or approximately 60% of that community s telephone business from HickoryTech. HickoryTech management does not believe there will be significant further impact from competition in Hawarden. HickoryTech responds to competitive changes with active programs to market products and to engineer its infrastructure for customer satisfaction.

Competition also exists for some of the HickoryTech services provided to interexchange carriers, such as customer billing services, dedicated private lines, network switching and network routing. This competition comes primarily from the interexchange carriers themselves, in that carriers may decide that the services provided by HickoryTech may be redirected or handled on their own network. The provision of these services is of a contractual nature or is month-to-month service out of a general tariff, which is a schedule of terms, rates and conditions that is approved by the appropriate state or federal agency. In either case, the use of these services is primarily controlled by the interexchange carriers. As interexchange carriers make these service decisions, they have the potential to reduce the Company s revenue in the Telecom Sector. Other services, such as directory advertising and end user equipment, are open to competition. This type of competition is based primarily on service and experience.

In September 2003, a potential competitor filed a request to negotiate interconnection arrangements with HickoryTech s Minnesota ILECs, MCTC & Mid-Comm. This potential competitor is a multi-state communications company with the ability to offer bundled services. MCTC and Mid-Comm have made a filing with the Minnesota Public Utilities Commission exerting their rural exemption from certain components of this request. The potential competitor has not, as yet, followed through with its competitive filings in any other jurisdiction, which makes it difficult to assess whether this filing will ultimately result in competition.

The passage of the 1996 Telecommunications Act created the opportunity for HickoryTech to offer communications service in territories served by other telephone companies, and Crystal began operations in January 1998 as a competitive local exchange carrier (CLEC). Crystal offers local service, long distance and Internet access services on a competitive basis to customers in towns in southern Minnesota and Iowa, which are not served by HickoryTech s ILEC operations. These service offerings provide customers alternatives to the incumbent telephone carrier in various communities and are offered under the brand name HickoryTech wireline service. These services are currently being offered to customers in eight rural communities in Minnesota, as well as two communities in Iowa. Crystal s primary strategy is to provide service by overbuilding with new telecommunications switching networks and telephone lines. Crystal also provides the long distance service and Internet access services to HickoryTech s subscribers in both ILEC and CLEC markets.

CLEC activities require Crystal to file for authority to operate with the appropriate public utilities commission in each state it serves. Crystal competes directly against existing ILECs in the areas in which Crystal operates. Crystal is not dependent upon any single customer or small group of customers. No single customer in Crystal accounts for ten percent or more of HickoryTech s consolidated revenues.

It is common in the ILEC industry for carriers to dispute certain access charges. There is currently a multi-state ILEC industry dispute with a large RBOC (Regional Bell Operating Company) regarding certain access charges. The ILEC industry in Minnesota has jointly filed a formal complaint regarding this dispute with the Minnesota Public Utilities Commission.

On December 15, 2003, HickoryTech sold its wireless business, Minnesota Southern Wireless Company (MSWC), to Western Wireless Corporation (WWC). The selling price was comprised of $16,246,000 in cash and 1,038,927 shares of HickoryTech common stock that were returned to HickoryTech by WWC and subsequently retired. The market value of these shares was $12,207,000 at December 15, 2003. Included in the cash proceeds above is $3,401,000 of cash received for construction in progress assets. The wireless operations are reported as part of the Telecom Sector. HickoryTech recorded a pre-tax loss on the sale of $25,642,000 ($22,758,000 net of income taxes). HickoryTech used the proceeds from the sale to repay a portion of its outstanding debt. The wireless operations are reported as part of the Telecom Sector. The consolidated statements of operations for all periods presented have been restated to reflect wireless operations as discontinued operations (see Note 3 of the Notes to Consolidated Financial Statements).

In connection with the determination by management in the third quarter of 2003 that it would pursue the sale of its wireless operations and that the selling price would likely be less than the current carrying value of the wireless net assets, the Company completed an impairment test in the third quarter of 2003 for the FCC licenses pursuant to the requirements of SFAS No. 142, Goodwill and Other Intangible Assets. Management estimated the fair value of the FCC licenses using a discounted cash flow technique consistent with the method used by the Company in performing its most recent impairment analysis at December 31, 2002. As a result of this assessment, management determined that the FCC licenses were impaired and recorded an impairment charge of $21,000,000 ($18,638,000 net of income taxes), in the third quarter of 2003. This impairment charge is recorded as a component of the loss on discontinued operations in HickoryTech s consolidated statement of operations for the year ended December 31, 2003. HickoryTech believes that the decline in the fair value of its FCC licenses was due principally to the rapid pace of technological change being undertaken by the major wireless service providers to adopt new protocols (i.e. GSM or CDMA) and potentially move away from HickoryTech s current primary protocol called TDMA, which greatly hindered HickoryTech s position in finding a future roaming partner. Other factors include declining roaming revenues, increasing price competition, and the protracted downturn in the wireless market. The FCC licenses were tested for impairment on an aggregate basis, which was consistent with HickoryTech s management of the wireless business.

Pursuant to SFAS No. 144, Accounting for Impairment or Disposal of Long-Lived Assets, (SFAS No. 144), the Company recorded an impairment charge during the third quarter of 2003 related to the other long-lived assets of the wireless business of $4,345,000 ($3,856,000 net of income taxes). This charge is also recorded as a component of the loss on discontinued operations in HickoryTech s consolidated statement of operations for the year ended December 31, 2003.

INFORMATION SOLUTIONS SECTOR

Through NIBI, HickoryTech s Information Solutions Sector provides data processing and related services, principally for HickoryTech, other local exchange telephone companies, CLECs, interexchange network carriers, wireless companies, municipalities and utilities. The Information Solutions Sector s principal activity is the provision of monthly batch processing of computerized data for HickoryTech as well as non-affiliated companies. Services for telephone company customers include the processing of long distance telephone calls from data sources and telephone switches, the preparation of the subscriber telephone bills, customer record keeping, carrier access bills and general accounting and payroll services. NIBI, under the brand name HickoryTech Information Solutions, also provides certain billing clearinghouse functions for interexchange carriers.

There are a number of companies engaged in supplying data processing services comparable to those furnished by the Information Solutions Sector. Competition is based primarily on price and service. HickoryTech s Information Solutions Sector has developed an integrated billing and management system called SuiteSolution. SuiteSolution can provide wireline and wireless carriers the individual benefits of a billing platform or a total system solution. Management is unable to quantify what effect, if any, the sale of the wireless business may have on the marketplace for this product.

ENTERPRISE SOLUTIONS SECTOR

Through Collins, HickoryTech s Enterprise Solutions Sector provides telephone and data equipment sales and services as well as the sale, installation and service of voice over Internet Protocol business systems to companies primarily based in metropolitan Minneapolis/St. Paul, Minnesota. This sector also supports the business telephone system service for HickoryTech ILEC and CLEC operations in southern Minnesota and in Iowa. The customers in the Enterprise Solutions Sector s market are the individual business end users of telecommunications service with ongoing service requirement offerings. Products consist of telecommunication platforms such as Nortel on the voice side of the Enterprise Solutions business, and Cisco and Bay Networks (Nortel) equipment on the data side of its business. Enterprise Solutions specializes in the quality custom installation and maintenance of data wide area networking solutions.

Revenues are primarily earned by the sales, installation and service of business telephone and data systems. Enterprise Solutions continues its commitment to service and support its core product, Nortel, while identifying new opportunities such as call centers, computer telephone integration voice mail and interactive voice response systems.

HickoryTech s Enterprise Solutions Sector is not dependent upon any single customer or small group of customers. No single customer in the Enterprise Solutions Sector accounts for ten percent or more of HickoryTech s consolidated revenues.

Enterprise Solutions does business in a competitive market where a large number of companies compete for the sale, installation and servicing of telecommunications equipment and voice over Internet Protocol communications products. Competition is based primarily on price and service. No single company is dominant in this market.

OTHER REGULATION

HickoryTech does not anticipate any material effects on its earnings, capital expenditures or competitive position because of laws pertaining to the protection of the environment.

OTHER COMPETITION

Since the mid-1980 s, HickoryTech s business strategy has been to position itself as a quality telecommunications services provider. Long-term business relationships with its customers have strengthened HickoryTech s business position. HickoryTech believes that its customers value the fact that it is the local company whose goal is to meet the customers communications needs. HickoryTech has several competitive advantages: its prices; its service; its investment in technology; it has a direct billing relationship with almost all of the customers in its service territories; and it is positioned to offer a wide range of wired telecommunications service from one source.

The long-range effect of competition on the provision of telecommunications services and equipment will depend on technological advances, regulatory actions at both the state and federal levels, court decisions, and possible additional future state and federal legislation. The trend resulting from past legislation has been to expand competition in the telecommunications industry. It is imperative to HickoryTech that competition in this industry remains open on an equal basis to all providers.

FORWARD-LOOKING STATEMENTS

This Form 10-K Annual Report, Management s Discussion and Analysis and other sections of this Annual Report contain forward-looking statements that are based on current expectations, estimates and projections about the industry in which HickoryTech operates and management s beliefs and assumptions. Such forward-looking statements are subject to uncertainties that could cause HickoryTech s future actual results to differ materially from such statements. Forward-looking statements include the information concerning our future financial performance, continuation of historical trends, business strategy, projected plans and objectives, future liquidity and capital resource needs, the effect of regulatory changes on the business, the effect of decisions by other telecommunications carriers, the economy in general, and the future of the communications industry and communications services. These statements are not guarantees of future performance and involve certain risks, uncertainties and probabilities, which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements, whether as a result of new information, future events or otherwise. Factors that might cause such a difference include:

increased competition in core business sectors which may decrease market share and or affect the pricing of the products and services offered;

sufficient cash generation from current operations to fund future liquidity needs;

the investment in technological innovations which may affect future capital resource needs;

the effect of legal and both federal and state regulatory changes which may have an effect on business;

the effect of decisions by other telecommunications carriers which currently utilize services of the Company and may affect future operations and future capital resource needs;

the economy in general or the future of the communications industry and communications services;

changing market conditions which may affect growth rates within the industry;

stock market volatility which may affect the stock price and the ability to fund the future expansion and operations through a public stock offering;

the ability to secure financing for future expansion and operations;

the ability to improve the operations with new technologies and efficiencies;

the ability to retain key employees;

other risks and uncertainties which may affect the operating results.

Additional information concerning these and other factors that could cause actual results or events to differ materially from current expectations are contained in Exhibit 99, which is incorporated herein by reference. You are cautioned not to place undue reliance on these forward looking statements, which speak only as of the date on which they were made. Except as otherwise required by law, HickoryTech undertakes no obligation to update any of its forward-looking statements for any reason.

Item 2. Properties.

HickoryTech s business is primarily focused on the provision of services and its properties are used for administrative support and to store and safeguard equipment. At December 31, 2003, HickoryTech s gross property, plant and equipment of $230,490,000 consisted primarily of telephone switches, cable and network equipment. HickoryTech owns or leases the telephone property, plant and equipment which it utilizes to operate its telephone systems. The three ILEC subsidiaries of HickoryTech in Minnesota and Iowa own central telephone offices with related real estate in all of the communities they serve. HickoryTech s Telecom Sector owns the telephone network, including telephone outside plant, fiber optic cable and central office equipment, over which they provide services to their customers. It is the opinion of HickoryTech s management that the properties of HickoryTech are suitable and adequate to provide modern and effective telecommunications services within its service areas, including both local and long distance service. The capacity for furnishing these services both currently and in the future is under ongoing review by HickoryTech s engineering staff. Facilities are placed in full use after installation and appropriate testing under the guidance associated with multi-year capital expenditure plans.

HickoryTech s principal property locations are the following:

(1) MCTC s general offices and principal central office exchange building are located in downtown Mankato, Minnesota. This facility is owned by MCTC and is a three-level brick and stone building containing approximately 60,000 square feet of floor space.

(2) MCTC s main warehouse is located in Mankato, Minnesota. The warehouse, built in 1996, is owned by MCTC and is a two-story concrete building containing approximately 48,000 square feet. The warehouse is used to store vehicles and supplies and is also used as office space for engineers and technicians.

(3) Heartland s main central office equipment is located in a one-story brick structure owned by Heartland in Rock Rapids, Iowa containing approximately 1,500 square feet. Heartland also leases approximately 2,000 square feet of general office space in Rock Valley, Iowa.

(4) Crystal leases office space of approximately 6,800 square feet in Mankato, Minnesota and approximately 2,000 square feet in West Des Moines, Iowa.

(5) NIBI owns a four-level building in Mankato, Minnesota containing approximately 17,000 square feet.

(6) Collins leases approximately 26,000 square feet of office building and warehouse space in Roseville, Minnesota.

Item 3. **Legal Proceedings.**

There are no material pending legal or governmental proceedings directly involving HickoryTech or its subsidiaries, other than ordinary routine litigation or ordinary routine utility matters, incidental to the business of HickoryTech and its subsidiaries.

Item 4. **Submission of Matters to a Vote of Security Holders.**

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this 2003 Annual Report on Form 10-K.

PART II

Item 5. **Market for Registrant s Common Equity and Related Stockholder Matters.**

The common stock of HickoryTech is traded on The Nasdaq National Market under the symbol HTCO .

The following table sets forth for the period indicated, the high and low closing sales price of the common stock.

		High	Low	End of Qtr.
2003	4th Quarter	$ 12.20	$ 10.76	$ 11.47
	3rd Quarter	$ 12.35	$ 10.82	$ 11.60
	2nd Quarter	$ 11.48	$ 8.43	$ 11.21
	1st Quarter	$ 10.61	$ 7.90	$ 8.97
2002	4th Quarter	$ 13.34	$ 8.39	$ 9.53
	3rd Quarter	$ 16.05	$ 11.21	$ 13.25
	2nd Quarter	$ 17.80	$ 12.75	$ 15.00
	1st Quarter	$ 17.85	$ 13.14	$ 16.27

As of February 27, 2004, there were approximately 3,249 holders of record of common stock, registered and in street name accounts.

HickoryTech has declared quarterly dividends on its common stock of $0.11 per share during the two years ended December 31, 2003. A quarterly cash dividend of $0.11 per share was paid on March 5, 2004 to stockholders of record at the close of business on February 15, 2004.

Item 6. Selected Financial Data.

(Dollars in Thousands, Except Per Share Amounts)

2003	2002	2001	2000	1999

In June 2011, the FASB issued Accounting Standards Update 2011-05, *Presentation of Comprehensive Income,* or ASU 2011-05, which revises the manner in which companies present comprehensive income. Under ASU 2011-05, companies may present comprehensive income, which is net income adjusted for the components of other comprehensive income, either in a single, continuous statement of comprehensive income or by using two separate but consecutive statements. Regardless of the alternative chosen, companies must display adjustments for items reclassified from other comprehensive income into net income within the presentation of both net income and other comprehensive income. ASU 2011-05 is effective for interim and annual periods beginning after December 15, 2011. We are currently evaluating the effect ASU 2011-05 will have on our consolidated financial statements and have not yet determined which method of presentation we will elect.

Concentration of Credit Risk

At September 30, 2011, we had total rate of return swap positions with two financial institutions totaling $144.7 million.

We periodically evaluate counterparty credit risk associated with these arrangements. In the event either counterparty were to default under these arrangements, loss of the net interest benefit we generally receive under these arrangements, which is equal to the difference between the fixed rate we receive and the variable rate we pay, may adversely impact our results of operations and operating cash flows. However, at the current time, we have concluded we do not have material exposure.

7

Table of Contents

Income Taxes

In March 2008, we were notified by the Internal Revenue Service, or the IRS, that it intended to examine the 2006 Federal tax return for the Aimco Operating Partnership. During June 2008, the IRS issued AIMCO-GP, Inc., the general partner and tax matters partner of the Aimco Operating Partnership, a summary report including the IRS s proposed adjustments to the Aimco Operating Partnership s 2006 Federal tax return. In addition, in May 2009, we were notified by the IRS that it intended to examine the 2007 Federal tax return for the Aimco Operating Partnership. During November 2009, the IRS issued AIMCO-GP, Inc. a summary report including the IRS s proposed adjustments to the Aimco Operating Partnership s 2007 Federal tax return. These matters are currently pending administratively before IRS Appeals and the IRS has made no determination. We do not expect the 2006 or 2007 proposed adjustments to have any material effect on our unrecognized tax benefits, financial condition or results of operations.

In October 2011, we were notified by the IRS that it intends to examine refund claims related to the carry back of our taxable REIT subsidiary s 2009 net operating loss. We do not anticipate that this examination will result in any material effect on our unrecognized tax benefits, financial condition or results of operations.

Use of Estimates

The preparation of our condensed consolidated financial statements in conformity with GAAP 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.

NOTE 3 Real Estate Dispositions

Real Estate Dispositions (Discontinued Operations)

We are currently marketing for sale certain real estate properties that are inconsistent with our long-term investment strategy. At the end of each reporting period, we evaluate whether such properties meet the criteria to be classified as held for sale, including whether such properties are expected to be sold within 12 months. Additionally, certain properties that do not meet all of the criteria to be classified as held for sale at the balance sheet date may nevertheless be sold in the subsequent 12 months; thus, the number of properties that may be sold during the subsequent 12 months could exceed the number classified as held for sale at the particular balance sheet date. At September 30, 2011 we had no properties classified as held for sale. At December 31, 2010, we had 39 properties with an aggregate of 6,701 units classified as held for sale. Amounts classified as held for sale in the accompanying condensed consolidated balance sheets are as follows (in thousands):

	December 31, 2010
Real estate, net	$ 235,674
Other assets	3,046
Assets held for sale	$ 238,720
Property debt	$ 166,171
Other liabilities	1,858
Liabilities related to assets held for sale	$ 168,029

During the nine months ended September 30, 2011 and 2010, we sold or disposed of 39 properties and 31 properties with an aggregate of 6,701 units and 5,048 units, respectively. During the year ended December 31, 2010, we disposed of 51 consolidated properties with an aggregate of 8,189 units. Discontinued operations for all periods presented includes the results of operations for the periods prior to the date of disposition for all properties disposed on or before September 30, 2011.

Table of Contents

The following is a summary of the components of income from discontinued operations and the related amounts of income from discontinued operations attributable to Aimco and to noncontrolling interests for the three and nine months ended September 30, 2011 and 2010 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Rental and other property revenues	$ 3,428	$ 21,202	$ 23,917	$ 77,596
Property operating expenses	(2,816)	(12,489)	(13,355)	(42,761)
Depreciation and amortization	(931)	(6,340)	(7,695)	(21,909)
Provision for operating real estate impairment losses	(5,522)	(1,429)	(11,829)	(9,550)
Operating (loss) income	(5,841)	944	(8,962)	3,376
Interest income	44	111	361	298
Interest expense	(862)	(4,082)	(5,252)	(14,209)
Loss before gain on dispositions of real estate and income tax	(6,659)	(3,027)	(13,853)	(10,535)
Gain on dispositions of real estate	37,467	21,084	64,901	74,406
Income tax benefit (expense)	160	453	(89)	2,010
Income from discontinued operations, net	$ 30,968	$ 18,510	$ 50,959	$ 65,881
Income from discontinued operations attributable to:				
Noncontrolling interests in consolidated real estate partnerships	$ (12,734)	$ (5,205)	$ (18,689)	$ (21,372)
Noncontrolling interests in Aimco Operating Partnership	(1,274)	(890)	(2,211)	(2,983)
Total noncontrolling interests	(14,008)	(6,095)	(20,900)	(24,355)
Income from discontinued operations attributable to Aimco	$ 16,960	$ 12,415	$ 30,059	$ 41,526

Gain on dispositions of real estate is reported net of incremental direct costs incurred in connection with the transactions, including any prepayment penalties incurred upon repayment of property loans collateralized by the properties being sold. Such prepayment penalties totaled $2.6 million and $7.6 million for the three and nine months ended September 30, 2011, respectively, and $0.6 million and $3.8 million for the three and nine months ended September 30, 2010, respectively. We classify interest expense related to property debt within discontinued operations when the related real estate asset is sold or classified as held for sale.

In connection with properties sold or classified as held for sale during the three and nine months ended September 30, 2011, we allocated $1.0 million and $2.7 million, respectively, of goodwill related to our conventional and affordable segments to the carrying amounts of the properties sold or classified as held for sale. Of these amounts, $0.9 million and $2.2 million, respectively, were recognized as a reduction of gain on dispositions of real estate and $0.1 million and $0.5 million, respectively, were recognized as an adjustment of impairment losses during the three and nine months ended September 30, 2011. In connection with properties sold or classified as held for sale during the three and nine months ended September 30, 2010, we allocated $0.5 million and $3.3 million, respectively, of goodwill related to our conventional and affordable segments to the carrying amounts of the properties sold or classified as held for sale. Of these amounts, $0.3 million and $2.9 million, respectively, were treated as a reduction of gain on dispositions of real estate and $0.2 million and $0.4 million, respectively, were treated as an adjustment of impairment losses during the three and nine months ended September 30, 2010. The amounts of goodwill allocated to these properties were based on the relative fair values of the properties sold or classified as held for sale and the retained portions of the reporting units to which the goodwill was allocated.

In connection with our real estate dispositions during the nine months ended September 30, 2011 and 2010, the purchasers assumed approximately $95.4 million and $120.9 million, respectively, of non-recourse property debt.

NOTE 4 Other Significant Transactions

Investments in Real Estate Properties

During the three months ended September 30, 2011, we acquired a vacant, 126-unit property located in San Francisco s Marin County submarket. We intend to redevelop the property, increasing our total investment in the property to approximately $65.0 million upon completion. Additionally, during the nine months ended September 30, 2011, we acquired noncontrolling interests (approximately 50%) in entities that own four contiguous properties with 142 units located in La Jolla, California (near San Diego).

Table of Contents

Property Loan Securitization Transactions

During the nine months ended September 30, 2011, we completed a series of related financing transactions that repaid $625.7 million of non-recourse property loans that were scheduled to mature between the years 2012 and 2016 with proceeds from new long-term, fixed-rate, non-recourse property loans, or the New Loans. The New Loans, which total $673.8 million, were closed in three parts; $218.6 million closed during the three months ended December 31, 2010, $120.6 million closed during the three months ended March 31, 2011, and $334.6 million closed during the three months ended June 30, 2011. All of the New Loans have ten year terms, with principal scheduled to amortize over 30 years. Subsequent to origination, the New Loans were sold to Federal Home Loan Mortgage Corp, or Freddie Mac, which then securitized the New Loans. The securitization trust holds only the New Loans referenced above and the trust securities trade under the label FREMF 2011K-AIV. In connection with the refinancings, during the nine months ended September 30, 2011, we recognized a loss on debt extinguishment of $23.0 million in interest expense, consisting of $20.7 million in prepayment penalties and a $2.3 million write off of previous deferred loan costs.

During the nine months ended September 30, 2011, as part of the securitization transaction, we purchased for $51.5 million the first loss and mezzanine positions in the securitization trust, which have a face value of $100.9 million and stated maturity dates corresponding to the terms of the loans held by the trust. We designated these investments as available for sale securities and they are included in other assets in our condensed consolidated balance sheet at September 30, 2011. These investments were initially recognized at their purchase price and the discount to the face value will be accreted into interest income over the expected term of the securities. Based on their classification as available for sale securities, we measure these investments at fair value with changes in their fair value, other than the changes attributed to the accretion described above, recognized as an adjustment of accumulated other comprehensive income or loss within equity.

Aimco Equity Transactions

During the three months ended September 30, 2011, we issued approximately 823,800 shares of 7.00% Class Z Cumulative Preferred Stock, par value $0.01 per share, in an underwritten public offering and subsequent offerings through an at-the-market, or ATM, offering program, for net proceeds per share of $23.11 (reflecting an average price to the public of $24.21 per share, less an underwriting discount, commissions and transaction costs of approximately $1.10 per share). The offerings generated net proceeds of $19.0 million.

Also during the three months ended September 30, 2011, primarily using the proceeds from our Class Z Cumulative Preferred Stock issuances, we redeemed 862,500 shares (25% of the amount outstanding) of our Class V Cumulative Preferred Stock. This redemption was for cash at a price equal to $25.00 per share, or $21.6 million in aggregate, plus accumulated and unpaid dividends of approximately $0.2 million. In connection with the redemption, $0.8 million of issuance costs previously recorded as a reduction of additional paid-in capital were reflected as an increase in net income attributable to preferred stockholders for purposes of calculating earnings per share for the three and nine months ended September 30, 2011.

During the three and nine months ended September 30, 2011, we sold 0.1 million and 2.9 million shares of Common Stock under our common stock ATM offering program, generating $3.0 million and $73.6 million of gross proceeds, or $2.8 million and $72.0 million, respectively, net of commissions. We used the net proceeds primarily to fund the prepayment penalties and investments discussed above.

Acquisitions of Noncontrolling Partnership Interests

During the nine months ended September 30, 2011, we acquired the remaining noncontrolling limited partnership interests in six consolidated real estate partnerships that own nine properties and in which our affiliates serve as general partner, for a total cost of $13.6 million. We recognized the excess of the cost over the carrying amount of the noncontrolling interests acquired as an adjustment of additional paid-in capital within Aimco equity, net of the amount of such adjustment allocated to common noncontrolling interests in Aimco Operating Partnership. During the nine months ended September 30, 2010, there were no comparable acquisitions of noncontrolling limited partnership interests.

NOTE 5 Variable Interest Entities

As of September 30, 2011, we were the primary beneficiary of, and therefore consolidated, approximately 124 VIEs, which owned 84 apartment properties with 12,982 units. Real estate with a carrying value of $805.4 million collateralized $641.8 million of debt of those VIEs. Any significant amounts of assets and liabilities related to our consolidated VIEs are identified parenthetically on our accompanying condensed consolidated balance sheets. The creditors of the consolidated VIEs do not have recourse to our general credit.

Table of Contents

As of September 30, 2011, we also held variable interests in 215 VIEs for which we were not the primary beneficiary. Those VIEs consist primarily of partnerships that are engaged, directly or indirectly, in the ownership and management of 268 apartment properties with 15,818 units. We are involved with those VIEs as an equity holder, lender, management agent, or through other contractual relationships. The majority of our investments in unconsolidated VIEs, or approximately $33.4 million at September 30, 2011, are held through consolidated investment partnerships that are VIEs and in which we generally hold a 1% or less general partner or equivalent interest. Accordingly, substantially all of the investment balances related to these unconsolidated VIEs are attributed to the noncontrolling interests in the consolidated investment partnerships that hold the investments in these unconsolidated VIEs. Our maximum risk of loss related to our investment in these VIEs is generally limited to our equity interest in the consolidated investment partnerships, which is insignificant. The remainder of our investment in unconsolidated VIEs, or approximately $5.6 million at September 30, 2011, is held through consolidated tax credit funds that are VIEs and in which we hold substantially all of the economic interests. Our maximum risk of loss related to our investment in these VIEs is limited to our $5.6 million recorded investment in such entities.

In addition to our investments in unconsolidated VIEs discussed above, at September 30, 2011, we had in aggregate $99.7 million of receivables from these unconsolidated VIEs and we had a contractual obligation to advance funds to certain unconsolidated VIEs totaling $3.2 million. Our maximum risk of loss associated with our lending and management activities related to these unconsolidated VIEs is limited to these amounts. We may be subject to additional losses to the extent of any receivables relating to future provision of services to these entities or financial support that we voluntarily provide.

As discussed in Note 8, noncompliance with applicable requirements related to our consolidated and unconsolidated tax credit partnerships, substantially all of which are VIEs, could result in projected tax credits not being realized and require a refund of investor contributions already received or a reduction of future investor contributions. We have not historically had, nor do we anticipate, any material refunds or reductions of investor capital contributions in connection with these arrangements.

NOTE 6 Derivative Financial Instruments

We have limited exposure to derivative financial instruments. We primarily use long-term, fixed-rate and self-amortizing non-recourse debt to avoid, among other things, risk related to fluctuating interest rates. For our variable rate debt, we are sometimes required by our lenders to limit our exposure to interest rate fluctuations by entering into interest rate swap agreements, which moderate our exposure to interest rate risk by effectively converting the interest on variable rate debt to a fixed rate. The fair values of the interest rate swaps are reflected as assets or liabilities in the balance sheet, and periodic changes in fair value are included in interest expense or equity, as appropriate.

At September 30, 2011 and December 31, 2010, we had interest rate swaps with aggregate notional amounts of $52.3 million, and recorded fair values of $6.6 million and $2.7 million, respectively, reflected in accrued liabilities and other in our condensed consolidated balance sheets. At September 30, 2011, these interest rate swaps had a weighted average term of 9.4 years. We have designated these interest rate swaps as cash flow hedges and recognize any changes in their fair value as an adjustment of accumulated other comprehensive loss within equity to the extent of their effectiveness. Changes in the fair value of these instruments and the related amounts of such changes that were reflected as an adjustment of accumulated other comprehensive loss within equity and as an adjustment of earnings (ineffectiveness) are identified in the recurring fair value measurements table in Note 7.

If the forward rates at September 30, 2011 remain constant, we estimate that during the next twelve months, we would reclassify into earnings approximately $1.6 million of the unrealized losses in accumulated other comprehensive loss. If market interest rates increase above the 3.43% weighted average fixed rate under these interest rate swaps we will benefit from a lower effective rate than the underlying variable rates on this debt.

We have entered into total rate of return swaps on various fixed-rate property debt to convert these borrowings from a fixed rate to a variable rate and provide an efficient financing product to lower our cost of borrowing. In exchange for our receipt of a fixed rate generally equal to the underlying borrowing s interest rate, the total rate of return swaps require that we pay a variable rate, equivalent to one of several indices, plus a risk spread. The underlying borrowings are generally callable at our option, with no prepayment penalty, with 30 days advance notice, and the swaps mature in 2012. We designate total rate of return swaps as hedges of the risk of overall changes in the fair value of the underlying borrowings. At each reporting period, we estimate the fair value of these borrowings and the total rate of return swaps and recognize any changes therein as an adjustment of interest expense.

As of September 30, 2011 and December 31, 2010, we had borrowings payable subject to total rate of return swaps with aggregate outstanding principal balances of $144.3 million and $276.9 million, respectively. We reduced by $132.0 million the amount of debt subject to certain total rate of return swaps and terminated the associated swaps during the nine months ended September 30, 2011, in connection with our refinancing of the underlying debt. We repaid this debt at par and, accordingly, no payments were required upon termination of the swaps. The remaining reduction in the outstanding principal balance during the nine months ended September 30, 2011 was due to other principal amortization. At September 30, 2011, the weighted average fixed receive rate under the total return swaps was 6.3% and the weighted average variable pay rate was 1.8%, based on the applicable index rates effective as of that date. Information regarding the fair value of these instruments at September 30, 2011 and December 31, 2010, is included in the recurring fair value measurements table in Note 7.

Table of Contents

NOTE 7 Fair Value Measurements

We measure certain assets and liabilities in our consolidated financial statements at fair value, both on a recurring and nonrecurring basis. Certain of these fair value measurements are based on significant unobservable inputs classified within Level 3 of the valuation hierarchy defined in FASB ASC Topic 820. When a determination is made to classify a fair value measurement within Level 3 of the valuation hierarchy, the determination is based upon the significance of the unobservable factors to the overall fair value measurement. However, Level 3 fair value measurements typically also include observable components that can be validated to observable external sources; accordingly, the changes in fair value in the table below are due in part to observable factors that are part of the valuation methodology.

The table below presents information regarding significant items measured in our condensed consolidated financial statements at fair value on a recurring basis, consisting of investments in securities classified as available for sale (AFS), interest rate swaps (IR swaps), total rate of return swaps (TRR swaps) and debt subject to TRR swaps (TRR debt) (in thousands):

	Level 2		Level 3		
	AFS (1)	IR swaps (2)	TRR swaps (3)	TRR debt (4)	Total
Fair value at December 31, 2009	$	$ (1,596)	$ (24,307)	$ 24,307	$ (1,596)
Unrealized gains (losses) included in earnings (5)		(35)	5,771	(5,771)	(35)
Realized gains (losses) included in earnings					
Unrealized gains (losses) included in equity		(3,806)			(3,806)
Fair value at September 30, 2010	$	$ (5,437)	$ (18,536)	$ 18,536	$ (5,437)
Fair value at December 31, 2010	$	$ (2,746)	$ (19,542)	$ 19,542	$ (2,746)
Purchases	51,534				51,534
Investment accretion (see Note 4)	939				939
Unrealized gains (losses) included in earnings (5)		(36)	11,772	(11,772)	(36)
Realized gains (losses) included in earnings					
Unrealized gains (losses) included in equity	(3,428)	(3,814)			(7,242)
Fair value at September 30, 2011	$ 49,045	$ (6,596)	$ (7,770)	$ 7,770	$ 42,449

(1) The fair value of investments classified as available for sale is estimated using an income and market approach with primarily observable inputs, including yields and other information regarding similar types of investments, and adjusted for certain unobservable inputs specific to these investments. The discount to the face value of the investments is accreted into interest income over the expected term of the investments. The amortized cost of these investments was $52.5 million at September 30, 2011. Although the amortized cost exceeded the fair value of these investments at September 30, 2011, there are no requirements for us to sell these investments prior to their maturity dates and we believe we will fully recover the investments. Accordingly, we believe the impairment in the fair value of these investments is temporary and we have not recognized any of the loss in value in earnings. Refer to Note 4 for further discussion of these investments.

(2) The fair value of interest rate swaps is estimated using an income approach with primarily observable inputs including information regarding the hedged variable cash flows and forward yield curves relating to the variable interest rates on which the hedged cash flows are based.

(3) Total rate of return swaps have contractually-defined termination values generally equal to the difference between the fair value and the counterparty s purchased value of the underlying borrowings. We calculate the termination value, which we believe is representative of the fair value, of total rate of return swaps using a market approach by reference to estimates of the fair value of the underlying borrowings, which are discussed below, and an evaluation of potential changes in the credit quality of the counterparties to these arrangements.

(4) This represents changes in fair value of debt subject to total rate of return swaps. We estimate the fair value of debt instruments using an income and market approach, including comparison of the contractual terms to observable and unobservable inputs such as market interest rate risk spreads, collateral quality and loan-to-value ratios on similarly encumbered assets within our portfolio. These borrowings are collateralized and non-recourse to us; therefore, we believe changes in our credit rating will not materially affect a market participant s estimate of the borrowings fair value.

(5) Unrealized gains (losses) for the TRR swaps and TRR debt relate to periodic revaluations of fair value, including revaluations resulting from repayment of the debt at par, and have not resulted from the settlement of a swap position as we have not historically incurred any termination payments upon settlement. These unrealized gains (losses) are included in interest expense in the accompanying condensed consolidated statements of operations.

The table below presents information regarding amounts measured at fair value in our condensed consolidated financial statements on a nonrecurring basis during the nine months ended September 30, 2011 and 2010, all of which were based, in part, on significant unobservable inputs classified within Level 3 of the valuation hierarchy (in thousands):

	Nine Months Ended September 30, 2011		Nine Months Ended September 30, 2010	
	Fair value measurement	Total gain (loss)	Fair value measurement	Total gain (loss)
Real estate (impairment losses) (1)(3)	$ 59,547	$ (10,522)	$ 43,961	$ (8,341)
Real estate (newly consolidated) (2)(3)			117,083	1,104
Property debt (newly consolidated) (2)(4)			83,890	

(1) During the nine months ended September 30, 2011 and 2010, we reduced the aggregate carrying amounts of $70.1 million and $52.3 million, respectively, for real estate assets classified as held for sale to their estimated fair value, less estimated costs to sell. These impairment losses recognized generally resulted from a reduction in the estimated holding period for these assets. In periods prior to their classification as held for sale, we evaluated the recoverability of their carrying amounts based on an analysis of the undiscounted cash flows over the anticipated expected holding period.

(2) In connection with our adoption of revised accounting guidance regarding consolidation of VIEs and reconsideration events during the nine months ended September 30, 2010, we consolidated 17 partnerships at fair value. With the exception of such partnerships investments in real estate properties and related non-recourse property debt obligations, we determined the carrying amounts of the related assets and liabilities approximated their fair values. The difference between our recorded investments in such partnerships and the fair value of the assets and liabilities recognized in consolidation resulted in an adjustment of consolidated equity (allocated between Aimco and noncontrolling interests) for those partnerships consolidated in connection with our adoption of the revised accounting guidance for VIEs. For the partnerships we consolidated at fair value due to reconsideration events during the nine months ended September 30, 2010, the difference between our recorded investments in such partnerships and the fair value of the assets, liabilities and noncontrolling interests recognized upon consolidation resulted in our recognition of a gain, which is included in gain on disposition of unconsolidated real estate and other in our condensed consolidated statement of operations for the nine months ended September 30, 2010.

(3) We estimate the fair value of real estate using income and market valuation techniques using information such as broker estimates, purchase prices for recent transactions on comparable assets and net operating income capitalization analyses using observable and unobservable inputs such as capitalization rates, asset quality grading, geographic location analysis, and local supply and demand observations.

(4) Refer to the recurring fair value measurements table for an explanation of the valuation techniques we use to estimate the fair value of debt.

We believe that the aggregate fair value of our cash and cash equivalents, receivables, payables and short-term debt approximates their aggregate carrying amounts at September 30, 2011 and December 31, 2010, due to their relatively short-term nature and high probability of realization. We estimate fair value for our notes receivable and long-term debt instruments using present value techniques that include income and market valuation approaches using observable inputs such as market rates for debt with the same or similar terms and unobservable inputs such as collateral quality and loan-to-value ratios on similarly encumbered assets. Because of the significance of unobservable inputs to these fair value measurements, we classify them within Level 3 of the fair value hierarchy. Present value calculations vary depending on the assumptions used, including the discount rate and estimates of future cash flows.

In many cases, the fair value estimates may not be realizable in immediate settlement of the instruments. The estimated aggregate fair value of our notes receivable (including notes receivable from unconsolidated real estate partnerships, which we classify within other assets in our condensed consolidated balance sheets) was approximately $112.3 million and $116.0 million at September 30, 2011 and December 31, 2010, respectively, as compared to their carrying amounts of $124.2 million and $127.6 million, respectively. The estimated aggregate fair value of our consolidated debt (including amounts reported in liabilities related to assets held for sale) was approximately $5.8 billion and $5.5 billion at September 30, 2011 and December 31, 2010, respectively, as compared to aggregate carrying amounts of $5.3 billion and $5.5 billion, respectively. The fair values of our derivative instruments at September 30, 2011 and December 31, 2010, are included in the recurring fair value measurements table above.

In May 2011, the FASB issued Accounting Standards Update 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs,* or ASU 2011-04. ASU 2011-04 amended ASC 820, *Fair Value Measurements and Disclosures*, to converge the fair value measurement guidance in GAAP and International Financial Reporting Standards. The amendments, which primarily require additional fair value disclosures, are to be applied prospectively for annual periods beginning after December 15, 2011. We are currently evaluating the effect ASU 2011-04 will have on our consolidated financial statements.

Table of Contents

NOTE 8 Commitments and Contingencies

Commitments

In connection with our redevelopment and capital improvement activities, we have commitments of approximately $19.3 million related to construction projects, most of which we expect to incur during the remainder of 2011 and during 2012. 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.

We have committed to fund an additional $3.2 million in loans on certain unconsolidated properties in West Harlem in New York City. Additionally, in certain circumstances, the obligor under these notes has the ability to put the properties to us, which would result in a cash payment of approximately $31.2 million and the assumption of $118.0 million in property debt. The obligor s right to exercise the put depends upon the achievement of specified operating performance thresholds.

We have an agreement that allows the holder of some of our Series A Community Reinvestment Act Preferred Stock, or the CRA Preferred Stock, to require us to repurchase $10.0 million in liquidation preference of the CRA Preferred Stock at a 30% discount, during the three months ending June 30, 2012. Based on the holder s ability to require us to repurchase this amount, the $10.0 million in liquidation preference of CRA Preferred Stock, or the maximum redemption value of such preferred stock, is classified within temporary equity in our condensed consolidated balance sheet at September 30, 2011.

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 historic and low-income housing tax credit syndication arrangements. 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. 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, results of operations or cash flows.

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, results of operations or cash flows.

During the three months ended June 30, 2011, we mediated the previously disclosed dispute with respect to mergers completed earlier in 2011 in which we acquired the remaining noncontrolling interests in six consolidated real estate partnerships. As a result of the mediation we agreed to pay the limited partners additional consideration of $7.5 million for their partnership units. During the three months ended September 30, 2011, claims and stipulations of settlement were filed in Colorado State Court, District of Denver and with the American Arbitration Association. The parties are currently seeking approval of the settlements in the respective venues.

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 potentially hazardous materials present on a property, including lead-based paint, asbestos, polychlorinated biphenyls, petroleum-based fuels, and other miscellaneous materials. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release or presence of such materials. The presence of, or the failure to manage or remedy properly, these materials 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 improper management of these materials 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 these materials through a licensed disposal or treatment facility. Anyone who arranges for the disposal or treatment of these materials 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 responsible for environmental liabilities or costs associated with our properties or properties we acquire or manage in the future.

Table of Contents

We have determined that our legal obligations to remove or remediate certain potentially hazardous materials may be conditional asset retirement obligations, as defined in GAAP. 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, 2011, are immaterial to our consolidated financial condition, results of operations and cash flows.

NOTE 9 Earnings (Loss) per Share

We calculate earnings (loss) per share based on the weighted average number of shares of Common Stock, participating securities, common stock equivalents and dilutive convertible securities outstanding during the period. The following table illustrates the calculation of basic and diluted earnings (loss) per share for the three and nine months ended September 30, 2011 and 2010 (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Numerator:				
Loss from continuing operations	$ (26,311)	$ (46,992)	$ (100,550)	$ (121,293)
Loss from continuing operations attributable to noncontrolling interests	7,909	19,655	26,338	29,502
Income attributable to preferred stockholders	(13,301)	(13,576)	(35,429)	(36,626)
Income attributable to participating securities	(58)	(2)	(169)	
Loss from continuing operations attributable to Aimco common stockholders	$ (31,761)	$ (40,915)	$ (109,810)	$ (128,417)
Income from discontinued operations	$ 30,968	$ 18,510	$ 50,959	$ 65,881
Income from discontinued operations attributable to noncontrolling interests	(14,008)	(6,095)	(20,900)	(24,355)
Income from discontinued operations attributable to Aimco common stockholders	$ 16,960	$ 12,415	$ 30,059	$ 41,526
Net income (loss)	$ 4,657	$ (28,482)	$ (49,591)	$ (55,412)
(Income) loss attributable to noncontrolling interests	(6,099)	13,560	5,438	5,147
Income attributable to preferred stockholders	(13,301)	(13,576)	(35,429)	(36,626)
Income attributable to participating securities	(58)	(2)	(169)	
Net loss attributable to Aimco common stockholders	$ (14,801)	$ (28,500)	$ (79,751)	$ (86,891)
Denominator:				
Denominator for basic earnings per share weighted average number of shares of Common Stock outstanding	120,339	116,434	118,939	116,264

Effect of dilutive securities:				
Dilutive potential common shares				
Denominator for diluted earnings per share	120,339	116,434	118,939	116,264
Earnings (loss) per common share:				
Basic and diluted earnings (loss) per common share:				
Loss from continuing operations attributable to Aimco common stockholders	$ (0.26)	$ (0.35)	$ (0.92)	$ (1.10)
Income from discontinued operations attributable to Aimco common stockholders	0.14	0.10	0.25	0.35
Net loss attributable to Aimco common stockholders	$ (0.12)	$ (0.25)	$ (0.67)	$ (0.75)

15

As of September 30, 2011 and 2010, the common share equivalents that could potentially dilute basic earnings per share in future periods totaled 6.3 million and 7.2 million, respectively. These securities, representing stock options, have been excluded from the earnings (loss) per share computations for the three and nine months ended September 30, 2011 and 2010, because their effect would have been anti-dilutive. Participating securities, consisting of unvested restricted stock and shares purchased pursuant to officer loans, receive dividends similar to shares of Common Stock and totaled 0.5 million and 0.6 million at September 30, 2011 and 2010, respectively. The effect of participating securities is included in basic and diluted earnings (loss) per share computations for the periods presented above using the two-class method of allocating distributed and undistributed earnings.

Various classes of preferred OP Units of the Aimco Operating Partnership are outstanding. Depending on the terms of each class, these preferred OP Units are convertible into common OP Units or redeemable for cash or, at the Aimco Operating Partnership s option, Common Stock, and are paid distributions varying from 1.8% to 8.8% per annum per unit, or equal to the dividends paid on Common Stock based on the conversion terms. As of September 30, 2011, a total of 3.1 million preferred OP Units were outstanding with redemption values of $82.5 million and were potentially redeemable for approximately 3.7 million shares of Common Stock (based on the period end market price), or cash at the Aimco Operating Partnership s option. The Aimco Operating Partnership has a redemption policy that requires cash settlement of redemption requests for the preferred OP Units, subject to limited exceptions. The potential dilutive effect of these securities would have been antidilutive in the periods presented. Additionally, based on the Aimco Operating Partnership s cash redemption policy, they may also be excluded from future earnings (loss) per share computations in periods during which their effect is dilutive.

NOTE 10 Notes Receivable

Our notes receivable have stated maturity dates and may require current payments of principal and interest. Repayment of our notes is subject to a number of variables, including the performance and value of the underlying real estate properties and the claims of unaffiliated mortgage lenders, which are generally senior to our claims. Our notes receivable consist of two classes: loans extended by us that we carry at the face amount plus accrued interest, which we refer to as par value notes ; and discounted notes, which includes loans extended by predecessors whose positions we generally acquired at a discount and loans extended by us that were discounted at origination.

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 closed or entered into certain 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 notes, 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.

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 update our cash flow projections of the borrowers annually, and more frequently for certain loans depending on facts and circumstances. We recognize provisions for losses on notes receivable when it is probable that principal and interest will not be received in accordance with the contractual terms of the loan. Factors that affect this assessment include the fair value of the partnership s real estate, pending transactions to refinance the partnership s senior obligations or sell the partnership s real estate, and market conditions (current and forecasted) related to a particular asset. The amount of the provision 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 provision is measured by discounting the estimated cash flows at the loan s original effective interest rate.

Table of Contents

The following table summarizes our notes receivable as of September 30, 2011 and December 31, 2010 (in thousands):

	September 30, 2011	December 31, 2010
Par value notes	$ 19,657	$ 17,899
Discounted notes	94,973	98,827
Allowance for loan losses		
Total notes receivable	$ 114,630	$ 116,726
Face value of discounted notes	$ 103,291	$ 108,621

Notes receivable have various annual interest rates ranging between 2.1% and 8.8% and averaging 4.1%. Included in the notes receivable at September 30, 2011 and December 31, 2010 are $97.5 million and $103.9 million, respectively, in notes that were secured by interests in real estate or interests in real estate partnerships.

During the nine months ended September 30, 2011, there have been no significant changes in the carrying amounts, our average recorded investment in or unpaid principal balances for impaired loans. During the three and nine months ended September 30, 2011 and 2010, we did not recognize any significant amounts of interest income related to impaired or non-impaired notes receivable.

We recognize interest income as earned on the $19.7 million of our par value notes receivable at September 30, 2011 that are estimated to be collectible and have not been impaired. Of our total par value notes outstanding at September 30, 2011, notes with balances of $19.0 million have stated maturity dates and the remainder have no stated maturity dates and are governed by the terms of the partnership agreements pursuant to which the loans were extended. At September 30, 2011, none of the par value notes with stated maturity dates were past due.

NOTE 11 Business Segments

We have two reportable segments: conventional real estate operations and affordable real estate operations. Our conventional real estate operations consist of market-rate apartments with rents paid by the resident and included 205 properties with 64,781 units at September 30, 2011. Our affordable real estate operations consisted of 201 properties with 24,040 units at September 30, 2011, with rents that are generally paid, in whole or part, by a government agency.

Our chief executive officer, who is our chief operating decision maker, uses various generally accepted industry financial measures to assess the performance and financial condition of the business, including: Net Asset Value, which is the estimated fair value of our assets, net of liabilities and preferred equity; Pro forma Funds From Operations, which is Funds From Operations excluding operating real estate impairment losses and preferred equity redemption related amounts; Adjusted Funds From Operations, which is Pro forma Funds From Operations less spending for Capital Replacements; property net operating income, which is rental and other property revenues less direct property operating expenses, including real estate taxes; proportionate property net operating income, which reflects our share of property net operating income of our consolidated and unconsolidated properties; same store property operating results; Free Cash Flow, which is net operating income less spending for Capital Replacements; Free Cash Flow internal rate of return; financial coverage ratios; and leverage as shown on our balance sheet. Our chief operating decision maker emphasizes proportionate property net operating income as a key measurement of segment profit or loss.

Table of Contents

The following tables present the revenues, net operating income (loss) and income (loss) from continuing operations of our conventional and affordable real estate operations segments on a proportionate basis for the three and nine months ended September 30, 2011 and 2010 (in thousands):

	Conventional Real Estate Operations	Affordable Real Estate Operations	Proportionate Adjustments (1)	Corporate and Amounts Not Allocated to Segments	Consolidated
Three Months Ended September 30, 2011:					
Rental and other property revenues (2)	$ 206,115	$ 32,715	$ 30,501	$ 194	$ 269,525
Asset management and tax credit revenues				11,885	11,885
Total revenues	206,115	32,715	30,501	12,079	281,410
Property operating expenses (2)	79,514	13,373	13,495	13,521	119,903
Investment management expenses				2,386	2,386
Depreciation and amortization (2)				97,321	97,321
Provision for operating real estate impairment losses (2)				149	149
General and administrative expenses				12,664	12,664
Other expenses, net				4,870	4,870
Total operating expenses	79,514	13,373	13,495	130,911	237,293
Net operating income (loss)	126,601	19,342	17,006	(118,832)	44,117
Other items included in continuing operations				(70,428)	(70,428)
Income (loss) from continuing operations	$ 126,601	$ 19,342	$ 17,006	$ (189,260)	$ (26,311)
Three Months Ended September 30, 2010:					
Rental and other property revenues (2)	$ 200,667	$ 31,573	$ 30,591	$ 650	$ 263,481
Asset management and tax credit revenues				9,711	9,711
Total revenues	200,667	31,573	30,591	10,361	273,192
Property operating expenses (2)	76,467	13,765	13,562	12,992	116,786
Investment management expenses				2,609	2,609
Depreciation and amortization (2)				101,704	101,704
General and administrative expenses				12,096	12,096

Other expenses, net								4,416		4,416
Total operating expenses		76,467		13,765		13,562		133,817		237,611
Net operating income (loss)		124,200		17,808		17,029		(123,456)		35,581
Other items included in continuing operations								(82,573)		(82,573)
Income (loss) from continuing operations	$	124,200	$	17,808	$	17,029	$	(206,029)	$	(46,992)
Nine Months Ended September 30, 2011:										
Rental and other property revenues (2)	$	613,688	$	97,947	$	93,065	$	1,049	$	805,749
Asset management and tax credit revenues								28,772		28,772
Total revenues		613,688		97,947		93,065		29,821		834,521
Property operating expenses (2)		233,126		40,488		41,075		41,945		356,634
Investment management expenses								7,604		7,604
Depreciation and amortization (2)								287,739		287,739
Provision for operating real estate impairment losses (2)								149		149
General and administrative expenses								36,162		36,162
Other expenses, net								13,952		13,952
Total operating expenses		233,126		40,488		41,075		387,551		702,240
Net operating income (loss)		380,562		57,459		51,990		(357,730)		132,281
Other items included in continuing operations								(232,831)		(232,831)
Income (loss) from continuing operations	$	380,562	$	57,459	$	51,990	$	(590,561)	$	(100,550)

Table of Contents

	Conventional Real Estate Operations	Affordable Real Estate Operations	Proportionate Adjustments (1)	Corporate and Amounts Not Allocated to Segments	Consolidated
Nine Months Ended September 30, 2010:					
Rental and other property revenues (2)	$ 600,640	$ 93,847	$ 91,530	$ 2,040	$ 788,057
Asset management and tax credit revenues				24,208	24,208
Total revenues	600,640	93,847	91,530	26,248	812,265
Property operating expenses (2)	235,612	42,331	41,820	43,021	362,784
Investment management expenses				10,979	10,979
Depreciation and amortization (2)				305,066	305,066
General and administrative expenses				39,015	39,015
Other expenses, net				2,173	2,173
Total operating expenses	235,612	42,331	41,820	400,254	720,017
Net operating income (loss)	365,028	51,516	49,710	(374,006)	92,248
Other items included in continuing operations				(213,541)	(213,541)
Income (loss) from continuing operations	$ 365,028	$ 51,516	$ 49,710	$ (587,547)	$ (121,293)

(1) Represents adjustments for the noncontrolling interests in consolidated real estate partnerships share of the results of our consolidated properties, which are excluded from our measurement of segment performance but included in the related consolidated amounts, and our share of the results of operations of our unconsolidated real estate partnerships, which are included in our measurement of segment performance but excluded from the related consolidated amounts.

(2) Proportionate property net operating income, our key measurement of segment profit or loss, excludes provision for operating real estate impairment losses, property management revenues (which are included in rental and other property revenues), property management expenses and casualty gains and losses (which are included in property operating expenses) and depreciation and amortization. Accordingly, we do not allocate these amounts to our segments.

For the nine months ended September 30, 2011 and 2010, capital additions related to our conventional segment totaled $111.2 million and $104.9 million, respectively, and capital additions related to our affordable segment totaled $12.2 million and $24.0 million, respectively.

Table of Contents

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, within the meaning of the federal securities laws, including, without limitation, statements regarding our ability to maintain current or meet projected occupancy, rental rates and property operating results and the effect of acquisitions and redevelopments. Actual results may differ materially from those described in these forward-looking statements and, in addition, will be affected by a variety of risks and factors, some of which are beyond our control, including, without limitation: financing risks, including the availability and cost of financing and the risk that our cash flows from operations may be insufficient to meet required payments of principal and interest; earnings may not be sufficient to maintain compliance with debt covenants; real estate risks, including fluctuations in real estate values and the general economic climate in the markets in which we operate and competition for residents in such markets; national and local economic conditions, including the pace of job growth and the level of unemployment; the terms of governmental regulations that affect us and interpretations of those regulations; the competitive environment in which we operate; the timing of acquisitions and dispositions; insurance risk, including the cost of insurance; natural disasters and severe weather such as hurricanes; litigation, including costs associated with prosecuting or defending claims and any adverse outcomes; energy costs; 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 section entitled Risk Factors described in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2010, 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 Apartment Investment and Management Company (which we refer to as 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. Our principal financial objective is to provide predictable and attractive returns to our stockholders. Our business plan to achieve this objective is to:

- own and operate a broadly diversified portfolio of primarily class B/B+ assets (as defined in Note 1 to the condensed consolidated financial statements in Item 1) with properties concentrated in the 20 largest markets in the United States (as measured by total apartment value, which is the estimated total market value of apartment properties in a particular market);
- improve our portfolio by selling assets with lower projected returns and reinvesting those proceeds through the purchase of new assets or additional investment in existing assets in our portfolio, including increased ownership or redevelopment; and
- provide financial leverage primarily by the use of non-recourse, long-dated, fixed-rate property debt and perpetual preferred equity.

Our owned real estate portfolio includes 205 conventional properties with 64,781 units and 201 affordable properties with 24,040 units. These conventional and affordable properties generated 87% and 13%, respectively, of our proportionate property net operating income (as defined in Note 11 to the condensed consolidated financial statements in Item 1) during the nine months ended September 30, 2011. For the three months ended September 30, 2011, our conventional portfolio monthly rents averaged $1,112 and provided 61% operating margins. These average rents increased from $1,079 for the three months ended June 30, 2011. During the three months ended September 30, 2011, on average, conventional new lease rates were 6.1% higher than expiring lease rates, compared to rates that were 5.1% higher than expiring lease rates in the three months ended June 30, 2011. During the three months ended September 30, 2011, conventional renewal rates were 5.6% higher than expiring lease rates, compared to rates that were 3.6% higher than expiring lease rates in the three months ended June 30, 2011.

Our geographic allocation strategy focuses on the 20 largest markets in the United States to reduce volatility in and our dependence on particular areas of the country. We believe these markets are deep, relatively liquid and possess desirable long-term growth characteristics. They are primarily coastal markets, and also include a number of Sun Belt cities and Chicago, Illinois. We may also invest in other markets on an opportunistic basis.

Table of Contents

Our portfolio strategy also focuses on asset type and quality. Our target allocation of capital to conventional and affordable properties is 90% and 10%, respectively, of our total property net asset value, which is the estimated fair value of our properties and related assets, net of liabilities. Our conventional and affordable properties comprised approximately 88% and 12%, respectively, of our total property net asset value, at September 30, 2011.

For conventional assets, we focus on the ownership of primarily B/B+ assets. Refer to Note 1 to the condensed consolidated financial statements in Item 1 for an explanation of our rating system for measuring asset quality. We upgrade the quality of our portfolio through the sale of assets with lower projected returns, which are often in markets less desirable than our target markets, and reinvest these proceeds through the purchase of new assets or additional investment in existing assets in our portfolio, through increased ownership or redevelopment. We prefer the redevelopment of select properties in our existing portfolio to ground-up development, as we believe it provides superior risk adjusted returns with lower volatility. During the nine months ended September 30, 2011, we increased our allocation of capital to our target markets by:

- disposing of seven conventional properties located outside of our target markets for $61.5 million;
- investing $63.9 million to purchase interests in conventional properties located within our target markets;
- investing $35.5 million in redevelopment of conventional properties included in continuing operations; and
- increasing to 100% our ownership in nine conventional properties owned through consolidated real estate partnerships for a total cost of $13.6 million. The gross estimated fair value of the real estate corresponding to the interests we acquired totaled $84.9 million.

During the nine months ended September 30, 2011, we also disposed of eleven conventional properties located in less desirable locations within our target markets and 15 affordable properties.

Our leverage strategy focuses on increasing financial returns while minimizing risk. On a consolidated basis, at September 30, 2011, approximately 87% of our leverage consisted of property-level, non-recourse, long-dated, fixed-rate, amortizing debt and 13% consisted of perpetual preferred equity, a combination which helps to limit our refunding and re-pricing risk. At September 30, 2011, we had $26.2 million of corporate level debt, consisting of borrowings on our revolving credit facility. Our leverage strategy limits refunding risk on our property-level debt. During the nine months ended September 30, 2011, exclusive of property debt reductions related to discontinued operations, we reduced our net leverage by approximately $130.4 million, inclusive of refinancing activity, regularly scheduled property debt amortization, loan pay-downs and our $51.5 million investment in the first loss and mezzanine positions in the securitization trust discussed in Note 4 to the condensed consolidated financial statements in Item 1. At September 30, 2011, the weighted average maturity of our property-level debt was 8.2 years, with 0.1% of our debt maturing during the remainder of 2011 and on average approximately 5.0% maturing in each of 2012, 2013, 2014 and 2015. Long duration, fixed-rate liabilities provide a hedge against increases in interest rates and inflation. Approximately 94% of our property-level debt is fixed-rate. We continue to focus on refinancing our property debt maturing during the period from 2012 through 2015, to extend maturities and lock in current low interest rates.

As of September 30, 2011, we had the capacity to borrow $247.8 million pursuant to our $300.0 million credit facility (after giving effect to $26.2 million of outstanding borrowings and $26.0 million outstanding for undrawn letters of credit issued under the revolving credit facility). The revolving credit facility matures May 1, 2013, and may be extended for an additional year, subject to certain conditions.

The key financial indicators that we use in managing our business and in evaluating our financial condition and operating performance are: Net Asset Value; Pro forma Funds From Operations, which is Funds From Operations excluding operating real estate impairment losses and preferred equity redemption related amounts; Adjusted Funds From Operations, which is Pro forma Funds From Operations less spending for Capital Replacements; property net operating income, which is rental and other property revenues less direct property operating expenses, including real estate taxes; proportionate property net operating income, which reflects our share of property net operating income of our consolidated and unconsolidated properties; same store property operating results; Free Cash Flow, which is net operating income less spending for Capital Replacements; Free Cash Flow internal rate of return; financial coverage ratios; and leverage as shown on our balance sheet. Funds From Operations is defined and further described in the section captioned Funds From Operations. The key macro-economic factors and non-financial indicators that affect our financial condition and operating performance are: household formations; rates of job growth; single-family and multifamily housing starts; interest rates; and availability and cost of financing.

Table of Contents

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 and the pace and price at which we redevelop, acquire and dispose of our apartment properties 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.

Highlights of our results of operations for the three months ended September 30, 2011, are summarized below:

- Total Same Store revenues and expenses for the three months ended September 30, 2011, increased by 3.5% and 3.1%, respectively, as compared to the three months ended September 30, 2010, resulting in a 3.8% increase in net operating income;
- Average daily occupancy for our Conventional Same Store properties remained high at 95.2% for the three months ended September 30, 2011; and
- Conventional Same Store revenues and expenses for the three months ended September 30, 2011, increased by 3.5% and 4.3%, respectively, as compared to the three months ended September 30, 2010, resulting in a 3.0% increase in net operating income.

The following discussion and analysis of the results of our operations and financial condition should be read in conjunction with the accompanying condensed consolidated financial statements in Item 1.

Results of Operations

Overview

Three months ended September 30, 2011 compared to September 30, 2010

We reported net loss attributable to Aimco of $1.4 million and net loss attributable to Aimco common stockholders of $14.8 million for the three months ended September 30, 2011, compared to net loss attributable to Aimco of $14.9 million and net loss attributable to Aimco common stockholders of $28.5 million for the three months ended September 30, 2010, decreases in losses of $13.5 million and $13.7 million, respectively.

These decreases in net loss were principally due to the following items, all of which are discussed in further detail below:

- an increase in net operating income of our properties included in continuing operations, reflecting improved operations;
- an increase in income from discontinued operations (net of amounts allocated to noncontrolling interests), primarily related to an increase in gains on dispositions of real estate in 2011 as compared to 2010; and
- a decrease in depreciation and amortization expense, primarily attributable to short-lived real estate assets that became fully depreciated in 2010 and adjustments of depreciation recognized during 2011 related to revisions of the estimated useful lives of certain real estate assets.

Nine months ended September 30, 2011 compared to September 30, 2010

For the nine months ended September 30, 2011, we reported net loss attributable to Aimco of $44.2 million and net loss attributable to Aimco common stockholders of $79.8 million, compared to net loss attributable to Aimco of $50.3 million and net loss attributable to Aimco common stockholders of $86.9 million for the nine months ended September 30, 2010, decreases in losses of $6.1 million and $7.1 million, respectively.

These decreases in net loss were principally due to the following items, all of which are discussed in further detail below:

- an increase in net operating income of our properties included in continuing operations, reflecting improved operations; and
- a decrease in depreciation and amortization expense, primarily attributable to short-lived real estate assets that became fully depreciated in 2010 and adjustments of depreciation recognized during 2011 related to revisions of the estimated useful lives of certain real estate assets.

Table of Contents
The effects of these items on our operating results were partially offset by:

- an increase in interest expense, primarily due to prepayment penalties incurred in connection with a series of financing transactions completed in 2011 that extended maturities and reduced the effective interest rate on a group of non-recourse property loans; and
- a decrease in income from discontinued operations (net of amounts allocated to noncontrolling interests), primarily due to decreases in gains on dispositions of real estate and decreases in the net operating income of properties classified within discontinued operations due to the timing of sales.

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

Real Estate Operations

Our real estate portfolio is comprised of two business components: conventional real estate operations and affordable real estate operations, which also represent our two reportable segments. Our conventional real estate operations consist of market-rate apartments with rents paid by the resident and include 205 properties with 64,781 units. Our affordable real estate operations consist of 201 properties with 24,040 units, with rents that are generally paid, in whole or part, by a government agency. Our conventional and affordable properties contributed 87% and 13%, respectively, of proportionate property net operating income during the three and nine months ended September 30, 2011.

In accordance with accounting principles generally accepted in the United States of America, or GAAP, we consolidate certain properties in which we hold an insignificant economic interest and in some cases we do not consolidate other properties in which we have a significant economic interest. Due to the diversity of our economic ownership interests in our properties, our chief operating decision maker emphasizes proportionate property net operating income, which reflects our share of the net operating income of our consolidated and unconsolidated properties, as a key measurement of segment profit or loss. Accordingly, the results of operations of our conventional and affordable segments discussed below are presented on a proportionate basis.

We exclude property management revenues and expenses and casualty related amounts from our definition of proportionate property operating income and therefore from our assessment of segment performance. Accordingly, these items are not included in the following discussion of our segment results. The effects of these items on our real estate operations results are discussed below on a consolidated basis, that is, before adjustments for noncontrolling interests or our interests in unconsolidated real estate partnerships.

The tables and discussions below reflect the proportionate results of our conventional and affordable segments and the consolidated results related to our real estate operations not allocated to segments for the three and nine months ended September 30, 2011 and 2010 (in thousands). The tables and discussions below exclude the results of operations for properties sold or classified as held for sale through September 30, 2011. Refer to Note 11 in the condensed consolidated financial statements in Item 1 for further discussion regarding our reportable segments, including a reconciliation of these proportionate amounts to consolidated rental and other property revenues and property operating expenses.

Total Same Store Portfolio

Our conventional and affordable segments each include properties we classify as same store. Same store properties are properties we manage and that have reached and maintained a stabilized level of occupancy (greater than 90%) during the current and prior year comparable period. We consider total same store results as a meaningful measure of the performance of the results of operations of the properties we own and operate. For the three and nine months ended September 30, 2011, our total same store portfolio comprised 93% and 91%, respectively, of our total proportionate property net operating income.

For the three months ended September 30, 2011, as compared to the three months ended September 30, 2010, our total same store portfolio s proportionate property revenues and expenses increased by 3.5% and 3.1%, respectively, resulting in a 3.8% increase in net operating income, and our total same store operating margin increased by approximately ten basis points, from 61.8% during the three months ended September 30, 2010, to 61.9% during the three months ended September 30, 2011. For the nine months ended September 30, 2011, as compared to the nine months ended September 30, 2010, our total same store portfolio s proportionate property revenues and expenses increased by 2.7% and decreased by 2.0%, respectively, resulting in a 5.8% increase in net operating income, and our total same store operating margin increased by approximately 180 basis points, from 60.7% during the nine months ended September 30, 2010 to 62.5% during the nine months ended September 30, 2011.

Table of Contents

The results of operations of our conventional and affordable same store properties are discussed further in the discussion of segment results below.

Conventional Real Estate Operations

Our conventional segment consists of conventional properties that we classify as either same store, redevelopment or other conventional properties. Redevelopment properties are those in which a substantial number of available units have been vacated for major renovations or have not been stabilized in occupancy for at least one year as of the earliest period presented, or for which other significant non-unit renovations are underway or have been complete for less than one year. Other conventional properties may include conventional properties that have significant rent control restrictions, acquisition properties, university housing properties and properties that are not multifamily, such as commercial properties or fitness centers. Our definitions of same store and redevelopment properties may result in these portfolios for the three month periods differing from such portfolios for the nine month periods for the purpose of comparing 2011 to 2010 results.

During the three months ended September 30, 2011, our conventional same store portfolio and our other conventional portfolio consisted of 162 and 43 properties with 57,209 and 7,572 units, respectively. During the nine months ended September 30, 2011, our conventional same store portfolio decreased on a net basis by 16 properties and 4,188 units. These changes consisted of:

- the removal of 17 properties, with 4,464 units that were sold or classified as held for sale through September 30, 2011 and for which the results have been reclassified into discontinued operations;
- the inclusion of two properties with 551 units that were previously classified as redevelopment properties; and
- the removal of three properties with 1,360 units that experienced significant casualty losses and were moved from the same store classification into the other conventional classification, partially offset by the reintroduction of two properties with 1,084 units into the same store classification.

	Three Months Ended September 30,			
	2011	2010	$ Change	% Change
Rental and other property revenues:				
Conventional same store	$ 186,710	$ 180,420	$ 6,290	3.5%
Other Conventional	19,405	20,247	(842)	(4.2%)
Total	206,115	200,667	5,448	2.7%
Property operating expenses:				
Conventional same store	70,131	67,245	2,886	4.3%
Other Conventional	9,383	9,222	161	1.7%
Total	79,514	76,467	3,047	4.0%
Property net operating income:				
Conventional same store	116,579	113,175	3,404	3.0%
Other Conventional	10,022	11,025	(1,003)	(9.1%)
Total	$ 126,601	$ 124,200	$ 2,401	1.9%

For the three months ended September 30, 2011, as compared to the three months ended September 30, 2010, our conventional segment s proportionate property net operating income increased $2.4 million, or 1.9%.

For the three months ended September 30, 2011, as compared to the three months ended September 30, 2010, conventional same store net operating income increased by $3.4 million. This increase was partially attributable to a $6.3 million increase in revenue, primarily due to higher average rent (approximately $33 per unit) and increases in miscellaneous income and utilities reimbursements, partially offset by an 80 basis point decrease in average physical occupancy. Rental rates on new leases transacted during the three months ended September 30, 2011, were 6.1% higher than expiring lease rates and renewal rates were 5.6% higher than expiring lease rates. The increase in conventional same store net operating income was partially offset by a $2.9 million increase in expense, primarily due to an increase in real estate taxes (due to refunds received in 2010 that related to prior tax years) and higher utility, contract services, repair and maintenance, administrative and personnel expenses.

Our other conventional net operating income (which includes conventional redevelopment and newly acquired properties) decreased by $1.0 million, due to a decrease in revenue of approximately $0.8 million and an increase in expense of $0.2 million. The net decrease in revenue was primarily due to an increase in the number of vacant units resulting from our redevelopment activities during 2011, and was partially offset by a $0.4 million increase in revenues related to properties acquired in 2011. The increase in expenses of our other conventional properties was primarily due to the properties we acquired in 2011.

	Nine Months Ended September 30,			
	2011	2010	$ Change	% Change
Rental and other property revenues:				
Conventional same store	$ 547,984	$ 534,563	$ 13,421	2.5%
Other Conventional	65,704	66,077	(373)	(0.6%)
Total	613,688	600,640	13,048	2.2%
Property operating expenses:				
Conventional same store	202,015	204,735	(2,720)	(1.3%)
Other Conventional	31,111	30,877	234	0.8%
Total	233,126	235,612	(2,486)	(1.1%)
Property net operating income:				
Conventional same store	345,969	329,828	16,141	4.9%
Other Conventional	34,593	35,200	(607)	(1.7%)
Total	$ 380,562	$ 365,028	$ 15,534	4.3%

Our conventional same store and other conventional property populations for the nine month period were substantially consistent with the populations for the three month period. For the nine months ended September 30, 2011, as compared to the nine months ended September 30, 2010, our conventional segment s proportionate property net operating income increased $15.5 million, or 4.3%.

For the nine months ended September 30, 2011, as compared to the nine months ended September 30, 2010, conventional same store net operating income increased by $16.1 million. This increase was attributable to a $13.4 million increase in revenue, primarily due to higher average rent (approximately $19 per unit) and increases in miscellaneous income and utilities reimbursements, partially offset by a seven basis point decrease in average physical occupancy. Rental rates on new leases transacted during the nine months ended September 30, 2011, were 4.7% higher than expiring lease rates and renewal rates were 4.4% higher than expiring lease rates. The increase in same store net operating income was also attributable to a $2.7 million decrease in expense, primarily due to reductions in contract services, marketing, insurance and personnel and related costs.

Our other conventional net operating income (which includes conventional redevelopment and newly acquired properties) decreased by $0.6 million, due to a $0.4 million decrease in revenue and a $0.2 million increase in expense. The net decrease in revenue was primarily due to an increase in the number of vacant units resulting from our redevelopment activities during 2011, and was partially offset by a $0.4 million increase in revenues related to properties acquired in 2011. The increase in expenses of our other conventional properties was primarily due to the properties we acquired in 2011.

Affordable Real Estate Operations

Our affordable segment consists of properties we classify as same store or other. Our criteria for classifying affordable properties as same store or other are consistent with those for our conventional properties described above. Our definitions of same store and other properties may result in these portfolios for the three month periods differing from such portfolios for the nine month periods for the purpose of comparing 2011 to 2010 results.

For the three months ended September 30, 2011, our affordable same store portfolio and other affordable portfolio consisted of 144 and 57 properties with 18,212 and 5,828 units, respectively. During the nine months ended September 30, 2011, our affordable same store portfolio decreased on a net basis by nine properties, consisting of:

- the removal of 16 properties, with 1,541 units that were sold or classified as held for sale through September 30, 2011 and for which the results have been reclassified into discontinued operations; and
- the inclusion of seven properties with 1,395 units that were previously classified as redevelopment properties.

Table of Contents

We did not have a significant economic ownership in any of the properties classified as other affordable properties for the three months ended September 30, 2011 and 2010; accordingly this portfolio is excluded from the discussion of proportionate results for the three month periods shown below.

	Three Months Ended September 30,			
	2011	2010	$ Change	% Change
Affordable same store:				
Rental and other property revenues	$ 32,715	$ 31,573	$ 1,142	3.6%
Property operating expenses	13,373	13,765	(392)	(2.8%)
Property net operating income	$ 19,342	$ 17,808	$ 1,534	8.6%

For the three months ended September 30, 2011, as compared to the three months ended September 30, 2010, the proportionate property net operating income of our affordable same store properties increased $1.5 million, or 8.6%. This increase in net operating income consisted of a $1.1 million increase in revenue and a $0.4 million decrease in expense. Affordable same store revenue increased partially due to higher average rent ($28 per unit), partially offset by lower average physical occupancy (15 basis points). Affordable same store expenses decreased primarily due to reductions in insurance and real estate tax expenses.

The seven properties discussed above that were reclassified from other affordable (redevelopment) to affordable same store during 2011 did not meet the same store requirements for either of the full nine month periods ended September 30 and accordingly these properties are included in other affordable in the following comparison of the results of operations of our affordable segment for the nine months ended September 30, 2011 and 2010.

	Nine Months Ended September 30,			
	2011	2010	$ Change	% Change
Rental and other property revenues:				
Affordable same store	$ 87,130	$ 83,618	$ 3,512	4.2%
Other Affordable	10,817	10,229	588	5.7%
Total	97,947	93,847	4,100	4.4%
Property operating expenses:				
Affordable same store	36,086	38,190	(2,104)	(5.5%)
Other Affordable	4,402	4,141	261	6.3%
Total	40,488	42,331	(1,843)	(4.4%)
Property net operating income:				
Affordable same store	51,044	45,428	5,616	12.4%
Other Affordable	6,415	6,088	327	5.4%
Total	$ 57,459	$ 51,516	$ 5,943	11.5%

For the nine months ended September 30, 2011, as compared to the nine months ended September 30, 2010, the proportionate property net operating income of our affordable segment increased $5.9 million, or 11.5%. Affordable same store net operating income increased by $5.6 million, consisting of a $3.5 million increase in revenue and a $2.1 million decrease in expense. Affordable same store revenue increased primarily due to higher average rent ($31 per unit) and higher average physical occupancy (seven basis points) at our affordable same store properties. The increase in average rent was partially due to retroactive rent increases awarded in 2011 under government subsidy programs at certain of our affordable properties, $0.2 million of which relates to previous years. Affordable same store expenses decreased primarily due to reductions in personnel and related costs, insurance and real estate tax expenses, the majority of which relates to revaluations associated with 2010 and prior years. The increase in our affordable segment s proportionate property net operating income was also due to higher net operating income of our other affordable properties of $0.3 million.

Non-Segment Real Estate Operations

Real estate operations net operating income amounts not attributed to our conventional or affordable segments include property management revenues and expenses and casualty losses, reported in consolidated amounts, which we do not allocate to our conventional or affordable segments for purposes of evaluating segment performance (see Note 11 to the condensed consolidated financial statements in Item 1).

For the three months ended September 30, 2011, as compared to 2010, property management revenues decreased by $0.5 million, from $0.7 million to $0.2 million, primarily due to a reduction in the number of properties managed for third parties. For the three months ended September 30, 2011, as compared to 2010, property operating expenses not allocated to our conventional or affordable segments, including property management expenses and casualty losses, increased by $0.5 million. Casualty losses increased by $1.0 million, from $1.8 million to $2.8 million, primarily due to a higher volume of small claim losses during 2011 than in 2010 as well as an increase in larger dollar losses in 2011. Property management expenses decreased by $0.5 million, from $11.2 million to $10.7 million, due to a reduction in personnel and related expenses, which in part resulted from fewer properties managed for third parties.

For the nine months ended September 30, 2011, as compared to 2010, property management revenues decreased by $1.0 million, from $2.0 million to $1.0 million, due to a reduction in the number of properties managed for third parties. For the nine months ended September 30, 2011, as compared to 2010, property operating expenses not allocated to our conventional or affordable segments, including property management expenses and casualty losses, decreased by $1.1 million. Property management expenses decreased by $3.6 million, from $35.4 million to $31.8 million, due to a reduction in personnel and related expenses resulting from a reduction in the number of properties managed for third parties. Casualty losses increased by $2.5 million, from $7.6 million to $10.1 million, primarily due to $4.6 million of losses in 2011 from severe snow storms in the Northeast that damaged several properties.

Asset Management and Tax Credit Revenues

We perform activities and services for consolidated and unconsolidated real estate partnerships, including portfolio strategy, capital allocation, joint ventures, tax credit syndication, acquisitions and dispositions. These activities are conducted in part by our taxable subsidiaries, and the related net operating income may be subject to income taxes.

For the three months ended September 30, 2011, compared to the three months ended September 30, 2010, asset management and tax credit revenues increased $2.2 million. This increase is attributable to a $3.4 million increase in general partner transactional fees and $1.0 million of income recognized in 2011 upon the syndication of a low-income housing tax credit partnership, partially offset by a decrease of $2.4 million of promote income, which is income earned in connection with the disposition of properties owned by our consolidated joint ventures, recognized on properties that were sold in 2010 for which no similar income was recognized in 2011.

For the nine months ended September 30, 2011, compared to the nine months ended September 30, 2010, asset management and tax credit revenues increased $4.6 million. This increase is primarily attributable to a $2.1 million increase in general partner transactional fees and $1.0 million of income recognized in 2011 upon the syndication of a low-income housing tax credit partnership. Asset management and tax credit revenues during the nine months ended September 30, 2011 also includes the recognition of $1.3 million of asset management fees in connection with a transaction with the principals of a portfolio of properties for which we provided asset management and other services. As part of our ongoing effort to simplify our business, we resigned from our role providing asset or property management services for approximately 100 properties and we agreed to receive a reduced payment on asset management and other fees owed to us, a portion of which was not previously recognized based on concerns regarding collectibility. We received cash and notes receivable that are guaranteed by a principal in the portfolio and that have a security interest in distributable proceeds from the sale of certain properties in the portfolio.

Investment Management Expenses

Investment management expenses consist primarily of the costs of personnel who perform asset management and tax credit activities. For the three and nine months ended September 30, 2011, compared to the three and nine months ended September 30, 2010, investment management expenses decreased $0.2 million and $3.4 million, respectively. These decreases were primarily due to our write off during 2010 of previously deferred costs on tax credit projects we abandoned and a reduction in personnel and related costs.

Depreciation and Amortization

For the three and nine months ended September 30, 2011, compared to the three and nine months ended September 30, 2010, depreciation and amortization decreased $4.4 million, or 4.3%, and $17.3 million, or 5.7%, respectively. These decreases were primarily due to short-lived real estate assets that became fully depreciated in 2010 and adjustments of depreciation recognized during 2011 related to revisions of the estimated useful lives of certain real estate assets.

General and Administrative Expenses

For the three months ended September 30, 2011, compared to the three months ended September 30, 2010, general and administrative expenses increased $0.6 million, or 4.7%. For the nine months ended September 30, 2011, compared to the nine months ended September 30, 2010, general and administrative expenses decreased $2.9 million, or 7.3%, primarily due to net reductions in personnel and related expenses.

27

Other Expenses (Income), Net
Other expenses (income), net includes franchise taxes, risk management activities, partnership administration expenses and certain non-recurring items. For the three and nine months ended September 30, 2011, compared to the three and nine months ended September 30, 2010, other expenses, net increased by $0.5 million and by $11.8 million, respectively. The net increases during the nine months ended September 30, 2011, were primarily attributable to the favorable settlement of certain litigation matters during 2010, for which there was no comparable activity in 2011.

Interest Income
Interest income consists primarily of interest on notes receivable from non-affiliates and unconsolidated real estate partnerships, interest on cash and restricted cash accounts, and accretion of discounts on certain notes receivable from unconsolidated real estate partnerships. Transactions that result in accretion may occur infrequently and thus accretion income may vary from period to period.

For the three months ended September 30, 2011, compared to the three months ended September 30, 2010, interest income increased by $0.9 million, or 38.6%. This increase is primarily due to accretion of income on our investment during the three months ended September 30, 2011, in the first loss and mezzanine positions in a securitization trust that holds certain of our property loans payable.

For the nine months ended September 30, 2011, compared to the nine months ended September 30, 2010, interest income increased by $0.3 million, or 4.5%. This increase is primarily due to the investment accretion discussed above, partially offset by a decrease in accretion recognized on notes receivable.

Interest Expense
For the three months ended September 30, 2011, compared to the three months ended September 30, 2010, interest expense, which includes the amortization of deferred financing costs, decreased by $1.4 million, or 1.9%, primarily due to decreases in property level interest due to lower average balances outstanding during 2011.

For the nine months ended September 30, 2011, compared to the nine months ended September 30, 2010, interest expense increased by $17.9 million, or 7.9%. This increase was primarily attributable to our recognition of $20.7 million of prepayment penalties and the write off of $2.3 million of deferred loan costs in connection with the completion of a series of financing transactions that are discussed further in Note 4 to the condensed consolidated financial statements in Item 1. These increases were partially offset by decreases in property and corporate level interest due to lower average balances outstanding during 2011.

Equity in (Losses) Earnings of Unconsolidated Real Estate Partnerships
Equity in (losses) earnings of unconsolidated real estate partnerships includes our share of the net earnings or losses of our unconsolidated real estate partnerships, which may include impairment losses, gains or losses on the disposition of real estate assets or depreciation expense, which generally exceeds the net operating income recognized by such unconsolidated partnerships. We generally own a nominal economic interest in the consolidated investment partnerships that hold the majority of our investments in unconsolidated subsidiaries, accordingly the equity in earnings and losses recognized by these entities are attributed to noncontrolling interests and had no significant effect on the amounts of net loss attributable to Aimco.

Gain on Dispositions of Unconsolidated Real Estate and Other
Gain on dispositions of unconsolidated real estate and other includes gains on disposition of interests in unconsolidated real estate partnerships, gains on dispositions of land and other non-depreciable assets and certain costs related to asset disposal activities. Changes in the level of gains recognized from period to period reflect the changing level of 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 three and nine months ended September 30, 2011, compared to the three and nine months ended September 30, 2010, gain on dispositions of unconsolidated real estate and other increased $2.2 million and decreased $0.3 million, respectively. The increase in gains during the three months ended September 30, 2011 is primarily attributable to our disposition of interests in unconsolidated real estate partnerships during the three months ended September 30, 2011. The majority of these gains were attributed to the noncontrolling interests in the consolidated partnerships that held these investments and accordingly these gains had no significant effect on net loss attributed to

Aimco.

Income Tax Benefit
Certain of our operations or a portion thereof, including property management, asset management and risk management are conducted through taxable REIT subsidiaries, each of which we refer to as a TRS. A TRS is a C-corporation that has not elected REIT status and, as such, is subject to United States Federal corporate income tax. We use TRS entities to facilitate our ability to offer certain services and activities to our residents and investment partners that cannot be offered directly by a REIT. We also use TRS entities to hold investments in certain properties. Income taxes related to the results of continuing operations of our TRS entities are included in income tax benefit in our consolidated statements of operations.

For the three and nine months ended September 30, 2011, compared to the three and nine months ended September 30, 2010, income tax benefit decreased by $3.3 million and $5.3 million, respectively, primarily due to decreases in losses of our TRS entities.

Income from Discontinued Operations, Net
The results of operations for consolidated 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 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 and debt extinguishment gains and losses to the extent there is secured debt on the property. In addition, any impairment losses on assets held for sale and the net gain or loss on the eventual disposal of properties held for sale are reported in discontinued operations.

For the three months ended September 30, 2011 and 2010, income from discontinued operations totaled $31.0 million and $18.5 million, respectively. The $12.5 million increase in income from discontinued operations was principally due to a $16.4 million increase in gain on dispositions of real estate, net of income taxes, and a $3.2 million decrease in interest expense, partially offset by a $6.8 million decrease in operating income (inclusive of a $4.1 million increase in real estate impairment losses).

For the nine months ended September 30, 2011 and 2010, income from discontinued operations totaled $51.0 million and $65.9 million, respectively. The $14.9 million decrease in income from discontinued operations was principally due to a $10.7 million decrease in gain on dispositions of real estate, net of income taxes, and a $12.3 million decrease in operating income (inclusive of a $2.3 million increase in real estate impairment losses), partially offset by a $9.0 million decrease in interest expense.

During the three months ended September 30, 2011, we sold or disposed of 12 consolidated properties for gross proceeds of $154.5 million and net proceeds of $63.9 million, resulting in a net gain of approximately $37.5 million (which includes less than $0.1 million of related income taxes). During the three months ended September 30, 2010, we sold eight consolidated properties for gross proceeds of $98.7 million and net proceeds of $33.2 million, resulting in a net gain of approximately $21.1 million (which included less than $0.1 million of related income taxes).

During the nine months ended September 30, 2011, we sold or disposed of 39 consolidated properties for gross proceeds of $293.2 million and net proceeds of $105.6 million, resulting in a net gain of approximately $64.7 million (which is net of $0.2 million of related income taxes). During the nine months ended September 30, 2010, we sold 31 consolidated properties for gross proceeds of $283.5 million and net proceeds of $80.6 million, resulting in a net gain of approximately $75.3 million (which includes $0.9 million of related income taxes).

The weighted average net operating income capitalization rates for our conventional and affordable property sales, which are calculated using the trailing twelve month net operating income prior to sale, less a 3.5% management fee, divided by gross proceeds, were 7.2% and 8.4%, respectively, for sales during the nine months ended September 30, 2011, and 8.0% and 8.5%, respectively, for sales during the nine months ended September 30, 2010.

For the three and nine months ended September 30, 2011 and 2010, income from discontinued operations includes the operating results of the properties sold or classified as held for sale as of September 30, 2011.

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 (see Note 3 to the condensed consolidated financial statements in Item 1 for additional information on discontinued operations).

Table of Contents

Noncontrolling Interests in Consolidated Real Estate Partnerships

Noncontrolling interests in consolidated real estate partnerships reflects the non-Aimco partners , or noncontrolling partners , share of operating results of consolidated real estate partnerships, as well as the noncontrolling partners share of property management fees, interest on notes and other amounts that we charge to such partnerships.

For the three months ended September 30, 2011, we allocated net income of $5.5 million to noncontrolling interests in consolidated real estate partnerships, as compared to $11.2 million of net losses allocated to these noncontrolling interests during the nine months ended September 30, 2010, or a variance of $16.7 million. This change was primarily due to a $7.5 million increase in the noncontrolling interest partners share of income from discontinued operations and a $9.2 million increase in the noncontrolling interest partners share of income from continuing operations, which is primarily attributable to the noncontrolling interest partners share of equity in impairment losses recognized during 2010.

For the nine months ended September 30, 2011 and 2010, we allocated net losses of $4.6 million, and $1.8 million, respectively, to noncontrolling interests in consolidated real estate partnerships, or a variance of $2.8 million. This change was primarily due to a $2.7 million decrease in the noncontrolling interest partners share of income from discontinued operations.

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in accordance with GAAP, which requires 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, excluding interest charges, of the property. 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.

From time to time, we have non-revenue producing properties that we hold for future redevelopment. We assess the recoverability of the carrying amount of these redevelopment properties by comparing our estimate of undiscounted future cash flows based on the expected service potential of the redevelopment property upon completion to the carrying amount. In certain instances, we use a probability-weighted approach to determine our estimate of undiscounted future cash flows when alternative courses of action are under consideration.

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; and
- changes in interest rates and the availability of financing.

Any adverse changes in these and other factors could cause an impairment of our long-lived assets, including real estate and investments in unconsolidated real estate partnerships. During the next twelve months, we expect to market for sale certain real estate properties that are inconsistent with our long-term investment strategy. For any properties that are sold or meet the criteria to be classified as held for sale during the next twelve months, the reduction in the estimated holding period for these assets or the requirement to reduce the carrying amounts of properties that become held for sale by the estimated costs to sell the assets may result in additional impairment losses.

Based on periodic tests of recoverability of long-lived assets, for the three and nine months ended September 30, 2011, we recognized $0.1 million of impairment losses related to properties to be held and used. We recognized no similar impairment losses for properties to be held and used in 2010. During the three months ended September 30, 2011 and 2010, we recognized impairment losses of $5.5 million and $1.4 million, respectively, and during the nine months ended September 30, 2011 and 2010, we recognized impairment losses of $11.8 million and $9.6 million, respectively, for properties included in discontinued operations, primarily due to reductions in the estimated holding periods for assets sold during these periods or our reduction of the carrying amounts of assets that were classified as held for sale by the estimated costs to sell the assets.

Other assets in our condensed consolidated balance sheet in Item 1 include $64.4 million of goodwill related to our conventional and affordable reportable segments as of September 30, 2011. We annually evaluate impairment of intangible assets using an impairment test that compares the fair value of the reporting units with the carrying amounts, including goodwill. We performed our last annual impairment analysis during the three months ended September 30, 2011 and concluded no impairment was necessary. We will perform our next impairment analysis during the second half of 2012, and do not anticipate recognizing an impairment of goodwill in connection with this analysis. As further discussed in Note 3 to the condensed consolidated financial statements in Item 1, we allocate goodwill to real estate properties when they are sold or classified as held for sale, based on the relative fair values of these properties and the retained properties in each reportable segment.

Notes Receivable and Interest Income Recognition

Our notes receivable have stated maturity dates and may require current payments of principal and interest. Repayment of our notes is subject to a number of variables, including the performance and value of the underlying real estate properties and the claims of unaffiliated mortgage lenders, which are generally senior to our claims. Our notes receivable consist of two classes: loans extended by us that we carry at the face amount plus accrued interest, which we refer to as par value notes ; and discounted notes, which includes loans extended by predecessors whose positions we generally acquired at a discount and loans extended by us that were discounted at origination.

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 closed or entered into certain 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 notes, 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.

Provision 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 update our cash flow projections of the borrowers annually, and more frequently for certain loans depending on facts and circumstances. We recognize provisions for losses on notes receivable when it is probable that principal and interest will not be received in accordance with the contractual terms of the loan. Factors that affect this assessment include the fair value of the partnership s real estate, pending transactions to refinance the partnership s senior obligations or sell the partnership s real estate, and market conditions (current and forecasted) related to a particular asset. The amount of the provision 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 provision is measured by discounting the estimated cash flows at the loan s original effective interest rate.

During the three months ended September 30, 2011, we recognized a net recovery of previously recognized provisions for losses on notes receivable of $0.2 million, as compared to less than $0.1 million of net provisions for losses on notes receivable during the three months ended September 30, 2010. During the nine months ended September 30, 2011, we recognized a net recovery of previously recognized provisions for losses on notes receivable of $0.2 million, as compared to $0.3 million of net provisions for losses on notes receivable during the nine months ended September 30, 2010. 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.

Table of Contents

Capitalized Costs

We capitalize costs, including certain indirect costs, incurred in connection with our capital additions 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 additions activities at the property level. We characterize as indirect costs an allocation of certain department costs, including payroll, at the area operations and corporate levels that clearly relate to capital additions activities. We capitalize interest, property taxes and insurance during periods in which redevelopment and construction projects are in progress. We charge to expense as incurred costs that do not relate to capital additions activities, including ordinary repairs, maintenance, resident turnover costs and general and administrative expenses.

For the three months ended September 30, 2011 and 2010, for continuing and discontinued operations, we capitalized $3.5 million and $3.2 million of interest costs, respectively, and $6.0 million and $5.9 million of site payroll and indirect costs, respectively. For the nine months ended September 30, 2011 and 2010, for continuing and discontinued operations, we capitalized $9.9 million and $8.6 million of interest costs, respectively, and $18.7 million and $18.7 million of site payroll and indirect costs, respectively.

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 attributable to Aimco common stockholders (diluted) by subtracting redemption or repurchase related preferred stock issuance costs and dividends on preferred stock and adding back dividends/distributions on dilutive preferred stock and discounts on preferred stock redemptions or repurchases. 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 for future needs. In addition, although FFO is a measure used for comparability in assessing the performance of REITs, there can be no assurance that our basis for computing FFO is comparable with that of other REITs.

In addition to FFO, we compute an alternate measure of FFO, which we refer to as Pro forma FFO, and which is FFO attributable to Aimco common stockholders (diluted), excluding operating real estate impairments and preferred equity redemption related amounts (adjusted for noncontrolling interests). Both operating real estate impairment losses and preferred equity redemption related amounts are items that periodically affect our operating results. We exclude operating real estate impairment losses, net of related income tax benefits and noncontrolling interests, from our calculation of Pro forma FFO because we believe the inclusion of such losses in FFO is inconsistent with the treatment of gains on the disposition of operating real estate, which are not included in FFO. We exclude preferred equity redemption related amounts (gains or losses) from our calculation of Pro forma FFO because such amounts are not representative of our operating results. Similar to FFO, we believe Pro forma FFO 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 depreciating assets such as machinery, computers or other personal property. Not all REITs present an alternate measure of FFO similar to our Pro forma FFO measure and there can be no assurance our basis for calculating Pro forma FFO is comparable to those of other REITs.

Table of Contents

For the three and nine months ended September 30, 2011 and 2010, our FFO and Pro forma FFO are calculated as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net loss attributable to Aimco common stockholders (1)	**$ (14,801)**	**$ (28,500)**	**$ (79,751)**	**$ (86,891)**
Adjustments:				
Depreciation and amortization	97,321	101,704	287,739	305,066
Depreciation and amortization related to non-real estate assets	(3,372)	(3,498)	(9,833)	(11,238)
Depreciation of rental property related to noncontrolling partners and unconsolidated entities (2)	(7,553)	(8,706)	(24,957)	(29,768)
(Gain) loss on dispositions of unconsolidated real estate and other, net of noncontrolling partners interest	(245)	2,294	(1,038)	1,196
Discontinued operations:				
Gain on dispositions of real estate, net of noncontrolling partners interest (2)	(24,200)	(13,375)	(43,598)	(52,853)
Depreciation of rental property, net of noncontrolling partners interest (2)	847	5,051	6,653	17,093
Income tax expense (benefit) arising from disposals	(37)	(48)	223	(948)
Noncontrolling interests in Aimco Operating Partnership s share of above adjustments	(4,198)	(5,788)	(14,744)	(15,891)
Preferred stock dividends	12,513	13,576	37,390	39,405
Preferred stock redemption related amounts	788		(1,961)	(2,779)
Amounts allocable to participating securities	58	2	169	
FFO	**$ 57,121**	**$ 62,712**	**$ 156,292**	**$ 162,392**
Preferred stock dividends	(12,513)	(13,576)	(37,390)	(39,405)
Preferred stock redemption related amounts	(788)		1,961	2,779
Amounts allocable to participating securities	(175)	(193)	(527)	(537)
FFO attributable to Aimco common stockholders diluted	**$ 43,645**	**$ 48,943**	**$ 120,336**	**$ 125,229**
Operating real estate impairment losses (recoveries), net of noncontrolling partners interest and related income tax benefit	5,770	(697)	9,950	11,214
Preferred stock redemption related amounts	788	(1,765)	(1,961)	(4,544)
Noncontrolling interests in Aimco Operating Partnership s share of above adjustments	(448)	172	(547)	(464)
Amounts allocable to participating securities	(24)	12	(34)	(33)
Pro forma FFO attributable to Aimco common stockholders diluted	**$ 49,731**	**$ 46,665**	**$ 127,744**	**$ 131,402**

FFO and Pro forma FFO attributable to Aimco common stockholders diluted (3)

Weighed average common shares outstanding diluted (earnings per share)	120,339	116,434	118,939	116,264
Dilutive common share equivalents securities	331	296	330	310
Total	120,670	116,730	119,269	116,574

Notes:

(1) Represents the numerator for calculating earnings per common share in accordance with GAAP (see Note 9 to the condensed consolidated financial statements in Item 1).

(2) Noncontrolling partners refers to noncontrolling partners in our consolidated real estate partnerships.

(3) Represents the denominator for earnings per common share diluted, calculated in accordance with GAAP, plus common share equivalents and preferred securities that are dilutive for FFO and Pro forma FFO.

Liquidity and Capital Resources

Liquidity is the ability to meet present and future financial obligations. Our primary source of liquidity is cash flow from our operations. Additional sources are proceeds from property sales, proceeds from refinancings of existing property loans, borrowings under new property loans and borrowings under our revolving credit facility.

Our principal uses for liquidity include normal operating activities, payments of principal and interest on outstanding property debt, capital expenditures, dividends paid to stockholders and distributions paid to noncontrolling interest partners and acquisitions of, and investments in, properties. We use our cash and cash equivalents and our cash provided by operating activities to meet short-term liquidity needs. In the event that our cash and cash equivalents and cash provided by operating activities are not sufficient to cover our short-term liquidity needs, 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 needs. We may 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, primarily secured, the issuance of equity securities (including OP Units), the sale of properties and cash generated from operations.

The availability of credit and its related effect on the overall economy may affect our liquidity and future financing activities, both through changes in interest rates and access to financing. Currently, interest rates are low compared to historical levels and many lenders have reentered the market. However, any adverse changes in the lending environment could negatively affect our liquidity. We believe we mitigate this exposure through our continued focus on reducing our short and intermediate term maturity risk, by refinancing such loans with long-dated, fixed-rate property loans. If property financing options become unavailable for our debt needs, we may consider alternative sources of liquidity, such as reductions in certain capital spending or proceeds from asset dispositions.

As further discussed in Item 3, Quantitative and Qualitative Disclosures About Market Risk, we are subject to interest rate risk associated with certain variable rate liabilities and preferred stock. At September 30, 2011, we estimate that a 1.0% increase in 30-day LIBOR with constant credit risk spreads would reduce our net income (or increase our net loss) attributable to Aimco common stockholders by approximately $3.0 million, or $0.02 per common share, on an annual basis. The effect of an increase in 30-day LIBOR may be mitigated by the effect of our variable rate assets.

As further discussed in Note 6 to our condensed consolidated financial statements in Item 1, we use total rate of return swaps as a financing product to lower our cost of borrowing through conversion of fixed-rate debt to variable-rates. The cost of financing through these arrangements is generally lower than the fixed rate on the debt. As of September 30, 2011, we had total rate of return swap positions with two financial institutions with notional amounts totaling $144.7 million. Swaps with notional amounts of $130.5 million and $14.2 million have maturity dates in May 2012 and October 2012, respectively. During the three and nine months ended September 30, 2011, we received net cash receipts of $1.1 million and $8.8 million, respectively, under the total return swaps, which positively affected our liquidity. To the extent interest rates increase above the fixed rates on the underlying borrowings, our obligations under the total return swaps will negatively affect our liquidity.

During 2011 and 2010, we refinanced certain of the underlying borrowings subject to total rate of return swaps with long-dated, fixed-rate property debt, and we expect to do the same with certain of the underlying borrowings in the remainder of 2011 and in early 2012 prior to the swap maturity dates. The average effective interest rate associated with our borrowings subject to the total rate of return swaps was 1.8% at September 30, 2011. To the extent we are successful in refinancing additional of the borrowings subject to the total rate of return swaps, we anticipate the interest cost associated with these borrowings will increase, which would negatively affect our liquidity.

We periodically evaluate counterparty credit risk associated with these arrangements. In the event a counterparty were to default under these arrangements, loss of the net interest benefit we generally receive under these arrangements, which is equal to the difference between the fixed rate we receive and the variable rate we pay, may adversely affect our liquidity. However, at the current time, we have concluded we do not have material exposure.

The total rate of return swaps require specified loan-to-value ratios. In the event the values of the real estate properties serving as collateral under these agreements decline or if we sell properties in the collateral pool with low loan-to-value ratios, certain of our consolidated subsidiaries have an obligation to pay down the debt or provide additional collateral pursuant to the swap agreements, which may adversely affect our cash flows. The obligation to provide collateral is limited to these subsidiaries and is non-recourse to us. As of September 30, 2011, these subsidiaries had provided $12.1 million of cash collateral pursuant to the swap agreements to satisfy the loan-to-value requirements.

As of September 30, 2011, the amount available under our revolving credit facility was $247.8 million (after giving effect to $26.2 million of outstanding borrowings and $26.0 million outstanding for undrawn letters of credit issued under the revolving credit facility).

At September 30, 2011, we had $75.8 million in cash and cash equivalents, a decrease of $35.5 million from December 31, 2010. At September 30, 2011, we had $209.5 million of restricted cash, an increase of $9.5 million from December 31, 2010. Restricted cash primarily consists of reserves and escrows held by lenders for bond sinking funds, capital additions, property taxes and insurance. In addition, cash, cash equivalents and restricted cash are held by partnerships that are not presented on a consolidated basis. The following discussion relates to changes in cash due to operating, investing and financing activities, which are presented in our condensed consolidated statements of cash flows in Item 1.

Table of Contents

Operating Activities

For the nine months ended September 30, 2011, our net cash provided by operating activities of $176.4 million was primarily related to operating income from our consolidated properties, which is affected primarily by rental rates, occupancy levels and operating expenses related to our portfolio of properties, in excess of payments of operating accounts payable and accrued liabilities. Cash provided by operating activities for the nine months ended September 30, 2011 decreased by $13.8 million as compared to the nine months ended September 30, 2010, primarily due to the prepayment penalties incurred during 2011 in connection with a series of property financing transactions.

Investing Activities

For the nine months ended September 30, 2011, our net cash used in investing activities of $18.2 million consisted primarily of capital expenditures, purchases of real estate (including our acquisition of a redevelopment property and our investments in unconsolidated real estate partnerships), and our purchase of the first loss and mezzanine positions in a securitization trust that holds some of our property loans payable, substantially offset by proceeds from disposition of real estate and capital improvement escrows released in connection with refinancing of the related property debt.

Although we hold all of our properties for investment, we 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, 2011, we sold or disposed of 39 consolidated properties for an aggregate sales price of $293.2 million, generating proceeds totaling $273.9 million, after the payment of transaction costs and debt prepayment penalties. The $273.9 million is inclusive of debt assumed by buyers. Net cash proceeds from property sales were used primarily to repay property debt and for other corporate purposes.

Capital expenditures totaled $118.4 million during the nine months ended September 30, 2011, and consisted primarily of Capital Replacements and Capital Improvements, and, to a lesser extent, spending for redevelopment projects and casualties. Capital Replacements represent the share of capital additions that are deemed to replace the consumed portion of acquired capital assets and Capital Improvements represent non-redevelopment capital additions that are made to enhance the value of capital assets.

Financing Activities

For the nine months ended September 30, 2011, net cash used in financing activities of $193.6 million was primarily attributed to debt principal payments, dividends paid to common and preferred stockholders, distributions to noncontrolling interests and redemptions and repurchases of preferred stock. Proceeds from property loans and our issuance of common and preferred stock partially offset the cash outflows.

Property Debt

At September 30, 2011 and December 31, 2010, we had $5.2 billion and $5.5 billion, respectively, in consolidated property debt outstanding. During the nine months ended September 30, 2011, we refinanced $761.9 million of property loans on 34 properties and closed two new loans on one property, generating $767.5 million of proceeds from borrowings with a weighted average interest rate of 4.85% (before the adjustment for the interest income to be received on our investments in the first loss and mezzanine positions in the securitization trust that holds certain of our property loans discussed below). After payment of transaction costs and distributions to limited partners, these refinancing resulted in an $13.9 million net use of cash, which we funded using proceeds from property sales and available cash. We intend to continue to refinance property debt primarily as a means of extending current and near term maturities and to finance certain capital projects.

During the nine months ended September 30, 2011, we completed a series of financing transactions that repaid $625.7 million of non-recourse property loans that were scheduled to mature between the years 2012 and 2016 with $673.8 million of new non-recourse property loans. All of the new loans have a ten year term, with principal scheduled to amortize over 30 years, and the loans have a weighted average interest rate of 5.49%. Subsequent to origination, the new loans were sold to Federal Home Loan Mortgage Corp, or Freddie Mac, which then securitized the new loans. As part of the securitization transaction, we purchased for $51.5 million the first loss and mezzanine positions in the securitization trust, which have a face value of $100.9 million and stated maturity dates corresponding to the terms of the loans held by the trust. By acquiring the first loss and mezzanine positions, we will be receiving interest income generated from our own property debt obligations and we have, in effect, reduced our property loan balances by $100.9 million, furthering our goal to lower leverage and improve coverages. The net interest rate of the loans, which represents the weighted average interest rate of the new loans, less the interest income that will be earned from the first loss position and mezzanine positions from the securitization trust, is 5.19%.

Credit Facility

We have an Amended and Restated Senior Secured Credit Agreement, as amended, with a syndicate of financial institutions, which we refer to as the Credit Agreement, which provides for $300.0 million of revolving loan commitments. Borrowings under the revolving credit facility bear interest based on a pricing grid determined by leverage (currently either LIBOR plus 4.25% with a LIBOR floor of 1.50% or, at our option, a base rate equal to the Prime rate plus a spread of 3.00%). The revolving credit facility matures May 1, 2013, and may be extended for one year, subject to certain conditions, including payment of a 35.0 basis point fee on the total revolving commitments.

The amount available under the revolving credit facility at September 30, 2011, was $247.8 million (after giving effect to $26.2 million of outstanding borrowings and $26.0 million outstanding for undrawn letters of credit issued under the revolving credit facility). The proceeds of revolving loans are generally used to fund working capital and for other corporate purposes.

Our Credit Agreement requires us to satisfy covenant ratios of earnings before interest, taxes and depreciation and amortization to debt service and earnings to fixed charges of 1.40:1 and 1.20:1, respectively. For the twelve months ended September 30, 2011, as calculated based on the provisions in our Credit Agreement, we had a ratio of earnings before interest, taxes and depreciation and amortization to debt service of 1.60:1 and a ratio of earnings to fixed charges of 1.36:1. We expect to remain in compliance with these covenants during the next twelve months. In the three months ending March 31, 2012, the covenant ratios of earnings before interest, taxes and depreciation and amortization to debt service and earnings to fixed charges required by our Credit Agreement will increase to 1.50:1 and 1.30:1, respectively.

Equity Transactions

During the nine months ended September 30, 2011, we paid cash dividends or distributions totaling $37.4 million, $43.1 million and $8.0 million to preferred stockholders, common stockholders and noncontrolling interests in the Aimco Operating Partnership, respectively.

During the nine months ended September 30, 2011, we paid cash distributions of $33.0 million to noncontrolling interests in consolidated real estate partnerships, primarily related to property sales during 2011 and late 2010.

During the three months ended September 30, 2011, we issued approximately 823,800 shares of 7.00% Class Z Cumulative Preferred Stock, par value $0.01 per share, in an underwritten public offering and subsequent offerings through an at-the-market, or ATM, offering program, for net proceeds per share of $23.11 (reflecting an average price to the public of $24.21 per share, less an underwriting discount, commissions and transaction costs of approximately $1.10 per share). The offerings generated net proceeds of $19.0 million.

Also during the three months ended September 30, 2011, primarily using the proceeds from our Class Z Cumulative Preferred Stock issuances, we redeemed 862,500 shares (25% of the amount outstanding) of our Class V Cumulative Preferred Stock. This redemption was for cash at a price equal to $25.00 per share, or $21.6 million in aggregate, plus accumulated and unpaid dividends of approximately $0.2 million. We intend to accumulate the proceeds from further ATM issuances of our Class Z Cumulative Preferred Stock and use them for further redemptions of outstanding preferred securities with higher rates.

During the three and nine months ended September 30, 2011, we sold 0.1 million and 2.9 million shares of Common Stock under our common stock ATM offering program, generating $3.0 million and $73.6 million of gross proceeds, or $2.8 million and $72.0 million, respectively, net of commissions. We used the net proceeds primarily to fund the prepayment penalties and investments discussed in Note 4 to the condensed consolidated financial statements in Item 1.

Pursuant to our ATM offering programs, we may issue up to 3.5 million and 4.0 million additional shares of our Common Stock and Class Z Cumulative Preferred Stock, respectively. Additionally, we and the Aimco Operating Partnership have a shelf registration statement that provides for the issuance of debt and equity securities by Aimco and debt securities by the Aimco Operating Partnership.

During the nine months ended September 30, 2011, we acquired the remaining noncontrolling limited partnership interests in six consolidated real estate partnerships that own nine properties and in which our affiliates serve as general partner, for a total cost of $13.6 million.

Future Capital Needs

We expect to fund any future acquisitions, redevelopment projects, Capital Improvements and Capital Replacements principally with proceeds from property sales (including tax-free exchange proceeds), short-term borrowings, debt and equity financing (including tax credit equity) and operating cash flows.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Our primary market risk exposure relates to changes in base interest rates, credit risk spreads and availability of credit. We are not subject to any other material market rate or price risks. We use predominantly long-term, fixed-rate non-recourse property debt in order to avoid the refunding and repricing risks of short-term borrowings. We use short-term debt financing and working capital 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 use total rate-of-return swaps to obtain the benefit of variable rates on certain of our fixed-rate debt instruments. We make limited use of other derivative financial instruments and we do not use them for trading or other speculative purposes.

We had $355.5 million of floating rate debt and $47.0 million of floating rate preferred stock outstanding at September 30, 2011. Of the total floating rate debt, the major components were floating rate tax-exempt bond financing ($268.0 million) and floating rate secured notes ($52.8 million). Floating rate tax-exempt bond financing is benchmarked against the SIFMA rate, which since 1991 has averaged 75% of the 30-day LIBOR rate. If this historical relationship continues, we estimate that an increase in 30-day LIBOR of 100 basis points (75 basis points for tax-exempt interest rates) with constant credit risk spreads would result in net income and net income attributable to Aimco common stockholders being reduced (or the amounts of net loss and net loss attributable to Aimco common stockholders being increased) by $2.9 million and $3.0 million, respectively, on an annual basis.

At September 30, 2011, we had approximately $400.0 million in cash and cash equivalents, restricted cash and notes receivable, a portion of which bear interest at variable rates, and which may mitigate the effect of an increase in variable rates on our variable-rate indebtedness and preferred stock discussed above.

The estimated aggregate fair value and carrying amount of our consolidated debt (including amounts reported in liabilities related to assets held for sale) was approximately $5.8 billion and $5.3 billion, respectively at September 30, 2011. If market rates for our fixed-rate debt were higher by 1.0% with constant credit risk spreads, the estimated fair value of our debt discussed above would decrease from $5.8 billion to $5.4 billion. If market rates for our debt discussed above were lower by 1.0% with constant credit risk spreads, the estimated fair value of our fixed-rate debt would increase from $5.8 billion to $6.2 billion.

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 effective.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the third quarter of 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1A. Risk Factors

As of the date of this report, there have been no material changes from the risk factors in our Annual Report on Form 10-K for the year ended December 31, 2010.

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

(a) *Unregistered Sales of Equity Securities.* We did not issue any unregistered shares of Common Stock for cash or in exchange for common OP Units during the three months ended September 30, 2011.

(c) *Repurchases of Equity Securities.* There were no repurchases of our equity securities during the three months ended September 30, 2011. Our Board of Directors has, from time to time, authorized us to repurchase shares of our outstanding capital stock. As of September 30, 2011, we were authorized to repurchase approximately 19.3 million additional shares. 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, subject to certain non-cash adjustments, for such period or such amount as may be necessary to maintain our REIT status.

ITEM 6. Exhibits

The following exhibits are filed with this report:

EXHIBIT NO. (1)

3.1	Charter
3.2	Amended and Restated Bylaws (Exhibit 3.2 to Aimco s Current Report on Form 8-K, dated February 2, 2010, 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 Regarding Disclosure of Long-Term Debt Instruments
101	XBRL (Extensible Business Reporting Language). The following materials from Apartment Investment and Management Company s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2011, formatted in XBRL: (i) condensed consolidated balance sheets, (ii) condensed consolidated statements of operations, (iii) condensed consolidated statements of cash flows, and (iv) notes to condensed consolidated financial statements (2)

(1) Schedules and supplemental materials to the exhibits have been omitted but will be provided to the Securities and Exchange Commission upon request.

(2) As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

Table of Contents

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/ ERNEST M. FREEDMAN
Ernest M. Freedman
Executive Vice President and Chief Financial Officer
(duly authorized officer and principal financial officer)

By: /s/ PAUL BELDIN
Paul Beldin
Senior Vice President and Chief Accounting Officer

Date: October 28, 2011

Table of Contents

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