EQUITY LIFESTYLE PROPERTIES INC
Form 10-Q
August 06, 2008

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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 June 30, 2008

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

For the transition period from __________ to__________

Commission file number: 1-11718

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, a non- accelerated filer or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o

(Do not check if a smaller reporting company)

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:

24,649,720 shares of Common Stock as of August 05, 2008.

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Equity LifeStyle Properties, Inc.
Consolidated Balance Sheets
As of June 30, 2008 and December 31, 2007
(amounts in thousands, except share and per share data)

	June 30, 2008 (unaudited)	December 31, 2007
Assets		
Investment in real estate:		
Land	$ 542,004	$ 541,000
Land improvements	1,711,170	1,700,888
Buildings and other depreciable property	190,206	154,227
	2,443,380	2,396,115
Accumulated depreciation	(527,180)	(494,211)
Net investment in real estate	1,916,200	1,901,904
Cash and cash equivalents	11,185	5,785
Notes receivable	10,823	10,954
Investment in joint ventures	9,716	4,569
Rents receivable, net	408	1,156
Deferred financing costs, net	11,269	12,142
Inventory	32,305	62,807
Escrow deposits and other assets	37,900	33,659
Total Assets	$ 2,029,806	$ 2,032,976
Liabilities and Stockholders Equity		
Liabilities:		
Mortgage notes payable	$ 1,561,799	$ 1,556,392
Unsecured lines of credit	61,500	103,000
Accrued payroll and other operating expenses	48,615	33,898
Accrued interest payable	8,304	9,164
Rents received in advance and security deposits	40,416	37,274
Distributions payable	6,083	4,531
Total Liabilities	1,726,717	1,744,259
Commitments and contingencies		
Minority interest Common OP Units and other	20,204	17,776
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 100,000,000 shares authorized; 24,625,812 and 24,348,517 shares issued and outstanding for June 30, 2008 and December 31, 2007, respectively	238	236
Paid-in capital	315,743	310,803
Distributions in excess of accumulated earnings	(233,096)	(240,098)
Total Stockholders Equity	82,885	70,941
Total Liabilities and Stockholders Equity	$ 2,029,806	$ 2,032,976

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

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Equity LifeStyle Properties, Inc.
Consolidated Statements of Operations
For the Quarters and Six Months Ended June 30, 2008 and 2007
(amounts in thousands, except share and per share data)
(unaudited)

	Quarters Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
Property Operations:				
Community base rental income	$ 61,430	$ 59,025	$ 122,464	$ 117,824
Resort base rental income	23,033	22,058	57,630	53,779
Utility and other income	9,859	9,178	20,650	19,278
Property operating revenues	94,322	90,261	200,744	190,881
Property operating and maintenance	33,930	31,240	67,699	62,429
Real estate taxes	7,478	7,251	14,918	14,609
Property management	5,243	4,706	10,537	9,364
Property operating expenses (exclusive of depreciation shown separately below)	46,651	43,197	93,154	86,402
Income from property operations	47,671	47,064	107,590	104,479
Home Sales Operations:				
Gross revenues from inventory home sales	6,799	9,177	12,994	18,284
Cost of inventory home sales	(6,859)	(8,130)	(13,609)	(16,247)
(Loss) Gross profit from inventory home sales	(60)	1,047	(615)	2,037
Brokered resale revenues, net	301	450	668	943
Home selling expenses	(1,635)	(1,749)	(3,148)	(4,000)
Ancillary services revenues, net	(327)	(116)	1,121	1,424
(Loss) Income from home sales operations and other	(1,721)	(368)	(1,974)	404
Other Income (Expenses):				
Interest income	294	425	681	962
Income from other investments, net	6,705	5,118	13,615	10,084
General and administrative	(4,834)	(3,680)	(10,233)	(7,351)
Rent control initiatives	(518)	(999)	(1,865)	(1,435)
Interest and related amortization	(24,690)	(25,685)	(49,674)	(51,478)
Depreciation on corporate assets	(84)	(111)	(182)	(221)
Depreciation on real estate assets	(16,258)	(15,707)	(32,532)	(31,331)
Total other expenses, net	(39,385)	(40,639)	(80,190)	(80,770)

Income before minority interests, equity in income of unconsolidated joint ventures and discontinued operations	6,565	6,057	25,426	24,113
Income allocated to Common OP Units	(955)	(390)	(3,956)	(3,366)
Income allocated to Perpetual Preferred OP Units	(4,040)	(4,039)	(8,072)	(8,070)
Equity in income (loss) of unconsolidated joint ventures	2,499	(9)	3,383	1,310
Income from continuing operations	4,069	1,619	16,781	13,987
Discontinued Operations:				
Discontinued operations	88	18	145	138
(Loss) Gain on sale from discontinued real estate	(39)		(80)	4,586
Loss allocated to Common OP Units from discontinued operations	(9)	(3)	(12)	(917)
Income from discontinued operations	40	15	53	3,807
Net income available for Common Shares	$ 4,109	$ 1,634	$ 16,834	$ 17,794

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

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Equity LifeStyle Properties, Inc.
Consolidated Statements of Operations (Continued)
For the Quarters and Six Months Ended June 30, 2008 and 2007
(amounts in thousands, except share and per share data)
(unaudited)

	Quarters Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
Earnings per Common Share Basic:				
Income from continuing operations	$ 0.17	$ 0.07	$ 0.69	$ 0.58
Income from discontinued operations	0.00	0.00	0.00	0.16
Net income available for Common Shares	$ 0.17	$ 0.07	$ 0.69	$ 0.74
Earnings per Common Share Fully Diluted:				
Income from continuing operations	$ 0.17	$ 0.07	$ 0.68	$ 0.57
Income from discontinued operations	0.00	0.00	0.00	0.16
Net income available for Common Shares	$ 0.17	$ 0.07	$ 0.68	$ 0.73
Distributions declared per Common Share outstanding	$ 0.20	$ 0.15	$ 0.40	$ 0.30
Weighted average Common Shares outstanding basic	24,370	24,133	24,285	24,023
Weighted average Common Shares outstanding fully diluted	30,540	30,431	30,478	30,403

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

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Equity LifeStyle Properties, Inc.
Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2008 and 2007
(amounts in thousands)
(unaudited)

	June 30, 2008	June 30, 2007
Cash Flows From Operating Activities:		
Net income	$ 16,834	$ 17,794
Adjustments to reconcile net income to cash provided by operating activities:		
Income allocated to minority interests	12,005	12,353
Loss (Gain) on sale of discontinued real estate	80	(4,586)
Depreciation expense	33,873	32,286
Amortization expense	1,419	1,454
Debt premium amortization	(372)	(809)
Equity in income of unconsolidated joint ventures	(4,286)	(2,045)
Distributions from unconsolidated joint ventures	3,148	3,395
Amortization of stock-related compensation	2,716	2,116
Accrued long term incentive plan compensation	546	91
Increase in provision for uncollectible rents receivable	254	(10)
Increase in provision for inventory reserve	329	62
Changes in assets and liabilities:		
Rents receivable	494	(241)
Inventory	(1,221)	(909)
Escrow deposits and other assets	(6,406)	(2,390)
Accrued payroll and other operating expenses	12,476	7,468
Rents received in advance and security deposits	3,119	312
Net cash provided by operating activities	75,008	66,341
Cash Flows From Investing Activities:		
Acquisition of real estate	(3,984)	(7,158)
Disposition of real estate		7,725
Net tax-deferred exchange withdrawal (deposit)	2,124	
Joint Ventures:		
Investments in	(5,346)	(2,417)
Distributions from	497	114
Net repayment (borrowings) of notes receivable	131	6,222
Improvements:		
Corporate	(54)	(356)
Rental properties	(5,288)	(7,625)
Site development costs	(5,790)	(6,804)
Net cash used in investing activities	(17,710)	(10,299)
Cash Flows From Financing Activities:		
Net proceeds from stock options and employee stock purchase plan	3,014	2,892
	(18,645)	(14,871)

Distributions to Common Stockholders, Common OP Unitholders, and Perpetual Preferred OP Unitholders		
Lines of credit:		
Proceeds	68,400	55,000
Repayments	(109,900)	(87,600)
Principal repayments on disposition		(1,992)
Principal repayments and mortgage debt payoff	(20,053)	(10,308)
New financing proceeds	25,832	
Debt issuance costs	(546)	(72)
Net cash used in financing activities	(51,898)	(56,951)
Net increase (decrease) in cash and cash equivalents	5,400	(909)
Cash and cash equivalents, beginning of period	5,785	1,605
Cash and cash equivalents, end of period	$ 11,185	$ 696

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

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Equity LifeStyle Properties, Inc.
Consolidated Statements of Cash Flows (continued)
For the Six Months Ended June 30, 2008 and 2007
(amounts in thousands)
(unaudited)

	June 30, 2008	June 30, 2007
Supplemental Information:		
Cash paid during the period for interest	$ 47,859	$ 50,875
Non-cash activities:		
Real estate acquisition and disposition		
Mortgage debt assumed and financed on acquisition of real estate	$	$ 7,437
Mezzanine and joint venture investments applied to real estate acquisition	$	$ 182
Other assets and liabilities, net, acquired on acquisition of real estate	$ 36	$
Proceeds from loan to pay insurance premiums	$	$ 4,300
Inventory reclassified to Buildings and other depreciable property	$ 31,141	$

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

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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 (2007 Form 10-K) for the year ended December 31, 2007.

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 2007 Form 10-K. The following Notes to Consolidated Financial Statements highlight significant changes to the Notes included in the 2007 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 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 the Financial Accounting Standards Board (FASB) issued Interpretation No. 46R, Consolidation of Variable Interest Entities (FIN 46R) an interpretation of 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 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 controls 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 (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.

Note 1 Summary of Significant Accounting Policies (continued)

(c) Markets

The Company manages all of 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 consists of new and used Site Set homes and is stated, net of manufacturer rebates, 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. The expense for the inventory reserve is included in the cost of home sales in our Consolidated Statements of Operations.

(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. Used rental homes are depreciated using a 40-year estimated life with a minimum of 15 years and new rental homes are depreciated using a 20-year estimated life down to a salvage value of 40% of the original costs. 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 the Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No. 144). Accordingly, the results of operations for all assets sold or held for sale have been classified as discontinued operations in all periods presented.

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 maturity dates, 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 primarily includes revenue relating to the Company s ground leases with Privileged Access L.P. (Privileged Access). The ground leases with Privileged Access for approximately 24,300 sites at 82 of the Company s Properties are accounted for in accordance with Statement of Financial Accounting Standards No. 13, Accounting for Leases. The Company recognized income related to these ground leases of approximately $6.4 million and $5.0 million for the quarters ended June 30, 2008 and 2007, respectively. Ground lease income for the six months ended June 30, 2008 and 2007 was $12.7 million and $9.9 million, respectively.

(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 five hurricanes that struck the state during 2004 and 2005. As of June 30, 2008, the Company estimates its total claims to exceed $21.0 million. The Company has made claims for full recovery of these amounts, subject to deductibles. Through June 30, 2008, the Company has made total expenditures of approximately $18.0 million. Approximately $6.9 million of these expenditures have been capitalized per the Company s capitalization policy through June 30, 2008.

Note 1 Summary of Significant Accounting Policies (continued)

The Company has received proceeds from insurance carriers of approximately $8.8 million through June 30, 2008. The proceeds were accounted for in accordance with the Statement of Financial Accounting Standards No.5, Accounting for Contingencies (SFAS No. 5). During the quarter ended June 30, 2008, approximately $0.3 million has been recognized as a gain on insurance recovery, which is net of approximately $0.1 million of contingent legal fees and included in income from other investments, net.

On June 22, 2007, the Company filed a lawsuit related to some of the unpaid claims against certain insurance carriers and its insurance broker. See Note 13 in the Notes to Consolidated Financial Statements contained in this Form 10-Q for further discussion of this lawsuit.

(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 (EITF 98-14). Accumulated amortization for such costs was $11.6 million and $10.3 million at June 30, 2008 and December 31, 2007, respectively.

(l) Recent Accounting Pronouncements

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS No. 162). The Statement identifies the sources of accounting principles and framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with United States generally accepted accounting principles (GAAP). The purpose is to remove the focus of setting the GAAP hierarchy from the auditor and giving the entity the responsibility of setting the GAAP hierarchy. SFAS No. 162 is effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Acc