

EQUITY LIFESTYLE PROPERTIES INC

Form 10-Q

August 05, 2010

Table of Contents

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

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

For the quarterly period ended June 30, 2010

**☐ 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

(State or Other Jurisdiction of Incorporation or
Organization)

36-3857664

(I.R.S. Employer Identification No.)

**Two North Riverside Plaza, Suite 800, Chicago,
Illinois**

(Address of Principal Executive Offices)

60606

(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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

(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 ☐ No ☒

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

30,730,715 shares of Common Stock as of August 3, 2010.

Equity LifeStyle Properties, Inc.
Table of Contents

Part I Financial Information

Item 1. Financial Statements

Index To Financial Statements

	Page
<u>Consolidated Balance Sheets as of June 30, 2010 (unaudited) and December 31, 2009</u>	3
<u>Consolidated Statements of Operations for the quarters and six months ended June 30, 2010 and 2009 (unaudited)</u>	4
<u>Consolidated Statements of Changes in Equity for the six months ended June 30, 2010 (unaudited)</u>	6
<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2010 and 2009 (unaudited)</u>	7
Notes to Consolidated Financial Statements	9
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	28
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	45
<u>Item 4. Controls and Procedures</u>	45

Part II Other Information

<u>Item 1. Legal Proceedings</u>	46
<u>Item 1A. Risk Factors</u>	46
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	46
<u>Item 3. Defaults Upon Senior Securities</u>	46
<u>Item 4. [Removed and Reserved.]</u>	46
<u>Item 5. Other Information</u>	46
<u>Item 6. Exhibits</u>	46
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	

Table of Contents**Equity LifeStyle Properties, Inc.****Consolidated Balance Sheets****As of June 30, 2010 and December 31, 2009****(amounts in thousands, except share and per share data)**

	June 30, 2010 (unaudited)	December 31, 2009
Assets		
Investment in real estate:		
Land	\$ 544,403	\$ 544,722
Land improvements	1,752,030	1,744,443
Buildings and other depreciable property	260,531	249,050
	2,556,964	2,538,215
Accumulated depreciation	(664,451)	(629,768)
Net investment in real estate	1,892,513	1,908,447
Cash and cash equivalents	151,805	145,128
Notes receivable, net	26,753	29,952
Investment in joint ventures	9,905	9,442
Rent and other customer receivables, net	325	421
Deferred financing costs, net	11,360	11,382
Inventory	2,745	2,964
Deferred commission expense	12,443	9,373
Escrow deposits and other assets	45,079	49,210
Total Assets	\$ 2,152,928	\$ 2,166,319
Liabilities and Equity		
Liabilities:		
Mortgage notes payable	\$ 1,503,543	\$ 1,547,901
Unsecured lines of credit		
Accrued payroll and other operating expenses	69,577	58,982
Deferred revenue sale of right-to-use contracts	37,992	29,493
Deferred revenue right-to-use annual payments	17,591	12,526
Accrued interest payable	7,505	8,036
Rents and other customer payments received in advance and security deposits	46,432	44,368
Distributions payable	10,623	10,586
Total Liabilities	1,693,263	1,711,892
Commitments and contingencies		
Non-controlling interests Perpetual Preferred OP Units	200,000	200,000

Equity:

Stockholders' Equity:

Preferred stock, \$.01 par value 10,000,000 shares authorized; none issued

Common stock, \$.01 par value 100,000,000 shares authorized; 30,677,708 and 30,350,745 shares issued and outstanding for June 30, 2010 and December 31, 2009, respectively

Paid-in capital

Distributions in excess of accumulated earnings

Total Stockholders' Equity

Non-controlling interests - Common OP Units

Total Equity

Total Liabilities and Equity

307	301
459,888	456,696
(235,740)	(238,467)
224,455	218,530
35,210	35,897
259,665	254,427
\$ 2,152,928	\$ 2,166,319

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

Table of Contents**Equity LifeStyle Properties, Inc.**

Consolidated Statements of Operations
For the Quarters and Six Months Ended June 30, 2010 and 2009
(amounts in thousands, except share and per share data)
(unaudited)

	Quarters Ended		Six Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Revenues:				
Community base rental income	\$ 64,601	\$ 63,318	\$ 129,023	\$ 126,502
Resort base rental income	28,504	27,747	65,449	63,205
Right-to-use annual payments	12,889	12,702	25,074	25,597
Right-to-use contracts current period, gross	5,681	5,869	10,618	11,446
Right-to-use contracts, deferred, net of prior period amortization	(4,551)	(5,271)	(8,499)	(10,434)
Utility and other income	11,918	11,720	24,807	24,124
Gross revenues from home sales	1,947	1,737	2,994	2,948
Brokered resale revenues, net	242	199	481	385
Ancillary services revenues, net	133	418	1,196	1,574
Interest income	997	1,223	2,189	2,606
Income from other investments, net	1,484	1,866	2,661	4,389
Total revenues	123,845	121,528	255,993	252,342
Expenses:				
Property operating and maintenance	46,998	45,565	90,452	87,569
Real estate taxes	8,326	8,235	16,640	16,691
Sales and marketing, gross	3,585	3,672	6,848	6,744
Sales and marketing, deferred commissions, net	(1,657)	(1,632)	(3,069)	(3,125)
Property management	7,793	7,730	16,533	16,434
Depreciation on real estate and other costs	16,940	17,143	33,863	34,542
Cost of home sales	1,728	1,647	2,887	3,764
Home selling expenses	455	640	932	1,712
General and administrative	5,548	6,216	11,224	12,373
Rent control initiatives	299	169	1,013	315
Depreciation on corporate assets	379	234	589	402
Interest and related amortization	22,989	25,026	46,756	49,576
Total expenses	113,383	114,645	224,668	226,997
Income before equity in income of unconsolidated joint ventures	10,462	6,883	31,325	25,345
Equity in income of unconsolidated joint ventures	559	475	1,400	2,378
Consolidated income from continuing operations	11,021	7,358	32,725	27,723

Discontinued Operations:

Discontinued operations		87		213
Loss from discontinued real estate	(54)		(231)	(20)

(Loss) income from discontinued operations	(54)	87	(231)	193
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Consolidated net income	10,967	7,445	32,494	27,916
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Income allocated to non-controlling interests:

Common OP Units	(928)	(501)	(3,360)	(3,295)
Perpetual Preferred OP Units	(4,039)	(4,040)	(8,070)	(8,073)

Net income available for Common Shares	\$ 6,000	\$ 2,904	\$ 21,064	\$ 16,548
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The accompanying notes are an integral part of the financial statements.

Table of Contents

Equity LifeStyle Properties, Inc.
Consolidated Statements of Operations (Continued)
For the Quarters and Six Months Ended June 30, 2010 and 2009
(amounts in thousands, except share and per share data)
(unaudited)

	Quarters Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Earnings per Common Share Basic:				
Income from continuing operations	\$ 0.20	\$ 0.12	\$ 0.70	\$ 0.65
(Loss) income from discontinued operations	0.00	0.00	(0.01)	0.01
Net income available for Common Shares	\$ 0.20	\$ 0.12	\$ 0.69	\$ 0.66
Earnings per Common Share Fully Diluted:				
Income from continuing operations	\$ 0.20	\$ 0.11	\$ 0.70	\$ 0.64
(Loss) income from discontinued operations	0.00	0.00	(0.01)	0.01
Net income available for Common Shares	\$ 0.20	\$ 0.11	\$ 0.69	\$ 0.65
Distributions declared per Common Share outstanding	\$ 0.30	\$ 0.25	\$ 0.60	\$ 0.50
Weighted average Common Shares outstanding basic	30,412	25,163	30,358	25,055
Weighted average Common Shares outstanding fully diluted	35,506	30,693	35,471	30,609

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

Table of Contents**Equity LifeStyle Properties, Inc.**

Consolidated Statements of Changes in Equity
For the Six Months Ended June 30, 2010
(amounts in thousands)
(unaudited)

	Common Stock	Paid-in Capital	Distributions in Excess of Accumulated Earnings	Non-controlling interests - Common OP Units	Total Equity
Balance, December 31, 2009	\$301	\$456,696	\$ (238,467)	\$ 35,897	\$ 254,427
Conversion of OP Units to common stock	6	1,297		(1,303)	
Issuance of common stock through exercise of options		869			869
Issuance of common stock through employee stock purchase plan		582			582
Compensation expenses related to stock options and restricted stock		2,465			2,465
Repurchase of common stock or Common OP Units		(399)			(399)
Adjustment for Common OP Unitholders in the Operating Partnership		(301)		301	
Acquisition of non-controlling interests		(1,321)		(132)	(1,453)
Net income			21,064	3,360	24,424
Distributions			(18,337)	(2,913)	(21,250)
Balance, June 30, 2010	\$307	\$459,888	\$ (235,740)	\$ 35,210	\$ 259,665

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

Table of Contents**Equity LifeStyle Properties, Inc.**

Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2010 and 2009
(amounts in thousands)
(unaudited)

	June 30, 2010	June 30, 2009
Cash Flows From Operating Activities:		
Consolidated net income	\$ 32,494	\$ 27,916
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss (gain) on discontinued real estate and other	231	(783)
Depreciation expense	36,395	36,718
Amortization expense	1,744	1,569
Debt premium amortization	(3)	(546)
Equity in income of unconsolidated joint ventures	(2,009)	(3,017)
Distributions from unconsolidated joint ventures	829	2,540
Amortization of stock-related compensation	2,465	2,342
Revenue recognized from right-to-use contract sales	(2,119)	(1,012)
Commission expense recognized related to right-to-use contract sales	638	325
Accrued long term incentive plan compensation	181	1,053
Increase in provision for uncollectible rents receivable	96	411
Increase in provision for inventory reserve		1,067
Changes in assets and liabilities:		
Notes receivable activity, net	87	336
Rent and other customer receivables, net		141
Inventory	2,042	833
Deferred commission expense	(3,708)	(3,450)
Escrow deposits and other assets	2,519	(11,650)
Accrued payroll and other operating expenses	9,838	12,135
Deferred revenue sales of right-to-use contracts	10,618	11,446
Deferred revenue right-to-use annual payments	5,065	3,929
Rents received in advance and security deposits	2,076	693
Net cash provided by operating activities	99,479	82,996
Cash Flows From Investing Activities:		
Acquisition of real estate and other		(5,048)
Proceeds from disposition of rental properties		2,192
Net tax-deferred exchange withdrawal	786	
Net repayment of notes receivable	758	2,036
Capital improvements	(20,404)	(15,461)
Net cash used in investing activities	(18,860)	(16,281)
Cash Flows From Financing Activities:		
Net proceeds from stock options and employee stock purchase plan	1,451	961
Net proceeds from issuance of Common Stock		146,649

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Distributions to Common Stockholders, Common OP Unitholders, and Perpetual Preferred OP Unitholders	(29,282)	(21,775)
Stock repurchase and Unit redemption	(399)	(120)
Acquisition of non-controlling interests	(1,453)	
Lines of credit:		
Proceeds		50,900
Repayments		(143,900)
Principal payments and mortgage debt payoff	(119,610)	(43,999)
New financing proceeds	76,615	74,313
Debt issuance costs	(1,264)	(905)
Net cash (used in) provided by financing activities	(73,942)	62,124
Net increase in cash and cash equivalents	6,677	128,839
Cash and cash equivalents, beginning of period	145,128	45,312
Cash and cash equivalents, end of period	\$ 151,805	\$ 174,151

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 Six Months Ended June 30, 2010 and 2009
(amounts in thousands)
(unaudited)

	June 30, 2010	June 30, 2009
Supplemental Information:		
Cash paid during the period for interest	\$ 44,957	\$ 48,631
Non-cash activities:		
Inventory reclassified to Buildings and other depreciable property	\$	\$ 6,874
Manufactured homes acquired with dealer financing	\$ 2,268	\$
Dealer financing	\$ 2,268	\$
Acquisitions:		
Inventory	\$	\$ 65
Escrow deposits and other assets	\$ (10)	\$ 473
Accrued payroll and other operating expenses	\$	\$ 69
Notes receivable	\$ (2,355)	\$
Rents and other customer payments received in advance and security deposits	\$	\$ 1,411
Investment in real estate	\$ 2,365	\$ 17,840
Debt assumed and financed on acquisition	\$	\$ 11,851
Dispositions:		
Other assets and liabilities, net	\$ (97)	\$
Investment in real estate	\$ (3,531)	\$ (2,192)
Mortgage notes payable (assumed) by purchaser	\$ (3,628)	\$

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

Table of Contents

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 Form 10-K (2009 Form 10-K) for the year ended December 31, 2009.

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 2009 Form 10-K. The following Notes to Consolidated Financial Statements highlight significant changes to the Notes included in the 2009 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

We follow accounting standards set by the Financial Accounting Standards Board, commonly referred to as the FASB. The FASB sets generally accepted accounting principles (GAAP) that we follow to ensure we consistently report our financial condition, results of operations and cash flows. References to GAAP issued by the FASB in these footnotes are to the FASB Accounting Standards Codification (the Codification). The FASB finalized the Codification effective for periods ending on or after September 15, 2009. The Codification does not change how we account for our transactions or the nature of the related disclosures made.

(a) Basis of Consolidation

We consolidate our majority-owned subsidiaries in which we have the ability to control the operations of the subsidiaries and all variable interest entities with respect to which we are the primary beneficiary. We also consolidate entities in which we have a controlling direct or indirect voting interest. All inter-company transactions have been eliminated in consolidation. For business combinations for which the acquisition date is on or after January 1, 2009, the purchase price of Properties will be accounted for in accordance with the Codification Topic Business Combinations (FASB ASC 805).

On January 1, 2010, we adopted the Codification Sub-Topic Variable Interest Entities (FASB ASC 810-10-15). The objective of FAS ASC 810-10-15 is to provide guidance on a qualitative approach for determining which enterprise has a controlling financial interest in a variable interest entity (VIE). The approach focuses on identifying which enterprise has the power to direct the activities of a VIE that most significantly impact the entity's economic performance. It also requires ongoing assessments of whether an enterprise is the primary beneficiary of a VIE. A company that holds variable interests in an entity will need to consolidate an entity if the company holds the majority power to direct the activities of a VIE that most significantly impact the entity's economic performance. We have evaluated our relationships with all types of entity ownerships (general and limited partnerships and corporate interests) and are not required to consolidate any of our entity ownerships.

We have also applied the Codification Sub-Topic Control of Partnerships and Similar Entities (FASB ASC 810-20), 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. We will continue to apply FASB ASC 810-10-15 and FASB ASC 810-20 to all types of entity ownership (general and limited partnerships and corporate interests).

We apply the equity method of accounting to entities in which we do not have a controlling direct or indirect voting interest or are 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) our investment is passive.

Table of Contents

Note 1 Summary of Significant Accounting Policies (continued)

(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.

(c) Markets

We manage all our 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. We intend to target new acquisitions in or near markets where the Properties are located and will also consider acquisitions of Properties outside such markets.

(d) Real Estate

In accordance with FASB ASC 805, which is effective for acquisitions on or after January 1, 2009, we recognize all the assets acquired and all the liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. We also expense transaction costs as they are incurred. Certain purchase price adjustments may be made within one year following any acquisitions.

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 generally use a 30-year estimated life for buildings acquired and structural and land improvements (including site development), a ten-year estimated life for building upgrades and a five-year estimated life for furniture, fixtures and equipment. New rental units are generally depreciated using a 20-year estimated life from each model year down to a salvage value of 40% of the original costs. Used rental units are generally depreciated based on the estimated life of the unit with no estimated salvage value.

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 over their estimated useful life.

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

For long-lived assets to be held and used, including our investments in rental units, we compare the expected future undiscounted cash flows for the long-lived asset against the carrying amount of that asset. If the sum of the estimated undiscounted cash flows is less than the carrying amount of the asset, we further analyze each individual asset for other temporary or permanent indicators of impairment. An impairment loss would be recorded for the difference between the estimated fair value and the carrying amount of the asset if we deem this difference to be permanent.

Table of Contents**Note 1 Summary of Significant Accounting Policies (continued)**

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 we have a commitment to sell the Property and/or are 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. We account for our Properties held for disposition in accordance with the Codification Sub-Topic Impairment or Disposal of Long Lived Assets (FASB ASC 360-10-35). Accordingly, the results of operations for all assets sold or held for sale have been classified as discontinued operations in all periods presented.

(e) Identified Intangibles and Goodwill

We record acquired intangible assets and acquired intangible liabilities at their estimated fair value separate and apart from goodwill. We amortize identified intangible assets and liabilities that are determined to have finite lives over the period the assets and liabilities are expected to contribute directly or indirectly to the future cash flows of the property or business acquired. Intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized if the carrying amount of an intangible asset is not recoverable and its carrying amount exceeds its estimated fair value.

The excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired (including identified intangible assets) and liabilities assumed is recorded as goodwill. Goodwill is not amortized but is tested for impairment at a level of reporting referred to as a reporting unit on an annual basis, or more frequently if events or changes in circumstances indicate that the asset might be impaired.

As of June 30, 2010 and December 31, 2009, the carrying amounts of identified intangible assets and goodwill, a component of Escrow deposits and other assets on our consolidated balance sheets, were approximately \$19.6 million. Accumulated amortization of identified intangibles assets was approximately \$1.1 million and \$0.6 million as of June 30, 2010 and December 31, 2009, respectively.

Estimated amortization of identified intangible assets for each of the next five years are as follows (amounts in thousands):

Year ending December 31,	Amount
2010	\$925
2011	\$847
2012	\$747
2013	\$705
2014	\$622

(f) Cash and Cash Equivalents

We consider all demand and money market accounts and certificates of deposit with a maturity date, when purchased, of three months or less to be cash equivalents. The cash and cash equivalents as of June 30, 2010 and December 31, 2009 include approximately \$1.2 million and \$0.4 million, respectively, of restricted cash.

Table of Contents

Note 1 Summary of Significant Accounting Policies (continued)

(g) Notes Receivable

Notes receivable generally are stated at their outstanding unpaid principal balances net of any deferred fees or costs on originated loans, unamortized discounts or premiums, and an 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 allowance for the *Chattel Loans* is calculated based on a review of loan agings and a comparison of the outstanding principal balance of the *Chattel Loans* compared to the current estimated market value of the underlying manufactured home collateral.

We also provide financing for nonrefundable upfront payments on sales of right-to-use contracts (*Contracts Receivable*). Based upon historical collection rates and current economic trends, when a sale is financed, a reserve is established for a portion of the *Contracts Receivable* balance estimated to be uncollectible. The allowance and the rate at which we provide for losses on our *Contracts Receivable* could be increased or decreased in the future based on our actual collection experience. (See Note 6 in the Notes to Consolidated Financial Statements contained in this Form 10-Q.)

On August 14, 2008, we purchased Contract Receivables that were recorded at fair value at the time of acquisition of approximately \$19.6 million under the Codification Topic *Loans and Debt Securities Acquired with Deteriorated Credit Quality* (*FASB ASC 310-30*). The fair value of these *Contracts Receivable* includes an estimate of losses that are expected to be incurred over the estimated remaining lives of the receivables, and therefore no allowance for losses was recorded for these receivables as of the transaction date. Through June 30, 2010, the credit performance of these receivables has generally been consistent with the assumptions used in determining the initial fair value of these loans, and our original expectations regarding the amounts and timing of future cash flows has not changed. The carrying amount of these receivables as of June 30, 2010 is \$8.9 million. A probable decrease in management's expectation of future cash collections related to these receivables could result in the need to record an allowance for credit losses related to these loans in the future. A significant and probable increase in expected cash flows would generally result in an increase in interest income recognized over the remaining life of the underlying pool of receivables.

(h) Investments in Joint Ventures

Investments in joint ventures in which we do not have a controlling direct or indirect voting interest, but can exercise significant influence over the entity with respect to our operations and major decisions, are accounted for using the equity method of accounting whereby the cost of an investment is adjusted for our 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 our investment in the respective entities and our share of the underlying equity of such unconsolidated entities are amortized over the respective lives of the underlying assets, as applicable. (See Note 5 in the Notes to Consolidated Financial Statements contained in this Form 10-Q.)

(i) Insurance Claims

The Properties are covered against losses caused by various events including 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 our 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.

Table of Contents

Note 1 Summary of Significant Accounting Policies (continued)

Approximately 70 Florida Properties suffered damage from five hurricanes that struck the state during 2004 and 2005. We estimate our total claims to be approximately \$21.0 million and have made claims for the full recovery of these amounts, subject to deductibles.

We have received proceeds from insurance carriers of approximately \$11.2 million through June 30, 2010. The proceeds were accounted for in accordance with the Codification Topic Contingencies (FASB ASC 450). During the six months ended June 30, 2010 and 2009, approximately \$0.4 million and \$1.5 million, respectively, has been recognized as a gain on insurance recovery, which is net of approximately \$0.2 million and \$0.2 million, respectively of contingent legal fees and included in income from other investments, net.

On June 22, 2007, we filed a lawsuit related to some of the unpaid claims against certain insurance carriers and its insurance broker. (See Note 12 in the Notes to Consolidated Financial Statements contained in this Form 10-Q for further discussion of this lawsuit.)

(j) Fair Value of Financial Instruments

Our financial instruments include short-term investments, notes receivable, accounts receivable, accounts payable, other accrued expenses, and mortgage notes payable.

Codification Topic Fair Value Measurements and Disclosures (FASB ASC 820) establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels are defined as follows:

Level 1 Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

At June 30, 2010 and December 31, 2009, the fair values of our financial instruments approximate their carrying or contract values.

(k) Deferred Financing Costs, net

Deferred financing costs, net 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 lines of credit, unamortized deferred financing fees are accounted for in accordance with, Codification Sub-Topic Modifications and Extinguishments (FASB ASC 470-50-40). Accumulated amortization for such costs was \$13.7 million and \$12.5 million at June 30, 2010 and December 31, 2009, respectively.

(l) Revenue Recognition

We account for leases with our customers as operating leases. Rental income is recognized over the term of the respective lease or the length of a customer's stay, the majority of which are for a term of not greater than one year. We will reserve for receivables when we believe the ultimate collection is less than probable. Our provision for uncollectible rents receivable was approximately \$2.0 million and \$2.2 million as of June 30, 2010 and December 31, 2009, respectively.

Table of Contents

Note 1 Summary of Significant Accounting Policies (continued)

We account for the sales of right-to-use contracts in accordance with the Codification Topic Revenue Recognition (FASB ASC 605). A right-to-use contract gives the customer the right to a set schedule of usage at a specified group of Properties. Customers may choose to upgrade their contracts to increase their usage and the number of Properties they may access. A contract may require the customer to make an upfront nonrefundable payment and annual payments during the term of the contract. The stated term of a right-to-use contract is generally three years and the customer may renew his contract by continuing to make the annual payments. We will recognize the upfront non-refundable payments over the estimated customer life which, based on historical attrition rates, we have estimated to be from one to 31 years. For example, we have currently estimated that 7.9% of customers who purchase a new right-to-use contract will terminate their contract after five years. Therefore, the upfront nonrefundable payments from 7.9% of the contracts sold in any particular period are amortized on a straight-line basis over a period of five years as the estimated customer life for 7.9% of our customers who purchase a contract is five years. The historical attrition rates for upgrade contracts are lower than for new contracts, and therefore, the nonrefundable upfront payments for upgrade contracts are amortized at a different rate than for new contracts. The decision to recognize this revenue in accordance with FASB ASC 605 was made after corresponding with the Office of the Chief Accountant at the SEC during September and October of 2008.

Right-to-use annual payments paid by customers under the terms of the right-to-use contracts are deferred and recognized ratably over the one-year period in which the services are provided.

Income from home sales is recognized when the earnings process is complete. The earnings process is complete when the home has been delivered, the purchaser has accepted the home and title has transferred.

(m) Reclassifications

Certain 2009 amounts have been reclassified to conform to the 2010 presentation. This reclassification had no material effect on the consolidated balance sheets or statements of operations of the Company.

As a result of an SEC comment letter, we have changed our Consolidated Statements of Operations format in this Form 10-Q and all future filings. The new format, which we disclosed in our Form 8-K filed on May 12, 2010, removes the sections we had labeled Property Operations, Home Sales Operations and Other Income and Expense and re-orders the captions on the Consolidated Statements of Operations to report sections for Revenues and Expenses . No amounts reported on individual line item captions have changed. The SEC has not required us to re-state any of our prior filings. In a letter to us dated June 10, 2010, the SEC stated that their review process that began in late December 2009 was complete and that they had no further comments.

Table of Contents**Note 2 Earnings Per Common Share**

Earnings per common share are based on the weighted average number of common shares outstanding during each year. Codification Topic Earnings Per Share (FASB ASC 260) 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 year and basic earnings per share exclude 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 and six months ended June 30, 2010 and 2009 (amounts in thousands):

	Quarters Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Numerators:				
Income from Continuing Operations:				
Income from continuing operations basic	\$ 6,047	\$ 2,830	\$ 21,263	\$ 16,386
Amounts allocated to dilutive securities	935	488	3,392	3,264
Income from continuing operations fully diluted	\$ 6,982	\$ 3,318	\$ 24,655	\$ 19,650
Income from Discontinued Operations:				
(Loss) income from discontinued operations basic	\$ (47)	\$ 74	\$ (199)	\$ 162
Amounts allocated to dilutive securities	(7)	13	(32)	31
(Loss) income from discontinued operations fully diluted	\$ (54)	\$ 87	\$ (231)	\$ 193
Net Income Available for Common Shares Fully Diluted:				
Net income available for Common Shares basic	\$ 6,000	\$ 2,904	\$ 21,064	\$ 16,548
Amounts allocated to dilutive securities	928	501	3,360	3,295
Net income available for Common Shares fully diluted	\$ 6,928	\$ 3,405	\$ 24,424	\$ 19,843
Denominator:				
Weighted average Common Shares outstanding basic	30,412	25,163	30,358	25,055
Effect of dilutive securities:				
Redemption of Common OP Units for Common Shares	4,829	5,164	4,871	5,212
Employee stock options and restricted shares	265	366	242	342
Weighted average Common Shares outstanding fully diluted	35,506	30,693	35,471	30,609

Note 3 Common Stock and Other Equity Related Transactions

On July 9, 2010, the Company paid a \$0.30 per share distribution for the quarter ended June 30, 2010 to stockholders of record on June 25, 2010. On April 9, 2010, the Company paid a \$0.30 per share distribution for the

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quarter ended March 31, 2010 to stockholders of record on March 26, 2010. On June 30, 2010 and March 31, 2010, 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.

On February 23, 2010, the Company acquired the six percent non-controlling interests in The Meadows, a 379-site property, in Palm Beach Gardens, Florida. The gross purchase price was approximately \$1.5 million.

Table of Contents**Note 4 Investment in Real Estate**

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

	June 30, 2010	As of December 31, 2009
<i>Properties Held for Long Term</i>		
Investment in real estate:		
Land	\$ 544,403	\$ 543,613
Land improvements	1,752,030	1,741,142
Buildings and other depreciable property	260,531	248,907
	2,556,964	2,533,662
Accumulated depreciation	(664,451)	(628,839)
Net investment in real estate	\$ 1,892,513	\$ 1,904,823

	June 30, 2010	As of December 31, 2009
<i>Properties Held for Sale</i>		
Investment in real estate:		
Land	\$	\$ 1,109
Land improvements		3,301
Buildings and other depreciable property		143
		4,553
Accumulated depreciation		(929)
Net investment in real estate	\$	\$ 3,624

Land improvements consist primarily of improvements such as grading, landscaping and infrastructure items such as streets, sidewalks or water mains. Buildings and other depreciable property consist of permanent buildings in the Properties such as clubhouses, laundry facilities, maintenance storage facilities, rental units and furniture, fixtures and equipment.

On April 21, 2010, the Company acquired the following four resort Properties in satisfaction of a note: i) Tall Chief, a 180-site Property on 70 acres in Fall City, Washington; ii) St. George, a 123-site Property on 25 acres in Hurricane, Utah; iii) Valley Vista, a 145-site Property on 6 acres in Benson, Arizona; and iv) Desert Vista, a 125-site Property on 10 acres in Salome, Arizona. The purchase price was approximately \$2.0 million.

All acquisitions have been accounted for utilizing the purchase method of accounting and, accordingly, the results of operations of acquired assets are included in the statements of operations from the dates of acquisition. Certain purchase price adjustments may be made within one year following the acquisitions.

The Company actively seeks to acquire additional Properties and currently is engaged in negotiations relating to the possible acquisition of a number of Properties. At any time these negotiations are at varying stages, which may include contracts outstanding, to acquire certain Properties, which are subject to satisfactory completion of our due diligence review.

As of June 30, 2010, the Company had no Properties designated as held for disposition pursuant to FASB ASC 360-10-35.

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Creekside is a 165-site all-age manufactured home community located in Wyoming, Michigan. On December 29, 2009, we sent a notice of imminent default along with a deed-in-lieu of foreclosure to the loan servicer regarding the \$3.6 million mortgage loan on Creekside which bears interest at 6.327% and was scheduled to mature in 2015. We defaulted on the mortgage in January 2010 and ceased managing the property as of January 29, 2010. In accordance

Table of Contents**Note 4 Investment in Real Estate (continued)**

with FASB ASC 470-60, we recorded a loss on disposition of approximately \$0.2 million during the six months ended June 30, 2010. (See Note 12 in the Notes to Consolidated Financial Statements contained in this Form 10-Q.)

The following table summarizes the combined results of discontinued operations for the quarters and six months ended June 30, 2010 and 2009, respectively (amounts in thousands).

	Quarters Ended		Six Months Ended	
	June 30,		June 30,	
	2010⁽¹⁾	2009⁽²⁾	2010⁽¹⁾	2009⁽²⁾
Rental income	\$	\$ 527	\$	\$ 1,067
Utility and other income		39		77
Property operating revenues		566		1,144
Property operating expenses		254		496
Income from property operations		312		648
Income from home sales operations		9		22
Interest and Amortization		(225)		(448)
Depreciation		(9)		(9)
Total other expenses		(234)		(457)
Loss on real estate	(54)		(231)	(20)
Net (loss) income from discontinued operations	\$ (54)	\$ 87	\$ (231)	\$ 193

(1) For the quarter and six months ended June 30, 2010, includes one property disposed of in 2010.

(2) For the quarter and six months ended June 30, 2009, includes one property sold in July 2009 and one property disposed of in 2010.

Note 5 Investment in Joint Ventures

The Company recorded approximately \$1.4 million and \$2.4 million of equity in income from unconsolidated joint ventures, net of approximately \$0.6 million and \$0.6 million of depreciation expense for the six months ended June 30, 2010 and 2009, respectively. The Company received approximately \$0.8 million and \$2.5 million in distributions from such joint ventures and were classified as a return on capital and were included in operating activities on the Consolidated Statements of Cash Flows for the six months ended June 30, 2010 and 2009, respectively. Approximately \$0.2 million and \$1.1 million of the distributions received in the six months ended June 30, 2010 and 2009, respectively, exceeded the Company's basis in its joint venture and as such were recorded in equity in income from unconsolidated joint ventures. Distributions received during the six months ended June 30, 2009, include amounts received from the sale or liquidation of equity in joint venture investments.

On February 13, 2009, the Company sold its 25 percent interest in two Diversified Portfolio joint ventures known as (i) Pine Haven, a 625-site property in Ocean View, New Jersey and (ii) Round Top, a 319-site property in Gettysburg, Pennsylvania. A gain on sale of approximately \$1.1 million was recognized and is included in equity in income of unconsolidated joint ventures.

Table of Contents**Note 5 Investment in Joint Ventures (continued)**

The following table summarizes the Company's investments in unconsolidated joint ventures (with the number of Properties shown parenthetically as of June 30, 2010 and December 31, 2009, respectively with dollar amounts in thousands):

Investment	Location	Number of Sites	Economic Interest ^(a)	Investment as of		JV Income for the Six Months Ended	
				June 30, 2010	December 31, 2009	June 30, 2010	June 30, 2009
Meadows	Various (2,2)	1,027	50%	\$ 91	\$ 245	521	\$ 472
Lakeshore	Florida (2,2)	342	65%	145	133	129	162
Voyager	Arizona (1,1)	1,706	50% ^(b)	9,319	8,732	692	580
Other Investments	Various (0,0) ^(c)		25%	350	332	58	1,164
		3,075		\$ 9,905	\$ 9,442	\$ 1,400	\$ 2,378

^(a) The percentages shown approximate the Company's economic interest as of June 30, 2010. The Company's legal ownership interest may differ.

^(b) Voyager joint venture primarily consists of a 50% interest in Voyager RV Resort. A 25% interest in the utility plant servicing the Property is included in Other Investments.

- (c) In February 2009, the Company sold its 25% interest in two Diversified Portfolio joint ventures. The JV income reported for the six months ended June 30, 2009 is primarily from the sale of the interest.

Note 6 Notes Receivable

As of June 30, 2010 and December 31, 2009, the Company had approximately \$26.8 million and \$30.0 million in notes receivable, respectively. As of June 30, 2010 and December 31, 2009, the Company has approximately \$9.7 million and \$10.4 million, respectively, in Chattel Loans receivable, which yield interest at a per annum average rate of approximately 8.7%, have an average term and amortization of three to 20 years, require monthly principal and interest payments and are collateralized by homes at certain of the Properties. These notes are recorded net of allowances of approximately \$0.3 million as of June 30, 2010 and December 31, 2009. During the six months ended June 30, 2010 and year ended December 31, 2009, approximately \$0.3 million and \$1.0 million, respectively, was repaid and an additional \$0.2 million and \$0.5 million, respectively, was loaned to customers.

As of June 30, 2010 and December 31, 2009, the Company had approximately \$16.8 million and \$17.4 million, respectively, of Contracts Receivables, including allowances of approximately \$1.3 million and \$1.2 million, respectively. These Contracts Receivables represent loans to customers who have purchased right-to-use contracts. The Contracts Receivable yield interest at a stated per annum weighted average rate of 16.4%, have a weighted average term remaining of approximately four years and require monthly payments of principal and interest. During the six months ended June 30, 2010 and year ended December 31, 2009, approximately \$4.8 million and \$9.6 million, respectively, was repaid and an additional \$4.2 million and \$7.3 million, respectively, was loaned to customers.

As of June 30, 2010 and December 31, 2009, the Company had approximately \$0.2 million in notes, which bear interest at a per annum rate of prime plus 0.5% and mature on December 31, 2011. The notes are collateralized with partnership interests in certain joint ventures.

As of December 31, 2009, the Company had a note of approximately \$2.0 million, which bears interest at a per annum rate of 11.0% and was set to mature on July 6, 2010. The note was collateralized by first priority mortgages on four resort properties, which the Company acquired on April 21, 2010 in satisfaction of the note.

Table of Contents

Note 7 Long-Term Borrowings

As of June 30, 2010 and December 31, 2009, the Company had outstanding mortgage indebtedness on Properties held for long term of approximately \$1,504 million and \$1,543 million, respectively, and approximately zero and \$4 million of mortgage indebtedness as of June 30, 2010 and December 31, 2009, respectively, on Properties held for sale. The weighted average interest rate on this mortgage indebtedness for the six months ended June 30, 2010 was approximately 5.9% per annum. The debt bears interest at rates of 5.0% to 8.5% per annum and matures on various dates ranging from 2010 to 2020. The debt encumbered a total of 137 and 140 of the Company's Properties as of June 30, 2010 and December 31, 2009, respectively, and the carrying value of such Properties was approximately \$1,600 million and \$1,680 million, respectively, as of such dates.

As of June 30, 2010 and December 31, 2009, the Company had outstanding debt secured by certain manufactured homes of \$3.3 million and \$1.5 million, respectively. This financing provided by the manufactured home dealer requires monthly payments, bears interest at 8.5% and matures on the earlier of: 1) the date the home is sold or 2) November 20, 2016.

As of June 30, 2010 and December 31, 2009, our unsecured lines of credit had an availability of \$100 million and \$370 million, respectively. On June 29, 2010, the Company exercised the one-year extension option on one of its unsecured lines of credit that was due to mature on June 29, 2010. Prior to the extension, the Company had two unsecured lines of credit with a maximum borrowing capacity of \$350 million and \$20 million, respectively, bearing interest at a per annum rate of LIBOR plus a maximum of 1.20% per annum and a 0.15% facility fee. The extension reduced the Company's maximum borrowing capacity under the \$350 million line of credit to \$100 million and extended the expiration of the line of credit to June 29, 2011.

Note 8 Deferred Revenue-sale of right-to-use contracts and Deferred Commission Expense

The sales of right-to-use contracts are recognized in accordance with FASB ASC 605. The Company will recognize the upfront non-refundable payments over the estimated customer life, which, based on historical attrition rates, the Company has estimated to be between one to 31 years. The commissions paid on the sale of right-to-use contracts with a non-refundable upfront payment will be deferred and amortized over the same period as the related sales revenue.

Table of Contents

Note 8 Deferred Revenue-sale of right-to-use contracts and Deferred Commission Expense (continued)

Components of the change in deferred revenue-sale of right-to-use contracts and deferred commission expense are as follows (amounts in thousands):

**Six Months Ended
June 30,**

Note 9 Stock Option Plan and Stock Grants

The Company accounts for its stock-based compensation in accordance with the Codification Topic Compensation Stock Compensation (FASB ASC 718), which was adopted on July 1, 2005.

Stock-based compensation expense for the six months ended June 30, 2010 and 2009, was approximately \$2.5 million and \$2.3 million, respectively.

Pursuant to the Stock Option Plan as discussed in Note 14 to the 2009 Form 10-K, certain officers, directors, employees and consultants have been offered the opportunity to acquire shares of common stock of the Company through stock options (Options). During the six months ended June 30, 2010, Options for 20,250 shares of common stock were exercised for proceeds of approximately \$0.9 million.

On February 1, 2010, the Company awarded Restricted Stock Grants for 74,665 shares of common stock to certain members of senior management of the Company. These Restricted Stock Grants will vest on December 31, 2010. The fair market value of these Restricted Stock Grants was approximately \$3.7 million as of the date of grant and is recorded as a compensation expense and paid in capital over the vesting period.

On February 1, 2010, the Company awarded Restricted Stock Grants for 31,000 shares of common stock at a fair market value of approximately \$1.5 million to certain members of the Board of Directors for services rendered in 2009. One-third of the shares of restricted common stock covered by these awards vests on each of December 31, 2010, December 31, 2011, and December 31, 2012.

On May 11, 2010, the Company awarded Restricted Stock Grants for 16,000 shares of common stock at a fair market value of approximately \$0.9 million to the Board of Directors for services rendered in 2009. One-third of the shares of restricted common stock covered by these awards vests on each of November 11, 2010, May 11, 2011, and May 11, 2012.

Table of Contents

Note 10 Long-Term Cash Incentive Plan

On May 11, 2010, the Company's Board of Directors approved a Long-Term Cash Incentive Plan (the "2010 LTIP") to provide a long-term cash bonus opportunity to certain members of the Company's management. Such Board approval was upon recommendation by the Company's Compensation, Nominating and Corporate Governance Committee (the "Committee").

The total cumulative payment for all participants (the "Eligible Payment") is based upon certain performance conditions being met.

The Committee has responsibility for administering the 2010 LTIP and may use its reasonable discretion to adjust the performance criteria or Eligible Payments to take into account the impact of any major or unforeseen transaction or events. The 2010 LTIP includes 32 participants. The Company's executive officers are not participants in the 2010 LTIP. The Eligible Payment will be paid in cash upon completion of the Company's annual audit for the 2012 fiscal year and upon satisfaction of the vesting conditions as outlined in the 2010 LTIP and, including employer costs, is currently estimated to be approximately \$2.9 million. As of June 30, 2010, the Company had accrued compensation expense of approximately \$0.2 million for the 2010 LTIP.

On May 15, 2007, the Company's Board of Directors approved the 2007 LTIP to provide a long-term cash bonus opportunity to certain members of the Company's management and executive officers. Such Board approval was upon recommendation by the Committee. The Company's Chief Executive Officer and President were not participants in the LTIP. On January 18, 2010, the Committee approved payments under the 2007 LTIP of approximately \$2.8 million. The approved payments were fully accrued as of December 31, 2009 and were paid in cash on March 3, 2010.

The Company is accounting for the LTIPs in accordance with FASB ASC 718. The amount accrued for the 2010 LTIP reflects the Committee's evaluation of the 2010 LTIP based on forecasts and other information presented to the Committee and are subject to performance in line with forecasts and final evaluation and determination by the Committee. There can be no assurances that our estimates of the probable outcome will be representative of the actual outcome.

Note 11 Transactions with Related Parties

Privileged Access

On August 14, 2008, the Company acquired substantially all of the assets and assumed certain liabilities of Privileged Access for an unsecured note payable of \$2.0 million which was paid off during the year ended December 31, 2009 (the "PA Transaction"). Prior to the purchase, Privileged Access had a 12-year lease with the Company for 82 Properties that terminated upon closing. At closing, approximately \$4.8 million of Privileged Access cash was deposited into an escrow account for liabilities that Privileged Access has retained. The balance in the escrow account as of June 30, 2010 was approximately \$1.8 million.

Mr. Joe McAdams, the Company's President effective January 1, 2008, owns 100% of Privileged Access. The Company has entered into an employment agreement effective as of January 1, 2008 (the "Employment Agreement") with Mr. McAdams which provides for an initial term of three years, but such Employment Agreement can be terminated at any time. The Employment Agreement provides for a minimum annual base salary of \$0.3 million, with the option to receive an annual bonus in an amount up to three times his base salary. Mr. McAdams is also subject to a non-compete clause and to mitigate potential conflicts of interest shall have no authority, on behalf of the Company and its affiliates, to enter into any agreement with any entity controlling, controlled by or affiliated with Privileged Access. Prior to forming Privileged Access, Mr. McAdams was a member of our Board of Directors from January 2004 to October 2005. Simultaneous with his appointment as president of Equity LifeStyle Properties, Inc., Mr. McAdams resigned as Privileged Access's Chairman, President and CEO. However, he was on the board of PATT Holding Company, LLC ("PATT"), until the entity was dissolved in 2008.

Table of Contents

Note 11 Transactions with Related Parties (continued)

Corporate headquarters

The Company leases office space from Two North Riverside Plaza Joint Venture Limited Partnership, an entity affiliated with Mr. Samuel Zell, the Company's Chairman of the Board. Payments made in accordance with the lease agreement to this entity amounted to approximately \$0.1 million and \$0.6 million for the six months ended June 30, 2010 and 2009, respectively. Only one month of rent was paid during the six months ended June 30, 2010 as the landlord had provided six months free rent in connection with a new lease for the office space that commenced December 1, 2009. As of June 30, 2010 and December 31, 2009, approximately \$0.6 million and \$0.1 million, respectively, were accrued with respect to this office lease.

Other

In January 2009, the Company entered into a consulting agreement with the son of Mr. Howard Walker, to provide assistance with the Company's internet web marketing strategy. Mr. Walker is Vice-Chairman of the Company's Board of Directors. The consulting agreement was for a term of six months at a total cost of no more than \$48,000 and expired on June 30, 2009.

Note 12 Commitments and Contingencies

California Rent Control Litigation

The Company has filed two lawsuits in federal court against the City of San Rafael, challenging its rent control ordinance on constitutional grounds. The Company believes that one of those lawsuits was settled by the City agreeing to amend the ordinance to permit adjustments to market rent upon turnover. The City subsequently rejected the settlement agreement. The Court initially found the settlement agreement was binding on the City, but then reconsidered and determined to submit the claim of breach of the settlement agreement to a jury. In October 2002, a jury found no breach of the settlement agreement.

The Company's constitutional claims against the City were tried in a bench trial during April 2007. On January 29, 2008, the United States District Court for the Northern District of California issued its Findings of Facts, Conclusions of Law and Order Thereon (the "Order"). The Company filed the Order on Form 8-K on January 31, 2008.

On April 17, 2009, the Court issued its Order for Entry of Judgment ("April 2009 Order"), and its Order relating to the parties' requests for attorneys' fees (the "Fee Order"). The Company filed the April 2009 Order and the Fee Order on Form 8-K on April 20, 2009. In the April 2009 Order, the Court stated that the judgment to be entered will gradually phase out the City's site rent regulation scheme that the Court has found unconstitutional. Existing residents of the Company's Property in San Rafael will be able to continue to pay site rent as if the Ordinance were to remain in effect for a period of ten years. Enforcement of the Ordinance will be immediately enjoined with respect to new residents of the Property and expire entirely ten years from the date of judgment. When a current site lessee at the Property transfers his leasehold to a new resident upon the sale of the accompanying mobilehome, the Ordinance shall be enjoined as to the next resident and any future resident. The Ordinance shall be enjoined as to all residents ten years from the entry of judgment.

The Fee Order awarded certain amounts of attorneys' fees to the Company with respect to its constitutional claims, certain amounts to the City with respect to the Company's contract claims, the net effect of which was that the City must pay the Company approximately \$1.8 million for attorneys' fees. On June 10, 2009, the Court entered an order on fees and costs which, in addition to the net attorneys' fees of approximately \$1.8 million the Court previously ordered the City to pay the Company, orders the City to pay to the Company net costs of approximately \$0.3 million. On June 30, 2009, the Court entered final judgment as anticipated by the April 2009 Order. The City filed a notice of appeal, and posted a bond of approximately \$2.1 million securing a stay pending appeal of the enforcement of the order awarding attorneys' fees and costs to the Company. The residents' association, which intervened in the case,

Table of Contents**Note 12 Commitments and Contingencies (continued)**

filed a motion in the Court of Appeals, which the City joined, seeking a stay of the injunctions, which the Court of Appeals denied. The Company filed a notice of cross-appeal. On February 2, 2010, the City and the Association filed their opening brief on appeal. On June 22, 2010, the parties participated in a settlement mediation before a mediator of the Court of Appeals Mediation Program, which did not result in settlement. The briefing schedule for the appeal was suspended pending the outcome of the mediation, and that suspension has been continued pending ruling by the Court of Appeals in an unrelated case involving a challenge to the rent control ordinance of the City of Goleta, California.

In June 2003, the Company won a judgment against the City of Santee in California Superior Court (Case No. 777094). The effect of the judgment was to invalidate, on state law grounds, two rent control ordinances the City of Santee had enforced against the Company and other property owners. However, the Court allowed the City to continue to enforce a rent control ordinance that predated the two invalid ordinances (the prior ordinance). As a result of the judgment the Company was entitled to collect a one-time rent increase based upon the difference in annual adjustments between the invalid ordinance(s) and the prior ordinance and to adjust its base rents to reflect what the Company could have charged had the prior ordinance been continually in effect. The City of Santee appealed the judgment. The Court of Appeal and California Supreme Court refused to stay enforcement of these rent adjustments pending appeal. After the City was unable to obtain a stay, the City and the tenant association each sued the Company in separate actions alleging the rent adjustments pursuant to the judgment violate the prior ordinance (Case Nos. GIE 020887 and GIE 020524). They seek to rescind the rent adjustments, refunds of amounts paid, and penalties and damages in these separate actions. On January 25, 2005, the California Court of Appeal reversed the judgment in part and affirmed it in part with a remand. The Court of Appeal affirmed that one ordinance was unlawfully adopted and therefore void and that the second ordinance contained unconstitutional provisions. However, the Court ruled the City had the authority to cure the issues with the first ordinance retroactively and that the City could sever the unconstitutional provisions in the second ordinance. On remand, the trial court was directed to decide the issue of damages to the Company from these ordinances, which the Company believes is consistent not only with the Company receiving the economic benefit of invalidating one of the ordinances, but also consistent with the Company's position that it is entitled to market rent and not merely a higher amount of regulated rent. In the remand action, the trial court granted a motion for restitution filed by the City in Case No. GIE 020524. The Company filed a notice of appeal on July 2, 2008. In order to avoid further trial and the related expenses, the Company agreed to a stipulated judgment, which requires the Company to put into escrow after entry of the judgment, pending appeal, funds sufficient to pay the judgment with prejudgment interest while preserving the Company's appellate rights. Subsequently, the trial court also awarded the City some but not all of the prejudgment interest it sought. The stipulated judgment was entered on November 5, 2008, and the Company deposited into the escrow the amounts required by the judgment and continues to deposit monthly disputed amounts until the disputes are resolved on appeal. On appeal, the California Court of Appeal reversed the trial court's ruling that the City had standing to obtain restitution from the Company for the additional rents the Company collected in reliance on the trial court's subsequently reversed ruling that two of the prior ordinances were void, and affirmed the remainder of the trial court's rulings. The Company filed with the Court of Appeal a petition for rehearing. Based on the petition for rehearing, the Court of Appeal modified its opinion in certain respects, but did not change its judgment. The Company filed a petition for review by the California Supreme Court, which was denied. Accordingly, the additional rents held in escrow will be disbursed to the residents, and the Company has ceased collecting the disputed rent amounts.

The tenant association continued to seek damages, penalties and fees in their separate action based on the same claims made on the tenants' behalf by the City in the City's case. The Company moved for judgment on the pleadings in the tenant association's case on the ground that the tenant association's case is moot in light of the stipulated judgment in the City's case. On November 6, 2008, the Court granted the Company's motion for judgment on the pleadings without leave to amend. The tenant association appealed. In June 2010, the Court of Appeal remanded the case for further proceedings, ruling that (i) the mootness finding was not correct when entered but could be reasserted after the amounts held in escrow have been disbursed to the residents; (ii) there is no basis for the tenant association's punitive damage claim or its claim under the California Mobile Home Residency Law; and (3) the trial court should consider certain of the tenant association's other claims.

Table of Contents**Note 12 Commitments and Contingencies (continued)**

In addition, the Company has sued the City of Santee in federal court alleging all three of the ordinances are unconstitutional under the Fifth and Fourteenth Amendments to the United States Constitution. Thus, it is the Company's position that the ordinances are subject to invalidation as a matter of law in the federal court action. Separately, the federal district court granted the City's Motion for Summary Judgment in the Company's federal court lawsuit. This decision was based not on the merits, but on procedural grounds, including that the Company's claims were moot given its success in the state court case. The Company appealed the decision, and on May 3, 2007 the United States Court of Appeals for the Ninth Circuit affirmed the District Court's decision on procedural grounds. The Company intends to continue to pursue an adjudication of its rights on the merits in Federal Court through claims that are not subject to such procedural defenses.

Colony Park

On December 1, 2006, a group of tenants at the Company's Colony Park Property in Ceres, California filed a complaint in the California Superior Court for Stanislaus County alleging that the Company has failed to properly maintain the Property and has improperly reduced the services provided to the tenants, among other allegations. The Company has answered the complaint by denying all material allegations and filed a counterclaim for declaratory relief and damages. The case will proceed in Superior Court because the Company's motion to compel arbitration was denied and the denial was upheld on appeal. Discovery has commenced. The Company filed a motion for summary adjudication of various of the plaintiffs' claims and allegations, which was denied. Trial of the case began on July 27, 2010 and is ongoing. The Company believes that the allegations in the first amended complaint are without merit, and is vigorously defending the lawsuit.

California's Department of Housing and Community Development (HCD) issued a Notice of Violation dated August 21, 2006 regarding the sewer system at Colony Park. The notice ordered the Company to replace the Property's sewer system or show justification from a third party explaining why the sewer system does not need to be replaced. The Company has provided such third party report to HCD and believes that the sewer system does not need to be replaced. Based upon information provided by the Company to HCD to date, HCD has indicated that it agrees that the entire system does not need to be replaced.

California Hawaiian

On April 30, 2009, a group of tenants at the Company's California Hawaiian Property in San Jose, California filed a complaint in the California Superior Court for Santa Clara County alleging that the Company has failed to properly maintain the Property and has improperly reduced the services provided to the tenants, among other allegations. The Company moved to compel arbitration and stay the proceedings, to dismiss the case, and to strike portions of the complaint. By order dated October 8, 2009, the Court granted the Company's motion to compel arbitration and stayed the court proceedings pending the outcome of the arbitration. The plaintiffs filed with the Court of Appeal a petition for writ seeking to overturn the trial court's arbitration and stay orders. The Company submitted a preliminary opposition and the Court of Appeal issued an order allowing further written submissions and requests for oral argument, which the parties have submitted. Oral argument has not been set. The Company believes that the allegations in the complaint are without merit, and intends to vigorously defend the litigation.

Hurricane Claim Litigation

On June 22, 2007, the Company filed suit in the Circuit Court of Cook County, Illinois (Case No. 07CH16548), against its insurance carriers, Hartford Fire Insurance Company, Essex Insurance Company, Lexington Insurance Company, and Westchester Surplus Lines Insurance Company, regarding a coverage dispute arising from losses suffered by the Company as a result of hurricanes that occurred in Florida in 2004 and 2005. The Company also brought claims against Aon Risk Services, Inc. of Illinois (Aon), the Company's former insurance broker, regarding the procurement of appropriate insurance coverage for the Company. The Company is seeking declaratory relief establishing the coverage obligations of its carriers, as well as a judgment for breach of contract, breach of the covenant of good faith and fair dealing, unfair settlement practices and, as to Aon, for failure to provide ordinary care in the selling and procuring of insurance. The claims involved in this action exceed \$11 million.

Table of Contents

Note 12 Commitments and Contingencies (continued)

In response to motions to dismiss, the trial court dismissed: (1) the requests for declaratory relief as being duplicative of the claims for breach of contract and (2) certain of the breach of contract claims as being not ripe until the limits of underlying insurance policies have been exhausted. On or about January 28, 2008, the Company filed its Second Amended Complaint. Aon filed a motion to dismiss the Second Amended Complaint in its entirety as against Aon, and the insurers moved to dismiss portions of the Second Amended Complaint as against them. The insurers motion was denied and they have now answered the Second Amended Complaint. Aon's motion was granted, with leave granted to the Company to file an amended pleading containing greater factual specificity. The Company did so by adding to the Second Amended Complaint a new Count VII against Aon, which the Company filed on August 15, 2008. Aon then answered the new Count VII in part and moved to strike certain of its allegations. The Court left Count VII undisturbed, except for ruling that the Company's alternative claim that Aon was negligent in carrying out its duty to give notice to certain of the insurance carriers on the Company's behalf should be re-pleaded in the form of a breach of contract theory. On February 2, 2009, the Company filed such a claim in the form of a new Count VIII against Aon. Aon answered Count VIII. In January 2010, the parties engaged in a settlement mediation, which did not result in a settlement. In June 2010, the Company filed motions for summary judgment against the insurance companies, which are pending. Discovery is proceeding.

Since filing the lawsuit, the Company has received additional payments from Essex Insurance Company, Lexington Insurance Company, and Westchester Surplus Lines Insurance Company, of approximately \$3.7 million. In January 2008 the Company entered a settlement with Hartford Fire Insurance Company pursuant to which Hartford paid the Company the remaining disputed limits of Hartford's insurance policy, in the amount of approximately \$0.5 million, and the Company dismissed and released Hartford from additional claims for interest and bad faith claims handling.

California and Washington Wage Claim Class Actions

On October 16, 2008, the Company was served with a class action lawsuit in California state court filed by a single named plaintiff. The suit alleges that, at the time of the PA Transaction, the Company and other named defendants willfully failed to pay former California employees of Privileged Access and its affiliates (PA) who became employees of the Company all of the wages they earned during their employment with PA, including accrued vacation time. The suit also alleges that the Company improperly stripped those employees of their seniority. The suit asserts claims for alleged violation of the California Labor Code; alleged violation of the California Business & Professions Code and for alleged unfair business practices; alleged breach of contract; alleged breach of the duty of good faith and fair dealing; and for alleged unjust enrichment. The complaint seeks, among other relief, compensatory and statutory damages; restitution; pre-judgment and post-judgment interest; attorney's fees, expenses and costs; penalties; and exemplary and punitive damages. The complaint does not specify a dollar amount sought. On December 18, 2008, the Company filed a demurrer seeking dismissal of the complaint in its entirety without leave to amend. On May 14, 2009, the Court granted the Company's demurrer and dismissed the complaint, in part without leave to amend and in part with leave to amend. On June 2, 2009, the plaintiff filed an amended complaint. On July 6, 2009, the Company filed a demurrer seeking dismissal of the amended complaint in its entirety without leave to amend. On October 20, 2009, the Court granted the Company's demurrer and dismissed the amended complaint, in part without leave to amend and in part with leave to amend. On November 9, 2009, the plaintiff filed a third amended complaint. On December 11, 2009, the Company filed a demurrer seeking dismissal of the third amended complaint in its entirety without leave to amend. On February 23, 2010, the court dismissed without leave to amend the claim for breach of the duty of good faith and fair dealings, and otherwise denied the Company's demurrer. Discovery is proceeding. A hearing on the plaintiff's motion for class certification is set for February 15, 2011. The Company will vigorously defend the lawsuit.

On December 16, 2008, the Company was served with a class action lawsuit in Washington state court filed by a single named plaintiff, represented by the same counsel as the plaintiff in the California class action. The complaint asserts on behalf of a putative class of Washington employees of PA who became employees of the Company substantially similar allegations as are alleged in the California class action. The Company moved to dismiss the complaint. On April 3, 2009, the court dismissed: (1) the first cause of action, which alleged a claim under the

Washington Labor Code for failure to pay accrued vacation time; (2) the second cause of action, which alleged a claim under the Washington Labor Code for unpaid wages on termination; (3) the third cause of action, which alleged a claim

Table of Contents

Note 12 Commitments and Contingencies (continued)

under the Washington Labor Code for payment of wages less than entitled; and (4) the fourth cause of action, which alleged a claim under the Washington Consumer Protection Act. The court did not dismiss the fifth cause of action for breach of contract, the sixth cause of action of the breach of the duty of good faith and fair dealing; and the seventh cause of action for unjust enrichment. On May 22, 2009, the Company filed a motion for summary judgment on the causes of action not previously dismissed, which was denied. With leave of court, the plaintiff filed an amended complaint, the material allegations of which the Company denied in an answer filed on September 11, 2009. Discovery is proceeding. The Company will vigorously defend the lawsuit.

Cascade

On December 10, 2008, the King County Hospital District No. 4 (the Hospital District) filed suit against the Company seeking a declaratory judgment that it had properly rescinded an agreement to acquire the Company's Thousand Trails Cascade Property (Cascade) located 20 miles east of Seattle, Washington. The agreement was entered into after the Hospital District had passed a resolution authorizing the condemnation of Cascade. Under the agreement, in lieu of a formal condemnation proceeding, the Company agreed to accept from the Hospital District \$12.5 million for the Property with an earnest money deposit of approximately \$0.4 million. The Company has not included in income the earnest money deposit received. The closing of the transaction was originally scheduled in January 2008, and was extended to April 2009. The Company has filed an answer to the Hospital District's suit and a counterclaim seeking recovery of the amounts owed under the agreement. On February 27, 2009, the Hospital District filed a summary judgment motion arguing that it was entitled to rescind the agreement because the Property is zoned residential and the Company did not provide the Hospital District a residential real estate disclosure form. On April 2, 2009, the Court denied the Hospital District's summary judgment motion, ruling that a real property owner who is compelled to transfer land under the power of eminent domain is not legally required to provide a disclosure form. The Hospital District filed a motion for reconsideration of the summary judgment ruling. On April 22, 2009, the Court reaffirmed its ruling that a real property owner that is compelled to transfer land under eminent domain is not legally required to provide a disclosure form. On May 22, 2009, the Court denied the Hospital District's motion for reconsideration in its entirety, reaffirmed its ruling that condemnation was the reason for the transaction between the Company and the Hospital District, and ruled that the Hospital District is not entitled to take discovery in an effort to establish otherwise. On April 16, 2010, the Company filed motion for summary judgment seeking dismissal of the Hospital District's defenses and seeking an award of specific performance of the parties' contractual obligations. On June 3, 2010, the Court granted in part and denied in part the Company's motion for summary judgment, finding that the District defaulted on the contract, granting summary judgment to the Company with respect to the Hospital District's defenses except for the defense of commercial frustration, and holding that the case will proceed forward on the defense of commercial frustration. The case is set for trial on November 8, 2010. The Company will vigorously pursue its rights under the agreement. Due to the anticipated transfer of the Property, the Company closed Cascade in October 2007.

Creekside

On December 29, 2009, the Company sent to the loan servicer a notice of imminent default along with a deed-in-lieu of foreclosure agreement executed by the Company (the Proposed DIL Agreement) regarding our nonrecourse mortgage loan of approximately \$3.6 million secured by our Creekside property, which went into default in January 2010. A receiver was appointed by agreed order, and the Company has recorded a loss on disposition of approximately \$0.2 million during the quarter ended March 31, 2010. The Lender has alleged that the borrower misappropriated rents from the Property after the default and that payment of accrued and unpaid management fees may constitute an unauthorized transfer in violation of Michigan's Uniform Fraudulent Transfer Act, apparently referring to a payment of approximately \$130,700, made to the Company's affiliate that managed the Property, for unpaid and accrued management fees and advances of operating shortfalls. The Company disputes and will vigorously defend against any allegation that there has been any misappropriation of rents, any unauthorized or improper transfers, or that there is any personal liability for any amounts claimed to be due and owing. The Company and the lender are in ongoing negotiations regarding a method of transferring title to the Property to the Lender.

Table of Contents

Note 12 Commitments and Contingencies (continued)

Other

The Company is involved in various other legal proceedings arising in the ordinary course of business. Such proceedings include, but are not limited to, notices, consent decrees, additional permit requirements and other similar enforcement actions by governmental agencies relating to the Company's water and wastewater treatment plants and other waste treatment facilities. Additionally, in the ordinary course of business, the Company's operations are subject to audit by various taxing authorities. Management believes that all proceedings herein described or referred to, taken together, are not expected to have a material adverse impact on the Company. In addition, to the extent any such proceedings or audits relate to newly acquired Properties, the Company considers any potential indemnification obligations of sellers in favor of the Company.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

The Company is a self-administered, self-managed, real estate investment trust (REIT) with headquarters in Chicago, Illinois. The Company is a fully integrated owner and operator of lifestyle-oriented properties (Properties). The Company leases individual developed areas (sites) with access to utilities for placement of factory built homes, cottages, cabins or recreational vehicles (RVs). Customers may lease individual sites or purchase right-to-use contracts providing the customer access to specific Properties for limited stays. The Company was formed to continue the property operations, business objectives and acquisition strategies of an entity that had owned and operated Properties since 1969. As of June 30, 2010, the Company owned or had an ownership interest in a portfolio of 307 Properties located throughout the United States and Canada containing 110,984 residential sites. These Properties are located in 27 states and British Columbia, with the number of Properties in each state or province shown parenthetically, as follows: Florida (86), California (48), Arizona (37), Texas (15), Washington (15), Pennsylvania (12), Colorado (10), Oregon (9), North Carolina (8), Delaware (7), Nevada (6), New York (6), Virginia (6), Wisconsin (5), Indiana (5), Maine (5), Illinois (4), Massachusetts (3), New Jersey (3), South Carolina (3), Utah (3), Michigan (2), New Hampshire (2), Ohio (2), Tennessee (2), Alabama (1), Kentucky (1) and British Columbia (1).

This report includes certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. When used, words such as anticipate, expect, believe, project, intend, may be and will similar words or phrases, or the negative thereof, unless the context requires otherwise, are intended to identify forward-looking statements. These forward-looking statements are subject to numerous assumptions, risks and uncertainties, including, but not limited to:

- our ability to control costs, real estate market conditions, the actual rate of decline in customers, the actual use of sites by customers and our success in acquiring new customers at our Properties (including those recently acquired);

- our ability to maintain historical rental rates and occupancy with respect to Properties currently owned or that we may acquire;

- our assumptions about rental and home sales markets;

- in the age-qualified Properties, home sales results could be impacted by the ability of potential homebuyers to sell their existing residences as well as by financial, credit and capital markets volatility;

- results from home sales and occupancy will continue to be impacted by local economic conditions, lack of affordable manufactured home financing and competition from alternative housing options including site-built single-family housing;

- impact of government intervention to stabilize site-built single family housing and not manufactured housing;

- the completion of future acquisitions, if any, and timing with respect thereto and the effective integration and successful realization of cost savings;

- ability to obtain financing or refinance existing debt on favorable terms or at all;

- the effect of interest rates;

- the dilutive effects of issuing additional common stock;

- the effect of accounting for the sale of agreements to customers representing a right-to-use the Properties under the Codification Topic *Revenue Recognition*; and

other risks indicated from time to time in our filings with the Securities and Exchange Commission.

These forward-looking statements are based on management's present expectations and beliefs about future events. As with any projection or forecast, these statements are inherently susceptible to uncertainty and changes in circumstances. The Company is under no obligation to, and expressly disclaims any obligation to, update or alter its forward-looking statements whether as a result of such changes, new information, subsequent events or otherwise.

Table of Contents

The following chart lists the Properties acquired, invested in, or sold since January 1, 2009.

Property	Transaction Date	Sites
Total Sites as of January 1, 2009		112,257
Property or Portfolio (# of Properties in parentheses):		
Acquisitions:		
Desert Vista (1)	April 21, 2010	125
St. George (1)	April 21, 2010	123
Tall Chief (1)	April 21, 2010	180
Valley Vista (1)	April 21, 2010	145
Expansion Site Development and other:		
Sites added (reconfigured) in 2009		(1)
Sites added (reconfigured) in 2010		1
Dispositions:		
Round Top JV (1)	February 13, 2009	(319)
Pine Haven JV (1)	February 13, 2009	(625)
Caledonia (1)	April 17, 2009	(247)
Casa Village (1)	July 20, 2009	(490)
Creekside (1)	January 10, 2010	(165)
Total Sites as of June 30, 2010		110,984

Since January 1, 2009, the gross investment in real estate has increased from \$2,491 million to \$2,557 million as of June 30, 2010.

Table of Contents***Outlook***

Occupancy in our Properties as well as our ability to increase rental rates directly affects revenues. Our revenue streams are predominantly derived from customers renting our sites on a long-term basis. Revenues are subject to seasonal fluctuations and as such quarterly interim results may not be indicative of full fiscal year results.

We have approximately 64,800 annual sites, approximately 8,900 seasonal sites, which are leased to customers generally for three to six months, and approximately 9,900 transient sites, occupied by customers who lease sites on a short-term basis. The revenue from seasonal and transient sites is generally higher during the first and third quarters. We expect to service over 100,000 customers at our transient sites and we consider this revenue stream to be our most volatile. It is subject to weather conditions, gas prices, and other factors affecting the marginal RV customer's vacation and travel preferences. Finally, we have approximately 24,300 sites designated as right-to-use sites which are primarily utilized to service the approximately 108,000 customers who own right-to-use contracts. We also have interests in Properties containing approximately 3,100 sites for which revenue is classified as Equity in income from unconsolidated joint ventures in the Consolidated Statements of Operations.

	Total Sites as of June 30, 2010 (rounded to 000s)
Community sites	44,200
Resort sites:	
Annual	20,600
Seasonal	8,900
Transient	9,900
Right-to-use ⁽¹⁾	24,300
Joint Ventures ⁽²⁾	3,100
	111,000

(1) Includes approximately 2,700 sites rented on an annual basis.

(2) Joint Venture income is included in Equity in income of unconsolidated joint ventures.

A significant portion of our rental agreements on community sites are directly or indirectly tied to published CPI statistics that are issued from June through September each year. We currently expect our 2010 community base rental income to increase approximately 2.2% as compared to 2009. The most recent CPI release for June of 2010 shows 1.05% growth over the prior year.

We believe that the disruption in the site-built housing market is contributing to the low new home sales volumes we are experiencing as potential customers are not able to sell their existing site-built homes. Customer have also become more price sensitive which is reflected in an increase in used home sale volumes.

In this environment, we believe that customer demand for rentals, which does not require a down payment, is high. We are adapting to this by renting our vacant new homes. This may represent an attractive source of occupancy if we can convert renters to new homebuyers in the future. We are also focusing on smaller, more energy efficient and more affordable homes in our manufactured home Properties.

Our manufactured home rental operations have been increasing since 2007. As of June 30, 2010, occupied manufactured home rentals increased to 2,071 or 29.3%, from 1,602 as of June 30, 2009. Net operating income from rental operations increased to approximately \$6.5 million for the six months ended June 30, 2010 from approximately \$5.4 million for the six months ended June 30, 2009. We believe that, unlike the home sales business, at this time we compete effectively with other types of rentals (i.e. apartments). We are currently evaluating whether we want to continue to invest in additional rental units.

In our resort Properties, we continue to work on extending customer stays. We have had success lengthening customer stays.

Table of Contents

We have introduced low-cost membership products that focus on the installed base of almost eight million RV owners. Such products may include right-to-use contracts that entitle the purchaser to use certain properties (the Agreements). We are offering a Zone Park Pass (ZPP), which can be purchased for one to four zones of the United States and requires annual payments of \$499. This replaces high cost products that were sold at Properties after tours and lengthy sales presentations. The Company historically incurred significant marketing costs to generate leads that resulted in a less people attending tours.

A single zone requires no upfront payment and additional zones require a modest upfront payment. As of June 30, 2010, we have sold approximately 1,500 ZPP s this year. The ZPP s sales are contributing to a reduction in the net attrition of the customers who own right-to-use Agreements and we are expecting the number of members as of December 31, 2010 to be approximately equal to the 106,000 active dues paying members that we started the year with.

Existing customers may be offered an upgrade Agreement from time-to-time. The upgrade Agreement is currently distinguishable from a new Agreement that a customer would enter into by (1) increased length of consecutive stay by 50% (i.e. up to 21 days); (2) ability to make earlier advance reservations; (3) discounts on rental units and (4) access to additional Properties, which may include discounts at non-membership RV Properties. Each upgrade requires a nonrefundable upfront payment. The Company may finance the nonrefundable upfront payment under any Agreement.

Supplemental Property Disclosure

We provide the following disclosures with respect to certain assets:

Tropical Palms - On July 15, 2008, Tropical Palms, a 541-site resort Property located in Kissimmee, Florida, was leased to a new operator for 12 years. The lease provides for an initial fixed annual lease payment of \$1.6 million, which escalates at the greater of CPI or 3%. Percentage rent payments are provided for beginning in 2010, subject to gross revenue floors. The Company will match the lessee s capital investment in new rental units at the Property up to a maximum of \$1.5 million. The lessee will pay the Company additional rent equal to 8% per year on the Company s capital investment. The lease income recognized during the six months ended June 30, 2010 and 2009 was approximately \$1.0 million and \$0.9 million, respectively, and is included in income from other investments, net. During the six months ended June 30, 2010 and 2009, the Company spent approximately zero and \$0.6 million, respectively, to match the lessee s investment in new rental units at the Property.

Government Stimulus

In response to recent market disruptions, legislators and financial regulators implemented a number of mechanisms designed to add stability to the financial markets, including the provision of direct and indirect assistance to distressed financial institutions, assistance by the banking authorities in arranging acquisitions of weakened banks and broker-dealers, implementation of programs by the Federal Reserve to provide liquidity to the commercial paper markets and temporary prohibitions on short sales of certain financial institution securities. Numerous actions have been taken by the Federal Reserve, Congress, U.S. Treasury, the SEC and others to address the current liquidity and credit crisis that has followed the sub-prime crisis that commenced in 2007. These measures include, but are not limited to various legislative and regulatory efforts, homeowner relief that encourages loan restructuring and modification; the establishment of significant liquidity and credit facilities for financial institutions and investment banks; the lowering of the federal funds rate, including two 50 basis point decreases in October of 2008; emergency action against short selling practices; a temporary guaranty program for money market funds; the establishment of a commercial paper funding facility to provide back-stop liquidity to commercial paper issuers; and coordinated international efforts to address illiquidity and other weaknesses in the banking sector. It is not clear at this time what impact these liquidity and funding initiatives of the Federal Reserve and other agencies that have been previously announced, and any additional programs that may be initiated in the future will have on the financial markets, including the extreme levels of volatility and limited credit availability currently being experienced, or on the U.S. banking and financial industries and the broader U.S. and global economies.

Table of Contents

Specifically, the Company believes that programs intended to provide relief to current or potential site-built single family homeowners negatively impacts its business.

Further, the overall effects of the legislative and regulatory efforts on the financial markets is uncertain, and they may not have the intended stabilization effects. Should these legislative or regulatory initiatives fail to stabilize and add liquidity to the financial markets, our business, financial condition, results of operations and prospects could be materially and adversely affected. Even if legislative or regulatory initiatives or other efforts successfully stabilize and add liquidity to the financial markets, we may need to modify our strategies, businesses or operations, and we may incur increased capital requirements and constraints or additional costs in order to satisfy new regulatory requirements or to compete in a changed business environment. It is uncertain what effects recently enacted or future legislation or regulatory initiatives will have on us.

Given the volatile nature of the current market disruption and the uncertainties underlying efforts to mitigate or reverse the disruption, we may not timely anticipate or manage existing, new or additional risks, contingencies or developments, including regulatory developments and trends in new products and services, in the current or future environment. Our failure to do so could materially and adversely affect our business, financial condition, results of operations and prospects.

Critical Accounting Policies and Estimates

Refer to the 2009 Form 10-K for a discussion of our critical accounting policies, which includes impairment of real estate assets and investments, investments in unconsolidated joint ventures, and accounting for stock compensation. During the six months ended June 30, 2010, there were no changes to these policies.

The FASB finalized the Codification of GAAP effective for periods ending on or after September 15, 2009. References to GAAP issued by the FASB are to the Codification. The Codification did not change how the Company accounts for its transactions or the nature of the related disclosures made.

Table of Contents**Results of Operations**

The results of operations for the one Property disposed of during 2010 and two Properties sold during 2009 have been classified as income from discontinued operations, pursuant to FASB ASC 360-10-35. (See Note 4 in the Notes to the Consolidated Financial Statements for summarized information for these Properties.)

Comparison of the Quarter Ended June 30, 2010 to the Quarter Ended June 30, 2009***Income from Property Operations***

The following table summarizes certain financial and statistical data for the Property Operations for all Properties owned and operated for the same period in both years (Core Portfolio) and the Total Portfolio for the quarters ended June 30, 2010 and 2009 (amounts in thousands). The Core Portfolio may change from time-to-time depending on acquisitions, dispositions and significant transactions or unique situations. The Core Portfolio in this Form 10-Q includes all Properties acquired prior to December 31, 2008 and which have been owned and operated by the Company continuously since January 1, 2009. Core growth percentages exclude the impact of GAAP deferrals of right-to-use contract sales and related commissions.

	Core Portfolio				Total Portfolio			
			Increase	%			Increase	%
	2010	2009	/		2010	2009	/	
			(Decrease)	Change			(Decrease)	Change
Community base rental income	\$ 64,587	\$ 63,289	\$ 1,298	2.1%	\$ 64,601	\$ 63,318	\$ 1,283	2.0%
Resort base rental income	27,630	26,960	670	2.5%	28,504	27,747	757	2.7%
Right-to-use annual payments	12,889	12,702	187	1.5%	12,889	12,702	187	1.5%
Right-to-use contracts current period, gross	5,681	5,868	(187)	(3.2%)	5,681	5,869	(188)	(3.2%)
Utility and other income	11,835	11,631	204	1.8%	11,918	11,720	198	1.7%
Property operating revenues, excluding deferrals	122,622	120,450	2,172	1.8%	123,593	121,356	2,237	1.8%
Property operating and maintenance	46,273	44,952	1,321	2.9%	46,998	45,565	1,433	3.1%
Real estate taxes	8,272	8,186	86	1.1%	8,326	8,235	91	1.1%
Sales and marketing, gross	3,585	3,676	(91)	(2.5%)	3,585	3,672	(87)	(2.4%)
Property operating expenses, excluding deferrals and Property management	58,130	56,814	1,316	2.3%	58,909	57,472	1,437	2.5%

Property management	7,732	7,730	2	0.0%	7,793	7,730	63	0.8%
Property operating expenses, excluding deferrals	65,862	64,544	1,318	2.0%	66,702	65,202	1,500	2.3%
Income from property operations, excluding deferrals	56,760	55,906	854	1.5%	56,891	56,154	737	1.3%
Right-to-use contract sales, deferred, net	(4,551)	(5,271)	720	13.7%	(4,551)	(5,271)	720	13.7%
Right-to-use contract commissions, deferred net	1,657	1,632	25	1.5%	1,657	1,632	25	1.5%
Income from property operations	\$ 53,866	\$ 52,267	\$ 1,599	3.1%	\$ 53,997	\$ 52,515	\$ 1,482	2.8%

The 1.8% increase in the Core Portfolio property operating revenues primarily reflects: (i) a 2.4% increase in rates in our community base rental income offset by a 0.3% decrease in occupancy (ii) a 2.5% increase in revenues for our resort base income comprised of an increase in annual and seasonal revenue offset by decreases in transient resort revenue and (iii) a 1.5% increase in right-to-use annual payments due to lower net member attrition.

Table of Contents

The 2.0% increase in property operating expenses in the Core Portfolio is primarily due to a 2.9% increase in property operating and maintenance expenses, which includes increases in repair and maintenance expenses, payroll expenses and utility expenses.

Home Sales Operations

The following table summarizes certain financial and statistical data for the Home Sales Operations for the quarters ended June 30, 2010 and 2009 (amounts in thousands).

	2010	2009	Variance	% Change
Gross revenues from new home sales	\$ 657	\$ 675	\$ (18)	(2.7%)
Cost of new home sales	(609)	(1,033)	424	41.0%
Gross profit (loss) from new home sales	48	(358)	406	113.4%
Gross revenues from used home sales	1,290	1,062	228	21.5%
Cost of used home sales	(1,119)	(614)	(505)	(82.2%)
Gross profit from used home sales	171	448	(277)	(61.8%)
Brokered resale revenues, net	242	199	43	21.6%
Home selling expenses	(455)	(640)	185	28.9%
Ancillary services revenues, net	133	418	(285)	(68.2%)
Income from home sales operations and other	\$ 139	\$ 67	\$ 72	107.5%
Home sales volumes				
New home sales ⁽¹⁾	22	21	1	4.8%
Used home sales ⁽²⁾	235	188	47	25.0%
Brokered home resales	191	163	28	17.2%

(1) Includes third party home sales of two and three for the quarters ending June 30, 2010 and 2009, respectively.

(2) Includes third party home sales of one and three for the quarters ending June 30, 2010 and 2009, respectively.

Income from home sales operations and other increased primarily as a result of higher new home gross profits and a decrease in home selling expenses offset by lower profit on used home sales and ancillary services. Gross profit from new home sales in 2009 includes an inventory reserve of approximately \$0.3 million.

Table of Contents***Rental Operations***

The following table summarizes certain financial and statistical data for manufactured home Rental Operations for the quarters ended June 30, 2010 and 2009 (amounts in thousands). Except as otherwise noted, the amounts below are included in Ancillary services revenue, net in the Home Sales Operations table in previous section.

	2010	2009	Variance	% Change
Manufactured homes:				
New Home	\$ 1,882	\$ 1,613	\$ 269	16.7%
Used Home	2,755	2,238	517	23.1%
Rental operations revenue ⁽¹⁾	4,637	3,851	786	20.4%
Property operating and maintenance	777	446	331	74.2%
Real estate taxes	7	12	(5)	(41.7%)
Rental operations expenses	784	458	326	71.2%
Income from rental operations	3,853	3,393	460	13.6%
Depreciation	(575)	(582)	7	1.2%
Income from rental operations, net of depreciation	\$ 3,278	\$ 2,811	\$ 467	16.6%
Number of occupied rentals new, end of period	674	564	110	19.5%
Number of occupied rentals used, end of period	1,397	1,038	359	34.6%

(1) Approximately \$3.6 million and \$2.9 million for the quarters ended June 30, 2010 and 2009, respectively, are included in Community base rental income in the Income from Property Operations table.

The increase in income from rental operations is primarily due to the increase in the number of occupied rentals.

Other Income and Expenses

The following table summarizes other income and expenses for the quarters ended June 30, 2010 and 2009 (amounts in thousands).

	2010	2009	Variance	% Change
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Depreciation on real estate and other costs	\$ (16,940)	\$ (17,143)	\$ 203	1.2%
Interest income	997	1,223	(226)	(18.5%)
Income from other investments, net	1,484	1,866	(382)	(20.5%)
General and administrative	(5,548)	(6,216)	668	10.7%
Rent control initiatives	(299)	(169)	(130)	(76.9%)
Depreciation on corporate assets	(379)	(234)	(145)	(62.0%)
Interest and related amortization	(22,989)	(25,026)	2,037	8.1%
 Total other expenses, net	 \$ (43,674)	 \$ (45,699)	 \$ 2,025	 4.4%

Income from other investments, net decreased primarily due a \$0.8 million gain on the sale of Caledonia recognized during 2009. General and administrative decreased primarily due to decreased professional fees. Rent control initiatives expense increased primarily due to the San Rafael appeal. (See Note 12 in the Notes to Consolidated Financial Statements contained in this Form 10-Q.) Interest and related amortization decreased due to decreased mortgage notes payable outstanding.

Table of Contents**Comparison of the Six Months Ended June 30, 2010 to the Six Months Ended June 30, 2009*****Income from Property Operations***

The following table summarizes certain financial and statistical data for the Property Operations for the Core Portfolio and the Total Portfolio for the six months ended June 30, 2010 and 2009 (amounts in thousands).

	Core Portfolio				Total Portfolio			
	2010	2009	Increase/ (Decrease)	% Change	2010	2009	Increase/ (Decrease)	% Change
Community base rental income	\$ 128,988	\$ 126,437	\$ 2,551	2.0%	\$ 129,023	\$ 126,502	\$ 2,521	2.0%
Resort base rental income	64,048	62,206	1,842	3.0%	65,449	63,205	2,244	3.6%
Right-to-use annual payments	25,074	25,598	(524)	(2.0%)	25,074	25,597	(523)	(2.0%)
Right-to-use contracts current period, gross	10,618	11,444	(826)	(7.2%)	10,618	11,446	(828)	(7.2%)
Utility and other income	24,701	24,030	671	2.8%	24,807	24,124	683	2.8%
Property operating revenues, excluding deferrals	253,429	249,715	3,714	1.5%	254,971	250,874	4,097	1.6%
Property operating and maintenance	89,372	86,776	2,596	3.0%	90,452	87,569	2,883	3.3%
Real estate taxes	16,532	16,621	(89)	(0.5%)	16,640	16,691	(51)	(0.3%)
Sales and marketing, gross	6,848	6,748	100	1.5%	6,848	6,744	104	1.5%
Property operating expenses, excluding deferrals and Property management	112,752	110,145	2,607	2.4%	113,940	111,004	2,936	2.6%
Property management	16,412	16,421	(9)	(0.1%)	16,533	16,434	99	0.6%
Property operating expenses, excluding deferrals	129,164	126,566	2,598	2.1%	130,473	127,438	3,035	2.4%
	124,265	123,149	1,116	0.9%	124,498	123,436	1,062	0.9%

Income from
property
operations,
excluding
deferrals

Right-to-use
contract sales,
deferred, net
Right-to-use
contract
commissions,
deferred net

(8,499)	(10,434)	1,935	18.5%	(8,499)	(10,434)	1,935	18.5%
3,069	3,125	(56)	(1.8%)	3,069	3,125	(56)	(1.8%)

Income from
property
operations

\$ 118,835	\$ 115,840	\$ 2,995	2.6%	\$ 119,068	\$ 116,127	\$ 2,941	2.5%
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The 1.5% increase in the Core Portfolio property operating revenues primarily reflects: (i) a 2.4% increase in rates in our community base rental income offset by a 0.4% decrease in occupancy (ii) a 3.0% increase in revenues for our resort base income comprised of an increase in annual and seasonal revenue offset by decreases in transient resort revenue and (iii) a 2.0% decrease in right-to-use annual payments due to net member attrition.

Table of Contents

The 2.1% increase in property operating expenses in the Core Portfolio is primarily due to a 3.0% increase in property operating and maintenance expenses which includes increases in repair and maintenance expenses, payroll expenses and utility expenses.

Home Sales Operations

The following table summarizes certain financial and statistical data for the Home Sales Operations for the six months ended June 30, 2010 and 2009 (amounts in thousands).

	2010	2009	Variance	% Change
Gross revenues from new home sales	\$ 1,081	\$ 1,501	\$ (420)	(28.0%)
Cost of new home sales	(1,004)	(2,802)	1,798	64.2%
Gross profit (loss) from new home sales	77	(1,301)	1,378	105.9%
Gross revenues from used home sales	1,913	1,447	466	32.2%
Cost of used home sales	(1,883)	(962)	(921)	(95.7%)
Gross profit from used home sales	30	485	(455)	(93.8%)
Brokered resale revenues, net	481	385	96	24.9%
Home selling expenses	(932)	(1,712)	780	45.6%
Ancillary services revenues, net	1,196	1,574	(378)	(24.0%)
Income (loss) from home sales operations and other	\$ 852	\$ (569)	\$ 1,421	249.7%

Home sales volumes

New home sales ⁽¹⁾	40	41	(1)	(2.4%)
Used home sales ⁽²⁾	368	255	113	44.3%
Brokered home resales	378	321	57	17.8%

(1) Includes third party home sales of nine and six for the six months ending June 30, 2010 and 2009, respectively.

(2) Includes third party home sales of two and three for the six months ending June 30, 2010 and 2009, respectively.

Income (loss) from home sales operations and other increased primarily as a result of higher new home gross profits and a decrease in home selling expenses offset by lower profit on used home sales and ancillary services. Gross profit from new home sales in 2009 includes an inventory reserve of approximately \$1.1 million. The favorable variance in home selling expenses in the six months ended June 30, 2010 as compared to the same period last year is primarily the result of decreased advertising costs.

Table of Contents***Rental Operations***

The following table summarizes certain financial and statistical data for manufactured home Rental Operations for the six months ended June 30, 2010 and 2009 (amounts in thousands). Except as otherwise noted, the amounts below are included in Ancillary services revenue, net in the Home Sales Operations table in previous section.

	2010	2009	Variance	% Change
Manufactured homes:				
New Home	\$ 3,681	\$ 3,247	\$ 434	13.4%
Used Home	5,507	4,313	1,194	27.7%
Rental operations revenue ⁽¹⁾	9,188	7,560	1,628	21.5%
Property operating and maintenance	1,361	945	416	44.0%
Real estate taxes	43	86	(43)	(50.0%)
Rental operations expenses	1,404	1,031	373	36.2%
Income from rental operations	7,784	6,529	1,255	19.2%
Depreciation	(1,289)	(1,163)	(126)	(10.8%)
Income from rental operations, net of depreciation	\$ 6,495	\$ 5,366	\$ 1,129	21.0%
Number of occupied rentals new, end of period	674	564	110	19.5%
Number of occupied rentals used, end of period	1,397	1,038	359	34.6%

(1) Approximately \$7.0 million and \$5.7 million for the six months ended June 30, 2010 and 2009, respectively, are included in Community base rental income in the Income from Property Operations table.

The increase in income from rental operations is primarily due to the increase in the number of occupied rentals.

In the ordinary course of business, the Company acquires used homes from customers through purchase, lien sale or abandonment. In a vibrant new home sale market the older homes may be removed from the site to be replaced by a new home. In other cases because of the nature of tenancy rights afforded a purchaser, the used homes are rented in order to control the site either in the condition received or after warranted rehabilitation.

Other Income and Expenses

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The following table summarizes other income and expenses for the six months ended June 30, 2010 and 2009 (amounts in thousands).

	2010	2009	Variance	% Change
Depreciation on real estate and other costs	\$ (33,863)	\$ (34,542)	\$ 679	2.0%
Interest income	2,189	2,606	(417)	(16.0%)
Income from other investments, net	2,661	4,389	(1,728)	(39.4%)
General and administrative	(11,224)	(12,373)	1,149	9.3%
Rent control initiatives	(1,013)	(315)	(698)	(221.6%)
Depreciation on corporate assets	(589)	(402)	(187)	(46.5%)
Interest and related amortization	(46,756)	(49,576)	2,820	5.7%
Total other expenses, net	\$ (88,595)	\$ (90,213)	\$ 1,618	1.8%

Table of Contents

Income from other investments, net decreased primarily due to reduced incremental hurricane insurance proceeds of \$1.1 million and a \$0.8 million gain on the sale of Caledonia recognized during 2009. General and administrative decreased primarily due to decreased payroll and professional fees. Rent control initiatives expense increased primarily due to the San Rafael appeal. (See Note 12 in the Notes to Consolidated Financial Statements contained in this Form 10-Q.) Interest and related amortization decreased due to the decreased line of credit and mortgage notes payable amounts outstanding.

Equity in Income of Unconsolidated Joint Ventures

During the six months ended June 30, 2010, equity in income of unconsolidated joint ventures decreased primarily due to a \$1.1 million gain on the sale of a 25% interest in two Diversified joint ventures by the Company during the six months ended June 30, 2009.

Liquidity and Capital Resources***Liquidity***

As of June 30, 2010, the Company had approximately \$151.8 million in cash and cash equivalents primarily held in treasury reserve accounts, and \$100.0 million available on its lines of credit. The Company expects to meet its short-term liquidity requirements, including its distributions, generally through its working capital, net cash provided by operating activities and availability under the existing lines of credit. The Company expects to meet certain long-term liquidity requirements such as scheduled debt maturities, property acquisitions and capital improvements by use of its current cash balance, long-term collateralized and uncollateralized borrowings including borrowings under its existing lines of credit and the issuance of debt securities or additional equity securities in the Company, in addition to net cash provided by operating activities. During 2010 and 2009, we received financing proceeds from Fannie Mae secured by mortgages on individual manufactured home Properties. The terms of the Fannie Mae financings were relatively attractive as compared to other potential lenders. If financing proceeds are no longer available from Fannie Mae for any reason or if Fannie Mae terms are no longer attractive, it may adversely affect cash flow and our ability to service debt and make distributions to stockholders. In addition, Fannie Mae will not provide financing on resort Properties and there is generally more limited availability for resort Property financing from private lenders.

The table below summarizes cash flow activity for the six months ended June 30, 2010 and 2009 (amounts in thousands).

	For the six months ended June 30,	
	2010	2009
Net cash provided by operating activities	\$ 99,479	\$ 82,996
Net cash used in investing activities	(18,860)	(16,281)
Net cash (used in) provided by financing activities	(73,942)	62,124
Net increase in cash and cash equivalents	\$ 6,677	\$ 128,839

Operating Activities

Net cash provided by operating activities increased \$16.5 million for the six months ended June 30, 2010, as compared to the net cash provided by operating activities for the six months ended June 30, 2009. The increase in cash provided by operating activities is primarily due to a \$4.6 million increase in net income and a \$14.2 million decrease in escrow deposits and other assets.

Table of Contents**Investing Activities**

Net cash used in investing activities reflects the impact of the following investing activities:

2009 Acquisitions

On February 13, 2009, the Company acquired the remaining 75% interests in three Diversified Portfolio joint ventures known as (i) Robin Hill, a 270-site property in Lenhartsville, Pennsylvania, (ii) Sun Valley, a 265-site property in Brownsville, Pennsylvania, and (iii) Plymouth Rock, a 609-site property in Elkhart Lake, Wisconsin. The gross purchase price was approximately \$19.2 million, and we assumed mortgage loans of approximately \$12.9 million with a value of approximately \$11.9 million and a weighted average interest rate of 6.0% per annum.

Certain purchase price adjustments may be made within one year following the acquisitions.

Dispositions

On April 17, 2009, we sold Caledonia, a 247-site Property in Caledonia, Wisconsin, for proceeds of approximately \$2.2 million. The Company recognized a gain on sale of approximately \$0.8 million, which is included in income from other investments, net. In addition, we received approximately \$0.3 million of deferred rent due from the previous tenant.

We continue to look at acquiring additional assets and are at various stages of negotiations with respect to potential acquisitions. Funding is expected to come from either proceeds from potential dispositions, lines of credit draws, or other financing.

Notes Receivable Activity

The notes receivable activity during the six months ended June 30, 2010 of \$0.8 million in cash inflow reflects net repayments of \$0.1 million from our Chattel Loans and net repayments of \$0.6 million from our Contract Receivables.

The notes receivable activity during the six months ended June 30, 2009 of \$2.0 million in cash inflow reflects net repayments of \$0.3 million from our Chattel Loans and net repayments of \$1.7 million from our Contract Receivables.

Capital Improvements

The table below summarizes capital improvements activity for the six months ended June 30, 2010 and 2009 (amounts in thousands).

	For the six months ended June 30,	
	2010	2009
Recurring Cap Ex ⁽¹⁾	\$ 13,521	\$ 7,828
New construction expansion	121	694
New construction upgrades ⁽²⁾	858	2,055
Home site development ⁽³⁾	5,016	4,621
Total Property	19,516	15,198
Corporate ⁽⁴⁾	888	263
Total Capital improvements	\$ 20,404	\$ 15,461

(1) Recurring capital expenditures (Recurring CapEx) are primarily comprised of common area

improvements,
furniture, and
mechanical
improvements.

(2) New
construction
upgrades
primarily
represents costs
to improve and
upgrade
Property
infrastructure or
amenities.

(3) Home site
development
includes
acquisitions of
or
improvements
to rental units.

(4) Includes
approximately
\$0.7 million,
which was
reimbursed by
the landlord as a
tenant
allowance.

Table of Contents

Financing Activities

Financing, Refinancing and Early Debt Retirement

2010 Activity

During the quarter ended March 31, 2010, the Company closed an approximately \$12.0 million financing on one manufactured home community with an interest rate of 5.99% per annum, maturing in 2020. The Company also paid off two maturing mortgages totaling approximately \$7.1 million, with a weighted average interest rate of 8.53% per annum.

During the quarter ended June 30, 2010, the Company closed an approximately \$49.7 million financing on two manufactured home communities with a weighted average interest rate of 7.14% per annum, maturing in 2020. The Company also closed approximately \$15.0 million new financing on one resort property with a stated interest rate of 6.50% per annum, maturing in 2020. The Company also paid off eight maturing mortgages totaling approximately \$100.4 million, with a weighted average interest rate of 7.85% per annum.

2009 Activity

During the quarter ended March 31, 2009, the Company closed on approximately \$57 million of financing with Fannie Mae on two manufactured home Properties at a stated interest rate of 6.38% per annum. The Company also paid off two maturing mortgages totaling approximately \$22 million with a weighted average interest rate of 5.43% per annum.

During the quarter ended June 30, 2009, the Company refinanced approximately \$5 million of maturing mortgage debt on Kloshe Illahee in Federal Way, Washington with a stated interest rate of 7.15% per annum for approximately \$18 million with a stated interest rate of 5.79% per annum, maturing in 2019.

Secured Debt

As of June 30, 2010, our secured long-term debt balance was approximately \$1.5 billion, with a weighted average interest rate of approximately 5.9% per annum. The debt bears interest at rates between 5.0% and 8.5% per annum and matures on various dates primarily ranging from 2010 to 2020. Excluding scheduled principal amortization, as of June 30, 2010, we have approximately \$77 million of long-term debt expected to be paid in 2010 and approximately \$52 million maturing in 2011. The weighted average term to maturity for the long-term debt is approximately 5.6 years. During July 2010, we paid off \$74.3 million of the long-term debt maturing in 2010 that had a weighted average interest rate of 5.7% per annum.

The Company expects to satisfy its remaining 2010 maturities and its 2011 maturities with its existing cash balance.

Unsecured Debt

On June 29, 2010, the Company exercised a one-year extension option on one of its unsecured lines of credit that was due to mature on June 29, 2010. Prior to the extension, the Company had two unsecured lines of credit with a maximum borrowing capacity of \$350 million and \$20 million, respectively, bearing interest at a per annum rate of LIBOR plus a maximum of 1.20% per annum and a 0.15% facility fee. The extension reduced the Company's maximum borrowing capacity under the \$350 million line of credit to \$100 million and extended the expiration of the line of credit to June 29, 2011.

Our unsecured Line of Credit (LOC) with a maximum borrowing capacity of \$100 million bears interest at a per annum rate of LIBOR plus a maximum of 1.20% per annum, has a 0.15% facility fee, and matures on June 29, 2011. As of June 30, 2010, there were no amounts outstanding on the line of credit.

Table of Contents**Other Loans**

During the six months ended June 30, 2010, we borrowed approximately \$2.3 million, which is secured by individual manufactured homes. This financing provided by the dealer requires monthly payments, bears interest at 8.5% and matures on the earlier of: 1) the date the home is sold, or 2) November 20, 2016.

Contractual Obligations

As of June 30, 2010, we were subject to certain contractual payment obligations as described in the table below (amounts in thousands).

	Total	2010	2011⁽³⁾	2012	2013	2014	2015	Thereafter
Long Term Borrowings								
(1)	\$1,504,337	\$ 84,979	\$ 76,464	\$ 22,629	\$122,581	\$200,308	\$531,109	\$466,267
Interest Expense (2)	486,352	45,117	83,111	79,193	75,918	65,622	56,923	80,468
Total Contractual Obligations	\$1,990,689	\$130,096	\$159,575	\$101,822	\$198,499	\$265,930	\$588,032	\$546,735
Weighted average interest rates	5.86%	3.69%	5.87%	5.85%	5.87%	5.85%	5.92%	6.12%

(1) Balance excludes net premiums and discounts of \$0.8 million. Balances include debt maturing and scheduled periodic principal payments.

(2) These amounts represent future interest payments related to mortgage obligations based on fixed and variable interest rates specified in the variable debt agreements. We

currently have one variable interest obligation. We use the 7.25% interest floor for this obligation, as we do not believe the LIBOR rate will increase above the floor prior to the loan payment.

- (3) Includes approximately \$74.3 million of mortgage notes payable paid off after June 30, 2010.

The Company does not include Preferred OP Unit distributions, interest expense, insurance, property taxes and cancelable contracts in the contractual obligations table above.

The Company also leases land under non-cancelable operating leases at certain of the Properties expiring in various years from 2013 to 2054, with terms which require twelve equal payments per year plus additional rents calculated as a percentage of gross revenues. Minimum future rental payments under the ground leases are approximately \$1.9 million per year for each of the next five years and approximately \$15.8 million thereafter.

With respect to maturing debt, the Company has staggered the maturities of its long-term mortgage debt over an average of approximately five years, with no more than approximately \$530 million (which is due in 2015) in principal maturities coming due in any single year. The Company believes that it will be able to refinance its maturing debt obligations on a secured or unsecured basis; however, to the extent the Company is unable to refinance its debt as it matures, we believe that we will be able to repay such maturing debt from operating cash flow, asset sales and/or the proceeds from equity issuances. With respect to any refinancing of maturing debt, the Company's future cash flow requirements could be impacted by significant changes in interest rates or other debt terms, including required amortization payments.

Equity Transactions

2010 Activity

On February 23, 2010, the Company acquired the six percent non-controlling interests in The Meadows, a 379-site property, in Palm Beach Gardens, Florida. The gross purchase price was approximately \$1.5 million.

On June 30, 2010 and March 31, 2010, 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.

Table of Contents

On July 9, 2010, the Company paid a \$0.30 per share distribution for the quarter ended June 30, 2010 to stockholders of record on June 25, 2010. On April 9, 2010, the Company paid a \$0.30 per share distribution for the quarter ended March 31, 2010 to stockholders of record on March 26, 2010.

During the six months ended June 30, 2010, we received approximately \$1.5 million in proceeds from the issuance of shares of common stock through stock option exercises and the Company's Employee Stock Purchase Plan (ESPP).

2009 Activity

On June 29, 2009, the Company issued 4.6 million shares of common stock in an equity offering for approximately \$146.6 million in proceeds, net of offering costs.

On June 30, 2009 and March 31, 2009, 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

On July 10, 2009, the Company paid a \$0.25 per share distribution for the quarter ended June 30, 2009 to stockholders of record on June 26, 2009. On April 10, 2009, the Company paid a \$0.25 per share distribution for the quarter ended March 31, 2009 to stockholders of record on March 27, 2009.

During the six months ended June 30, 2009, we received approximately \$1.0 million in proceeds from the issuance of shares of common stock through stock option exercises and the Company's ESPP.

Inflation

Substantially all of the leases at the Properties allow for monthly or annual rent increases which provide us with the opportunity to achieve increases, where justified by the market, as each lease matures. Such types of leases generally minimize the risks of inflation to the Company. In addition, our resort Properties are not generally subject to leases and rents are established for these sites on an annual basis. Our right-to-use contracts generally provide for an annual dues increase, but dues may be frozen under the terms of certain contracts if the customer is over 61 years old.

Table of Contents***Funds From Operations***

Funds from Operations (FFO) is a non-GAAP financial measure. We believe FFO, as defined by the Board of Governors of the National Association of Real Estate Investment Trusts (NAREIT), is generally an appropriate measure of performance for an equity REIT. While FFO is a relevant and widely used measure of operating performance for equity REITs, it does not represent cash flow from operations or net income as defined by GAAP, and it should not be considered as an alternative to these indicators in evaluating liquidity or operating performance.

We define FFO as net income, computed in accordance with GAAP, excluding gains or actual or estimated losses from sales of properties, plus real estate related 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 receive up-front non-refundable payments from the sale of right-to-use contracts. In accordance with GAAP, the upfront non-refundable payments and related commissions are deferred and amortized over the estimated customer life. Although the NAREIT definition of FFO does not address the treatment of nonrefundable right-to-use payments, we believe that it is appropriate to adjust for the impact of the deferral activity in our calculation of FFO. We believe that FFO is helpful to investors as one of several measures of the performance of an equity REIT. We further believe that by excluding the effect of depreciation, amortization and gains or actual or estimated losses from sales of real estate, all of which are based on historical costs and which may be of limited relevance in evaluating current performance, FFO can facilitate comparisons of operating performance between periods and among other equity REITs. We believe that the adjustment to FFO for the net revenue deferral of upfront non-refundable payments and expense deferral of right-to-use contract commissions also facilitates the comparison to other equity REITs. Investors should review FFO, along with GAAP net income and cash flow from operating activities, investing activities and financing activities, when evaluating an equity REIT's operating performance. We compute FFO in accordance with our interpretation of standards established by NAREIT, which may not be comparable to FFO reported by other REITs that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently than we do. FFO does not represent cash generated from operating activities in accordance with GAAP, nor does it represent cash available to pay distributions and should not be considered as an alternative to net income, determined in accordance with GAAP, as an indication of our financial performance, or to cash flow from operating activities, determined in accordance with GAAP, as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to make cash distributions.

The following table presents a calculation of FFO for the quarters and six months ended June 30, 2010 and 2009 (amounts in thousands):

	Quarters Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Computation of funds from operations:				
Net income available for common shares	\$ 6,000	\$ 2,904	\$ 21,064	\$ 16,548
Income allocated to common OP Units	928	501	3,360	3,295
Right-to-use contract sales, deferred, net	4,551	5,271	8,499	10,434
Right-to-use contract commissions, deferred, net	(1,657)	(1,632)	(3,069)	(3,125)
Depreciation on real estate assets and other	16,940	17,143	33,863	34,542
Depreciation on unconsolidated joint ventures	303	314	608	640
Loss (gain) on real estate	54	(803)	231	(783)
Funds from operations available for common shares	\$ 27,119	\$ 23,698	\$ 64,556	\$ 61,551
Weighted average common shares outstanding fully diluted	35,506	30,693	35,471	30,609

Table of Contents

Item 3. Quantitative and Qualitative Disclosure of Market Risk

Market risk is the risk of loss from adverse changes in market prices and interest rates. Our earnings, cash flows and fair values relevant to financial instruments are dependent on prevailing market interest rates. The primary market risk we face is long-term indebtedness, which bears interest at fixed and variable rates. The fair value of our long-term debt obligations is affected by changes in market interest rates. At June 30, 2010, approximately 100% or approximately \$1.5 billion of our outstanding debt had fixed interest rates, which minimizes the market risk until the debt matures. For each increase in interest rates of 1% (or 100 basis points), the fair value of the total outstanding debt would decrease by approximately \$82.4 million. For each decrease in interest rates of 1% (or 100 basis points), the fair value of the total outstanding debt would increase by approximately \$87.3 million.

At June 30, 2010, none of our outstanding debt was short-term and at variable rates.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal accounting and financial officer), has evaluated the effectiveness of the Company's disclosure controls and procedures as of June 30, 2010. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective to give reasonable assurances to the timely collection, evaluation and disclosure of information relating to the Company that would potentially be subject to disclosure under the Securities and Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder as of June 30, 2010.

Notwithstanding the foregoing, a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that it will detect or uncover failures within the Company to disclose material information otherwise required to be set forth in the Company's periodic reports.

Changes in Internal Control Over Financial Reporting

There were no material changes in the Company's internal control over financial reporting during the quarter ended June 30, 2010.

Table of Contents

Part II Other Information

Item 1. Legal Proceedings

See Note 12 of the Consolidated Financial Statements contained herein.

Item 1A. Risk Factors

There have been no material changes to the risk factors discussed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2009 other than those disclosed in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2010.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. [Removed and Reserved]

Item 5. Other Information

None.

Item 6. Exhibits

10.45(a) Second Amendment to Credit Agreement (Revolving Facility) and Guarantor Consent and Confirmation, dated June 29, 2010, by and among the Company, MHC Operating Limited Partnership, MHC Trust, T1000 Trust, Wells Fargo Bank, N.A. and each of the Lenders set forth therein.

31.1 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350

32.2 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350

(a) Included as an exhibit to the Company's Current Report on Form 8-K dated June 29, 2010

Table of Contents

SIGNATURES

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

EQUITY LIFESTYLE PROPERTIES, INC.

Date: August 5, 2010

By: /s/ Thomas Heneghan
Thomas Heneghan
Chief Executive Officer
(Principal Executive Officer)

Date: August 5, 2010

By: /s/ Michael Berman
Michael Berman
Executive Vice President and Chief Financial
Officer
(Principal Financial Officer and Principal
Accounting Officer)

47