EQUITY LIFESTYLE PROPERTIES INC
Form 10-Q
May 10, 2007

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2007

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Commission File Number: 1-11718
EQUITY LIFESTYLE PROPERTIES, INC.
(Exact name of registrant as specified in its Charter)

Maryland	**36-3857664**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
Two North Riverside Plaza, Suite 800, Chicago, Illinois	**60606**
(Address of principal executive offices)	(Zip Code)

(312) 279-1400
(Registrant s telephone number, including area code)

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

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

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date:

24,316,624 shares of Common Stock as of May 7, 2007.

Equity LifeStyle Properties, Inc.
Table of Contents
Part I Financial Information

Item 1. Financial Statements
Index To Financial Statements

Table of Contents

Equity LifeStyle Properties, Inc.
Consolidated Balance Sheets
As of March 31, 2007 and December 31, 2006
(amounts in thousands)

	March 31, 2007 (unaudited)	December 31, 2006
Assets		
Investment in real estate:		
Land	$ 531,841	$ 531,302
Land improvements	1,670,098	1,664,964
Buildings and other depreciable property	143,961	141,194
	2,345,900	2,337,460
Accumulated depreciation	(451,302)	(435,809)
Net investment in real estate	1,894,598	1,901,651
Cash and cash equivalents		1,605
Notes receivable	15,083	22,045
Investment in joint ventures	14,831	14,718
Rents receivable, net	1,390	1,294
Deferred financing costs, net	14,003	14,799
Inventory	71,703	70,091
Escrow deposits and other assets	32,557	29,628
Total Assets	$ 2,044,165	$ 2,055,831
Liabilities and Stockholders Equity		
Liabilities:		
Mortgage notes payable	$ 1,586,329	$ 1,586,012
Unsecured lines of credit	96,400	131,200
Accrued payroll and other operating expenses	32,275	30,936
Accrued interest payable	9,248	9,066
Rents received in advance and security deposits	36,511	36,454
Distributions payable	4,485	2,251
Total Liabilities	1,765,248	1,795,919
Commitments and contingencies		
Minority interest Common OP Units and other	15,913	12,794
Minority interest Perpetual Preferred OP Units	200,000	200,000
Stockholders Equity:		
Preferred stock, $.01 par value 10,000,000 shares authorized; none issued		

Common stock, $.01 par value 50,000,000 shares authorized; 24,310,907 and 23,928,652 shares issued and outstanding for March 31, 2007 and December 31, 2006, respectively	235	229
Paid-in capital	307,849	304,483
Distributions in excess of accumulated earnings	(245,080)	(257,594)
Total stockholders equity	63,004	47,118
Total Liabilities and Stockholders Equity	$ 2,044,165	$ 2,055,831

The accompanying notes are an integral part of the financial statements.

3

Table of Contents

Equity LifeStyle Properties, Inc.
Consolidated Statements of Operations
For the Quarters Ended March 31, 2007 and 2006
(amounts in thousands, except per share data)
(unaudited)

	Quarters Ended March 31, 2007	Quarters Ended March 31, 2006
Property Operations:		
Community base rental income	$ 58,799	$ 55,331
Resort base rental income	31,721	26,748
Utility and other income	10,100	8,138
Property operating revenues	100,620	90,217
Property operating and maintenance	31,189	27,634
Real estate taxes	7,358	6,593
Property management	4,658	4,851
Property operating expenses (exclusive of depreciation shown separately below)	43,205	39,078
Income from property operations	57,415	51,139
Home Sales Operations:		
Gross revenues from inventory home sales	9,107	11,932
Cost of inventory home sales	(8,117)	(10,311)
Gross profit from inventory home sales	990	1,621
Brokered resale revenues, net	493	657
Home selling expenses	(2,251)	(2,473)
Ancillary services revenues, net	1,540	1,806
Income from home sales operations and other	772	1,611
Other Income (Expenses):		
Interest income	537	286
Income from other investments, net	4,966	4,503
General and administrative	(3,671)	(3,223)
Rent control initiatives	(436)	(94)
Interest and related amortization	(25,793)	(24,596)
Depreciation on corporate assets	(110)	(110)
Depreciation on real estate assets	(15,624)	(14,353)
Total other expenses, net	(40,131)	(37,587)
Income before minority interests, equity in income of unconsolidated joint ventures and discontinued operations	18,056	15,163

Income allocated to Common OP Units	(2,977)	(2,576)
Income allocated to Perpetual Preferred OP Units	(4,031)	(4,030)
Equity in income of unconsolidated joint ventures	1,319	1,304
Income from continuing operations	12,367	9,861
Discontinued Operations:		
Discontinued operations	120	289
Depreciation on discontinued operations		(21)
Gain on sale of discontinued real estate	4,586	
Income allocated to Common OP Units from discontinued operations	(913)	(56)
Income from discontinued operations	3,793	212
Net income available for Common Shares	$ 16,160	$ 10,073

The accompanying notes are an integral part of the financial statements.

4

Table of Contents

Equity LifeStyle Properties, Inc.
Consolidated Statements of Operations (Continued)
For the Quarters Ended March 31, 2007 and 2006
(amounts in thousands, except per share data)
(unaudited)

	Quarters Ended March 31, 2007	2006
Earnings per Common Share Basic:		
Income from continuing operations	$ 0.52	$ 0.42
Income from discontinued operations	0.16	0.01
Net income available for Common Shares	$ 0.68	$ 0.43
Earnings per Common Share Fully Diluted:		
Income from continuing operations	$ 0.51	$ 0.41
Income from discontinued operations	0.15	0.01
Net income available for Common Shares	$ 0.66	$ 0.42
Distributions declared per Common Share outstanding	$ 0.15	$ 0.075
Weighted average Common Shares outstanding basic	23,910	23,331
Weighted average Common Shares outstanding fully diluted	30,351	30,180

The accompanying notes are an integral part of the financial statements.

5

Table of Contents

Equity LifeStyle Properties, Inc.
Consolidated Statements of Cash Flows
For the Quarters Ended March 31, 2007 and 2006
(amounts in thousands)
(unaudited)

	March 31, 2007	March 31, 2006
Cash Flows From Operating Activities:		
Net income	$ 16,160	$ 10,073
Adjustments to reconcile net income to cash provided by operating activities:		
Income allocated to minority interests	7,921	6,662
Gain on sale of discontinued real estate	(4,586)	
Depreciation expense	16,100	14,930
Amortization expense	727	724
Debt premium amortization	(403)	(364)
Equity in income of unconsolidated joint ventures	(1,685)	(1,751)
Distributions from unconsolidated joint ventures	2,578	1,351
Amortization of stock-related compensation	938	704
Increase (decrease) in provision for uncollectible rents receivable	112	(57)
Increase in provision for inventory reserve	15	
Changes in assets and liabilities:		
Rents receivable	(241)	26
Inventory	(1,627)	(4,778)
Escrow deposits and other assets	1,039	1,217
Accrued payroll and other operating expenses	4,964	3,105
Rents received in advance and security deposits		704
Net cash provided by operating activities	42,012	32,546
Cash Flows From Investing Activities:		
Acquisition of real estate	(1,903)	1,708
Disposition of real estate	7,725	
Tax-deferred exchange deposit	(3,655)	
Joint Ventures:		
Investments in	(1,479)	
Distributions from	114	
Net repayment of notes receivable	6,962	482
Improvements:		
Corporate	(140)	(133)
Rental properties	(3,286)	(3,000)
Site development costs	(2,883)	(5,580)
Net cash provided by (used in) investing activities	1,455	(6,523)
Cash Flows From Financing Activities:		
Net proceeds from stock options and employee stock purchase plan	2,450	1,205
Distributions to Common Stockholders, Common OP Unitholders, and Perpetual Preferred OP Unitholders	(6,334)	(4,773)

Lines of credit:		
Proceeds	16,600	28,300
Repayments	(51,400)	(47,400)
Repayment on disposition	(1,992)	
Principal payments	(4,392)	(3,863)
Debt issuance costs	(4)	(78)
Net cash used in financing activities	(45,072)	(26,609)
Net decrease in cash and cash equivalents	(1,605)	(586)
Cash and cash equivalents, beginning of year	1,605	610
Cash and cash equivalents, end of period	$	$ 24

The accompanying notes are an integral part of the financial statements.

Table of Contents

Equity LifeStyle Properties, Inc.
Consolidated Statements of Cash Flows (continued)
For the Quarters Ended March 31, 2007 and 2006
(amounts in thousands)
(unaudited)

	March 31, 2007	March 31, 2006
Supplemental Information:		
Cash paid during the period for interest	$ 25,884	$ 23,983
Non-cash investing and financing activities:		
Real Estate Acquisition		
Mortgage debt assumed and financed on acquisition of real estate	$ 3,476	$ 72,998
Mezzanine and joint venture investments applied to real estate acquisition	$	$ 32,118
Other assets and liabilities, net, acquired on acquisition of real estate	$ 314	$ 3,917
Financing fees incurred on acquisition	$	$ 691
Proceeds from loan to pay insurance premiums	$ 4,300	$ 3,638

The accompanying notes are an integral part of the financial statements.

EQUITY LIFESTYLE PROPERTIES, INC.
Notes to Consolidated Financial Statements

Definition of Terms:

Equity LifeStyle Properties, Inc., a Maryland corporation, together with MHC Operating Limited Partnership (the Operating Partnership) and other consolidated subsidiaries (Subsidiaries), are referred to herein as the Company, EL we, us, and our. Capitalized terms used but not defined herein are as defined in the Company s Annual Report on For 10-K (2006 Form 10-K) for the year ended December 31, 2006.

Presentation:

These unaudited Consolidated Financial Statements have been prepared pursuant to the Securities and Exchange Commission (SEC) rules and regulations and should be read in conjunction with the financial statements and notes thereto included in the 2006 Form 10-K. The following Notes to Consolidated Financial Statements highlight significant changes to the Notes included in the 2006 Form 10-K and present interim disclosures as required by the SEC. The accompanying Consolidated Financial Statements reflect, in the opinion of management, all adjustments necessary for a fair presentation of the interim financial statements. All such adjustments are of a normal and recurring nature. Revenues are subject to seasonal fluctuations and as such quarterly interim results may not be indicative of full fiscal year results.

Note 1 Summary of Significant Accounting Policies

(a) Basis of Consolidation

The Company consolidates its majority-owned subsidiaries in which it has the ability to control the operations of the subsidiaries and all variable interest entities with respect to which the Company is the primary beneficiary. The Company also consolidates entities in which it has a controlling direct or indirect voting interest. All inter-company transactions have been eliminated in consolidation. The Company s acquisitions were all accounted for as purchases in accordance with Statement of Financial Accounting Standards No. 141, Business Combinations (SFAS No. 141).

The Company has applied Financial Accounting Standards Board (FASB) Interpretation No. 46R, Consolidation of Variable Interest Entities (FIN 46R) an interpretation of Accounting Research Bulletin No. 51, Consolidated Financial Statements (ARB 51). The objective of FIN 46R is to provide guidance on how to identify a variable interest entity (VIE) and determine when the assets, liabilities, non-controlling interests, and results of operations of a VIE need to be included in a company s consolidated financial statements. A company that holds variable interests in an entity will need to consolidate such entity if the company absorbs a majority of the entity s expected losses or receives a majority of the entity s expected residual returns if they occur, or both (i.e., the primary beneficiary). The Company has also applied Emerging Issues Task Force Issue No. 04-5 Accounting for Investments in Limited Partnerships When the Investor is the Sole General Partner and the Limited Partners have Certain Rights (EITF 04-5), which determines whether a general partner or the general partners as a group control a limited partnership or similar entity and therefore should consolidate the entity. The Company will apply FIN 46R and EITF 04-5 to all types of entity ownership (general and limited partnerships and corporate interests).

The Company applies the equity method of accounting to entities in which the Company does not have a controlling direct or indirect voting interest or is not considered the primary beneficiary, but can exercise influence over the entity with respect to its operations and major decisions. The cost method is applied when both (i) the investment is minimal (typically less than 5%) and (ii) the Company s investment is passive.

(b) Use of Estimates

The preparation of 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 of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Table of Contents

EQUITY LIFESTYLE PROPERTIES, INC.
Notes to Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies (continued)

(c) Markets

The Company manages all its operations on a property-by-property basis. Since each Property has similar economic and operational characteristics, the Company has one reportable segment, which is the operation of land lease Properties. The distribution of the Properties throughout the United States reflects our belief that geographic diversification helps insulate the portfolio from regional economic influences. The Company intends to target new acquisitions in or near markets where the Properties are located and will also consider acquisitions of Properties outside such markets.

(d) Inventory

Inventory primarily consists of new and used Site Set homes and is stated at the lower of cost or market after consideration of the N.A.D.A. (National Automobile Dealers Association) Manufactured Housing Appraisal Guide and the current market value of each home included in the home inventory. Inventory sales revenues and resale revenues are recognized when the home sale is closed. Inventory is recorded net of an inventory reserve of $595,000 and $580,000 as of March 31, 2007 and December 31, 2006, respectively. Resale revenues are stated net of commissions paid to employees of $261,000 and $356,000 for the quarters ended March 31, 2007 and 2006, respectively.

(e) Real Estate

In accordance with SFAS No. 141, we allocate the purchase price of Properties we acquire to net tangible and identified intangible assets acquired based on their fair values. In making estimates of fair values for purposes of allocating purchase price, we utilize a number of sources, including independent appraisals that may be available in connection with the acquisition or financing of the respective Property and other market data. We also consider information obtained about each Property as a result of our due diligence, marketing and leasing activities in estimating the fair value of the tangible and intangible assets acquired.

Real estate is recorded at cost less accumulated depreciation. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. We use a 30-year estimated life for buildings acquired and structural and land improvements, a ten-to-fifteen-year estimated life for building upgrades and a three-to-seven-year estimated life for furniture, fixtures and equipment. The values of above and below market leases are amortized and recorded as either an increase (in the case of below market leases) or a decrease (in the case of above market leases) to rental income over the remaining term of the associated lease. The value associated with in-place leases is amortized over the expected term, which includes an estimated probability of lease renewal. Expenditures for ordinary maintenance and repairs are expensed to operations as incurred, and significant renovations and improvements that improve the asset and extend the useful life of the asset are capitalized and then expensed over the asset s estimated useful life.

The Company periodically evaluates its long-lived assets, including our investments in real estate, for impairment indicators. Judgments regarding the existence of impairment indicators are based on factors such as operational performance, market conditions and legal factors. Future events could occur which would cause us to conclude that impairment indicators exist and an impairment loss is warranted.

For Properties to be disposed of, an impairment loss is recognized when the fair value of the Property, less the estimated cost to sell, is less than the carrying amount of the Property measured at the time the Company has a commitment to sell the Property and/or is actively marketing the Property for sale. A Property to be disposed of is reported at the lower of its carrying amount or its estimated fair value, less costs to sell. Subsequent to the date that a Property is held for disposition, depreciation expense is not recorded. The Company accounts for its Properties held for disposition in accordance with Statement of Financial Accounting Standards No. 144 (SFAS No. 144), Accounting for the Impairment or Disposal of Long-Lived Assets . Accordingly, the results of operations for all assets sold or held for sale have been classified as discontinued operations in all periods presented.

Table of Contents

EQUITY LIFESTYLE PROPERTIES, INC.
Notes to Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies (continued)

(f) Cash and Cash Equivalents

The Company considers all demand and money market accounts and certificates of deposit with a maturity, when purchased, of three months or less to be cash equivalents.

(g) Notes Receivable

Notes receivable generally are stated at their outstanding unpaid principal balances net of any deferred fees or costs on originated loans, or unamortized discounts or premiums net of a valuation allowance. Interest income is accrued on the unpaid principal balance. Discounts or premiums are amortized to income using the interest method. In certain cases we finance the sales of homes to our customers (referred to as Chattel Loans) which loans are secured by the homes. The valuation allowance for the Chattel Loans is calculated based on a comparison of the outstanding principal balance of each note compared to the N.A.D.A. value and the current market value of the underlying manufactured home collateral.

(h) Investments in Joint Ventures

Investments in joint ventures in which the Company does not have a controlling direct or indirect voting interest, but can exercise significant influence over the entity with respect to its operations and major decisions, are accounted for using the equity method of accounting whereby the cost of an investment is adjusted for the Company s share of the equity in net income or loss from the date of acquisition and reduced by distributions received. The income or loss of each entity is allocated in accordance with the provisions of the applicable operating agreements. The allocation provisions in these agreements may differ from the ownership interests held by each investor. Differences between the carrying amount of the Company s investment in the respective entities and the Company s share of the underlying equity of such unconsolidated entities are amortized over the respective lives of the underlying assets, as applicable.

(i) Income from Other Investments, net

Income from other investments, net includes revenue relating to the Company s ground leases with Privileged Access L.P. (Privileged Access). Privileged Access leases approximately 24,100 sites at 81 of the Company s Properties. The primary lease entered into on November 10, 2004 and subsequently amended and restated on April 14, 2006 relating to the Thousand Trails Portfolio (59 Properties) provides for annual lease payments of $17.5 million, subject to annual CPI increases, and expires on January 15, 2020.

EQUITY LIFESTYLE PROPERTIES, INC.
Notes to Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies (continued)

(j) Insurance Claims

The Properties are covered against fire, flood, property damage, earthquake, windstorm and business interruption by insurance policies containing various deductible requirements and coverage limits. Recoverable costs are classified in other assets as incurred. Insurance proceeds are applied against the asset when received. Recoverable costs relating to capital items are treated in accordance with the Company s capitalization policy. The book value of the original capital item is written off once the value of the impaired asset has been determined. Insurance proceeds relating to the capital costs are recorded as income in the period they are received.

Approximately 70 Florida Properties suffered damage from the four hurricanes that struck the state during August and September 2004. As of April 25, 2007, the Company estimates its total claim to be $20.1 million of which, approximately $18.9 million of claims, including business interruption, have been submitted to our insurance companies for reimbursement. Through March 31, 2007, the Company has made total expenditures of approximately $14.5 million and may incur additional expenditures to complete the work necessary to restore our Properties to their pre-hurricanes condition. The Company has reserved approximately $2.0 million related to these expenditures ($0.7 million in 2005 and $1.3 million in 2004). Approximately $5.7 million of these expenditures have been capitalized per the Company s capitalization policy through March 31, 2007.

Approximately 33 Properties located in southern Florida were impacted by Hurricane Wilma in October 2005. As of April 25, 2007, approximately $4.4 million of claims have been submitted to our insurance company for reimbursement. Through March 31, 2007, the Company has made total expenditures of approximately $2.5 million and may incur additional costs in the future. Through March 31, 2007, $1.6 million has been charged to operations ($0.3 million in 2006 and $1.3 million in 2005) and $0.6 million was capitalized to fixed assets.

The Company has received proceeds from insurance carriers of approximately $5.6 million through March 31, 2007. Approximately $1.5 million is included in other assets as a receivable from insurance providers as of March 31, 2007 and December 31, 2006, respectively.

(k) Deferred Financing Costs

Deferred financing costs include fees and costs incurred to obtain long-term financing. The costs are being amortized over the terms of the respective loans on a level yield basis. Unamortized deferred financing fees are written-off when debt is retired before the maturity date. Upon amendment of the line of credit, unamortized deferred financing fees are accounted for in accordance with EITF No. 98-14, Debtor s Accounting for Changes in Line-of-Credit or Revolving-Debt Arrangements. Accumulated amortization for such costs was $10.1 million and $9.4 million at March 31, 2007 and December 31, 2006, respectively.

(l) Recent Accounting Pronouncements

In June 2006, FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FAS 109, Accounting for Income Taxes (FIN 48), to create a single model to address accounting for uncertainty in tax positions. FIN 48 clarifies the accounting for income taxes, by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. As required, the Company adopted FIN 48 as of January 1, 2007. The adoption of FIN 48 did not have any significant impact on the Company s financial position and results of operations.

EQUITY LIFESTYLE PROPERTIES, INC.
Notes to Consolidated Financial Statements

Note 2 Earnings Per Common Share

Earnings per common share are based on the weighted average number of common shares outstanding during each year. Statement of Financial Accounting Standards No. 128, Earnings Per Share (SFAS No. 128) defines the calculation of basic and fully diluted earnings per share. Basic and fully diluted earnings per share are based on the weighted average shares outstanding during each period and basic earnings per share excludes any dilutive effects of options, warrants and convertible securities. The conversion of OP Units has been excluded from the basic earnings per share calculation. The conversion of an OP Unit to a share of Common Stock has no material effect on earnings per common share.

The following table sets forth the computation of basic and diluted earnings per common share for the quarters ended March 31, 2007 and March 31, 2006 (amounts in thousands):

	Quarters Ended March 31, 2007	Quarters Ended March 31, 2006
Numerators:		
Income from Continuing Operations:		
Income from continuing operations basic	$ 12,367	$ 9,861
Amounts allocated to dilutive securities	2,977	2,576
Income from continuing operations fully diluted	$ 15,344	$ 12,437
Income from Discontinued Operations:		
Income from discontinued operations basic	$ 3,793	$ 212
Amounts allocated to dilutive securities	913	56
Income from discontinued operations fully diluted	$ 4,706	$ 268
Net Income Available for Common Shares Fully Diluted:		
Net income available for Common Shares basic	$ 16,160	$ 10,073
Amounts allocated to dilutive securities	3,890	2,632
Net income available for Common Shares fully diluted	$ 20,050	$ 12,705
Denominator:		
Weighted average Common Shares outstanding basic	23,910	23,331
Effect of dilutive securities:		
Redemption of Common OP Units for Common Shares	5,971	6,207
Employee stock options and restricted shares	470	642
Weighted average Common Shares outstanding fully diluted	30,351	30,180

Table of Contents

EQUITY LIFESTYLE PROPERTIES, INC.
Notes to Consolidated Financial Statements

Note 3 Common Stock and Other Equity Related Transactions

On April 13, 2007, the Company paid a $0.15 per share distribution for the quarter ended March 31, 2007 to stockholders of record on March 30, 2007. On March 30, 2007, the Operating Partnership paid distributions of 8.0625% per annum on the $150 million Series D 8% Units and 7.95% per annum on the $50 million of Series F 7.95% Units.

Note 4 Investment in Real Estate

Investment in real estate is comprised of (amounts in thousands):

Properties Held for Long Term	**March 31, 2007**	**December 31, 2006**
Investment in real estate:		&