LIBERTY ALL STAR EQUITY FUND
Form 497
April 03, 2002

106,885,060 RIGHTS FOR 10,688,506 SHARES

LIBERTY ALL-STAR EQUITY FUND

SHARES OF BENEFICIAL INTEREST

Liberty All-Star Equity Fund ("All-Star" or the "Fund") is offering rights (the "Rights") to its shareholders (the "Offer"). These Rights will allow you to subscribe for new shares of beneficial interest of All-Star (the "Shares"). For every ten Rights that you receive, you may buy one new All-Star Share. You will receive one Right for each outstanding All-Star Share you own on April 1, 2002 (the "Record Date"). Fractional Shares will not be issued upon the exercise of the Rights. Accordingly, Shares may be purchased only pursuant to the exercise of Rights in integral multiples of ten. Also, Shareholders on the Record Date may purchase Shares not acquired by other shareholders in this Rights offering, subject to limitations discussed in this Prospectus. The Rights are not transferable and will not be admitted for trading on the New York Stock Exchange ("NYSE"). See "The Offer." THE SUBSCRIPTION PRICE PER SHARE WILL BE 95% OF THE LOWER OF (i) THE LAST REPORTED SALE PRICE ON THE NYSE ON MAY 7, 2002 (the "Pricing Date") OF A SHARE OF ALL-STAR, OR (ii) THE NET ASSET VALUE OF A SHARE OF ALL-STAR ON THAT DATE.

THE OFFER WILL EXPIRE AT 5:00 P.M., NEW YORK CITY TIME, ON MAY 6, 2002 (the "Expiration Date"). SINCE THE CLOSE OF THE OFFERING ON THE EXPIRATION DATE IS PRIOR TO THE PRICING DATE, SHAREHOLDERS WHO CHOOSE TO EXERCISE THEIR RIGHTS WILL NOT KNOW THE SUBSCRIPTION PRICE PER SHARE AT THE TIME THEY EXERCISE SUCH RIGHTS.

FOR ADDITIONAL INFORMATION, PLEASE CALL GEORGESON SHAREHOLDER COMMUNICATIONS INC. (THE "INFORMATION AGENT") TOLL FREE AT (866) 904-6821.

All-Star is a multi-managed diversified, closed-end management investment company that allocates its portfolio assets on an approximately equal basis among several independent investment organizations (currently five in number) ("Portfolio Managers") having different investment styles recommended and monitored by Liberty Asset Management Company, All-Star's fund manager ("LAMCO" or "Fund Manager"). All-Star's investment objective is to seek total investment return, comprised of long term captial appreciation and current income. Under normal market conditions, it seeks its investment objective through investing at least 80% of its net assets in a diversified portfolio of equity securities. An investment in All-Star is not appropriate for all investors. No assurances can be given that All-Star's investment objective will be achieved. FOR A DISCUSSION OF CERTAIN RISK FACTORS AND SPECIAL CONSIDERATIONS WITH RESPECT TO OWNING SHARES OF ALL-STAR, SEE "SPECIAL CONSIDERATIONS AND RISK FACTORS" BEGINNING ON PAGE 20 AND "INVESTMENT OBJECTIVE, POLICIES AND RISKS" ON PAGE 23 OF THIS PROSPECTUS.

The address of All-Star is One Financial Center, Boston, Massachusetts 02111 and its telephone number is (800) 542-3863. All-Star's Shares are listed on the NYSE under the symbol "USA."

All-Star announced the terms of the Offer before the opening of trading on the NYSE on February 13, 2002. The net asset value per share of beneficial interest of All-Star at the close of business on February 12, 2002 and April 1, 2002 was $10.19 and $10.43, respectively, and the last reported sale price of a Share on such Exchange on those dates was $11.06 and $11.01, respectively.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A

CRIME.

	SUBSCRIPTION PRICE(1)	SALES LOAD	PROCEED
Per Share...	$ 9.91	NONE	$
Total...	$105,923,094	NONE	$1

(1) Estimated based on an assumption that the Subscription Price will be 95% of the net asset value on April 1, 2002 (the "Estimated Purchase Price").

(2) Before deduction of expenses payable by All-Star, estimated at $315,000.

SHAREHOLDERS WHO DO NOT EXERCISE THEIR RIGHTS SHOULD EXPECT THAT THEY WILL, AT THE COMPLETION OF THE OFFER, OWN A SMALLER PROPORTIONAL INTEREST IN THE FUND THAN IF THEY EXERCISED THEIR RIGHTS. AS A RESULT OF THE OFFER YOU MAY EXPERIENCE AN IMMEDIATE DILUTION OF THE AGGREGATE NET ASSET VALUE OF YOUR SHARES, WHICH UNDER CERTAIN CIRCUMSTANCES, COULD BE SUBSTANTIAL. This is because the Subscription Price per Share and/or the net proceeds to All-Star for each new Share sold will be less than All-Star's net asset value per Share on the Expiration Date. All-Star cannot state precisely the extent of this dilution at this time because it does not know what the net asset value or market price per Share will be when the Offer expires or what proportion of the Rights will be exercised.

THIS PROSPECTUS SETS FORTH CONCISELY THE INFORMATION THAT A SHAREHOLDER OUGHT TO KNOW BEFORE EXERCISING HIS OR HER RIGHTS. INVESTORS ARE ADVISED TO READ AND RETAIN IT FOR FUTURE REFERENCE. A STATEMENT OF ADDITIONAL INFORMATION DATED APRIL 2, 2002 HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION AND IS INCORPORATED BY REFERENCE IN ITS ENTIRETY INTO THIS PROSPECTUS. THE TABLE OF CONTENTS OF THE STATEMENT OF ADDITIONAL INFORMATION APPEARS ON PAGE 34 OF THIS PROSPECTUS, AND A COPY IS AVAILABLE AT NO CHARGE BY CALLING THE INFORMATION AGENT TOLL FREE AT 1-866-904-6821.

The date of this Prospectus is April 2, 2002.

PROSPECTUS SUMMARY

This summary highlights some information that is described more fully elsewhere in this Prospectus. It may not contain all of the information that is important to you. To understand the Offer fully, you should read the entire document carefully, including the risk factors.

PURPOSE OF THE OFFER

The Board of Trustees of All-Star has determined that it would be in the best interest of All-Star and its Shareholders to increase the assets of All-Star available for investment so that it may be in a better position to take advantage of investment opportunities that may arise. The Offer seeks to reward existing shareholders in All-Star by giving them the opportunity to purchase additional Shares at a price below market and/or net asset value and without incurring any brokerage commissions. See "The Offer--Purpose of the Offer."

IMPORTANT TERMS OF THE OFFER

Total number of Shares available for primary subscription..............................	10,688,506 Shares

Number of Rights you will receive for each outstanding Share you own on the Record Date......................................	One Right for every one Share
Number of Shares you may purchase with your Rights at the Subscription Price per Share.....................................	One Share for every ten Rights
Subscription Price..........................	95% of the lower of (i) the last reported sale price on the NYSE on May 7, 2002 (the "Pricing Date") of a Share of All-Star, or (ii) the net asset value of a Share of All-Star on the Pricing Date.

Shareholders' inquiries should be directed to:
Georgeson Shareholder Communications Inc.
1-866-904-6821

OVER-SUBSCRIPTION PRIVILEGE

The right to acquire during the Subscription Period at the Subscription Price one additional Share for each ten Rights held is hereinafter referred to as the "Primary Subscription." Shareholders on the Record Date who fully exercise all Rights issued to him or her (other than those Rights which cannot be exercised because they represent the right to acquire less than one Share) are entitled to subscribe for Shares which were not otherwise subscribed for by others on Primary Subscription (the "Over-Subscription Privilege"). For purposes of determining the maximum number of Shares a Shareholder may acquire pursuant to the Offer, broker-dealers whose Shares are held of record by Cede & Co., Inc. ("Cede"), nominee for Depository Trust Company, or by any other depository or nominee will be deemed to be the holders of the Rights that are issued to Cede or such other depository or nominee. If enough Shares are available, all Shareholder requests to buy Shares that were not bought by other Rights holders will be honored in full. If the requests for Shares exceed the Shares available, the available Shares will be allocated pro rata among those shareholders on the Record Date who over-subscribe based on the number of Rights originally issued to them by the Fund. Shares acquired pursuant to the Over-Subscription Privilege are subject to allotment, which is more fully discussed under "The Offer--Over-Subscription Privilege."

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METHOD FOR EXERCISING RIGHTS

Except as described below, subscription certificates evidencing the Rights ("Subscription Certificates") will be sent to shareholders on the Record Date ("Record Date Shareholders") or their nominees. If you wish to exercise your Rights, you may do so in the following ways:

(1) Complete and sign the Subscription Certificate. Mail it in the envelope provided or deliver it, together with payment in full to EquiServe Trust Company, N.A. ("EquiServe" or "Subscription Agent") at the address indicated on the Subscription Certificate. Your completed and signed Subscription Certificate and payment must be received by the Expiration Date.

(2) Contact your broker, banker or trust company, which can arrange, on your behalf, to guarantee delivery of payment and delivery of a properly completed and executed Subscription Certificate pursuant to a notice of guaranteed delivery ("Notice of Guaranteed Delivery") by the close of business on the third business day after the Expiration Date. A fee may be charged for this service. The Notice of Guaranteed Delivery must be received by the

Expiration Date.

Rights holders will have no right to rescind a purchase after the Subscription Agent has received payment. See "The Offer--Method of Exercise of Rights" and "The Offer--Payment for Shares."

Since the Expiration Date is prior to the Pricing Date, Shareholders who choose to exercise their Rights will not know at the time they exercise such Rights what the purchase price for Shares acquired pursuant to such exercise will be. Shareholders will have no right to rescind their subscription after receipt of their payment for Shares by the Subscription Agent. Subscription payments will be held by the Subscription Agent pending completion of the processing of the subscription. No interest thereon will be paid to subscribers.

The Rights are not transferable. Therefore, only the underlying Shares, and not the Rights, will be admitted for trading on the NYSE. Since fractional Shares will not be issued on exercise of Rights, shareholders who receive, or are left with, fewer than ten Rights will be unable to exercise such Rights and will not be entitled to receive any cash in lieu of unexercised rights.

SHAREHOLDERS' INQUIRIES ABOUT THE OFFER SHOULD BE DIRECTED TO THEIR BROKER, BANK OR TRUST COMPANY, OR TO:

GEORGESON SHAREHOLDER COMMUNICATIONS INC.
1-866-904-6821

IMPORTANT DATES TO REMEMBER

Please note that the dates in the table below may change if the Offer is extended.

EVENT	DATE
Record Date..	April 1, 2002
Subscription Period................................	April 5, 2002 through May 6, 2002*
Expiration Date (Deadline for delivery of Subscription Certificate together with payment of estimated subscription price (See "The Offer--Payment for Shares" on page 17 of this Prospectus) or for delivery of Notice of Guaranteed Delivery)...........	May 6, 2002
Pricing Date.......................................	May 7, 2002
Deadline for payment of final Subscription Price pursuant to Notice of Guaranteed Delivery...........	May 9, 2002
Confirmation to Registered Shareholders.............	May 21, 2002
For Registered Shareholders' Subscriptions--deadline for payment of unpaid balance if final Subscription Price is higher than Estimated Subscription Price....	May 31, 2002

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* Unless the Offer is extended.

OFFERING FEES AND EXPENSES

Offering expenses incurred by the Fund are estimated to be $315,000.

RESTRICTIONS ON FOREIGN SHAREHOLDERS

Record Date Shareholders whose record addresses are outside the United States will receive written notice of the Offer; however, Subscription Certificates will not be mailed to such shareholders. The Rights to which those Subscription Certificates relate will be held by the subscription agent for such foreign Record Date Shareholders' accounts until instructions are received in writing with payment to exercise the Rights. If no such instructions are received by the Expiration Date, such Rights will expire. See "Subscription Agent."

INFORMATION ABOUT ALL-STAR

All-Star is a multi-managed diversified, closed-end management investment company registered under the Investment Company Act of 1940, as amended ("1940 Act"), that allocates its assets on an approximately equal basis among a number of independent investment management organizations (currently five in number) each having a different investment style. See "The Multi-Manager Concept." All-Star's investment objective is to seek total investment return, comprised of long term capital appreciation and current income. Under normal market conditions, it seeks its objective through investing at least 80% of net assets (plus any borrowings for investment purposes) in a diversified portfolio of equity securities. The portion of All-Star's portfolio not invested in equity securities (not more than 20% of net assets under normal conditions) is generally invested in Short-Term Money Market Instruments. See "Investment Objective, Policies and Risks."

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All-Star commenced investment operations in November, 1986. Its outstanding shares of beneficial interest are listed and traded on the NYSE (Symbol "USA"). The average weekly trading volume of the Shares on the NYSE during the year ended December 31, 2001 was 115,971 Shares. As of April 1, 2002, All-Star's net assets were $1,114,971,352, and 106,885,060 Shares of All-Star were issued and outstanding.

INFORMATION ABOUT LIBERTY ASSET MANAGEMENT COMPANY

LAMCO provides selection, evaluation and monitoring services to All-Star and is responsible for the provision of administrative services to the Fund, some of which are delegated to LAMCO's affiliate, Colonial Management Associates, Inc. ("Colonial"). See "Management of All-Star" for the fees paid by the Fund to LAMCO and by LAMCO to the Portfolio Managers. Since the fees of LAMCO and the Portfolio Managers are based on the average weekly net assets of All-Star, LAMCO and the Portfolio Managers will benefit from the Offer. See "Management of All-Star." As of March 31, 2001, LAMCO managed over $1.3 billion in assets.

LAMCO, organized in 1985, is a direct wholly owned subsidiary of Columbia Management Group, Inc. (formerly known as Fleet/Liberty Holdings, Inc.), which is a direct wholly owned subsidiary of Fleet National Bank, a national banking association, which in turn is a direct wholly owned subsidiary of FleetBoston Financial Corporation, a U.S. financial holding company. The principal executive offices of LAMCO are located at One Financial Center, Boston, Massachusetts 02111. The principal executive offices of Columbia Management Group, Inc., Fleet National Bank and FleetBoston Financial Corporation are located at 100 Federal Street, Boston, Massachusetts 02110.

SPECIAL CONSIDERATIONS AND RISK FACTORS

The following summarizes some of the matters that you should consider before investing in All-Star through the Offer.

Dilution............................ Shareholders who do not fully exercise their Rights should expect that they will, at the completion of the Offer, own smaller proportional interest in the Fund than if they exercised their Rights. As a result of the Offer you may experience an immediate dilution of the aggregate net asse value of your Shares, which, under certain circumstances, may be substantial. This is because the Subscription Price per Share and/or the net proceeds to the Fund for each new Share sold will be less than the Fund's net asset value pe Share on the Expiration Date. Although it is not possible state precisely the amount of such dilution because it is not known at this time how many Shares will be subscribed for or what the net asset value or market price per Share will be on the Pricing Date, All-Star estimates that such dilution should not be substantial. For example, if All-Star's Shares are trading at a premium from their net asset value of 9.5% (the average premium for the six-month period ended January 31, 2001), and assuming all Rights ar exercised, the Subscription Price would be 5% below All-Star's net asset value per Share, resulting in a reduction of such net asset value of approximately $0.05 p Share, or less than 0.45%. See "Special Considerations and Risk Factors--Dilution."

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Distributions....................... All-Star currently has a policy of paying distributions on its Shares totaling approximately 10% of its net asset val per year, payable in four quarterly distributions of 2.5% its net asset value at the close of the NYSE on the Friday prior to each quarterly declaration date. These fixed distributions, which are not related to All-Star's net investment income or net realized capital gains or losses, will be treated as ordinary dividend income up to the amou of All-Star's current and accumulated earnings and profits If, for any calendar year, the total distributions made under the 10% pay-out policy exceed All-Star's net investment income and net realized capital gains, the exce will be treated as a tax-free return of capital to each shareholder (up to the amount of the Shareholder's basis i his or her Shares) and thereafter as gain from the sale of Shares. The amount treated as a tax-free return of capital will reduce the Shareholder's adjusted basis in his or her Shares, thereby increasing his or her potential gain or reducing his or her potential loss on the subsequent sale his or her Shares.

All-Star may, in the discretion of the Board of Trustees, retain for reinvestment, and not distribute, net long-term capital gains in excess of net short-term capital losses ("net capital gain") for any year to the extent that its n investment income and net realized gains exceed the minimu amount required to be distributed for such year under the 10% pay-out policy, although All-Star reserves the right t distribute such excess. Retained net capital gain will be taxed to All-Star and, as may be designated by All-Star, t the Shareholders as long-term capital gains. Each Shareholder will be able to claim a proportionate share of the federal income tax paid by All-Star with respect to su gain as a credit against his or her own federal income tax liability and will be entitled to increase the adjusted ta basis in his or her Shares by the difference between the amount so taxed and the credit. See "Distributions; Automatic Dividend Reinvestment and Cash Purchase Plan." Although All-Star's tax on such retained capital gain migh be greater (up to a maximum 35% rate) from the Shareholder tax on such gain, the Shareholder will be entitled to a credit (or refund) for the full amount of tax paid by All-Star on such gain.

Closed-end fund discounts............ Shares of closed-end funds frequently trade at a market price that is less than the value of the net assets attributable to those shares. The possibility that Shares All-Star will trade at a discount from net asset value is risk separate and distinct from the risk that All-Star's n asset value will decrease. The risk of purchasing shares o a closed-end fund that might trade at a discount is more pronounced for investors who wish to sell their shares in relatively short period of time because, for those investors, realization of a gain or loss on their investments is likely to be more dependent upon the existence of a premium or discount than upon portfolio performance. See "Share Price Data."

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Anti-takeover Provisions............ All-Star's Declaration of Trust and By-Laws have provision (commonly referred to as "anti-takeover provisions") which are intended to have the effect of limiting the ability of other entities or persons to acquire control of All-Star, cause it to engage in certain transactions, or to modify i structure. For instance, the affirmative vote of 75 percen of the Shares of the Fund is required to authorize All-Star's conversion from a closed-end to an open-end investment company, unless such conversion is recommended All-Star's Board of Trustees, in which event such conversi would only require the majority vote of All-Star's Shareholders, as defined in the 1940 Act. A similar Shareholder vote is required to authorize a merger, sale o a substantial part of the assets or similar transactions with persons beneficially owning five percent or more of All-Star's Shares, unless approved by All-Star's Board of Trustees under certain conditions. These provisions cannot be amended without a similar super-majority vote. In addition, All-Star's Board of Trustees is divided into thr classes, each of which has a term of three years and only one of which is elected at each annual meeting of shareholders. See "Description of Shares--Anti-takeover Provisions of the Declaration of Trust; Super-majority Vot Requirement for Conversion to Open-End Status."

Repurchase.......................... You will be free to dispose of your Shares on the NYSE or other markets on which the Shares may trade, but, because

the Fund is a closed-end fund, you do not have the right t
redeem your Shares.

You should carefully consider your ability to assume the foregoing risks before making an investment in the Fund. An investment in Shares of the Fund is not appropriate for all investors.

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EXPENSES

SHAREHOLDER TRANSACTION EXPENSES

These are the expenses that an investor incurs when buying Shares of All-Star, whether in this Offer, in the open-market or through All-Star's Automatic Dividend Reinvestment and Cash Purchase Plan, as amended ("Plan").

Sales Load.............................	None (1)
Automatic Dividend Reinvestment and Cash Purchase Plan Fees....................	$1.25 per voluntary cash investment

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(1) No sales load or commission will be payable in connection with this Offer. Purchases of Shares through brokers in secondary market transactions are subject to brokers' commissions and charges.

ANNUAL EXPENSES (as a percentage of net assets attributable to beneficial interests):

Management and Administrative Fees.........................	0.91%
Other Expenses...	0.11%
Total Annual Expenses......................................	1.02%

EXAMPLE: You would pay the following expenses on an investment (at net asset value) of $1,000, assuming a 5% annual return.

1 YEAR	3 YEARS	5 YEARS	10 YEARS
$10	$32	$56	$125

THESE FIGURES ARE INTENDED TO ILLUSTRATE THE EFFECT OF ALL-STAR'S EXPENSES, BUT ARE NOT MEANT TO PREDICT ITS FUTURE RETURNS AND EXPENSES, WHICH MAY BE HIGHER OR LOWER THAN THOSE SHOWN.

The purpose of the above tables is to assist investors in understanding the various costs and expenses that an investor in All-Star will bear directly or indirectly. The numbers shown under the ANNUAL EXPENSES table are projections based on All-Star's actual expenses for the year ended December 31, 2001, and on its projected net assets assuming the Offer is fully subscribed for at the Estimated Purchase Price of $9.91 per Share. See "Financial Highlights" for All-Star's actual ratio of expenses to average net assets for the year ended December 31, 2001.

FINANCIAL HIGHLIGHTS

The financial highlights table is intended to help you understand the Fund's financial performance. Information is shown for the Fund's last ten fiscal years. Certain information reflects financial results from a single Fund Share. The information for the fiscal years ended December 31, 1999, December 31, 2000 and December 31, 2001 has been audited by PricewaterhouseCoopers LLP, independent accountants. The information included in the Fund's financial statements for periods prior to 1999 had been audited by other independent auditors, whose report expressed an unqualified opinion on those financial statements and financial highlights. The report of the independent accountants, together with the financial statements of the Fund, are included in the Fund's December 31, 2001 Annual Report and are incorporated by reference into the Statement of Additional Information (see cover page).

	FOR THE YEAR ENDED DECEMBER 31,				
	2001	2000	1999	1998	1
PER SHARE OPERATING PERFORMANCE:					
Net asset value at beginning of year...........	$13.61	$ 14.02	$ 14.22	$ 13.32	$ 1
Income from Investment Operations:					
Net investment income........................	0.03	0.05	0.05	0.05	
Net realized and unrealized gain (loss) on investments................................	(1.79)	0.96	1.22	2.35	
Provision for federal income tax.............	--	--	--	--	(
Total from Investment Operations...............	(1.76)	1.01	1.27	2.40	
Less Distributions from:					
Net investment income........................	(0.03)	(0.06)	(0.05)	(0.05)	(
Realized capital gain........................	(1.17)	(1.36)	(1.34)	(1.35)	(
Return of capital............................	--	--	--	--	
Total Distributions............................	(1.20)	(1.42)	(1.39)	(1.40)	(
Change due to rights offering (b)..............	--	--	--	(0.10)	
Impact of Shares issued in dividend reinvestment (c).......................................	--	--	(0.08)	--	
Total Distributions, Reinvestments and Rights Offering....................................	(1.20)	(1.42)	(1.47)	(1.50)	(
Net asset value at end of year.................	$10.65	$ 13.61	$ 14.02	$ 14.22	$ 1
Market price at end of year....................	$11.09	$12.375	$11.063	$12.938	$13
TOTAL INVESTMENT RETURN FOR SHAREHOLDERS: (D)					
Based on net asset value.......................	(12.7)%	8.8%	10.2%	19.8%	
Based on market price..........................	0.0%	25.4%	(4.4)%	9.1%	

RATIOS AND SUPPLEMENTAL DATA:					
Net assets at end of year (millions)............	$1,133	$1,376	$1,396	$1,351	$1
Ratio of expenses to average net assets.........	1.03%	0.96%	0.97%	1.00%	
Ratio of net investment income to average net assets......................................	0.27%	0.37%	0.37%	0.39%	
Portfolio turnover rate........................	64%	83%	90%	76%	

(a) Before provision for federal income tax.

(b) Effect of All-Star's rights offering for shares at a price below net asset value.

(c) Effect of payment of a portion of distributions in newly issued shares valued at a discount from net asset value.

(d) Calculated assuming all distributions reinvested at the actual reinvestment price and all primary rights exercised.

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	FOR THE YEAR ENDED DECEMBER 31,				
	1996	1995	1994	1993	1
PER SHARE OPERATING PERFORMANCE:					
Net asset value at beginning of year...........	$ 11.03	$ 9.26	$10.40	$ 10.78	$ 1
Income from Investment Operations:					
Net investment income........................	0.08	0.10	0.11	0.12	
Net realized and unrealized gain (losses) on investments................................	2.15(a)	2.71	(0.20)	0.78(a)	
Provision for federal income tax.............	(0.13)	--	--	(0.18)	
Total from Investment Operations...............	2.10	2.81	(0.09)	0.72	
Less Distributions from:					
Net investment income........................	(0.08)	(0.10)	(0.12)	(0.12)	(
Realized capital gain........................	(1.10)	(0.94)	(0.52)	(0.58)	(
Return of capital............................	--	--	(0.36)	(0.37)	(
Total Distributions............................	(1.18)	(1.04)	(1.00)	(1.07)	(
Change due to rights offering (b)..............	--	--	(0.05)	(0.03)	(
Impact of Shares issued in dividend reinvestment (c)..	--	--	--	--	
Total Distributions, Reinvestments and Rights Offering......................................	(1.18)	(1.04)	(1.05)	(1.10)	(

Net asset value at end of year	$ 11.95	$ 11.03	$ 9.26	$ 10.40	$ 1
Market price at end of year	$11.250	$10.875	$8.500	$11.125	$11
TOTAL INVESTMENT RETURN FOR SHAREHOLDERS: (D)					
Based on net asset value	21.7%	31.8%	(0.8)%	8.8%	
Based on market price	16.2%	41.4%	(14.9)%	12.7%	

RATIOS AND SUPPLEMENTAL DATA:				
Net assets at end of year (millions)	$988	$872	$710	$725
Ratio of expenses to average net assets	1.03%	1.06%	1.07%	1.08%
Ratio of net investment income to average net assets	0.73%	0.92%	1.16%	1.08%
Portfolio turnover rate	70%	54%	44%	72%

(a) Before provision for federal income tax.

(b) Effect of All-Star's rights offering for shares at a price below net asset value.

(c) Effect of payment of a portion of distributions in newly issued shares valued at a discount from net asset value.

(d) Calculated assuming all distributions reinvested at the actual reinvestment price and all primary rights exercised.

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SHARE PRICE DATA

Trading in All-Star's Shares on the NYSE commenced on October 24, 1986. For the two years ended December 31, 2001 and the quarter ended March 31, 2002, the high and low sales prices for All-Star's Shares, as reported in the consolidated transaction reporting system, and the highest discount from or premium to net asset value per Share and the net asset value on the day or days when the Shares traded at such high and low sales prices, were as follows:

	HIGH SALES PRICE	NET ASSET VALUE	DISCOUNT FROM OR PREMIUM TO NET ASSET VALUE	LOW SALES PRICE	NET ASSET VALUE
2000					
1st Quarter	$11.75	$14.52	-19.1%	$ 9.750	$12.98
2nd Quarter	$12.75	$14.17	-10.0%	$10.313	$14.10
3rd Quarter	$13.25	$14.84	-10.7%	$12.313	$14.31
4th Quarter	$13.25	$14.23	-6.9%	$11.313	$13.42
2001					

1st Quarter......................	$13.57	$13.80	-1.7%	$ 11.50	$11.07
2nd Quarter......................	$13.55	$12.78	6.0%	$ 11.50	$10.82
3rd Quarter......................	$13.25	$12.05	9.9%	$ 8.60	$ 8.83
4th Quarter......................	$11.85	$10.33	14.7%	$ 10.40	$ 9.43
2002					
1st Quarter......................	$12.39	$10.26	20.8%	$ 10.55	$10.34

All-Star's Shares have traded in certain periods at a discount from their net asset value. Certain features of and steps taken by All-Star may have tended to reduce the discount from net asset value at which its Shares might otherwise have traded, although All-Star is not able to determine what effect, if any, these various features and steps may have had. All-Star's current 10% distribution policy (see "Distributions; Automatic Dividend Reinvestment and Cash Purchase Plan-10% Distribution Policy" below), begun in July, 1988, may have contributed to this effect. This trend may also have resulted in whole or in part from other factors, such as the Fund's investment performance and increased attention directed to All-Star by securities analysts and market letters.

The net asset value of a Share of All-Star on April 1, 2002 was $10.43. The last reported sale price of an All-Star Share on that day was $11.01, representing a premium to net asset value of 5.6%.

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INVESTMENT PERFORMANCE

The table below shows two measures of All-Star's return to investors for the one, five, ten and fifteen year periods through December 31, 2001. No. 1 ("All-Star NAV") shows All-Star's investment performance based on a valuation of its Shares at net asset value ("NAV"). No. 2 ("All-Star Price") shows All-Star's investment performance based on the market price of All-Star's Shares. Both measures assume reinvestment of all of the Fund's dividends and distributions in additional Shares pursuant to All-Star's Automatic Dividend Reinvestment and Cash Purchase Plan (see "Distributions; Automatic Dividend Reinvestment and Cash Purchase Plan" below), and full exercise of primary subscription rights in All-Star's 1992, 1993, 1994 and 1998 rights offerings.

The Lipper Large-Cap Core Mutual Fund Average has been included so that the Fund's results may be compared with an unweighted average of the total return of open-end mutual funds classified as large-cap core funds (i.e., mutual funds having investment objectives and policies comparable to All-Star) published by Lipper, Inc. The Lipper Large-Cap Core Average information reflects the total return of the mutual funds included in the average, in each case assuming reinvestment of dividends and distributions. The record of the S&P 500 Index has also been included so that All-Star's results may be compared with those of an unmanaged group of securities widely regarded by investors as representative of the stock market in general. The S&P 500 Index is a broad based capitalization-weighted index which reflects the total return of the securities included in the index.

	NO. 1 ALL-STAR NAV	NO. 2 ALL-STAR PRICE	LIPPER LARGE-CAP CORE MUTUAL FUND AVERAGE	S& I
1 Year beginning January 1, 2001...........	-12.7%	0.0%	-13.8%	
5 Years beginning January 1, 1997..........	9.7%	11.9%	8.2%	

10 Years beginning January 1, 1992..........	11.4%	12.3%	11.0%
15 Years beginning January 1, 1987..........	13.0%	12.9%	11.9%

The above results represent All-Star's past performance and are not intended as a prediction of its future performance. The investment return, net asset value and market value of All-Star's Shares will fluctuate, so that such Shares when sold may be worth more or less than their original cost.

THE OFFER

TERMS OF THE OFFER

All-Star is issuing to Record Date Shareholders nontransferable Rights to subscribe for the Shares, without par value, of the Fund's beneficial interest. Each such shareholder is being issued one Right for each Share of beneficial interest owned on the Record Date. The Rights entitle the holder to acquire on Primary Subscription at the Subscription Price one Share for each ten Rights held. No Rights will be issued for fractional Shares. Accordingly, Shares may be purchased only pursuant to the exercise of Rights in integral multiples of ten. Rights may be exercised at any time during the Subscription Period, which commences on April 5, 2002 and ends at 5:00 p.m., New York City time, on May 6, 2002, the Expiration Date.

In addition, any Shareholder who fully exercises all Rights initially issued to him or her in the Primary Subscription (other than those Rights which cannot be exercised because they represent the right to acquire less than one Share) is entitled to subscribe for Shares which were not otherwise subscribed for by others on Primary Subscription. For purposes of determining the number of Shares a Shareholder may acquire pursuant to the Offer, broker-dealers whose Shares are held of record on the Record Date by Cede or by any other depository or nominee will be deemed to be the holders of the Rights that are issued to Cede or such other depository or nominee on their behalf. Shares acquired pursuant to the Over-Subscription Privilege are subject to allotment, which is more fully discussed below under "Over-Subscription Privilege."

The Rights are not transferable. Therefore, only the underlying Shares, and not the Rights, will be admitted for trading on the NYSE. Since fractional Shares will not be issued, shareholders who receive, or who are left with, fewer than ten Rights will be unable to exercise such Rights and will not be entitled to receive any cash in lieu of such fractional Shares.

The Rights will be evidenced by Subscription Certificates which will be mailed to Record Date Shareholders. Rights may be exercised by completing a Subscription Certificate and delivering it, together with payment by means of (i) a check or money order, or (ii) a Notice of Guaranteed Delivery, to the Subscription Agent during the Subscription Period. The method by which Rights may be exercised and the Shares paid for is set forth below under "Method of Exercise of Rights" and "Payment for Shares."

PURPOSE OF THE OFFER

The Board of Trustees of All-Star has determined that it would be in the best interests of All-Star and its Shareholders to increase the assets of All-Star available for investment thereby permitting the Fund to be in a better position to more fully take advantage of investment opportunities that may arise, and that the potential benefits of the Offer to All-Star and its shareholders will outweigh the dilution to shareholders who do not fully exercise their Rights. The proceeds of the Offer will enable All-Star's Portfolio Managers to take advantage of perceived investment opportunities without having to sell existing portfolio holdings which they otherwise would retain. The Offer seeks to reward investors by giving existing shareholders the opportunity to purchase additional Shares at a price below market and/or net asset value and without brokerage commissions. In addition, the Offer will enhance the likelihood that All-Star will continue to have sufficient assets remaining after the distributions called for by its current 10% distribution policy to permit the Fund to maintain the current ratio of its fixed expenses to its net assets.

All-Star's Fund Manager and Portfolio Managers will benefit from the Offer because their fees are based on the average weekly net assets of All-Star. See "Management of All-Star." It is not possible to state precisely the amount of additional compensation they will receive as a result of the Offer because it is not known how many Shares will be subscribed for and because the net proceeds of the Offer will

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be invested in additional portfolio securities that will fluctuate in value. One of All-Star's Trustees who voted to authorize the Offer is an "interested person," within the meaning of the 1940 Act, of LAMCO. The other four Trustees are not "interested persons" of All-Star or LAMCO.

All-Star may, in the future and at its discretion, choose to make additional rights offerings from time to time for a number of Shares and on terms which may or may not be similar to the Offer. Any such future rights offering will be made in accordance with the 1940 Act. In 1992, All-Star completed a rights offering to shareholders of 5,464,168 additional Shares at a subscription price of $10.05 per Share, for proceeds to the Fund after expenses of $54,683,782. In 1993, All-Star completed a second rights offering to shareholders of 4,227,570 additional Shares at a subscription price of $10.41 per Share, for proceeds to the Fund after expenses of $43,759,004. In 1994, All-Star completed a third rights offering to shareholders of 4,704,931 additional Shares at a subscription price of $9.14 per Share, for proceeds to the Fund after expenses of $42,793,069. In 1998, All-Star completed a fourth rights offering to shareholders of 4,318,134 additional Shares at a subscription price of $12.83 per Share, for proceeds to the Fund after expenses of $55,166,659. All four rights offerings were oversubscribed. Under the laws of Massachusetts, the state in which the Fund is organized, the Board of Trustees has the authority to approve rights offerings without obtaining shareholder approval. The staff of the Securities and Exchange Commission ("SEC") has interpreted the 1940 Act as not requiring shareholder approval of a rights offering at a price below the then current net asset value so long as certain conditions are met, including a good faith determination by the fund's board of trustees that such offering would result in a net benefit to existing shareholders.

OVER-SUBSCRIPTION PRIVILEGE

If all of the Rights initially issued in the Primary Subscription are not exercised, any Shares for which Subscriptions have not been received ("Excess Shares") will be offered, by means of the Over-Subscription Privilege, to Record Date Shareholders who have exercised all the Rights initially issued to them and who wish to acquire more than the number of Shares for which the Rights issued to them are exercisable. Record Date Shareholders who exercise all the Rights initially issued to them will have the opportunity to indicate on the Subscription Certificate how many Shares they are willing to acquire pursuant to the Over-Subscription Privilege. If sufficient Excess Shares remain, all over-subscriptions will be honored in full. If sufficient Excess Shares are not available to honor all over-subscriptions, the available Excess Shares will be allocated (subject to elimination of fractional Shares) among those who over-subscribe based on the number of Rights originally issued to them by the Fund. The allocation process may involve a series of allocations in order to assure that the total number of Shares available for over-subscriptions is distributed on a pro rata basis.

The method by which Excess Shares will be distributed and allocated pursuant to the Over-Subscription Privilege is as follows. Excess Shares will be available for purchase pursuant to the Over-Subscription Privilege only to the extent that the maximum number of Shares is not subscribed for through the exercise of the Primary Subscription by the Expiration Date. If the Excess Shares are not sufficient to satisfy all subscriptions pursuant to the Over-Subscription Privilege, the Excess Shares will be allocated pro rata (subject to the elimination of fractional Shares) among those holders of Rights exercising the Over-Subscription Privilege, in proportion, not to the number of Shares requested pursuant to the Over-Subscription Privilege, but to the number of Shares held on the Record Date; provided, however, that if this pro rata allocation results in any holder being allocated a greater number of Excess Shares than the holder subscribed for pursuant to the exercise of such holder's Over-Subscription Privilege, then such holder will be allocated only such number of Excess Shares as such holder subscribed for and the remaining Excess Shares will be allocated among all other holders

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exercising Over-Subscription Privileges. The formula to be used in allocating the Excess Shares is as follows:

$$\frac{\text{Holder's Record Date Position}}{\text{Total Record Date Position of all Oversubscribers}} \times \text{Excess Shares Remaining}$$

The allocation process may involve a series of allocations in order to assure that the total number of Shares available for Over-Subscription is distributed on a pro rata basis. The Fund will not offer or sell any Shares which are not subscribed for under the Primary Subscription or the Over-Subscription Privilege.

THE SUBSCRIPTION PRICE

The Subscription Price for the Shares to be issued pursuant to the Rights will be 95% of the lower of (i) the last reported sale price of a Share of All-Star on the NYSE on May 7, 2002, the Pricing Date, or (ii) the net asset value of a Share of All-Star on the Pricing Date.

All-Star announced the terms of the Offer before the opening of trading on the NYSE on February 13, 2002. The net asset value per Share of All-Star at the close of business on February 12, 2002 and on April 1, 2002 was $10.19 and $10.43, respectively, and the last reported sale price of a Share on the NYSE on those dates was $11.06 and $11.01, respectively, representing a 8.5% premium and a 5.6% premium, respectively, in relation to the net asset value per Share at the close of business on these dates.

EXPIRATION OF THE OFFER

The Offer will expire at 5:00 p.m., New York City time, on May 6, 2002. Rights will expire on the Expiration Date and thereafter may not be exercised, unless the Offer is extended. Since the Expiration Date is prior to the Pricing Date, shareholders who decide to acquire Shares on Primary Subscription or pursuant to the Over-Subscription Privilege will not know, when they make such decision, what the purchase price for such Shares will be.

Any extension, termination, or amendment of the Offer will be followed as promptly as practicable by announcement thereof, such announcement in the case of an extension to be issued no later than 9:00 a.m., New York City time, on the next business day following the previously scheduled Expiration Date. The Fund will not, unless otherwise required by law, have any obligation to publish, advertise, or otherwise communicate any such announcement other than by making a release to the Dow Jones News Service or such other means of announcement as the Fund deems appropriate.

SUBSCRIPTION AGENT

The Subscription Agent is EquiServe Trust Company, N.A. EquiServe is also the Fund's dividend paying agent, transfer agent and registrar. The Subscription Agent will receive from All-Star a fee estimated at approximately $100,000 plus reimbursement for its out-of-pocket expenses related to the Offer. INQUIRIES BY ALL HOLDERS OF RIGHTS SHOULD BE DIRECTED TO EQUISERVE TRUST COMPANY, N.A., P.O. BOX 43025, PROVIDENCE, RI 02940-3025 (TELEPHONE (800) 542-3863); HOLDERS MAY ALSO CONSULT THEIR BROKERS OR NOMINEES.

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INFORMATION AGENT

Any questions or requests for assistance regarding the Offer may be directed to the Information Agent at its telephone number and address listed below:

Georgeson Shareholder Communications Inc.
111 Commerce Road
Carlstadt, New Jersey 07072-2586

Call Toll Free 1-866-904-6821

The Information Agent will receive a fee estimated at approximately $15,000 plus reimbursement for its out-of-pocket expenses.

METHOD OF EXERCISE OF RIGHTS

Rights may be exercised by filling in and signing the reverse side of the Subscription Certificate and mailing it in the envelope provided, or otherwise delivering the completed and signed Subscription Certificate to the Subscription Agent, together with payment for the Shares as described below under "Payment for Shares." Rights may also be exercised through a Rights holder's broker, who may charge such Rights holder a servicing fee in connection with such exercise. Fractional Shares will not be issued, and Rights holders who receive, or who are left with, fewer than ten Rights will not be able to exercise such Rights.

Completed Subscription Certificates and related payments must be received by the Subscription Agent prior to 5:00 p.m., New York City time, on the Expiration Date (unless payment is effected by means of a Notice of Guaranteed Delivery as described below under "Payment for Shares") at the offices of the Subscription Agent at one of the addresses set forth below.

The Subscription Certificate and payment should be sent to EQUISERVE TRUST COMPANY, N.A. by one of the following methods:

SUBSCRIPTION CERTIFICATE DELIVERY METHOD	ADDRESS

If By Mail:	EquiServe Attn: Corporate Actions P.O. Box 43025 Providence, RI 02940-3025
If By Hand:	Securities Transfer and Reporting Services, Inc. c/o EquiServe 100 Williams St. Galleria New York, NY 10038
If By Overnight Courier or Express Mail:	EquiServe Attn: Corporate Actions 40 Campanelli Drive Braintree, MA 02184
By Broker-Dealer or other Nominee: (Notice of Guaranteed Delivery)	Shareholders whose Shares are held in a brokerage, bank or trust account may contact their broker or other nominee and instruct them to submit a Notice of Guaranteed Delivery and payment on their behalf.

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DELIVERY BY ANY METHOD OR TO ANY ADDRESS NOT LISTED ABOVE WILL NOT CONSTITUTE GOOD DELIVERY.

All questions as to the validity, form, eligibility (including times of receipt and matters pertaining to beneficial ownership) and the acceptance of subscription forms and the Subscription Price will be determined by All-Star, which determinations will be final and binding. No alternative, conditional or contingent subscriptions will be accepted. All-Star reserves the absolute right to reject any or all subscriptions not properly submitted or the acceptance of which would, in the opinion of the Fund's counsel, be unlawful. All-Star also reserves the right to waive any irregularities or conditions, and the Fund's interpretations of the terms and conditions of the Offer shall be final and binding. Any irregularities in connection with subscriptions must be cured within such time, if any, as the Fund shall determine unless waived. Neither All-Star nor the Subscription Agent shall be under any duty to give notification of defects in such subscriptions or incur any liability for failure to give such notification. Subscriptions will not be deemed to have been made until such irregularities have been cured or waived.

PAYMENT FOR SHARES

Holders of Rights who subscribe for Shares on Primary Subscription or pursuant to the Over-Subscription Privilege may choose between the following methods of payment:

(1) A subscription will be accepted by the Subscription Agent if, prior to 5:00 p.m., New York City time, on the Expiration Date, the Subscription Agent shall have received a Notice of Guaranteed Delivery, by facsimile or otherwise, from a bank or trust company or a NYSE or National Association of Securities Dealers member firm, guaranteeing delivery of (a) payment of the full Subscription Price for the Shares subscribed for on Primary Subscription and any additional Shares subscribed for pursuant to the Over-Subscription Privilege and (b) a properly completed and executed Subscription Certificate. The Subscription Agent will not honor a Notice of Guaranteed Delivery if a properly completed and executed Subscription Certificate and full payment for the Shares is not received by the Subscription Agent by May 9, 2002. The Notice of Guaranteed Delivery may be delivered to the Subscription Agent in the same manner as Subscription Certificates at the addresses set forth above, or may be

transmitted to the Subscription Agent by facsimile transmission (telecopy number (781) 380-3388; telephone number to confirm receipt (781) 575-4816).

(2) Alternatively, a holder of Rights can, together with the Subscription Certificate, send payment for the Shares acquired on Primary Subscription and any additional Shares subscribed for pursuant to the Over-Subscription Privilege to the Subscription Agent based on the estimated subscription price of $10.25 per Share. Please note that the estimated subscription price (as calculated pursuant to the Subscription Certificate) differs from the Estimated Purchase Price shown on the cover page of this Prospectus, which is presented for illustration purposes only. To be accepted, such payment, together with the Subscription Certificate, must be received by the Subscription Agent prior to 5:00 p.m., New York City time, on the Expiration Date. THE SUBSCRIPTION AGENT WILL NOT ACCEPT CASH AS A MEANS OF PAYMENT FOR SHARES. EXCEPT AS OTHERWISE SET FORTH BELOW, A PAYMENT PURSUANT TO THIS METHOD MUST BE IN UNITED STATES DOLLARS BY MONEY ORDER OR CHECK DRAWN ON A BANK LOCATED IN THE CONTINENTAL UNITED STATES, MUST BE PAYABLE TO THE LIBERTY ALL-STAR EQUITY FUND, AND MUST ACCOMPANY AN EXECUTED SUBSCRIPTION CERTIFICATE TO BE ACCEPTED.

Within ten business days following the Expiration Date (the "Confirmation Date"), a confirmation will be sent by the Subscription Agent to each shareholder exercising his or her Rights (or, if the All-Star Shares on the Record Date are held by Cede or any other depository or nominee, to Cede or such other depository or nominee), showing (i) the number of Shares acquired pursuant to the Primary Subscription; (ii) the number of Shares, if any, acquired pursuant to the Over-Subscription Privilege; (iii) the per Share and total purchase price for the Shares; and (iv) any additional amount payable by such shareholder to All-Star or any excess to be refunded by All-Star to such shareholder, in each case

based on the Subscription Price as determined on the Pricing Date. Any additional payment required from a shareholder must be received by the Subscription Agent prior to 5:00 p.m., New York City time, on May 9, 2002, and any excess payment to be refunded by All-Star to such shareholder will be mailed by the Subscription Agent with the confirmation. All payments by a shareholder must be in United States dollars by money order or check drawn on a bank located in the United States of America and be payable to Liberty All-Star Equity Fund. Such payments will be held by the Subscription Agent pending completion of the processing of the subscription, and will then be paid to All-Star. Any interest earned on such amounts will accrue to All-Star and none will be paid to the subscriber.

Whichever of the above two methods of payment is used, issuance and delivery of the Shares subscribed for are subject to collection of checks and actual payment pursuant to any Notice of Guaranteed Delivery.

Rights holders will have no right to rescind their subscription after receipt of their payment for Shares by the Subscription Agent.

If a holder of Rights who acquires Shares pursuant to the Primary Subscription or the Over-Subscription Privilege does not make payment of any amounts due, All-Star reserves the right to take any or all of the following actions: (i) find other purchasers for such subscribed and unpaid for Shares; (ii) apply any payment actually received by it toward the purchase of the greatest number of whole Shares which could be acquired by such holder upon exercise of the Primary Subscription or the Over-Subscription Privilege; (iii) sell in the open market all or a portion of the Shares purchased by the holder, and apply the proceeds to the amounts owed; and (iv) exercise any and all other rights or remedies to which it may be entitled, including, without limitation, the right to set off against payments actually received by it with respect to such subscribed Shares to enforce the relevant guaranty of payment or monetary damages.

All-Star shareholders whose Shares are held by a broker-dealer, bank, trust company or other nominee should contact the nominee to exercise their Rights and request the nominee to exercise their Rights in accordance with their instructions.

Brokers, banks, trust companies, depositories and other nominees who hold All-Star Shares for the account of others should notify the respective beneficial owners of such Shares as soon as possible to ascertain such beneficial owners' intentions and to obtain instructions with respect to exercising the Rights. If the beneficial owner so instructs, the record holder of such Right should complete Subscription Certificates and submit them to the Subscription Agent with the proper payment.

The instructions contained on the Subscription Certificate should be read carefully and followed in detail. DO NOT SEND SUBSCRIPTION CERTIFICATES TO ALL-STAR. (They should be sent to EquiServe Trust Company, N.A. as indicated above.)

THE METHOD OF DELIVERY OF SUBSCRIPTION CERTIFICATES AND PAYMENT OF THE SUBSCRIPTION PRICE TO THE SUBSCRIPTION AGENT WILL BE AT THE ELECTION AND RISK OF THE RIGHTS HOLDERS, BUT IF SENT BY MAIL IT IS RECOMMENDED THAT THE CERTIFICATES AND PAYMENTS BE SENT BY REGISTERED MAIL, PROPERLY INSURED, WITH RETURN RECEIPT REQUESTED, AND THAT A SUFFICIENT NUMBER OF DAYS BE ALLOWED TO ENSURE DELIVERY TO THE SUBSCRIPTION AGENT AND CLEARANCE OF PAYMENT PRIOR TO 5:00 P.M., NEW YORK CITY TIME, ON THE EXPIRATION DATE. BECAUSE UNCERTIFIED PERSONAL CHECKS MAY TAKE AT LEAST FIVE BUSINESS DAYS TO CLEAR, YOU ARE STRONGLY URGED TO PAY, OR ARRANGE FOR PAYMENT, BY MEANS OF A CERTIFIED OR CASHIER'S CHECK OR MONEY ORDER. SHARES WILL NOT BE DELIVERED UNTIL CHECKS HAVE CLEARED.

DELIVERY OF STOCK CERTIFICATES

Participants in All-Star's Automatic Dividend Reinvestment and Cash Purchase Plan who exercise the Rights issued on the Shares held in their accounts in the Plan will have their Shares acquired on Primary Subscription and pursuant to the Over-Subscription Privilege credited to their shareholder

distribution reinvestment accounts in the Plan. Shareholders whose Shares are held of record by Cede or by any other depository or nominee on their behalf or their broker-dealers' behalf will have their Shares acquired on Primary Subscription and pursuant to the Over-Subscription Privilege credited to the account of Cede or such other depository or nominee. With respect to all other shareholders, stock certificates for all Shares acquired on Primary Subscription and pursuant to the Over-Subscription Privilege will be mailed, together with the confirmation and refund of the amount, if any, paid in excess of the final Subscription Price, on or about May 21, 2002 if the estimated Subscription Price is equal to or in excess of the final Subscription Price. If the shareholder's confirmation shows that an additional amount is payable due to the final Subscription Price exceeding the estimated Subscription Price, the stock certificates will be mailed on or about May 31, 2002, provided that such additional amount has been paid and payment for the Shares subscribed for has cleared, which clearance may take up to five days from the date of receipt of the payment. If such payment does not clear within five business days from the date of receipt, All-Star may exercise its rights in the event of nonpayment under "Payment for Shares" above.

Record Date Shareholders whose record addresses are outside the United States will receive written notice of the Offer; however, Subscription

Certificates will not be mailed to such shareholders. The Rights to which those Subscription Certificates relate will be held by the Subscription Agent for such foreign Record Date Shareholders' accounts until instructions are received in writing with payment to exercise the Rights. If no such instructions are received by the Expiration Date, such Rights will expire. See "Subscription Agent."

FEDERAL INCOME TAX CONSEQUENCES

The following is a general summary of the significant federal income tax consequences of the receipt of Rights by a Record Date Shareholder and a subsequent lapse or exercise of Rights. The discussion is based on applicable provisions of the Internal Revenue Code of 1986, as amended ("Code"), the Treasury Regulations promulgated thereunder and other authorities currently in effect, all of which are subject to change, possibly with a retroactive effect. This discussion does not purport to be complete or to deal with all aspects of federal income taxation that may be relevant to shareholders in light of their particular circumstances or to shareholders subject to special treatment under the Code (such as insurance companies, financial institutions, tax-exempt entities, employee benefit plans, dealers in securities, foreign corporations and persons who are not U.S. citizens or residents), and does not address any state, local or foreign tax consequences.

For federal income tax purposes, neither the receipt nor the exercise of the Rights by Record Date Shareholders will result in taxable income to them, and they will realize no loss with respect to any Rights that expire without being exercised. All-Star will realize no gain or loss on the issuance, exercise or expiration of the Rights.

A Record Date Shareholder's holding period for a Share acquired on exercise of Rights will begin with the date of exercise, and the shareholder's basis for determining gain or loss on the sale of that Share will equal the sum of the shareholder's basis in the exercised Rights, if any, plus the Subscription Price for the Share. A Record Date Shareholder's basis in Rights will be zero unless either (1) the Rights' fair market value on the date of distribution is 15% or more of the fair market value on that date of the Shares with respect to which the Rights were distributed or (2) the shareholder elects, on his, her or its federal income tax return for the taxable year in which the Rights are received, to allocate part of the basis of those Shares to the Rights. If either clause (1) or (2) applies, then if the Rights are exercised, the shareholder will allocate his, her or its basis in the Shares with respect which the Rights were distributed between those Shares and the Rights in proportion to their respective fair market values on the distribution date. A Record Date Shareholder's gain or loss recognized on sale of a Share acquired on the exercise of Rights will be a capital gain or loss (assuming the Share was held as a capital asset at the time of sale) and will be long-term capital gain or loss, taxable at a maximum

rate of 20% in the case of a noncorporate shareholder, if the shareholder then held the Share for more than one year.

EMPLOYEE BENEFIT PLAN CONSIDERATIONS

Shareholders that are employee benefit plans subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA") (including separate profit sharing/retirement and savings plans, and plans for self-employed individuals and their employees) and individual retirement accounts ("IRAs") (collectively, "Retirement Plans") should be aware that additional contributions of cash to a Retirement Plan (other than rollover contributions or trustee-to-trustee transfers from other Retirement Plans) in order to exercise

Rights may, when taken together with contributions previously made, be treated as excess or nondeductible contributions subject to excise taxes. In the case of Retirement Plans qualified under section 401(a) of the Code, additional cash contributions could cause violations of the maximum contribution limitations of section 415 of the Code or other qualification rules. Retirement Plans in which contributions are so limited should consider whether there is an additional source of funds available within the Retirement Plan, including the liquidation of assets, with which to exercise the Rights. Because the rules governing Retirement Plans are extensive and complex, Retirement Plans contemplating the exercise of Rights should consult with their counsel prior to such exercise.

Retirement Plans and other tax-exempt entities, including governmental plans, should also be aware that if they borrow to finance their exercise of Right, they become subject to tax on unrelated business taxable income under Section 511 of the Code. If any portion of an IRA is used as security for a loan, that portion will be treated as a distribution to the IRA owner.

ERISA contains fiduciary responsibility requirements, and ERISA and the Code contain prohibited transaction rules, that may impact the exercise of Rights. Due to the complexity of these requirements and rules and the penalties for non-compliance, Retirement Plans should consult with their counsel regarding the consequences of their exercise of Rights under ERISA and the Code.

SPECIAL CONSIDERATIONS AND RISK FACTORS

DILUTION

If you do not exercise all of your Rights during the Subscription Period, when the Offering is over you will own a relatively smaller percentage of the Fund than if you had exercised all of your Rights. The Fund cannot tell you precisely how much smaller the percentage of the Fund that you would own because the Fund does not know how many of the Fund's Record Date Shareholders will exercise their Rights and how many of their Rights they will exercise.

Shareholders will experience an immediate dilution of the aggregate NAV of Shares as a result of the completion of the Offer because (i) the Subscription Price per Share will be less than the Fund's NAV per Share on the Expiration Date, (ii) the Fund will incur expenses in connection with the Offer, and (iii) the number of Shares outstanding after the Offer will increase in a greater percentage than the increase in the size of the Fund's assets. This dilution also will affect Record Date Shareholders to a greater extent if they do not exercise their Rights in full. It is not possible to state precisely the amount of any decreases in either NAV or in ownership interests, because it is not known at this time what the NAV per Share will be at the Expiration Date or what proportion of the Shares will be subscribed. Finally, there may be a dilution of earnings per Share due to the increase in the number of Shares outstanding, but only to the extent that investments of the proceeds of the Offer do not achieve the same return as current investments held by the Fund. To the extent such investments achieve a better return than current investments, earnings per Share will experience appreciation.

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The following example assumes that all of the Shares are sold at the Estimated Purchase Price of $9.91 and after deducting all expenses related to the issuance of the Shares.

NAV PER SHARE ON APRIL 1, 2002	DILUTION PER SHARE IN DOLLARS	PERCENTA DILUTIC

Primary Subscription or 10,688,506 Shares	$10.43	$ 0.05	0.48%

MARKET VALUE AND NET ASSET VALUE

The shares of closed-end investment companies frequently trade at a discount from NAV. This characteristic of shares of a closed-end fund is a risk separate and distinct from the risk that the Fund's net asset value may decrease. Since the commencement of the Fund's operations, the Fund's Shares have traded in certain periods in the market at a discount to NAV. See "Share Price Data." The risk of purchasing shares of a closed-end fund that might trade at a discount is more pronounced if you wish to sell your shares in a relatively short period of time. If you do so, realization of a gain or loss on your investment is likely to be more dependent upon the existence of a premium or discount than upon portfolio performance. The Fund's Shares are not subject to redemption. Investors desiring liquidity may, subject to applicable securities laws, trade their Shares in the Fund on any exchange where such Shares are then trading at current market value, which may differ from the then current NAV. Moreover, Shareholders expecting to sell their Shares during the course of the Offer should be aware that there is a greater risk that the potential discount referred to above, which may increase during the Offer, will adversely affect them. This increased risk is because, among other things, the market price per Share may reflect the anticipated dilution that will result from this Offer. The Fund cannot predict whether the Shares will trade at a discount or premium to NAV after completion of the Offer.

POSSIBLE SUSPENSION OF THE OFFER

All-Star has, as required by the Securities and Exchange Commission's registration form, undertaken to suspend the Offer until it amends this Prospectus if subsequent to March 29, 2002, the effective date of the Fund's Registration Statement, All-Star's net asset value declines more than 10% from its net asset value as of March 29, 2002. Accordingly, All-Star will notify shareholders of any such decline and thereby permit them to cancel their exercise of Rights.

USE OF PROCEEDS

The net proceeds of the Offer, assuming that all Shares offered hereby are sold at an Estimated Purchase Price of $9.91 per Share, are estimated to be approximately $105,608,094, after deducting expenses payable by All-Star estimated at $315,000. Such net proceeds will be invested by All-Star's Portfolio Managers in portfolio securities in accordance with All-Star's investment objective and policies. It is anticipated that investment of such net proceeds under normal market conditions will take place during a period of approximately 30 days from their receipt by All-Star, and would in any event be completed within three months. Pending such investment the net proceeds will be invested in Short-Term Money Market Instruments (as defined under "Investment Objective, Policies and Risks" below).

THE MULTI-MANAGER CONCEPT

All-Star allocates its portfolio assets on an approximately equal basis among a number of independent investment management firms ("Portfolio Managers"), currently five in number, recommended by LAMCO, each of which employs a different investment style, and from time to time rebalances the portfolio among the Portfolio Managers so as to maintain an approximately equal allocation of the portfolio among them throughout all market cycles.

In the opinion of LAMCO, the multi-manager concept provides advantages over the use of a single manager because of the following primary factors:

(i) most equity investment management-firms consistently employ a distinct investment style which causes them to emphasize stocks with particular characteristics;

(ii) because of changing investor preferences, any given investment style will move into and out of market favor and will result in better investment performance under certain market conditions but less successful performance under other conditions;

(iii) consequently, by allocating All-Star's portfolio on an approximately equal basis among Portfolio Managers employing different styles, the impact of any one such style on investment performance will be diluted, and the investment performance of the total portfolio will be more consistent and less volatile over the long-term than if a single style were employed throughout the entire period;

(iv) consistent performance at a given annual rate of return over time produces a higher rate of return for the long-term than more volatile performance having the same average annual rate of return.

LAMCO, based on the foregoing principles and on its analysis and evaluation of information regarding the personnel and investment styles and performance of a universe of numerous professional investment management firms, has selected for appointment by All-Star a group of Portfolio Managers representing a blending of different investment styles which, in its opinion, is appropriate to All-Star's investment objective.

LAMCO continuously monitors the performance and investment styles of All-Star's Portfolio Managers and from time to time recommends changes of Portfolio Managers based on factors such as changes in a Portfolio Manager's investment style or a departure by a Portfolio Manager from the investment style for which it had been selected, a deterioration in a Portfolio Manager's performance relative to that of other investment management firms practicing a similar style, or adverse changes in its ownership or personnel. Portfolio Manager changes may also be made to change the mix of investment styles employed by All-Star's Portfolio Managers. Since its inception, All-Star has had eleven Portfolio Manager changes.

All-Star Portfolio Manager changes, as well as the periodic rebalancings of its portfolio among the Portfolio Managers and the need to raise cash for All-Star's quarterly distributions, may result in some portfolio turnover in excess of what would otherwise be the case (see "Financial Highlights" above). Increased portfolio turnover would cause increased brokerage commission costs to All-Star, and may result in greater realization of capital gains, which are taxable to shareholders.

Under the terms of an exemptive order issued to All-Star and LAMCO by the Securities and Exchange Commission, a portfolio management agreement with a new or additional Portfolio Manager may be entered into in advance of shareholder approval, provided that the new agreement is at a fee no higher than that provided in, and is on other terms and conditions substantially similar to, All-Star's agreements with its other Portfolio Managers, and that its continuance is subject to approval by shareholders at All-Star's regularly scheduled annual shareholder meeting (normally held in April) next following the date of the new or additional portfolio management agreement. Information about Portfolio Manager changes or additions made in advance of shareholder approval will be announced to the press following Board of Trustees action and will be included in the next report to shareholders.

All-Star's current Portfolio Managers are:

Boston Partners Asset Management, L.P.
Mastrapasqua & Associates, Inc.
Oppenheimer Capital LLC

Schneider Capital Management Corporation
TCW Investment Management Company

See Appendix A for information about these Portfolio Managers, including the employees primarily responsible for the day-to-day management of the portion of All-Star's portfolio allocated to each.

INVESTMENT OBJECTIVE, POLICIES AND RISKS

All-Star's investment objective is to seek total investment return, comprised of long term capital appreciation and current income. It seeks its investment objective through investment primarily in a diversified portfolio of equity securities.

Under normal market conditions, All-Star invests at least 80% of its net assets (plus any borrowings for investment purposes) in equity securities, defined as common stocks and securities convertible into common stocks such as bonds and preferred stocks, and securities having common stock characteristics such as warrants and rights to purchase equity securities (although, as a non-fundamental policy, not more than 20% of the value of All-Star's total assets may be invested in rights and warrants). The 80% component of this policy only may be changed following provision of at least 60 days prior notice to shareholders. All-Star may lend its portfolio securities, write covered call and put options and engage in options and futures strategies (see "Investment Practices" below).

Although under normal market conditions All-Star will remain substantially fully invested in equity securities, up to 20% of the value of All-Star's net assets may generally be invested in short-term money market instruments, including certificates of deposit (negotiable certificates issued against bank deposits), other interest-bearing bank deposits such as savings and money market accounts, and bankers' acceptances (short-term bank-guaranteed credit instruments used to finance transactions in goods) of domestic branches of U.S. banks having assets of not less than $1 billion, obligations issued or guaranteed by the U.S. Government and its agencies and instrumentalities ("U.S. Government Securities"), commercial paper (unsecured short-term promissory notes issued by corporations) rated not lower than A-1 by Standard & Poor's Corporation ("S&P") or Prime-1 by Moody's Investors Service, Inc. ("Moody's"), short-term corporate debt securities rated not lower than AA by S&P or Aa by Moody's, and repurchase agreements with respect to the foregoing (collectively, "Short-Term Money Market Instruments"). All-Star may temporarily invest without limit in Short-Term Money Market Instruments for defensive purposes when LAMCO or the Portfolio Managers deem that market conditions are such that a more conservative approach to investment is desirable.

All-Star's investment objective of seeking total investment return and its policy of investing under normal market conditions at least 80% of the value of its net assets (plus borrowings for investment purposes) in equity securities, as well as certain of its investment restrictions referred to under REDUCING RISK below and in the Statement of Additional Information, are fundamental and may not be changed without a majority vote of All-Star's outstanding Shares. Under the 1940 Act, a "majority vote" means the vote of the lesser of (a) 67% of the Shares of All-Star represented at a meeting at which the holders of more than 50% of the outstanding Shares of All-Star are present or represented, or (b) more than 50% of the outstanding Shares of All-Star. Non-fundamental policies may be changed by vote of the Board of Trustees.

INVESTMENT PRACTICES

The following describes certain of the investment practices in which one or more of All-Star's Portfolio Managers may engage, each of which may involve certain special risks.

LENDING OF PORTFOLIO SECURITIES. Although All-Star has not to date engaged in securities lending, consistent with applicable regulatory requirements, All-Star, in order to generate additional income,

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may lend its portfolio securities (principally to broker-dealers) where such loans are callable at any time and are continuously secured by collateral (cash or U.S. Government Securities) equal to not less than the market value, determined daily, of the securities loaned. All-Star would receive amounts equal to the interest on the securities loaned. It will also be paid for having made the loan. Any cash collateral pursuant to these loans would be invested in Short-Term Money Market Instruments. All-Star could be subjected to delays in recovering the loaned securities in the event of default or bankruptcy of the borrower. All-Star will limit such lending to not more than 30% of the value of All-Star's total assets. The Fund may pay fees to its custodian bank or others for administrative services in connection with securities loans.

REPURCHASE AGREEMENTS. All-Star may enter into repurchase agreements with banks or broker-dealer firms whereby such institutions sell U.S. Government Securities or other securities in which it may invest to All-Star and agree at the time of sale to repurchase them at a mutually agreed upon time and price. The resale price is greater than the purchase price, reflecting an agreed-upon interest rate which is effective during the time between the purchase and resale and is not related to the stated interest rate on the purchased securities. All-Star requires the seller of the securities to maintain on deposit with All-Star's custodian bank securities in an amount at all times equal to or in excess of the value of the repurchase agreement. In the event that the seller of the securities defaults on its repurchase obligation or becomes bankrupt, All-Star could receive less than the repurchase price on the sale of the securities to another party or could be subjected to delays in selling the securities. Under normal market conditions, not more than 20% of All-Star's net assets will be invested in Short-Term Money Market Instruments, including repurchase agreements, and not more than 10% of All-Star's net assets will be invested in repurchase agreements maturing in more than seven days.

OPTIONS AND FUTURES STRATEGIES. All-Star may seek to increase the current return of All-Star's portfolio by writing covered call or put options with respect to the types of securities in which All-Star is permitted to invest. Call options written by the Fund give the purchaser the right for a stated period to buy the underlying securities from All-Star at a stated price; put options written by the Fund give the purchaser the right for a stated period to sell the underlying securities to All-Star at a stated price. By writing a call option, All-Star limits its opportunity to profit from any increase in the market value of the underlying security above the exercise price of the option; by writing a put option, All-Star assumes the risk that it may be required to purchase the underlying security at a price in excess of its current market value.

All-Star may purchase put options to protect its portfolio holdings in the underlying security against a decline in market value. It may purchase call options to hedge against an increase in the prices of portfolio securities that it plans to purchase. By purchasing put or call options, All-Star, for the premium paid, acquires the right (but not the obligation) to sell (in the case of a put option) or purchase (in the case of a call option) the underlying security at the option exercise price, regardless of the then current market price.

All-Star may also seek to hedge against declines in the value of securities owned by it or increases in the price of securities it plans to purchase, or to gain or maintain market exposure, through the purchase of stock index futures and related options. For example, All-Star may purchase stock index futures and related options to enable a newly appointed Portfolio Manager to gain immediate exposure to underlying securities markets pending the investment of the portion of All-Star portfolio assigned to it. A stock index future is an agreement in which one party agrees to deliver to the other an amount of cash equal to a specific dollar amount times the difference between the value of the specific stock index at the close of the last trading day of the contract and the price at which the agreement is made.

Expenses and losses incurred as a result of the hedging strategies described above will reduce All-Star's current return.

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Transactions in options and futures contracts may not achieve the intended goals of protecting portfolio holdings against market declines or gaining or maintaining market exposure, as applicable, to the extent that there is an imperfect correlation between the price movements of the options and futures contracts and those of the securities to be hedged. In addition, if a Portfolio Manager's prediction on stock market movements is inaccurate, All-Star may be worse off than if it had not engaged in such options or futures transactions.

See the Statement of Additional Information for additional information concerning options and futures transactions and the risk thereof.

RISKS

As an investment company that holds common stocks, All-Star's portfolio is subject to the possibility that common stock prices will decline over short or even extended periods. All-Star may remain substantially fully invested during periods when stock prices generally rise and also during periods when they generally decline. In addition, All-Star's portfolio is subject to the risks associated with growth stocks. Growth stock prices may be more sensitive to changes in current or expected earnings than the prices of other stocks, and growth stocks may not perform as well as value stocks or the stock market in general. Risks are inherent in investments in equities, and Fund shareholders should be able to tolerate significant fluctuations in the value of their investment in All-Star. All-Star is intended to be a long-term investment vehicle and is not designed to provide investors with a means of speculating on short-term stock market movements. Investors should not consider the Fund a complete investment program.

In addition to the foregoing investment risks, shares of closed-end investment companies such as All-Star are not redeemable and frequently trade at a discount from their net asset value. This risk is separate and distinct from the risk that All-Star's net asset value may decline. See "Share Price Data" for information about the market price and net asset value of All-Star's Shares since January 1, 2000.

REDUCING INVESTMENT RISK

As a matter of fundamental policy, All-Star will not (i), as to 75% of its total assets, purchase the securities (other than U.S. Government Securities) of any one issuer if after such purchase more than 5% of its assets would be invested in the securities of that issuer, (ii) purchase more than 10% of the outstanding voting securities of such issuer, (iii) invest 25% or more of its total assets in the securities of issuers in the same industry, or (iv) invest more than 10% of its total assets in securities that at the time of purchase have legal or contractual restrictions on resale (including unregistered securities that are eligible for resale to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933). See "Investment Restrictions" in the Statement of Additional Information.

MANAGEMENT OF ALL-STAR

The management of All-Star's business and affairs is the responsibility of its Board of Trustees.

All-Star has a Fund Management Agreement with LAMCO pursuant to which LAMCO provides the Portfolio Manager selection, evaluation, monitoring and rebalancing services ("investment management services") described above under "The Multi-Manager Concept." No single individual at LAMCO is responsible for LAMCO's decisions with respect to the retention or replacement of the Portfolio Managers.

LAMCO is also responsible for the provision of administrative services to All-Star, including the provision of office space, shareholder and broker-dealer communications, compensation of officers of All-Star who are officers or employees of LAMCO or its affiliates, and the supervision of transfer

agency, dividend disbursing, custodial and other services provided to others. Certain of LAMCO's administrative responsibilities have been delegated to Colonial.

LAMCO has its offices at One Financial Center, Boston, Massachusetts 02111. LAMCO was organized in 1985 and is a wholly owned subsidiary of Columbia Management Group, Inc., which in turn is an indirect wholly owned subsidiary of FleetBoston Financial Corporation, a U.S. financial holding company.

Under All-Star's Portfolio Management Agreements with each of its Portfolio Managers and LAMCO, each Portfolio Manager has discretionary authority (including for the selection of brokers and dealers for the execution of All-Star's portfolio transactions) with respect to the portion of All-Star's assets allocated to it by LAMCO from time to time, subject to All-Star's investment objective and policies, to the supervision and control of the Trustees, and to instructions from LAMCO. As described under the section entitled "The Multi-Manager Concept", LAMCO from time to time reallocates All-Star's portfolio assets in order to maintain an approximately equal allocation among the Portfolio Managers and to preserve an approximately equal weighting among the different investment styles practiced by the Portfolio Managers. Although the Portfolio Managers' activities are subject to general oversight by LAMCO and the Trustees and officers of All-Star, neither LAMCO nor such Trustees and officers evaluate the investment merits of the Portfolio Managers' selections of individual securities. See Appendix A for a description of the Portfolio Managers.

Although All-Star does not permit a Portfolio Manager to act or have a broker-dealer affiliate act as broker for Fund portfolio transactions initiated by it, All-Star's Portfolio Managers are permitted to place portfolio transactions initiated by them with another Portfolio Manager or its broker-dealer affiliate or with a broker-dealer affiliate of LAMCO for execution on an agency basis, provided the commission does not exceed the usual and customary broker's commission being paid to other brokers for comparable transactions and is otherwise in accordance with All-Star's procedures adopted under Rule 17e-1 under the 1940 Act.

Under All-Star's Fund Management Agreement with LAMCO and its Portfolio Management Agreements with the Portfolio Managers, All-Star pays LAMCO a fund management fee and an administrative fee, and LAMCO in turn pays the fees of the Portfolio Managers from the fund management fees paid to it. The annual fees that are paid under the current agreements are shown below (fees are payable monthly based on the indicated percentage of the Fund's average weekly net assets during the prior month).

AVERAGE WEEKLY NET ASSET VALUE	FUND MANAGEMENT FEE PAID TO LAMCO AND PORTFOLIO MANAGEMENT FEE PAID TO PORTFOLIO MANAGERS	ADMINISTRATIVE FEE PAID TO LAMCO	TOTAL FEES
First $400 million...	0.800% (0.400% to Portfolio Managers)	0.200%	1.00%
Next $400 million....	0.720% (0.360% to Portfolio Managers)	0.180%	0.90%
Next $400 million....	0.648% (0.324% to Portfolio Managers)	0.162%	0.81%
Over $1.2 billion....	0.584% (0.292% to Portfolio Managers)	0.146%	0.73%

Colonial provides pricing and bookkeeping services to All-Star for an annual fee of $10,000 per year plus a fee based on the Fund's average net assets for any month that such assets are over $50 million. The fee shall be calculated as follows: $190,000 divided by the sum of the Fund's average monthly net assets plus the average monthly net assets of Liberty All-Star Growth Fund, Inc. The Fund also reimburses Colonial for its out-of-pocket expenses, including fees payable to third parties for pricing services.

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CUSTODIAN AND TRANSFER AGENT

State Street Bank and Trust Company, 225 Franklin Street, Boston, Massachusetts 02110, is All-Star's custodian. EquiServe Trust Company, N.A., 150 Royall Street, Canton, Massachusetts 02021, is the transfer and dividend disbursing agent and registrar for All-Star.

EXPENSES OF THE FUND

LAMCO provides the Portfolio Manager selection, evaluation, monitoring and rebalancing services and assumes responsibility for the administrative services described above, pays the compensation of and furnishes office space for the officers of All-Star who are affiliated with LAMCO, and pays the management fees of the Portfolio Managers. All-Star pays all its expenses, other than those expressly assumed by LAMCO. The expenses payable by All-Star include: fees of the Manager; expenses of all audits by independent public accountants; expenses of transfer agent, registrar, dividend disbursing agent and shareholder record keeping services (including reasonable fees and expenses payable to the Manager for such services); expenses of custodial services including fund accounting and record keeping services provided by the Custodian; expenses of obtaining quotations for calculating the value of the Fund's net assets; salaries and other compensation of any of its executive officers and employees who are not officers, directors, stockholders or employees of the Manager or any of its affiliates; taxes levied against the Fund and the expenses of preparing tax returns and reports; brokerage fees and commissions in connection with the purchase and sale of portfolio securities for the Fund; organizational and offering expenses; costs, including the interest expense, of borrowing money; costs and/or fees incident to Trustee and shareholder meetings of the Fund, the preparation and mailings of proxy material, prospectuses and the reports of the Fund to its shareholders, the filing of reports with regulatory bodies, the maintenance of the Fund's legal existence, membership dues and fees of investment company trade associations, the listing (and maintenance of such listing) of the Fund's shares on stock exchanges, and the registration of shares with federal and state securities authorities; legal fees and expenses (including reasonable legal fees for legal services rendered by the Manager or its affiliates), including the legal fees related to the registration and continued qualification of the Fund's shares for sale; costs of printing stock certificates representing shares of the Fund; Trustees' fees and expenses of Trustees who are not directors, officers, employees or stockholders of the Manager or any of its affiliates; its pro rata portion of the fidelity bond required by Section 17(g) of the 1940 Act, or other insurance premiums; and fees payable to federal and state authorities in connection with the registration of the Fund's shares.

DESCRIPTION OF SHARES

GENERAL

All-Star's authorized capitalization consists of an unlimited number of Shares of beneficial interest, without par value, of which 106,885,060 Shares were issued and outstanding on the date of this Prospectus. The currently outstanding Shares are, and the Shares offered hereby when issued and paid for pursuant to the terms of the Offer will be, fully paid and non-assessable. Shareholders would be entitled to share pro rata in the net assets of All-Star available for distribution to Shareholders upon liquidation of All-Star.

Shareholders are entitled to one vote for each Share held. All-Star's Shares do not have cumulative voting rights, which means that the holders of more than 50% of the Shares of All-Star voting for the election of Trustees can elect all the Trustees standing for election, and, in such event, the holders of the remaining Shares will not be able to elect any of such Trustees.

REPURCHASE OF SHARES

All-Star is a closed-end investment company and as such its Shareholders do not have the right to cause All-Star to redeem their All-Star Shares. All-Star, however, is authorized to repurchase its Shares on the open market when its Shares are trading at a discount from their net asset value. All-Star has no current plans to repurchase its Shares.

ANTI-TAKEOVER PROVISIONS OF THE DECLARATION OF TRUST; SUPER-MAJORITY VOTE REQUIREMENT FOR CONVERSION TO OPEN-END STATUS

All-Star's Declaration of Trust contains provisions (commonly referred to as "anti-takeover" provisions) which are intended to have the effect of limiting the ability of other entities or persons to acquire control of All-Star, to cause it to engage in certain transactions, or to modify its structure. The Board of Trustees is divided into three classes, each having a term of three years. On the date of the annual meeting of shareholders in each year the term of one class expires. This provision could delay for up to three years the replacement of a majority of the Board of Trustees. The affirmative vote of 75% of the Shares will be required to authorize All-Star's conversion from a closed-end to an open-end investment company, unless such conversion is recommended by All-Star's Board of Trustees, in which event such conversion would only require the majority vote of All-Star's Shareholders (as defined under "Investment Objective, Policies and Risks" above).

In addition, the affirmative vote of the holders of 75% of the Shares of the Fund will be required generally to authorize any of the following transactions:

(i) All-Star's merger or consolidation with or into any other corporation;

(ii) the issuance of any securities of All-Star to any person or entity for cash;

(iii) the sale, lease or exchange of all or any substantial part of All-Star's assets to any entity or person (except assets having an aggregate fair market value of less than $1,000,000); or

(iv) the sale, lease or exchange to All-Star, in exchange for securities of All-Star, of any assets of any entity or person (except assets having an aggregate fair market value of less than $1,000,000);

if such corporation, person or entity is directly, or indirectly through affiliates, the beneficial owner of five percent or more of the outstanding Shares of All-Star. (A 66 2/3% vote would otherwise be required for a merger or consolidation or a sale, lease or exchange of all or substantially all of All-Star's assets unless recommended by the Trustees, in which case only a majority vote would be required). However, such 75% vote will not be required with respect to the transactions listed in (i) through (iv) above where the Board of Trustees under certain conditions approves the transaction. However, depending upon the transaction, a different Shareholder vote may nevertheless be required under Massachusetts law.

The foregoing super-majority vote requirements may not be amended except with a similar supermajority vote of the Shareholders.

These provisions will make more difficult a change in All-Star's structure or management or consummation of the foregoing transactions without the Trustees' approval. The anti-takeover provisions could have the effect of depriving Shareholders of an opportunity to sell their Shares at a premium over prevailing market prices by discouraging a third party from seeking to obtain control of All-Star in a tender offer or similar transaction. However, the Board of Trustees continues to believe that the anti-takeover provisions are in the best interests of All-Star and its Shareholders because they provide the advantage of potentially requiring persons seeking control of All-Star to negotiate with its management regarding the price to be paid and facilitating the continuity of All-Star's management and its continuing application of the multi-manager concept.

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The Board also believes that the super-majority vote requirement for conversion to an open-end investment company is in the best interest of All-Star and its shareholders because it will allow All-Star to continue to benefit from the advantages of its closed-end structure until such time that, based on relevant factors including the then current relationship of the market price of All-Star's Shares to their net asset value, the Board determines to recommend to Shareholders All-Star's conversion to an open-end investment company.

In accordance with the Declaration of Trust, the question of conversion to an open-end investment company was submitted to the vote of Shareholders at All-Star's 1993 annual meeting held on April 6, 1993, such conversion then requiring only the affirmative vote of a majority of All-Star's Shares (as defined in the 1940 Act). In accordance with the Trustees' recommendation, Shareholders, by substantial majorities, rejected the conversion proposal and approved an amendment to All-Star's Declaration of Trust instituting the 75% super-majority vote referred to above for any future conversion to open-end status.

DISTRIBUTIONS; AUTOMATIC DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN

10% DISTRIBUTION POLICY

All-Star's current distribution policy is to pay distributions on its Shares totaling approximately 10% of its net asset value per year, payable in four quarterly distributions of 2.5% of its net asset value at the close of the NYSE on the Friday prior to each quarterly declaration date. These fixed distributions, which are not related to All-Star's net investment income or net realized capital gains or losses, will be treated as ordinary dividend income up to the amount of All-Star's current and accumulated earnings and profits. If, for any calendar year, the total distributions made under the 10% pay-out policy exceed All-Star's net investment income and net realized capital gains, the excess will be treated as a tax-free return of capital to each Shareholder (up to the amount of the shareholder's basis in his or her Shares) and thereafter as gain from the sale of Shares. The amount treated as a tax-free return of capital will reduce the shareholder's adjusted basis in his or her Shares, thereby increasing his or her potential gain or reducing his or her potential loss on the subsequent sale of his or her Shares. All-Star made distribution from capital in 1987, 1988, 1989, 1990, 1992, 1993 and 1994 (See "Financial Highlights").

To the extent All-Star's 10% payout policy results in distributions in excess of its net investment income and net realized capital gains, such distributions will decrease its total assets and increase its expense ratio to a greater extent than would have been the case without the 10% payout policy. In addition, in order to make distributions under the 10% payout policy, All-Star may have to sell portfolio securities at times when the particular investment styles of its Portfolio Managers would dictate not doing so.

All-Star may, in the discretion of the Board of Trustees, retain for reinvestment, and not distribute, net capital gain for any year to the extent that its net investment income and net realized gains exceed the minimum amount required to be distributed for such year under the 10% pay-out policy, although All-Star reserves the right to distribute such excess. Retained net capital gain will be taxed to both All-Star and the Shareholders as long-term capital gains; however, each shareholder will be able to claim a proportionate share of the federal income tax paid by All-Star as a credit against his or her own federal income tax liability and will be entitled to increase the adjusted tax basis in his or her Shares by the difference between the amount taxed and the credit.

All-Star may pay all or a substantial portion of its distributions in each year in the form of newly issued Shares (plus cash in lieu of any fractional Shares that would otherwise be issuable) to all shareholders except those non-participants in the Plan who specifically elect to receive their distribution in cash by completing and signing an option card, a copy of which will be enclosed with the notice of

each such distribution payable in Shares, and returning it on a timely basis to EquiServe Trust Company, N.A., All-Star's transfer agent and dividend paying agent.

The number of Shares to be issued to a Shareholder in payment of a distribution declared payable in Shares will be determined by dividing the total dollar amount of the distribution by the lower of the market value or the net asset value per Share on the valuation date for the distribution (but not at a discount of more than 5% from the market value). Market value per Share for this purpose will be the last sales price on the NYSE on the valuation date or, if there are no sales on that day, the mean between the closing bid and closing asked quotations for that date.

AUTOMATIC DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN

Under All-Star's Automatic Dividend Reinvestment and Cash Purchase Plan (the "Plan"), shareholders whose shares are registered in their own name may elect to participate in the Plan and have all distributions automatically reinvested by EquiServe Trust Company, as agent for participants in the Plan (the "Plan Agent"), in additional Shares of All-Star. Shareholders who do not elect to participate in the Plan will receive all distributions (other than those declared payable in Shares as described above) in cash.

Under the Plan, distributions declared payable in Shares or cash at the option of shareholders are paid to participants in the Plan entirely in newly issued full and fractional Shares valued at the lower of the market value or the net asset value per Share on the valuation date for the distribution (but not a discount of more than 5% from the then current market value). Distributions declared payable in cash will be reinvested for the accounts of participants in the Plan in additional Shares purchased by the Plan Agent on the open market (if the Fund's Shares are trading at a discount to their net asset value) or in newly issued Shares (if the Fund's Shares are trading at or above their net asset value). Dividends and distributions are subject to taxation, whether received in cash or in Shares (see "Tax Status" below).

Participants in the Plan have the option of making additional cash payments in any amount on a monthly basis for investment in All-Star Shares purchased on the open market. These voluntary cash payments will be invested on or about the 15th day of each calendar month, and voluntary payments should be sent so as to be received by the Plan Agent no later than ten business days before the next investment date. Barring suspension of trading, voluntary cash payments will be invested within 45 days of receipt. A participant may withdraw a voluntary cash payment by written notice received by the Plan Agent at least 48 hours before such payment is to be invested.

The Plan Agent maintains all shareholder accounts in the Plan and furnishes written confirmations of all transactions in the account, including information needed by shareholders for tax records. Shares in the account of each Plan participant will be held by the Plan Agent in non-certificated form in the name of the participant, and each shareholder's proxy will include those Shares purchased or received pursuant to the Plan.

In the case of Shareholders such as banks, brokers or nominees that hold Shares for others who are the beneficial owners, the Plan Agent will administer the Plan on the basis of the number of Shares certified from time to time by the record shareholder as representing the total amount registered in the record shareholder's name and held for the account of beneficial owners who participate in the Plan.

There is no charge to participants for reinvesting distributions payable in either Shares or cash. The Plan Agent's fees for handling the reinvestment of such distributions are paid by All-Star. There are no brokerage charges with respect to Shares issued directly by All-Star as a result of distributions payable in Shares or in cash. However, each participant bears a pro rata share of brokerage commissions incurred whenever the Plan Agent makes open market purchases.

With respect to purchases from voluntary cash payments, the Plan Agent will charge $1.25 for each such purchase for a participant, plus a pro rata share of the brokerage commissions. Brokerage charges for purchasing amounts of Shares for individual accounts through the Plan are expected to be less than the usual brokerage charges for such transactions, as the Plan Agent will be purchasing Shares for all participants in blocks and prorating the lower commission thus attainable.

The automatic reinvestment of dividends and other distributions will not relieve plan participants of any income tax that may be payable thereon. See "Tax Status" below.

Either Liberty All-Star Equity Fund or the Plan Agent may amend or terminate the Plan. Participants will receive written notice at least 90 days before the effective date of any amendment. In the case of termination, participants will receive written notice of termination at least 90 days before the record date of any dividend or distribution by the Fund.

Shareholders must affirmatively elect to participate in the Plan, and may do so by completing an application and filing it with the Plan Agent. Shareholders may call or write the Plan Agent, EquiServe Trust Company N.A., P.O. Box 43011, Providence, R.I. 02940-3011 (800-542-3863) for information about the Plan.

Shareholders who own shares in their own name can participate directly in the Plan. Shareholders whose shares are held in the name of a brokerage firm, bank or other nominee should instruct the nominee to participate on their behalf.

A Shareholder who wishes to participate in the Plan, but whose brokerage firm, bank or other nominee is unable to participate on the Shareholder's behalf, should request the nominee to re-register the shares in the shareholder's name which will enable the shareholder to participate in the Plan.

A participant may elect to withdraw from the Plan at any time by notifying the Plan Agent in writing. There will be no penalty for withdrawal from the Plan and Shareholders who have previously withdrawn from the Plan may rejoin it at any time. A withdrawal will only be effective for subsequent distributions with a record date at least ten days after the notice of withdrawal is received by the Plan Agent.

TAX STATUS

The following discussion briefly summarizes the general rules applicable to taxation of All-Star and its shareholders. Shareholders are urged to consult with their own tax advisers concerning the tax consequences of their continued investment in All-Star and of their receipt and exercise of the Rights.

All-Star has elected to be, and intends to continue to qualify each year for federal income tax treatment as a regulated investment company under the Code, and intends to make distributions to the Shareholders in accordance with the timing requirements set out in the Code. As a result, it is expected that All-Star will be relieved of federal income tax on its net investment income and net realized capital gains to the extent it distributes them to its Shareholders. (See "Distributions; Automatic Dividend Reinvestment and Cash Purchase Plan--10% Distribution Policy" regarding All-Star's authority to retain and pay taxes on, and not distribute, net capital gain). All-Star also expects to make sufficient annual distributions to avoid being subject to a nondeductible 4% federal excise tax imposed on regulated investment companies. If All-Star fails to qualify as a regulated investment company in any year, it would incur federal corporate income tax on its taxable income and its distributions would be taxable as ordinary dividend income to the Shareholders to the extent of its net investment income and net capital gain. In addition, All-Star could be required to recognize unrealized gains, pay substantial taxes and interest and make substantial distributions before requalifying for treatment as a regulated investment company.

Distributions by All-Star from net investment income and net realized capital gains will be taxable to Shareholders whether received by shareholders in cash or in Shares of All-Star. Shareholders receiving a dividend or other distribution in the form of newly issued Shares will be treated for federal income tax purposes as receiving a distribution in an amount equal to the fair market value, determined as of the distribution date, of the Shares received. Such Shareholders will have a cost basis in each newly issued Share equal to the fair market value of a Share of All-Star on the distribution date. Distributions are generally taken into account for tax purposes when paid, except that distributions paid in January but declared in the last quarter of the preceding calendar year must be taken into account as if paid on December 31 of such preceding calendar year. A portion of All-Star's net investment income paid to corporate shareholders that is attributable to dividends from domestic corporations may be eligible for the 70% dividends-received deduction available to corporations. Availability of the deduction for particular corporate shareholders is subject to certain limitations, and deducted amounts may be subject to the alternative minimum tax or result in certain basis adjustments. Distributions from net capital gain are taxable as long-term capital gains, regardless of how long the Shareholder has held the Shares, and are not eligible for the dividends-received deduction. Net capital gain is taxable, in the case of a noncorporate shareholder, at a maximum rate of 20%. As All-Star may elect, net capital gain not distributed by All-Star will also be taxable to Shareholders, but Shareholders will be able to claim a tax credit for the tax paid by All-Star with respect to such undistributed capital gain.

In general, any gain or loss realized upon a taxable disposition of Shares by a shareholder who holds such Shares as a capital asset will be treated as a long-term capital gain or loss if the Shares have been held for more than twelve months and otherwise as a short-term capital gain or loss. However, if a shareholder holds Shares of All-Star for six months or less, any loss on the sale of the Shares will be treated as a long-term capital loss to the extent of any amount reportable by the Shareholder as long-term capital gain with respect to such Shares. Any loss realized on a disposition of Shares may also be disallowed under rules relating to wash sales.

At the time of an investor's purchase of All-Star Shares, All-Star's net asset value may reflect undistributed net investment income or capital gains or net unrealized appreciation of securities it holds. As of December 31, 2001, All-Star's investments had net unrealized gains of $98,462,182. Realization and a subsequent distribution to a shareholder of such amount, although it may in effect constitute a return of his or her investment, would be taxable to the shareholder as ordinary income or capital gain, as described above. For federal income tax purposes, All-Star is permitted to carry forward to another taxable year its net realized capital losses, if any, from earlier taxable years and thus may realize net capital gains in the later year up to the amount of such losses without being required to pay taxes on or to distribute such gains. As of December 31, 2001, the end of its last completed fiscal year, All-Star had no capital loss carryovers.

Individuals and certain other non-corporate All-Star Shareholders may be subject to withholding tax on reportable dividends and capital gain distributions and contain other payments at the rate in effect at the time of distribution (currently 30%) ("back-up withholding"). Generally, Shareholders subject to back-up withholding will be those for whom a taxpayer identification number and certain required certificates are not on file with All-Star or who, to All-Star's knowledge, have furnished an incorrect number. In addition, All-Star is required to withhold from distributions to any Shareholder who does not certify to All-Star that the Shareholder is not subject to back-up withholding due to notification by the Internal Revenue Service that the shareholder has under-reported interest or dividend income.

Distributions from net investment income paid to Shareholders who are non-resident aliens or foreign entities may be subject to withholding of federal income tax (but not, in such event, subject to back-up withholding) at the rate of 30% unless a reduced rate of withholding or a withholding

exemption is provided under an applicable treaty. Non-U.S. shareholders are urged to consult their own tax advisers concerning the applicability of the withholding tax.

Information concerning the federal income tax status of All-Star dividends and other distributions is mailed to shareholders annually.

Distributions and the transactions referred to in the preceding paragraphs may be subject to state and local income taxes, and the treatment thereof may differ from the federal income tax consequences discussed herein. Shareholders are advised to consult with their tax advisers concerning the application of state and local taxes.

See "The Offer--Federal Income Tax Consequences" for a discussion of the federal income tax consequences regarding the Rights.

GENERAL

All-Star was organized on August 20, 1986 as a "Massachusetts business trust" and commenced investment operations on November 3, 1986. Under Massachusetts law, shareholders of such a trust may, under certain circumstances, be held personally liable as partners for its obligations. However, All-Star's Declaration of Trust contains an express disclaimer of Shareholder liability for the acts or obligations of All-Star and provides for indemnification and reimbursement of expenses out of All-Star's property for any shareholder held personally liable for the obligations of All-Star. Thus, the risk of a Shareholder incurring financial loss on account of an All-Star liability is limited to circumstances in which both inadequate insurance existed and All-Star itself were unable to meet its obligations from the liquidation of its portfolio investments.

LAMCO is a direct wholly owned subsidiary of Columbia Management Group, Inc., an indirect wholly owned subsidiary of FleetBoston Financial Corporation.

Under the Fund Management Agreement between All-Star and LAMCO, All-Star may use the name "Liberty All-Star" only so long as the Fund Management Agreement remains in effect. If the Fund Management Agreement is no longer in effect, All-Star is obligated (to the extent it lawfully can) to cease using such name or any other name indicating that it is advised by or otherwise connected with LAMCO. In addition, LAMCO may grant the non-exclusive right to use the name "Liberty All-Star" to any other entity, including any other investment company of which LAMCO or any of its affiliates is the investment adviser or distributor.

STATEMENT OF ADDITIONAL INFORMATION

Additional information about the Fund is contained in the Statement of Additional Information, a copy of which is available at n-left:15px; text-indent:-15px">

Assumptions:

Risk-free interest rate
4.58% 4.10%
Expected dividend yield
5.58% 6.31%
Expected volatility
20.15% 19.00%
Weighted average expected life of options
6.5 years 5.0 years

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

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

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

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

	Nine Months Ended September 30, 2006	
	Shares (thousands)	**Weighted Average Grant-Date Fair Value**
Unvested at January 1, 2006	882	$ 35.08
Granted	565	43.92
Vested	(223)	35.11
Forfeited	(158)	35.32
Unvested at September 30, 2006	1,066	$ 39.73

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

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

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

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

Tax Credit Arrangements

We sponsor certain partnerships that own and operate apartment properties that qualify for tax credits under Section 42 of the Internal Revenue Code and HUD subsidized rents under the Section 8 program. These partnerships acquire, develop and operate qualifying affordable housing properties and are structured to provide for the pass-through of tax credits and deductions to their partners. The tax credits are generally realized ratably over the first ten years of the tax credit arrangement and are subject to the partnership s compliance with applicable laws and regulations for a period of 15 years. Typically, we are the general partner with a legal ownership interest of one percent or less. We market limited partner interests of at least 99 percent to unaffiliated institutional investors (tax credit investors or investors) and receive a syndication fee from each investor upon such investor s admission to the partnership. At inception, each investor agrees to fund capital contributions to the partnerships. We agree to perform various services to the partnerships in exchange for fees over the expected duration of the tax credit service period. The related partnership agreements generally require adjustment of each tax credit investor s required capital contributions if actual tax benefits to such investor differ from projected amounts.

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

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

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

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

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

Use of Estimates

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

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

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

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

Note 3 Commitments and Contingencies

Commitments

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

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

Tax Credit Arrangements

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

Legal Matters

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

Limited Partnerships

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

Environmental

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

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

Mold

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

Unclaimed Property and Use Taxes

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

Insurance Litigation

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

FLSA Litigation

The Aimco Operating Partnership and NHP Management Company (NHPMN), our subsidiary, are defendants in a lawsuit alleging that they willfully violated the Fair Labor Standards Act (FLSA) by failing to pay maintenance workers overtime for time worked in excess of 40 hours per week. The complaint, filed in the United States District Court for the District of Columbia, attempts to bring a collective action under the FLSA and seeks to certify state subclasses in California, Maryland, and the District of Columbia. Specifically, the plaintiffs contend that the Aimco Operating Partnership and NHPMN failed to compensate maintenance workers for time that they were required to be on-call. Additionally, the complaint alleges the Aimco Operating Partnership and NHPMN failed to comply with the FLSA in compensating maintenance workers for time that they worked in excess of 40 hours in a week. In June 2005, the court conditionally certified the collective action on both the on-call and overtime issues. Approximately 1,049 individuals opted-in to the class. The Aimco Operating Partnership and NHPMN moved to decertify the collective action on both issues and the plaintiffs have responded. Because the court denied plaintiffs motion to certify state subclasses, on September 26, 2005, the plaintiffs filed a class action with the same allegations in the Superior Court of California (Contra Costa County), and on November 5, 2005, in Montgomery County Maryland Circuit Court. The California and Maryland cases have been stayed pending the resolution of the decertification motion in the District of Columbia case. Although the outcome of any litigation is uncertain, we do not believe that the ultimate outcome will have a material adverse effect on our consolidated financial condition or results of operations.

Note 4 Stockholders Equity

Preferred Stock

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

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

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

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

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

Common Stock

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

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

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

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

Note 5 Discontinued Operations and Assets Held for Sale

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

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

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

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

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

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

Note 6 Earnings per Share

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

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

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

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

Note 7 Business Segments

We have two reportable segments: real estate (owning and operating apartments) and investment management business (providing property management and other services relating to the apartment business, primarily to affiliates). We own and operate properties throughout the United States and Puerto Rico that generate rental and other property-related income through the leasing of apartment units to a diverse base of residents. We separately evaluate the performance of each of our properties. However, because each of our properties has similar economic characteristics, the properties have been aggregated into a single real estate segment. All real estate revenues are from external customers and no real estate revenues are generated from transactions with other segments. No single resident or related group of residents contributed 10% or more of total revenues during the three and nine months ended September 30, 2006 or 2005. Portions of the gross revenues earned in the investment management business are from transactions with affiliates in the real estate segment.

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

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

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

	September 30,	**December 31,**

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

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

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Note 8 Recent Accounting Developments

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

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

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

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

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

Executive Overview

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

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

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

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

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

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Results of Operations

Overview

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

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

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

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

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

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

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

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

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

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Rental Property Operations

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

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

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

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

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

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

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Conventional Consolidated Same Store Property Operating Results

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

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

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

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

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

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

Property Management

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

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

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

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

Activity Fees and Asset Management

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

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

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

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

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

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

Depreciation and Amortization

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

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

General and Administrative Expenses

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

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

Other Expenses (Income), Net

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

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

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

Interest Income

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

For the three months ended September 30, 2006, compared to the three months ended September 30, 2005, interest income increased $0.3 million, or 4.1%. For the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, interest income decreased $1.8 million, or 8.1%. These net changes reflect increases resulting from interest income on cash balances maintained by newly consolidated properties, higher balances of notes receivable

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

Interest Expense

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

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

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

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

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

Minority Interest in Consolidated Real Estate Partnerships

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

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

For the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, the net favorable effect of minority interests changed unfavorably by $25.4 million. This increase is primarily attributable to our recognition of $17.5 million for minority partners share of losses of partnerships with deficits in equity as a result of adopting EITF 04-5 in 2006. The change also reflects (i) the reversal in 2006 of a previously recognized benefit of $9.0 million for losses of tax credit partnerships that were allocated to minority interests in prior years, but which are absorbed by us under our revised accounting treatment of tax credit arrangements and (ii) a $4.7 million benefit recognized in 2005 for losses allocated to minority interests in tax credit partnerships, while no comparable amount was recognized in 2006 under our revised accounting treatment. These unfavorable changes were partially offset by a $5.8 million net increase in the minority interest share of other real estate partnership losses.

Income from Discontinued Operations, Net

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

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

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

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

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

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Critical Accounting Policies and Estimates

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

Impairment of Long-Lived Assets

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

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

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

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

Notes Receivable and Interest Income Recognition

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

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

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

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

Allowance for Losses on Notes Receivable

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

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

Capitalized Costs

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

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

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Funds From Operations

Funds From Operations, or FFO, is a non-GAAP financial measure that we believe, when considered with the financial statements determined in accordance with GAAP, is helpful to investors in understanding our performance because it captures features particular to real estate performance by recognizing that real estate generally appreciates over time or maintains residual value to a much greater extent than do other depreciable assets such as machinery, computers or other personal property. The Board of Governors of the National Association of Real Estate Investment Trusts, or NAREIT, defines FFO as net income (loss), computed in accordance with GAAP, excluding gains from sales of depreciable property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. Adjustments for unconsolidated partnerships and joint ventures are calculated to reflect FFO on the same basis. We compute FFO for all periods presented in accordance with the guidance set forth by NAREIT s April 1, 2002 White Paper, which we refer to as the White Paper. We calculate FFO (diluted) by subtracting redemption related preferred stock issuance costs and dividends on preferred stock and adding back dividends/distributions on dilutive preferred securities. FFO should not be considered an alternative to net income or net cash flows from operating activities, as determined in accordance with GAAP, as an indication of our performance or as a measure of liquidity. FFO is not necessarily indicative of cash available to fund future cash needs. In addition, although FFO is a measure used for comparability in assessing the performance of real estate investment trusts, there can be no assurance that our basis for computing FFO is comparable with that of other real estate investment trusts.

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

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

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

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Notes:

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

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

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

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

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

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

Liquidity and Capital Resources

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

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

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

Operating Activities

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

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Investing Activities

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

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

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

Capital Expenditures

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

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

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

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

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

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

Financing Activities

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

Mortgage Debt

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

Revolving Credit Facility and Term Loans

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

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

Equity Transactions

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

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

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

Future Capital Needs

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

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ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

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

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

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

ITEM 4. Controls and Procedures

Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. Based on such evaluation, our chief executive officer and chief financial officer have concluded that, as of the end of such period, our disclosure controls and procedures are adequate.

Changes in Internal Control over Financial Reporting

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

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PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

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

ITEM 1A. Risk Factors

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

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

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

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

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

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

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

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

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ITEM 6. Exhibits

The following exhibits are filed with this report:

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

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APARTMENT INVESTMENT AND MANAGEMENT COMPANY
SIGNATURES

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

APARTMENT INVESTMENT AND
MANAGEMENT COMPANY

By: /s/ THOMAS M. HERZOG

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

By: /s/ ROBERT Y. WALKER, IV

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

Date: November 6, 2006

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