

EQUITY LIFESTYLE PROPERTIES INC

Form 10-Q

November 09, 2007

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**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 September 30, 2007**

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

**Commission File Number: 1-11718  
EQUITY LIFESTYLE PROPERTIES, INC.  
(Exact name of registrant as specified in its Charter)**

**Maryland**

(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer

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:

24,359,037 shares of Common Stock as of October 30, 2007.

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**Equity LifeStyle Properties, Inc.**  
**Consolidated Balance Sheets**  
**As of September 30, 2007 and December 31, 2006**  
(amounts in thousands)

	<b>September 30, 2007 (unaudited)</b>	<b>December 31, 2006</b>
<b>Assets</b>		
Investment in real estate:		
Land	\$ 534,978	\$ 531,302
Land improvements	1,688,797	1,664,964
Buildings and other depreciable property	150,839	141,194
	2,374,614	2,337,460
Accumulated depreciation	(480,401)	(435,809)
Net investment in real estate	1,894,213	1,901,651
Cash and cash equivalents	3,703	1,605
Notes receivable	11,346	22,045
Investment in joint ventures	15,788	14,718
Rents receivable, net	1,267	1,294
Deferred financing costs, net	12,837	14,799
Inventory	66,082	70,091
Escrow deposits and other assets	40,815	29,628
<b>Total Assets</b>	<b>\$ 2,046,051</b>	<b>\$ 2,055,831</b>
<b>Liabilities and Stockholders Equity</b>		
Liabilities:		
Mortgage notes payable and other loans	\$ 1,574,088	\$ 1,586,012
Unsecured lines of credit	97,900	131,200
Accrued payroll and other operating expenses	43,122	30,936
Accrued interest payable	8,878	9,066
Rents received in advance and security deposits	30,572	36,454
Distributions payable	4,528	2,251
<b>Total Liabilities</b>	<b>1,759,088</b>	<b>1,795,919</b>
Commitments and contingencies		
Minority interest Common OP Units and other	17,435	12,794
Minority interest Perpetual Preferred OP Units	200,000	200,000
Stockholders Equity:		
Preferred stock, \$.01 par value 10,000,000 shares authorized; none issued		

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Common stock, \$.01 par value 100,000,000 shares authorized; 24,357,179 and 23,928,652 shares issued and outstanding for September 30, 2007 and December 31, 2006, respectively	236	229
Paid-in capital	310,391	304,483
Distributions in excess of accumulated earnings	(241,099)	(257,594)
<b>Total Stockholders Equity</b>	<b>69,528</b>	<b>47,118</b>
<b>Total Liabilities and Stockholders Equity</b>	<b>\$ 2,046,051</b>	<b>\$ 2,055,831</b>

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

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**Equity LifeStyle Properties, Inc.**  
**Consolidated Statements of Operations**  
**For the Quarters and Nine Months Ended September 30, 2007 and 2006**  
(amounts in thousands, except per share data)  
(unaudited)

	<b>Quarters Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Property Operations:</b>				
Community base rental income	\$ 59,366	\$ 56,877	\$ 177,190	\$ 168,617
Resort base rental income	25,557	22,833	79,336	69,480
Utility and other income	9,273	7,539	28,551	23,445
Property operating revenues	94,196	87,249	285,077	261,542
Property operating and maintenance	33,252	30,125	95,681	87,229
Real estate taxes	7,037	6,780	21,646	20,122
Property management	4,576	4,301	13,940	13,526
Property operating expenses (exclusive of depreciation shown separately below)	44,865	41,206	131,267	120,877
Income from property operations	49,331	46,043	153,810	140,665
<b>Home Sales Operations:</b>				
Gross revenues from inventory home sales	8,483	16,577	26,767	46,577
Cost of inventory home sales	(8,117)	(15,125)	(24,364)	(41,229)
Gross profit from inventory home sales	366	1,452	2,403	5,348
Brokered resale revenues, net	305	448	1,248	1,723
Home selling expenses	(1,845)	(2,472)	(5,845)	(7,386)
Ancillary services revenues, net	799	700	2,223	2,706
(Loss) Income from home sales operations and other	(375)	128	29	2,391
<b>Other Income (Expenses):</b>				
Interest income	496	595	1,458	1,434
Income from other investments, net	5,323	6,172	15,407	15,454
General and administrative	(3,795)	(3,541)	(11,146)	(10,342)
Rent control initiatives	(722)	(201)	(2,157)	(499)
Interest and related amortization	(25,942)	(26,339)	(77,420)	(77,167)
Depreciation on corporate assets	(116)	(102)	(337)	(312)
Depreciation on real estate assets	(15,901)	(15,137)	(47,232)	(44,570)
Total other expenses, net	(40,657)	(38,553)	(121,427)	(116,002)
Income before minority interests, equity in income of unconsolidated joint ventures and discontinued operations	8,299	7,618	32,412	27,054

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Income allocated to Common OP Units	(966)	(909)	(4,333)	(3,813)
Income allocated to Perpetual Preferred OP Units	(4,031)	(4,031)	(12,101)	(12,099)
Equity in income of unconsolidated joint ventures	738	869	2,048	3,512
Income from continuing operations	4,040	3,547	18,026	14,654
<b>Discontinued Operations:</b>				
Discontinued operations	96	30	234	497
Depreciation on discontinued operations		(21)		(63)
Gain (Loss) on sale from discontinued real estate	6,858		11,444	(192)
(Income) allocated to Common OP Units from discontinued operations	(1,342)	(2)	(2,259)	(50)
Income from discontinued operations	5,612	7	9,419	192
<b>Net income available for Common Shares</b>	<b>\$ 9,652</b>	<b>\$ 3,554</b>	<b>\$ 27,445</b>	<b>\$ 14,846</b>

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

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**Equity LifeStyle Properties, Inc.**  
**Consolidated Statements of Operations (Continued)**  
**For the Quarters and Nine Months Ended September 30, 2007 and 2006**  
(amounts in thousands, except per share data)  
(unaudited)

	<b>Quarters Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Earnings per Common Share Basic:</b>				
Income from continuing operations	\$ 0.17	\$ 0.15	\$ 0.75	\$ 0.63
Income from discontinued operations	0.23		0.39	0.01
Net income available for Common Shares	\$ 0.40	\$ 0.15	\$ 1.14	\$ 0.64
<b>Earnings per Common Share Fully Diluted:</b>				
Income from continuing operations	\$ 0.16	\$ 0.15	\$ 0.74	\$ 0.61
Income from discontinued operations	0.23		0.38	0.01
Net income available for Common Shares	\$ 0.39	\$ 0.15	\$ 1.12	\$ 0.62
Distributions declared per Common Share outstanding	\$ 0.15	\$ 0.075	\$ 0.45	\$ 0.225
Weighted average Common Shares outstanding basic	24,148	23,474	24,065	23,396
Weighted average Common Shares outstanding fully diluted	30,418	30,239	30,402	30,209

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



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**Equity LifeStyle Properties, Inc.**  
**Consolidated Statements of Cash Flows**  
**For the Nine Months Ended September 30, 2007 and 2006**  
(amounts in thousands)  
(unaudited)

	<b>September 30, 2007</b>	<b>September 30, 2006</b>
<b>Cash Flows From Operating Activities:</b>		
Net income	\$ 27,445	\$ 14,846
Adjustments to reconcile net income to cash provided by operating activities:		
Income allocated to minority interests	18,693	15,962
(Gain) loss on sale of discontinued real estate	(11,444)	192
Gain on sale of investment		(914)
Depreciation expense	48,658	46,411
Amortization expense	2,199	2,122
Debt premium amortization	(1,219)	(1,074)
Equity in income of unconsolidated joint ventures	(3,137)	(4,979)
Distributions from unconsolidated joint ventures	3,800	2,662
Accrued long term incentive plan compensation	311	
Amortization of stock-related compensation	3,195	2,320
Increase in provision for uncollectible rents receivable	70	75
Increase in provision for inventory reserve	123	
Changes in assets and liabilities:		
Rents receivable	(63)	(217)
Inventory	2,447	(10,505)
Escrow deposits and other assets	(4,249)	(321)
Accrued payroll and other operating expenses	11,270	12,910
Rents received in advance and security deposits	(6,272)	(1,841)
Net cash provided by operating activities	91,827	77,649
<b>Cash Flows From Investing Activities:</b>		
Acquisition of real estate	(19,108)	(20,037)
Disposition of real estate	20,536	9,000
Tax-deferred exchange deposit	(6,376)	
Joint Ventures:		
Investments in	(3,117)	(1,567)
Distributions from	114	1,647
Net repayment (borrowings) of notes receivable	10,699	(7,435)
Improvements:		
Corporate	(511)	(191)
Rental properties	(12,282)	(10,021)
Site development costs	(9,093)	(13,866)
Net cash used in investing activities	(19,138)	(42,470)

**Cash Flows From Financing Activities:**

Net proceeds from stock options and employee stock purchase plan	3,387	3,521
Distributions to Common Stockholders, Common OP Unitholders, and Perpetual Preferred OP Unitholders	(23,425)	(17,298)
Lines of credit:		
Proceeds	81,100	141,900
Repayments	(114,400)	(164,400)
Principal repayments on disposition	(1,992)	
Principal repayments and mortgage debt payoff	(14,951)	(12,235)
New financing proceeds		14,247
Debt issuance costs	(310)	(1,524)
Net cash used in financing activities	(70,591)	(35,789)
Net increase (decrease) in cash and cash equivalents	2,098	(610)
Cash and cash equivalents, beginning of period	1,605	610
Cash and cash equivalents, end of period	\$ 3,703	\$

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

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**Equity LifeStyle Properties, Inc.**  
**Consolidated Statements of Cash Flows (continued)**  
**For the Nine Months Ended September 30, 2007 and 2006**  
(amounts in thousands)  
(unaudited)

	<b>September 30, 2007</b>	<b>September 30, 2006</b>
<b>Supplemental Information:</b>		
Cash paid during the period for interest	\$ 76,134	\$ 75,423
Non-cash investing and financing activities:		
Real estate acquisition and disposition		
Mortgage debt assumed and financed on acquisition of real estate	\$ 7,437	\$ 72,998
Mezzanine and joint venture investments applied to real estate acquisition	\$ 182	\$ 32,118
Other assets and liabilities, net, acquired on acquisition of real estate	\$ 170	\$ 4,583
Financing fees incurred on acquisition of real estate	\$	\$ (809)
Proceeds from loan to pay insurance premiums	\$ 4,300	\$ 3,638

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

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**Definition of Terms:**

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

**Presentation:**

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

**Note 1 Summary of Significant Accounting Policies**

*(a) Basis of Consolidation*

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

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

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

*(b) Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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

*(d) Inventory*

Inventory primarily consists of new and used Site Set homes and is stated at the lower of cost or market after consideration of the N.A.D.A. (National Automobile Dealers Association) Manufactured Housing Appraisal Guide and the current market value of each home included in the home inventory. Inventory sales revenues and resale revenues are recognized when the home sale is closed. Inventory is recorded net of an inventory reserve of \$703,000 and \$580,000 as of September 30, 2007 and December 31, 2006, respectively. Resale revenues are stated net of commissions paid to employees of \$655,000 and \$949,000 for the nine months ended September 30, 2007 and 2006, respectively.

*(e) Real Estate*

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

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

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

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

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

*(f) Cash and Cash Equivalents*

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

*(g) Notes Receivable*

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

*(h) Investments in Joint Ventures*

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

*(i) Income from Other Investments, net*

Income from other investments, net primarily includes revenue relating to the Company's ground leases with Privileged Access L.P. ( Privileged Access ). The ground leases with Privileged Access for approximately 24,100 sites at 81 of the Company's Properties are accounted for in accordance with Statement of Financial Accounting Standards No. 13, Accounting for Leases. The Company recognized income related to these ground leases of approximately \$5.3 million and \$15.2 million for the quarter and nine months ended September 30, 2007, respectively.

*(j) Insurance Claims*

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

Approximately 70 Florida Properties suffered damage from the four hurricanes that struck the state during August and September 2004. As of October 19, 2007, the Company estimates its total claim to be \$20.1 million of which, approximately \$18.9 million of claims, including business interruption, have been submitted to our insurance companies for reimbursement. Through September 30, 2007, the Company has made total expenditures of approximately \$15.5 million and may incur additional expenditures to complete the work necessary to restore our Properties to their pre-hurricanes condition. The Company has reserved approximately \$2.0 million related to these

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

expenditures (\$0.7 million in 2005 and \$1.3 million in 2004). Approximately \$6.7 million of these expenditures have been capitalized per the Company's capitalization policy through September 30, 2007.

Hurricane Wilma impacted approximately 33 Properties located in southern Florida in October 2005. As of October 19, 2007, approximately \$4.4 million of claims have been submitted to our insurance company for reimbursement. Through September 30, 2007, the Company has made total expenditures of approximately \$2.7 million and may incur additional costs in the future. Through September 30, 2007, \$1.6 million has been charged to operations (\$0.3 million in 2006 and \$1.3 million in 2005) and \$0.8 million was capitalized to fixed assets.

The Company has received proceeds from insurance carriers of approximately \$5.7 million through September 30, 2007. Approximately \$1.4 million and \$1.5 million is included in other assets as a receivable from insurance providers as of September 30, 2007 and December 31, 2006, respectively. Subsequent to September 30, 2007, the Company received approximately \$1.2 million in proceeds from insurance carriers. If the Company receives additional insurance proceeds in excess of our receivable balance the excess will be recognized as a gain on insurance recovery in the other income section of our consolidated income statement.

On June 22, 2007, the Company filed a lawsuit related to some of the unpaid claims against certain insurance carriers and its insurance broker. See Note 10 Commitments and Contingencies for further discussion of this lawsuit.

*(k) Deferred Financing Costs*

Deferred financing costs include fees and costs incurred to obtain long-term financing. The costs are being amortized over the terms of the respective loans on a level yield basis. Unamortized deferred financing fees are written-off when debt is retired before the maturity date. Upon amendment of the line of credit, unamortized deferred financing fees are accounted for in accordance with EITF No. 98-14, Debtor's Accounting for Changes in Line-of-Credit or Revolving-Debt Arrangements (EITF 98-14). Accumulated amortization for such costs was \$9.6 million and \$9.4 million at September 30, 2007 and December 31, 2006, respectively.

*(l) Subsequent Events*

On October 11, 2007, we acquired a 305-site resort Property known as Tuxbury Resort, on approximately 193 acres in Amesbury, Massachusetts, including approximately 100 acres of potential expansion land. The purchase price was approximately \$7.3 million and the seller provided financing of approximately \$1.2 million that matures in January 2010.

*(m) Recent Accounting Pronouncements*

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

**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. Statement of Financial Accounting Standards No. 128, Earnings Per Share ( SFAS No. 128 ) defines the calculation of basic and fully diluted earnings per share. Basic and fully diluted earnings per share are based on the weighted average shares outstanding during each period and basic earnings per share 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 nine months ended September 30, 2007 and 2006 (amounts in thousands):

	<b>Quarters Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Numerators:</b>				
<b>Income from Continuing Operations:</b>				
Income from continuing operations basic	\$ 4,040	\$ 3,547	\$ 18,026	\$ 14,654
Amounts allocated to dilutive securities	966	909	4,333	3,813
Income from continuing operations fully diluted	\$ 5,006	\$ 4,456	\$ 22,359	\$ 18,467
<b>Income from Discontinued Operations:</b>				
Income from discontinued operations basic	\$ 5,612	\$ 7	\$ 9,419	\$ 192
Amounts allocated to dilutive securities	1,342	2	2,259	50
Income from discontinued operations fully diluted	\$ 6,954	\$ 9	\$ 11,678	\$ 242
<b>Net Income Available for Common Shares Fully Diluted:</b>				
Net income available for Common Shares basic	\$ 9,652	\$ 3,554	\$ 27,445	\$ 14,846
Amounts allocated to dilutive securities	2,308	911	6,592	3,863
Net income available for Common Shares fully diluted	\$ 11,960	\$ 4,465	\$ 34,037	\$ 18,709
<b>Denominator:</b>				
Weighted average Common Shares outstanding basic	24,148	23,474	24,065	23,396
Effect of dilutive securities:				
Redemption of Common OP Units for Common Shares	5,836	6,160	5,881	6,189
Employee stock options and restricted shares	434	605	456	623
Weighted average Common Shares outstanding fully diluted	30,418	30,239	30,402	30,209

**Note 3 Common Stock and Other Equity Related Transactions**

On October 12, 2007, the Company paid a \$0.15 per share distribution for the quarter ended September 30, 2007 to stockholders of record on September 28, 2007. On July 13, 2007, the Company paid a \$0.15 per share distribution for



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the quarter ended June 30, 2007 to stockholders of record on June 29, 2007. On April 13, 2007, the Company paid a \$0.15 per share distribution for the quarter ended March 31, 2007 to stockholders of record on March 30, 2007. On September 28, 2007, June 29, 2007 and March 30, 2007, the Operating Partnership paid distributions of 8.0625% per annum on the \$150 million Series D 8% Units and 7.95% per annum on the \$50 million of Series F 7.95% Units.

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

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

	<b>September 30, 2007</b>	<b>December 31, 2006</b>
<i>Properties Held for Long Term</i>		
Investment in real estate:		
Land	\$ 532,388	\$ 525,969
Land improvements	1,674,717	1,642,234
Buildings and other depreciable property	149,993	140,042
	2,357,098	2,308,245
Accumulated depreciation	(473,708)	(426,215)
Net investment in real estate	\$ 1,883,390	\$ 1,882,030
	<b>September 30, 2007</b>	<b>December 31, 2006</b>
<i>Properties Held for Sale</i>		
Investment in real estate:		
Land	\$ 2,590	\$ 5,333
Land improvements	14,080	22,730
Buildings and other depreciable property	846	1,152
	17,516	29,215
Accumulated depreciation	(6,693)	(9,594)
Net investment in real estate	\$ 10,823	\$ 19,621

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

On September 26, 2007, the Company acquired a 106-site resort Property known as Santa Cruz RV Ranch that is located near Scotts Valley, California. The purchase price was approximately \$5.5 million.

On August 3, 2007, the Company acquired a 363-site resort Property known as Pine Island that is located near St. James City, Florida. The purchase price of approximately \$6.5 million was funded with a withdrawal from the tax-deferred account established as a result of the sale of Del Rey discussed below.

On July 6, 2007, the Company sold Del Rey, a 407 site manufactured home Property in Albuquerque, New Mexico, for proceeds of approximately \$13 million and recognized a gain on sale of approximately \$6.9 million. The proceeds were deposited in a tax-deferred exchange account and some of the proceeds were subsequently used for the acquisition of Pine Island discussed above. The remaining proceeds are classified as escrow deposits and other assets in the balance sheet.

On June 27, 2007, the Company purchased the remaining 75% interest in a Diversified Investments joint venture Property known as Winter Garden, which is a 350-site resort Property on approximately 27 acres in Winter Garden, Florida. The gross purchase price was approximately \$10.9 million, and we assumed a first mortgage loan of approximately \$4.0 million with an interest rate of 4.3% per annum, maturing in September 2008. The remainder of the acquisition price, net of a credit for our existing 25% interest, was funded with proceeds from the Company's line of credit and a withdrawal of approximately \$3.7 million from the tax-deferred exchange account established as a

result of the sale of Lazy Lakes discussed below.

On January 29, 2007, the Company acquired the remaining 75% interest in a Diversified Investments joint venture Property known as Mesa Verde, which is a 345-site resort Property on approximately 28 acres in Yuma, Arizona. The gross purchase price was approximately \$5.9 million and includes \$0.3 million in prepaid rent. We

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

assumed a first mortgage loan of approximately \$3.5 million with an interest rate of 4.94% per annum, maturing in 2008. The remainder of the acquisition price, net of a credit for our existing 25% interest, was funded with a withdrawal from the tax-deferred account established as a result of the sale of Lazy Lakes discussed below.

On January 10, 2007, the Company sold Lazy Lakes, a 100-site resort Property in the Florida Keys for proceeds of approximately \$7.7 million and recognized a gain on sale of approximately \$4.6 million. The proceeds were deposited in a tax-deferred exchange account and were subsequently used for the acquisitions of Winter Garden and Mesa Verde discussed above.

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 recorded 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 September 30, 2007, the Company had three Properties designated as held for disposition pursuant to SFAS No. 144. The Company determined that these Properties no longer met its investment criteria. As such, the results from operations of these three Properties, one Property sold in July 2007, one Property sold in January 2007, and two Properties sold in April 2006 are classified as income from discontinued operations. The Properties classified as held for disposition as of September 30, 2007 are listed in the table below.

Property	Location	Sites
Casa Village	Billings, MT	490
Creekside	Wyoming, MI	165
Holiday Village	Sioux City, IA	519

The remaining three Properties held for disposition were in various stages of negotiations and the Company expects to sell these Properties for proceeds greater than their net book value.

The following table summarizes the combined results of operations of the three Properties held for sale and four previously sold Properties for the quarters and nine months ended September 30, 2007 and 2006, respectively (amounts in thousands).

	Quarters Ended		Nine Months Ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
Rental income	\$ 739	\$ 831	\$ 2,355	\$ 3,073
Utility and other income	54	66	191	262
Property operating revenues	793	897	2,546	3,335
Property operating expenses	(470)	(602)	(1,597)	(2,084)
Income from property operations	323	295	949	1,251
Income (loss) from home sales operations	8	2	(12)	41
Interest and Amortization	(235)	(267)	(703)	(795)
Depreciation		(21)		(63)
Total other expenses	(235)	(288)	(703)	(858)
Gain (Loss) on sale of property	6,858		11,444	(192)

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Minority interest	(1,342)	(2)	(2,259)	(50)
Net income from discontinued operations	\$ 5,612	\$ 7	\$ 9,419	\$ 192

**Table of Contents****Note 5 Investment in Joint Ventures**

The Company recorded approximately \$2.0 million and \$3.5 million of net income from joint ventures, net of approximately \$1.1 million and \$1.5 million of depreciation expense for the nine months ended September 30, 2007 and 2006, respectively. The Company received approximately \$3.9 million and \$4.3 million in distributions from such joint ventures for the nine months ended September 30, 2007 and 2006, respectively. Approximately \$3.8 million and \$2.7 million of such distributions were classified as a return on capital and were included in operating activities on the Consolidated Statements of Cash Flows for the nine months ended September 30, 2007 and 2006, respectively. The remaining distributions were classified as return of capital and classified as investing activities on the Consolidated Statements of Cash Flows. Approximately \$2.2 million and \$1.3 million of the distributions received in the nine months ended September 30, 2007 and 2006, respectively, exceeded the Company's basis in its joint venture and as such were recorded in income from unconsolidated joint ventures.

The following table summarizes the Company's investments in unconsolidated joint ventures (with the number of Properties shown parenthetically as of September 30, 2007 and December 31, 2006, respectively):

Investment	Location	Number of Sites	Economic Interest (a)	Investment	Investment	JV Income	
				as of Sept. 30, 2007 (in thousands)	as of Dec. 31, 2006 (in thousands)	for period ended Sept. 30, 2007 (in thousands)	Sept. 30, 2006 (in thousands)
Meadows	Various (2,2)	1,027	50%	\$ 181	\$ 660	\$ 341	\$ 600
Lakeshore	Florida (2,2)	342	90%	30	65	183	402
Other	Various (11,13)(b)	4,904	25%	3,984	5,373	1,567	2,250
Investments							
Maine Portfolio	Maine (3,3)	495	60%	11,593	8,620	(42)	261
		6,768		\$ 15,788	\$ 14,718	\$ 2,049	\$ 3,513

(a) The percentages shown approximate the Company's economic interest as of September 30, 2007. The Company's legal ownership interest may differ.

(b) The Company purchased the remaining interest in two Diversified Investments in

January 2007  
and June 2007  
(see Note 4  
Investment in  
Real Estate).

**Table of Contents****Note 5 Investment in Joint Ventures (continued)****Unconsolidated Real Estate Joint Venture Financial Information**

The following tables present combined summarized financial information of the unconsolidated real estate joint ventures (amounts in thousands).

**Balance Sheets**

	<b>September 30, 2007</b>	<b>As of December 31, 2006</b>
<b>Assets</b>		
Real estate, net	\$ 126,185	\$ 101,180
Other assets	10,523	9,063
<b>Total assets</b>	<b>\$ 136,708</b>	<b>\$ 110,243</b>
<b>Liabilities &amp; Equity</b>		
Mortgage debt & other loans	\$ 112,929	\$ 90,724
Other liabilities	12,554	10,108
Partners equity	11,225	9,411
<b>Total liabilities and equity</b>	<b>\$ 136,708</b>	<b>\$ 110,243</b>

**Statements of Operations**

	<b>Quarters Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Rentals	\$ 7,350	\$ 7,805	\$ 17,196	\$ 18,515
Other Income	915	1,439	3,235	4,760
<b>Total Revenues</b>	<b>8,265</b>	<b>9,244</b>	<b>20,431</b>	<b>23,275</b>
Operating Expenses	3,836	4,007	10,376	11,838
Interest	1,771	1,436	4,743	5,022
Other Expenses (Income)	437	682	(7,864)	(3,173)
Depreciation & Amortization	1,180	1,622	3,545	5,786
<b>Total Expenses</b>	<b>7,224</b>	<b>7,747</b>	<b>10,800</b>	<b>19,473</b>
<b>Net Income</b>	<b>\$ 1,041</b>	<b>\$ 1,497</b>	<b>\$ 9,631</b>	<b>\$ 3,802</b>



**Table of Contents****Note 6 Notes Receivable**

As of September 30, 2007 and December 31, 2006, the Company had approximately \$11.3 million and \$22.0 million in notes receivable, respectively. As of September 30, 2007, the Company has approximately \$11.0 million in Chattel Loans receivable, which yield interest at a per annum average rate of approximately 9.1%, have a weighted average term remaining of approximately 9 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 \$181,000 and \$110,000 as of September 30, 2007 and December 31, 2006, respectively. During the nine months ended September 30, 2007, approximately \$1.2 million was repaid and an additional \$2.9 million was loaned to homeowners. As of September 30, 2007 and December 31, 2006, the Company had approximately \$0.4 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 a combination of common OP Units and partnership interests in certain joint ventures.

As of December 31, 2006, we had a note receivable from Privileged Access of approximately \$12.3 million. During the quarter ended March 31, 2007, we received a principal repayment of \$7.3 million and during the quarter ending September 30, 2007, we received the remaining principal repayment of \$5.0 million.

**Note 7 Long-Term Borrowings**

In connection with the acquisition of Mesa Verde, during the first quarter of 2007, the Company assumed \$3.5 million in mortgage debt bearing interest at 4.94% per annum and maturing in May 2008. In connection with the acquisition of Winter Garden, during the second quarter of 2007, the Company assumed \$4.0 million in mortgage debt bearing interest at 4.3% per annum and maturing in September 2008. In addition, the Company repaid approximately \$1.9 million in mortgage debt financing in connection with the sale of Lazy Lakes. Refer to Note 4 Investment in Real Estate for acquisition and disposition activity.

During the quarter ended September 30, 2007, the company repaid the outstanding mortgage indebtedness on Ft. Myers Beach of approximately \$2.9 million.

As of September 30, 2007 and December 31, 2006, the Company had outstanding mortgage indebtedness on Properties held for long-term investment of approximately \$1,559 million, and approximately \$15.0 million and \$17.0 million of mortgage indebtedness, on Properties held for sale as of September 30, 2007 and December 31, 2006, respectively. The weighted average interest rate, including amortization expense, on long-term borrowings for the nine months ending September 30, 2007 and the year ending December 31, 2006, was approximately 6.1% per annum. The debt bears interest at rates of 4.3% to 10.0% per annum and matures on various dates ranging from 2007 to 2016. Included in our debt balance are three capital leases with an imputed interest rate of 13.1% per annum. The debt encumbered a total of 164 of the Company's Properties as of September 30, 2007 and December 31, 2006, and the carrying value of such Properties was approximately \$1,772 million and \$1,746 million, respectively, as of such dates.

In September 2007, we completed an amendment of our existing unsecured Lines of Credit ( LOC ) to expand our borrowing capacity from \$275 million to \$420 million. Prior to the amendment, the Company had a \$225 million LOC and a \$50 million LOC. The amendment increased the \$225 million LOC to \$400 million and decreased the \$50 million LOC to \$20 million. The lines of credit continue to accrue interest at LIBOR plus a maximum of 1.20% per annum, have a 0.15% facility fee, mature on June 30, 2010, and have a one-year extension option. Our current group of banks have committed up to \$370 million on our \$420 million borrowing capacity. The Company incurred commitment and arrangement fees of approximately \$0.3 million to increase its borrowing capacity.

**Table of Contents****Note 7 Long-Term Borrowings (continued)**

As of September 30, 2007, the \$370 million bank commitment had \$272.1 million available for future borrowings. As of December 31, 2006, the Company had \$143.8 million available to be drawn on its \$275 million lines of credit. The weighted average interest rate for the nine months ending September 30, 2007 and the year ending December 31, 2006 was 6.82% and 6.25% per annum, respectively.

**Note 8 Stock-Based Compensation**

The Company accounts for its stock-based compensation in accordance with Statement of Financial Accounting Standards No. 123(R), Share Based Payment ( SFAS 123(R) ), which was adopted on July 1, 2005.

Stock-based compensation expense was approximately \$3.2 million and \$2.3 million for the nine months ended September 30, 2007 and 2006, respectively.

Pursuant to the Stock Option Plan as discussed in Note 12 to the 2006 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 nine months ended September 30, 2007, Options for 138,888 shares of common stock were exercised for gross proceeds of approximately \$2.5 million.

On January 31, 2007, the Company awarded restricted stock grants for 8,000 shares of common stock at a fair market value of approximately \$442,000, and awarded Options to purchase 115,000 shares of common stock with an exercise price of \$55.23 per share to certain members of the Board of Directors for services rendered in 2006. One-third of the Options to purchase common stock and the shares of restricted common stock covered by these awards vests on each of December 31, 2007, December 31, 2008, and December 31, 2009.

On May 15, 2007, the Company awarded restricted stock grants for 10,000 shares of common stock at a fair market value of approximately \$542,000, and awarded Options to purchase 30,000 shares of common stock with an exercise price of \$54.20 per share to members of the Board of Directors for services rendered in 2007. One-third of the Options to purchase common stock vest on the date six months after the grant date, one-third vest on the first anniversary of the grant date and one-third vest on the second anniversary of the grant date.

**Note 9 Long-Term Cash Incentive Plan**

On May 15, 2007, the Company's Board of Directors approved a Long-Term Cash Incentive Plan (the Plan ) to provide a long-term cash bonus opportunity to certain members of the Company's management and executive officers. The total cumulative payment for all participant s (the Eligible Payment) is based upon certain performance conditions being met. Such performance conditions include the Company's Compound Annual Funds From Operations Per Share Growth Rate over the three-year period ending December 31, 2009, which is further adjusted upward or downward based on the Company's Total Return compared to a selected peer group. The Company accounts for the Plan in accordance with SFAS 123(R). As of September 30, 2007, the Company had accrued compensation expense of approximately \$311,000 related to the Plan.

**Note 10 Commitments and Contingencies****Guarantees**

In September 2007, the Company guaranteed \$2.5 million on a \$10.0 million loan that Privileged Access obtained from a bank. The guarantee expires in January 2008. Under this guarantee, the Company is obligated to pay \$2.5 million of the loan should Privileged Access be unable to make payments. The Company has identified this guarantee in accordance with FASB Interpretation 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others an interpretation of FASB Statements No. 5, 57 and 107 and rescission of FASB Interpretation No. 34 ( FIN 45 ). FIN 45 elaborates on the existing disclosure requirements for most guarantees and clarifies that at the time an entity issues a guarantee, the entity must recognize an initial liability for the fair value of the obligations it assumes under the guarantee. The Company evaluates losses for guarantees under Statement of Financial Accounting Standards No. 5, Accounting for Contingencies ( SFAS 5 ). The Company considers such factors as the degree of probability that the Company would be required to satisfy the liability associated with the guarantee and the ability to make a reasonable estimate of the amount of loss. To date, the Company has not encountered material costs as a result of this obligation and has not accrued any liability related to the obligation in its financial statements.



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**Note 10 Commitments and Contingencies (continued)**

**California Rent Control Litigation**

As part of the Company's effort to realize the value of its Properties subject to rent control, the Company has initiated lawsuits against several municipalities in California. The Company's goal is to achieve a level of regulatory fairness in California's rent control jurisdictions, and in particular those jurisdictions that prohibit increasing rents to market upon turnover. Regulations in California allow tenants to sell their homes for a premium representing the value of the future discounted rent-controlled rents. In the Company's view, such regulation results in a transfer of the value of the Company's stockholders' land, which would otherwise be reflected in market rents, to tenants upon the sales of their homes in the form of an inflated purchase price that cannot be attributed to the value of the home being sold. As a result, in the Company's view, the Company loses the value of its asset and the selling tenant leaves the Property with a windfall premium. The Company has discovered through the litigation process that certain municipalities considered condemning the Company's Properties at values well below the value of the underlying land. In the Company's view, a failure to articulate market rents for sites governed by restrictive rent control would put the Company at risk for condemnation or eminent domain proceedings based on artificially reduced rents. Such a physical taking, should it occur, could represent substantial lost value to stockholders. The Company is cognizant of the need for affordable housing in the jurisdictions, but asserts that restrictive rent regulation does not promote this purpose because the benefits of such regulation are fully capitalized into the prices of the homes sold. The Company estimates that the annual rent subsidy to tenants in these jurisdictions may be in excess of \$15 million. In a more well balanced regulatory environment, the Company would receive market rents that would eliminate the subsidy and homes would trade at or near their intrinsic value.

In connection with such efforts, the Company announced it has entered into a settlement agreement with the City of Santa Cruz, California and that, pursuant to the settlement agreement, the City amended its rent control ordinance to exempt the Company's Property from rent control as long as the Company offers a long term lease which gives the Company the ability to increase rents to market upon turnover and bases annual rent increases on the CPI. The settlement agreement benefits the Company's stockholders by allowing them to receive the value of their investment in this Property through vacancy decontrol while preserving annual CPI based rent increases in this age-restricted Property.

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, the first case against the City went to trial, based on both breach of the settlement agreement and the constitutional claims. A jury found no breach of the settlement agreement; the Company then filed motions asking the Court to rule in its favor on that claim, notwithstanding the jury verdict. The Court postponed decision on those motions and on the constitutional claims, pending a ruling on some property rights issues by the United States Supreme Court.

**Table of Contents****Note 10 Commitments and Contingencies (continued)**

The Company also had pending a claim seeking a declaration that the Company could close the Property and convert it to another use which claim was not tried in 2002. The United States Supreme Court issued the property rights rulings in 2005 and subsequently on January 27, 2006, the Court hearing the San Rafael cases issued a ruling that granted the Company's motion for leave to amend to assert alternative takings theories in light of the United States Supreme Court's decisions. The Court's ruling also denied the Company's post trial motions related to the settlement agreement and dismissed the park closure claim without prejudice to the Company's ability to reassert such claim in the future. As a result, the Company has filed a new complaint challenging the City's ordinance as violating the takings clause and substantive due process. The City of San Rafael filed a motion to dismiss the amended complaint. On December 5, 2006, the Court denied portions of the City's motion to dismiss that had sought to eliminate certain of the Company's taking claims and substantive due process claims. The Company's claims against the City were tried in a bench trial during April 2007. Post-trial briefing occurred during May 2007. On July 26, 2007, the United States District Court for the Northern District of California issued Preliminary Findings of Facts and Legal Standards, Preliminary Conclusions of Law and Request for Further Briefing ( Preliminary Findings ) in this matter. The Company has filed the Preliminary Findings on Form 8-K on August 2, 2007. In August 2007, the Company and the City filed the further briefs requested by the Court.

The Company's efforts to achieve a balanced regulatory environment incentivize tenant groups to file lawsuits against the Company seeking large damage awards. The homeowners association at Contempo Marin ( CMHOA ), a 396 site Property in San Rafael, California, sued the Company in December 2000 over a prior settlement agreement on a capital expenditure pass-through after the Company sued the City of San Rafael in October 2000 alleging its rent control ordinance is unconstitutional. In the Contempo Marin case, the CMHOA prevailed on a motion for summary judgment on an issue that permits the Company to collect only \$3.72 out of a monthly pass-through amount of \$7.50 that the Company believed had been agreed to by the CMHOA in a settlement agreement. The CMHOA continued to seek damages from the Company in this matter. The Company reached a settlement with the CMHOA in this matter which allows the Company to recover \$3.72 of the requested monthly pass-through and does not provide for the payment of any damages to the CMHOA. Both the CMHOA and the Company brought motions to recover their respective attorneys' fees in the matter, which motions were heard by the Court in January 2007. On January 12, 2007, the Court granted CMHOA's motion for attorneys' fees in the amount of \$347,000 and denied the Company's motion for attorneys' fees. These fees have been fully accrued by the Company as of December 31, 2006. The Company has appealed both decisions. The Company believes that such lawsuits will be a consequence of the Company's efforts to change rent control since tenant groups actively desire to preserve the premium value of their homes in addition to the discounted rents provided by rent control. The Company has determined that its efforts to rebalance the regulatory environment despite the risk of litigation from tenant groups are necessary not only because of the \$15 million annual subsidy to tenants, but also because of the condemnation risk.

Similarly, 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 (2) 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 ordinances 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



**Table of Contents****Note 10 Commitments and Contingencies (continued)**

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 is 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. The remand action was tried to the court in the third quarter of 2007 and post-trial briefs have been filed. The court has asked for closing arguments to be made in November 2007. The Company intends to continue to vigorously pursue its damages in the remand action and to vigorously defend the two other lawsuits.

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.

In October 2004, the United States Supreme Court granted certiorari in State of Hawaii vs. Chevron USA, Inc., a Ninth Circuit Court of Appeal case that upheld the standard that a regulation must substantially advance a legitimate state purpose in order to be constitutionally viable under the Fifth Amendment. On May 24, 2005 the United States Supreme Court reversed the Ninth Circuit Court of Appeal in an opinion that clarified the standard of review for regulatory takings brought under the Fifth Amendment. The Supreme Court held that the heightened scrutiny applied by the Ninth Circuit is not the applicable standard in a regulatory takings analysis, but is an appropriate factor for determining if a due process violation has occurred. The Court further clarified that regulatory takings would be determined in significant part by an analysis of the economic impact of the regulation. The Company believes that the severity of the economic impact on its Properties caused by rent control will enable it to continue to challenge the rent regulations under the Fifth Amendment and the due process clause.

As a result of the Company's efforts to achieve a level of regulatory fairness in California, a commercial lending company, 21<sup>st</sup> Mortgage Corporation, a Delaware corporation, sued MHC Financing Limited Partnership. Such lawsuit asserts that certain rent increases implemented by the partnership pursuant to the rights afforded to the property owners under the City of San Jose's rent control ordinance were invalid or unlawful. 21<sup>st</sup> Mortgage has asserted that it should benefit from the vacancy control provisions of the City's ordinance as if 21<sup>st</sup> Mortgage were a homeowner and contrary to the ordinance's provision that rents may be increased without restriction upon termination of the homeowners' tenancy. In each of the disputed cases, the Company believes it had terminated the tenancy of the homeowner (21<sup>st</sup> Mortgage's borrower) through the legal process. The Court, in granting 21<sup>st</sup> Mortgage's motion for summary judgment, has indicated that 21<sup>st</sup> Mortgage may be a homeowner within the meaning of the ordinance. The Company does not believe that 21<sup>st</sup> Mortgage can show that it has ever applied for tenancy, entered into a rental agreement or been accepted as a homeowner in the communities. Moreover, California Civil Code Section 798.21 specifically exempts non-principal residents from the benefits of rent control. Trial in this matter is currently scheduled for November 2007. The Company intends to continue vigorously defending this matter.

**Dispute with Las Gallinas Valley Sanitary District**

In November 2004, the Company received a Compliance Order (the "Compliance Order") from the Las Gallinas Valley Sanitary District (the "District"), relating to the Company's Contempo Marin Property in San Rafael, California. The Compliance Order directed the Company to submit and implement a plan to bring the Property's domestic wastewater discharges into compliance with the applicable District ordinance (the "Ordinance"), and to ensure continued compliance with the Ordinance in the future.

**Table of Contents****Note 10 Commitments and Contingencies (continued)**

Without admitting any violation of the Ordinance, the Company promptly engaged a consultant to review the Property's sewage collection system and prepare a compliance plan to be submitted to the District. The District approved the compliance plan in January 2005, and the Company promptly took all necessary actions to implement same.

Thereafter, the Company received a letter dated June 2, 2005 from the District's attorney (the June 2 Letter), acknowledging that the Company has taken measures to bring the Property's private sanitary system into compliance with the Ordinance, but claiming that prior discharges from the Property had damaged the District's sewers and pump stations in the amount of approximately \$368,000. The letter threatened legal action if necessary to recover the cost of repairing such damage. By letter dated June 23, 2005, counsel for the Company denied the District's claims set forth in the June 2 Letter.

On July 1, 2005, the District filed a Complaint for Enforcement of Sanitation Ordinance, Damages, Penalties and Injunctive Relief in the California Superior Court for Marin County, and on August 17, 2005, the District filed its First Amended Complaint (the Complaint). On September 26, 2005, the Company filed its Answer to the Complaint, denying each and every allegation of the Complaint and further denying that the District is entitled to any of the relief requested therein.

The District subsequently issued a Notice of Violation dated December 12, 2005 (the NOV), alleging additional violations of the Ordinance. By letter dated December 23, 2005, the Company denied the allegations in the NOV.

The Company settled this matter in May 2007 by agreeing to make certain improvements to the operation of the Property's sanitary collection system and without the payment of any monetary damages to the District.

**Countryside at Vero Beach**

The Company previously received letters dated June 17, 2002 and August 26, 2002 from Indian River County (County), claiming that the Company owed sewer impact fees in the amount of approximately \$518,000 with respect to the Property known as Countryside at Vero Beach, located in Vero Beach, Florida, purportedly under the terms of an agreement between the County and a prior owner of the Property. In response, the Company advised the County that these fees are no longer due and owing as a result of a 1996 settlement agreement between the County and the prior owner of the Property, providing for the payment of \$150,000 to the County to discharge any further obligation for the payment of impact or connection fees for sewer service at the Property. The Company paid this settlement amount (with interest) to the County in connection with the Company's acquisition of the Property. In February 2006, the Company was served with a complaint filed by the County in Indian River County Circuit Court, requesting a judgment declaring a lien against the Property for allegedly unpaid impact fees, and foreclosing said lien. On March 30, 2006, the Company served its answer and affirmative defenses, and the case is now in the discovery stage. In the fourth quarter of 2007 the Company settled this matter by agreeing to pay impact fees in the amount of approximately \$360,000 to Indian River County. The \$360,000 will be capitalized in land improvements on the Company's Consolidated Balance Sheet and depreciated over the useful life of the asset. All legal fees incurred to settle this matter will be expensed.

On January 12, 2006, the Company was served with a complaint filed in Indian River County Circuit Court on behalf of a purported class of homeowners at Countryside at Vero Beach. The complaint includes counts for alleged violations of the Florida Mobile Home Act and the Florida Deceptive and Unfair Trade Practices Act, and claims that the Company required homeowners to pay water and sewer impact fees, either to the Company or to the County, as a condition of initial or continued occupancy in the Park, without properly disclosing the fees in advance and notwithstanding the Company's position that all such fees were fully paid in connection with the settlement agreement described above. On February 8, 2006, the Company served its motion to dismiss the complaint. In May 2007, the Court granted the Company's motion to dismiss, but also allowed the plaintiff to amend their complaint. The plaintiff filed an amended complaint, which the Company has also moved to dismiss. The Company will vigorously defend the lawsuit.



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**Note 10 Commitments and Contingencies (continued)**

**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. On March 2, 2007, the Company filed a demurrer to the complaint, along with a motion to strike portions of the complaint ( motion to strike ) and a motion to compel arbitration and stay action ( motion to compel ). After a hearing on March 28, 2007, the Court issued a ruling on April 5, 2007, which overruled the demurrer, took the motion to compel under submission, and granted the motion to strike in part and denied it in part. The Court subsequently issued a ruling on April 6, 2007, denying the motion to compel. The Company has filed an interlocutory appeal, which is pending, of the denial of the motion to compel. On April 11, 2007, the plaintiff tenant group filed their first amended complaint in the case. The Company believes that the allegations in the complaint are without merit, and intends to vigorously defend 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.

**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, the Company's 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.

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.

**Brennan Beach**

The Company has learned that the Law Enforcement Division of the New York Department of Environmental Compliance ( DEC ) is investigating certain allegations relating to the operation of the onsite wastewater treatment plant and the use of adjacent wetlands at Brennan Beach, which is located in Pulaski, New York. No formal notices have been issued to the Company asserting specific violations and the Company is cooperating with the DEC investigation.

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**Note 10 Commitments and Contingencies (continued)**

**Appalachian RV**

The Company has learned that the U.S. Environmental Protection Agency ( EPA ) is investigating potential soil contamination at Appalachian RV, which is located in Shartlesville, Pennsylvania, reportedly stemming from observations of remnants of old auto battery parts at the Property. The EPA intends to conduct an assessment by soil sampling at the Property. The Company is cooperating with the EPA investigation.

**Florida Utility Operations**

The Company received notice from the Florida Department of Environmental Protection ( DEP ) that as a result of a compliance inspection it is alleging violations of Florida law relating to the operation of onsite water plants and waste water treatment plants at seven properties in Florida. The Company is investigating each of the alleged violations, including a review of a third party operator hired to oversee such operations. The Company met with the DEP in November 2007 to respond to the alleged violations and as a follow-up to such meeting will provide a written response to the DEP. While the outcome of this investigation remains uncertain, the Company expects to resolve the issues raised by the DEP by entering into a consent decree in which the Company will agree to make certain improvements in its facilities and operations to resolve the issues and pay certain costs and penalties associated with the violations. While the outcome is still uncertain, the amount of the costs and penalties paid to the DEP is not expected to be material. The Company is evaluating the costs of any improvements to its facilities, which would be capital expenditures depreciated over the estimated useful life of the improvement.

**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 and other similar enforcement actions by governmental agencies relating to the Company s water plants and wastewater treatment plants. 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.

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**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 ). 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 September 30, 2007, the Company owned or had an ownership interest in a portfolio of 312 Properties located throughout the United States and Canada containing 112,925 residential sites. These Properties are located in 29 states and British Columbia (with the number of Properties in each state or province shown parenthetically): Florida (87), California (48), Arizona (35), Texas (15), Pennsylvania (13), Washington (13), Colorado (10), Oregon (9), North Carolina (8), Virginia (8), Delaware (7), Maine (6), Nevada (6), Wisconsin (6), Indiana (5), New York (5), Illinois (4), Massachusetts (5), New Jersey (4), Michigan (3), South Carolina (3), Ohio (2), Tennessee (2), Utah (2), Alabama (1), Iowa (1), Kentucky (1), Montana (1), New Hampshire (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:

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 markets volatility;

in the all-age properties, 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;

our ability to maintain rental rates and occupancy with respect to properties currently owned or pending acquisitions;

our assumptions about rental and home sales markets;

the completion of pending acquisitions and timing with respect thereto;

ability to obtain financing or refinance existing debt;

the effect of interest rates; 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.

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The following chart lists the Properties acquired, invested in, or sold since January 1, 2006.

<b>Property</b>	<b>Transaction Date</b>	<b>Sites</b>
<b>Total Sites as of January 1, 2006</b>		<b>106,337</b>
<b>Property or Portfolio (# of Properties in parentheses):</b>		
Thousand Trails (2)	April 14, 2006	624
Mid-Atlantic Portfolio (7)	April 25, 2006	1,594
Tranquil Timbers (1)	June 13, 2006	270
Outdoor World Portfolio (15)	December 15, 2006	3,962
Pine Island RV Resort (1)	August 3, 2007	363
Santa Cruz RV Ranch (1)	September 26, 2007	106
<b>Joint Ventures:</b>		
Morgan Portfolio (5)	Various, 2006	1,134
<b>Expansion Site Development and other:</b>		
Sites added (reconfigured) in 2006		134
Sites added (reconfigured) in 2007		7
<b>Dispositions:</b>		
Indian Wells (Joint Venture)	April 18, 2006	(350)
Forest Oaks	April 25, 2006	(227)
Windsong	April 25, 2006	(268)
Blazing Star (Joint Venture)	June 29, 2006	(254)
Lazy Lakes	January 10, 2007	(100)
Del Rey	July 6, 2007	(407)
<b>Total Sites as of September 30, 2007</b>		<b>112,925</b>

Since December 31, 2005, the gross investment in real estate has increased from \$2,153 million to \$2,375 million as of September 30, 2007.

**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 64,400 annual sites, approximately 8,300 seasonal sites, which are leased to customers generally for three to six months, and approximately 9,300 transient sites, occupied by customers who lease sites on a short-term basis. We expect to service over 100,000 customers with these transient sites. However, 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 24,100 membership sites for which we currently receive ground rent of approximately \$21.1 million annually. This rent is classified in Income from other investments, net in the Consolidated Statements of Operations. We also have interests in Properties containing approximately 6,800 sites for which revenue is classified as Equity in income from unconsolidated joint ventures in the Consolidated Statements of Operations.

	<b>Total Sites as of September 30, 2007 (rounded to 000s)</b>	<b>Total Sites as of December 31, 2006 (rounded to 000s)</b>
Community sites (1)	45,300	45,700
Resort sites (2):		
Annual	19,100	18,900
Seasonal	8,300	8,000
Transient	9,300	8,800
Membership (3)	24,100	24,100
Joint Ventures (4)	6,800	7,500
	<b>112,900</b>	<b>113,000</b>

(1) Total sites as of September 30, 2007 includes 1,174 sites from discontinued operations. Total sites as of December 31, 2006 includes 1,581 sites from discontinued operations of which 407 sites sold in July 2007.

(2) Total sites as of December 31, 2006 includes

100 sites from discontinued operations, subsequently sold in January 2007.

- (3) All sites are currently leased to Privileged Access.
- (4) Joint Venture income is included in Equity in income of unconsolidated joint ventures.

***Supplemental Property Disclosure***

We provide the following disclosures with respect to certain assets:

*Monte Vista* Monte Vista is a lifestyle-oriented resort Property located in Mesa, Arizona containing approximately 56 acres of vacant land. We have obtained approval to develop 275 manufactured home and 240 resort sites on this land. In connection with evaluating the development of Monte Vista, we evaluated selling the land and subsequently decided to list 26 acres of the land for sale. We have signed a contract to sell the 26 listed acres for approximately \$10 million and the contract anticipates closing in the summer of 2008. No assurances can be given that any sale transaction will occur. With respect to the land not listed for sale, we intend to develop additional resort sites and may consider other alternative uses for the land or sale of the acreage. We anticipate that we will proceed with the development if a sale fails to close.

*Bulow Plantation* Bulow Plantation is a 628-site mixed lifestyle-oriented resort and manufactured home Property located in Flagler Beach, Florida, which contains approximately 180 acres of adjacent vacant land. We have obtained approval from Flagler County for an additional manufactured home community development of approximately 700 sites on this land. In connection with evaluating the possible development and based on inquiries from single-family home developers, we evaluated a sale of the land. Subsequently, we listed the land

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for sale for a purchase price of \$28 million. We anticipate that we will proceed with the development if we determine that any offers or the terms thereof are unacceptable. ELS recently obtained an amendment to the Board of Flagler County Commissioners resolution approving the planned unit development classification of the Property to clarify that resort cottages may be installed and set forth standards for the installation of resort cottages. This amendment may impact the plans for the future development.

*Holiday Village, Florida* Holiday Village is a 128-site manufactured home community located in Vero Beach, Florida, on approximately 20 acres of land. As a result of the 2004 hurricanes, this Property is less than 50% occupied. The residents have been notified that the Property was listed for sale for a purchase price of \$6 million.

***Privileged Access***

Privileged Access is leasing sites at certain of our Properties for the purpose of offering flexible use products. These products may include the sale of timeshare or fractional interests in resort homes or cottages and membership and vacation-club products. Leasing our sites to Privileged Access allows us to participate in these products and activities while achieving long-term rental of our sites. We expect to lease additional sites to Privileged Access for this purpose at other Properties in the future.

As of September 30, 2007, we are leasing approximately 24,100 sites at 81 membership campground resort Properties to Privileged Access or its subsidiaries. The Properties being leased are as follows:

*Thousand Trails Portfolio* This portfolio contains 59 Properties and 18,535 sites, which were leased to Privileged Access on April 14, 2006 for approximately 14 years. The current annual lease payment is approximately \$17.9 million and is subject to annual CPI escalations.

*Mid-Atlantic Portfolio* This portfolio contains seven Properties and 1,594 sites, which were leased to Privileged Access on April 25, 2006. The current lease expires January 31, 2008 and we anticipate extending the lease on a short-term basis. The current annual lease payment is approximately \$0.7 million.

*Outdoor World Portfolio* This portfolio contains 15 Properties and 3,962 sites, which were leased to Privileged Access on December 15, 2006. This lease was renewed on June 1, 2007, and was extended until January 15, 2020 to be co-terminus with the lease for the Thousand Trails portfolio. The annual lease payment was increased to \$2.5 million from \$1.0 million. The lease now allows Privileged Access to offer a limited number of upgraded memberships to existing Thousand Trails members, which would allow access to the 15 Outdoor World resorts.

We expect to continue this type of leasing activity with Privileged Access, as well as exploring other products and services. One example of such a lease is a one-year lease with Privileged Access for 130 sites at Tropical Palms, a Property located near Orlando, Florida, for an annual rate of approximately \$1.3 million. Privileged Access intends to sell fractional interests in some resort homes at this Property.

On April 14, 2006, we loaned Privileged Access approximately \$12.3 million at a per annum interest rate of prime plus 1.5%, maturing in one year and secured by Thousand Trails membership sales contract receivables. During the nine months ending September 30, 2007, we received principal repayments of \$12.3 million. In connection with the payoffs, Privileged Access obtained a \$10.0 million loan from a bank and the Company guaranteed \$2.5 million of this loan. See Note 10 Commitments and Contingencies for further discussion of this guarantee.

***Critical Accounting Policies and Estimates***

Refer to the 2006 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 nine months ended September 30, 2007, there were no changes to these policies.

**Table of Contents****Results of Operations**

The results of operations for the three Properties designated as held for disposition as of September 30, 2007 pursuant to SFAS No. 144, two Properties sold in April of 2006, one Property sold in January of 2007, and one Property sold in July of 2007 have been classified as income from discontinued operations. See Note 4 of the Notes to the Consolidated Financial Statements for summarized information for these Properties.

**Comparison of the Quarter Ended September 30, 2007 to the Quarter Ended September 30, 2006**

The following table summarizes certain financial and statistical data for the Property Operations for all Properties owned throughout both periods ( Core Portfolio ) and the Total Portfolio for the quarters ended September 30, 2007 and 2006 (amounts in thousands).

	Core Portfolio				Total Portfolio			
	2007	2006	Increase / (Decrease)	% Change	2007	2006	Increase / (Decrease)	% Change
Community base rental income	\$ 58,353	\$ 55,904	\$ 2,449	4.4%	\$ 59,366	\$ 56,877	\$ 2,489	4.4%
Resort base rental income	21,970	20,889	1,081	5.2%	25,557	22,833	2,724	11.9%
Utility and other income	8,677	7,284	1,393	19.1%	9,273	7,539	1,734	23.0%
Property operating revenues	89,000	84,077	4,923	5.9%	94,196	87,249	6,947	8.0%
Property operating and Maintenance	30,836	28,769	2,067	7.2%	33,252	30,125	3,127	10.4%
Real estate taxes	6,701	6,526	175	2.7%	7,037	6,780	257	3.8%
Property management	4,347	4,086	261	6.4%	4,576	4,301	275	6.4%
Property operating expenses	41,884	39,381	2,503	6.4%	44,865	41,206	3,659	8.9%
Income from property operations	\$ 47,116	\$ 44,696	\$ 2,420	5.4%	\$ 49,331	\$ 46,043	\$ 3,288	7.1%

**Property Operating Revenues**

The 5.9% increase in the Core Portfolio property operating revenues reflects: (i) a 4.2% increase in rates in our community base rental income combined with a 0.2% increase in occupancy, (ii) a 5.2% increase in revenues for our resort base income, and (iii) an increase in utility income due to increased pass-throughs at certain Properties. Total Portfolio Property operating revenues increased due to rate increases and our 2006 and 2007 acquisitions.

**Property Operating Expenses**

The 6.4% increase in property operating expenses in the Core Portfolio reflects a 7.2% increase in property operating and maintenance expenses. The increase in real estate taxes in the Core Portfolio is generally due to higher property assessments on certain Properties. Our Total Portfolio property operating expenses increased due to higher property operating expenses in the Core Portfolio and our 2006 and 2007 acquisitions. Core Portfolio and Total Portfolio property management expense increased due to increased payroll costs.



**Table of Contents****Home Sales Operations**

The following table summarizes certain financial and statistical data for the Home Sales Operations for the quarters ended September 30, 2007 and 2006 (dollars in thousands).

	<b>2007</b>	<b>2006</b>	<b>Variance</b>	<b>% Change</b>
Gross revenues from new home sales	\$ 8,019	\$ 15,949	\$ (7,930)	(49.7%)
Cost of new home sales	(7,424)	(14,650)	7,226	(49.3%)
Gross profit from new home sales	595	1,299	(704)	(54.2%)
Gross revenues from used home sales	464	628	(164)	(26.1%)
Cost of used home sales	(693)	(475)	(218)	45.9%
Gross (loss) profit from used home sales	(229)	153	(382)	(249.7%)
Brokered resale revenues, net	305	448	(143)	(31.9%)
Home selling expenses	(1,845)	(2,472)	627	(25.4%)
Ancillary services revenues, net	799	700	99	14.1%
(Loss) Income from home sales operations	\$ (375)	\$ 128	\$ (503)	(393.0%)

**Home sales volumes**

New home sales (1)	113	220	(107)	(48.6%)
Used home sales (2)	69	117	(48)	(41.0%)
Brokered home resales	202	271	(69)	(25.5%)

(1) Includes third party home sales of 14 and 17 for the quarters ending September 30, 2007 and 2006, respectively.

(2) Includes third party home sales of zero and seven for the quarters ending September 30, 2007 and 2006, respectively.

Income from home sales operations decreased as a result of lower new, used, and brokered resale volumes and lower gross profits per home sold. The decline in gross profits was offset by a slight increase in ancillary services and decreased home selling expenses as a result of lower sales volumes and decreased advertising costs.

**Other Income and Expenses**

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The following table summarizes other income and expenses for the quarters ended September 30, 2007 and 2006 (amounts in thousands).

	<b>2007</b>	<b>2006</b>	<b>Variance</b>	<b>% Change</b>
Interest income	\$ 496	\$ 595	\$ (99)	(16.6%)
Income from other investments, net	5,323	6,172	(849)	(13.8%)
General and administrative	(3,795)	(3,541)	(254)	7.2%
Rent control initiatives	(722)	(201)	(521)	259.2%
Interest and related amortization	(25,942)	(26,339)	397	(1.5%)
Depreciation on corporate assets	(116)	(102)	(14)	13.7%
Depreciation on real estate assets	(15,901)	(15,137)	(764)	5.0%
Total other expenses, net	\$ (40,657)	\$ (38,553)	\$ (2,104)	5.5%

Interest income decreased primarily due to a \$7.3 million principal repayment received in the first quarter of 2007 on our Privileged Access note. Income from other investments, net decreased due to the \$1.0 million gain on sale of College Heights during the third quarter of 2006 offset by previously discussed increase in ground lease

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activity with Privileged Access. General and administrative expense primarily increased due to higher payroll costs. Rent control initiatives increased primarily as a result of activity regarding the Contempo Marin and City of Santee trials (see Note 10 – Commitments and Contingencies). Interest and related amortization decreased due a lower amount outstanding on our lines of credit partially offset by slightly unfavorable interest rates in 2007. Depreciation expense increased primarily due to the 2006 and 2007 acquisitions.

***Equity in Income of Unconsolidated Joint Ventures***

During the quarter ended September 30, 2007, equity in income of unconsolidated joint ventures decreased primarily due to the acquisition of the remaining interests of six joint ventures since September 30, 2006.

**Table of Contents****Comparison of the Nine Months Ended September 30, 2007 to the Nine Months Ended September 30, 2006**

The following table summarizes certain financial and statistical data for the Property Operations for all Properties owned throughout both periods ( Core Portfolio ) and the Total Portfolio for the nine months ended September 30, 2007 and 2006 (amounts in thousands).

	Core Portfolio				Total Portfolio			
	2007	2006	Increase / (Decrease)	% Change	2007	2006	Increase / (Decrease)	% Change
Community base rental income	\$ 174,179	\$ 166,549	\$ 7,630	4.6%	\$ 177,190	\$ 168,617	\$ 8,573	5.1%
Resort base rental income	69,271	65,501	3,770	5.8%	79,336	69,480	9,856	14.2%
Utility and other income	26,831	22,868	3,963	17.3%	28,551	23,445	5,106	21.8%
Property operating revenues	270,281	254,918	15,363	6.0%	285,077	261,542	23,535	9.0%
Property operating and maintenance	89,159	84,550	4,609	5.5%	95,681	87,229	8,452	9.7%
Real estate taxes	20,708	19,589	1,119	5.7%	21,646	20,122	1,524	7.6%
Property management	13,243	13,120	123	0.9%	13,940	13,526	414	3.1%
Property operating expenses	123,110	117,259	5,851	5.0%	131,267	120,877	10,390	8.6%
Income from property operations	\$ 147,171	\$ 137,659	\$ 9,512	6.9%	\$ 153,810	\$ 140,665	\$ 13,145	9.3%

**Property Operating Revenues**

The 6.0% increase in the Core Portfolio property operating revenues reflects: (i) a 4.2% increase in rates in our community base rental income combined with a 0.4% increase in occupancy, (ii) a 5.8% increase in revenues for our resort base income, and (iii) an increase in utility and other income due to increased pass-throughs at certain Properties. Total Portfolio Property operating revenues increased due to rate increases and our 2006 and 2007 acquisitions.

**Property Operating Expenses**

The 5.0% increase in property operating expenses in the Core Portfolio reflects a 5.5% increase in property operating and maintenance expense due primarily to increases in payroll, utilities and repairs and maintenance. The increase in real estate taxes in the Core Portfolio is generally due to higher property assessments on certain Properties. Our Total Portfolio property operating expenses increased due to higher utility expenses, and our 2006 and 2007 acquisitions. Total Portfolio property management expense increased slightly due to increased payroll costs.

**Table of Contents****Home Sales Operations**

The following table summarizes certain financial and statistical data for the Home Sales Operations for the nine months ended September 30, 2007 and 2006 (dollars in thousands).

	<b>2007</b>	<b>2006</b>	<b>Variance</b>	<b>% Change</b>
Gross revenues from new home sales	\$ 25,045	\$ 44,637	\$ (19,592)	(43.9%)
Cost of new home sales	(22,301)	(39,581)	17,280	(43.7%)
Gross profit from new home sales	2,744	5,056	(2,312)	(45.7%)
Gross revenues from used home sales	1,722	1,940	(218)	(11.2%)
Cost of used home sales	(2,063)	(1,648)	(415)	25.2%
Gross (loss) profit from used home sales	(341)	292	(633)	(216.8%)
Brokered resale revenues, net	1,248	1,723	(475)	(27.6%)
Home selling expenses	(5,845)	(7,386)	1,541	(20.9%)
Ancillary services revenues, net	2,223	2,706	(483)	(17.8%)
Income from home sales operations	\$ 29	\$ 2,391	\$ (2,362)	(98.8%)

**Home sales volumes**

New home sales (1)	346	574	(228)	(39.7%)
Used home sales (2)	224	297	(73)	(24.6%)
Brokered home resales	769	1015	(246)	(24.2%)

(1) Includes third party home sales of 37 and 46 for the nine months ending September 30, 2007 and 2006, respectively.

(2) Includes third party home sales of five and nine for the nine months ending September 30, 2007 and 2006, respectively.

Income from home sales operations decreased due to lower new, used, and brokered resale volumes and lower gross profits per home sold. The decline in gross profits was partially offset by decreased home selling expenses as a result of lower sales volumes and decreased advertising costs.

**Other Income and Expenses**

The following table summarizes other income and expenses for the nine months ended September 30, 2007 and 2006 (amounts in thousands).

	<b>2007</b>	<b>2006</b>	<b>Variance</b>	<b>% Change</b>
Interest income	\$ 1,458	\$ 1,434	\$ 24	1.7%
Income from other investments, net	15,407	15,454	(47)	(0.3%)
General and administrative	(11,146)	(10,342)	(804)	7.8%
Rent control initiatives	(2,157)	(499)	(1,658)	332.3%
Interest and related amortization	(77,420)	(77,167)	(253)	0.3%
Depreciation on corporate assets	(337)	(312)	(25)	8.0%
Depreciation on real estate assets	(47,232)	(44,570)	(2,662)	6.0%
Total other expenses, net	\$ (121,427)	\$ (116,002)	\$ (5,425)	4.7%

Interest income increased due to interest income from tax deferred exchange account escrow balances, offset by a decrease in interest received on our Privileged Access note, which was fully paid off in the third quarter of 2007. Income from other investments, net decreased due to the \$1.0 gain on sale of College Heights in the third quarter of 2006 offset by the previously discussed increase in ground lease activity with Privileged Access. General and

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administrative expense primarily increased due to an increase in payroll expenses. Rent control initiatives increased primarily as a result of activity regarding the Contempo Marin and City of Santee trials (see Note 10 – Commitments and Contingencies). Interest expense increased primarily due to the 2006 acquisitions partially offset by lower lines-of-credit balances. Depreciation on real estate assets increased primarily due to the 2006 and 2007 acquisitions.

***Equity in Income of Unconsolidated Joint Ventures***

During the nine months ended September 30, 2007, equity in income of unconsolidated joint ventures decreased due to the acquisition of the remaining interests of several joint ventures during 2006 and 2007 as well as the liquidation of our interest in two additional joint ventures in the second quarter of 2006.

**Table of Contents****Liquidity and Capital Resources*****Liquidity***

As of September 30, 2007, the Company had \$3.7 million in cash and cash equivalents and \$272.1 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, proceeds from sale of Properties 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 long-term collateralized and uncollateralized borrowings including borrowings under its existing lines of credit the issuance of debt securities or additional equity securities in the Company, in addition to working capital. The table below summarizes cash flow activity for the nine months ended September 30, 2007 and 2006 (amounts in thousands).

	<b>For the nine months ended September 30,</b>	
	<b>2007</b>	<b>2006</b>
Cash provided by operating activities	\$ 91,827	\$ 77,649
Cash used in investing activities	(19,138)	(42,470)
Cash used in financing activities	(70,591)	(35,789)
Net increase (decrease) in cash	\$ 2,098	\$ (610)

**Operating Activities**

Net cash provided by operating activities increased \$14.2 million for the nine months ended September 30, 2007. The increase reflects increased property operating income as a result of our acquisitions and a decrease in working capital requirements. Reduction in working capital requirements is primarily due to the decrease in inventory as a result of lower new home sales volumes.

**Investing Activities**

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

***Acquisitions******2007 Acquisitions***

On January 29, 2007, the Company acquired the remaining 75% interest in a joint venture Property known as Mesa Verde, which is a 345-site resort Property on approximately 28 acres in Yuma, Arizona. The gross purchase price was approximately \$5.9 million. We assumed a first mortgage loan of approximately \$3.5 million with an interest rate of 4.94% per annum, maturing in 2008. The remainder of the acquisition price, net of a credit for our existing 25% interest, was funded with a withdrawal from the tax-deferred exchange account established as a result of the disposition of Lazy Lakes discussed below.

On June 27, 2007, the Company purchased the remaining 75% interest in a Diversified Investments joint venture Property known as Winter Garden, which is a 350-site resort Property on approximately 27 acres in Winter Garden, Florida. The gross purchase price was approximately \$10.9 million, and we assumed a second mortgage loan of approximately \$4.0 million with an interest rate of 4.3% per annum, maturing in September 2008. The remainder of the acquisition price, net of a credit for our existing 25% interest, was funded with proceeds from the Company's lines of credit and a withdrawal of approximately \$3.7 million from the tax-deferred exchange account established as a result of the disposition of Lazy Lakes discussed below.



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On August 3, 2007, the Company acquired a 363-site resort Property known as Pine Island that is located near St. James City, Florida. The purchase price of approximately \$6.5 million was funded with a withdrawal from the tax-deferred account established as a result of the sale of Del Rey discussed below.

On September 26, 2007, the Company acquired a 106-site resort Property known as Santa Cruz RV Ranch that is located near Scotts Valley, California. The purchase price was approximately \$5.5 million.

*2006 Acquisitions*

On March 22, 2006, the Company purchased the remaining interest in the Mezzanine Properties (the Mezzanine Portfolio ) in which we had initially invested approximately \$30.0 million to acquire preferred equity interests during the first quarter of 2004. The Mezzanine Portfolio consists of 11 Properties containing 5,057 sites: five Properties are located in Arizona, four in Florida, and one each in North Carolina and South Carolina. The total purchase price was approximately \$105.0 million, including our existing investment in these Properties of \$32.2 million and our general partnership investment of \$1.4 million. The acquisition was funded by new debt financing of \$47.1 million and assumed debt of approximately \$25.9 million. Net working capital acquired included \$3.2 million of rents received in advance and \$0.4 million in other net payables. In connection with this acquisition we also purchased \$1.9 million of inventory.

On April 14, 2006, the Company purchased two additional Thousand Trails Properties, located in California and Florida, and certain personal property for \$10.0 million. These Properties were leased back to Privileged Access (see Privileged Access discussion above). The acquisition was funded from our lines of credit.

On April 25, 2006, the Company purchased seven lifestyle-oriented Properties, which contain 1,594 sites including 950 acres of developable expansion land and are located in Florida, New York, North Carolina, South Carolina, Michigan, Kentucky and Alabama. The total purchase price of approximately \$14.3 million was funded by the exchange of two all-age Properties, located in Indiana, previously held for sale containing 495 sites, and \$5.0 million in cash. We provided short-term seller financing of \$3.4 million, which was repaid in August 2006. Net working capital acquired included \$0.6 million of rents received in advance. The acquisition was funded from our lines of credit.

On June 13, 2006, the Company purchased Tranquil Timbers, a Property located in Door County, Wisconsin, containing 270 sites for a total purchase price of \$2.8 million. The acquisition was funded from our lines of credit. Certain purchase price adjustments may be made within one year following the acquisitions.

*Dispositions*

On January 10, 2007, we sold Lazy Lakes, a 100-site resort Property in the Florida Keys, for proceeds of approximately \$7.7 million. The Company recognized a gain of approximately \$4.6 million. In order to defer the taxable gain on the sale of Lazy Lakes, the sales proceeds, net of an eligible distribution of \$2.4 million, were deposited in a tax-deferred exchange account. The funds in the exchange account were used in the Mesa Verde and Winter Garden acquisitions discussed above.

On July 6, 2007, we sold Del Rey, a 407 site Property in Albuquerque, New Mexico, for proceeds of approximately \$13 million. The Company recognized a gain of approximately \$6.9 million. These proceeds were deposited in a tax-deferred exchange account pending future like-kind exchange acquisitions. As of September 30, 2007, approximately \$6.4 million of the proceeds have not been used for acquisitions.

We currently have three family Properties held for disposition, which are in various stages of negotiations. We plan to reinvest the proceeds or reduce outstanding lines of credit with the proceeds from these dispositions.

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

**Table of Contents*****Notes Receivable Activity***

As of December 31, 2006, we had a note receivable from Privileged Access of approximately \$12.3 million. During the quarter ended March 31, 2007, we received a principal repayment of \$7.3 million and during the quarter ending September 30, 2007 we received the remaining principal repayment of \$5.0 million. The remaining \$1.6 million in cash outflow reflects net lending activity from our Chattel Loans.

***Investments in and distributions from unconsolidated joint ventures***

During the nine months ended September 30, 2007, the Company invested approximately \$3.0 million in its joint ventures mainly in developing Properties at our Maine joint venture.

During the nine months ended September 30, 2007, the Company received approximately \$3.9 million in distributions from our joint ventures. Approximately \$3.8 million of these distributions were classified as return on capital and were included in operating activities. The remaining distributions of approximately \$0.1 million were classified as a return of capital and were included in investing activities.

During the nine months ended September 30, 2006, the Company received approximately \$4.3 million in distributions from our joint ventures including proceeds from the sale of Indian Wells, a property owned by one of our joint ventures in April 2006. Approximately \$2.7 million of these distributions were classified as return on capital and were included in operating activities. The remaining \$1.6 million of these distributions were classified as a return of capital and were included in investing activities.

***Proceeds from Sale of Investment***

During the quarter ended September 30, 2006, the Company sold its preferred partnership interest in College Heights for approximately \$9.0 million. At the time of the sale, College Heights owned a portfolio of 11 properties with approximately 1,900 sites located in Michigan, Ohio and Florida. The proceeds received represent a per site value of approximately \$22,000.

***Capital Improvements***

Capital expenditures for improvements are identified by the Company as recurring capital expenditures (Recurring CapEx), site development costs and corporate costs. Recurring CapEx was approximately \$10.9 million and \$8.6 million for the nine months ended September 30, 2007 and 2006, respectively. Site development costs were approximately \$9.1 million and \$13.9 million for the nine months ended September 30, 2007 and 2006, respectively, and represent costs to develop expansion sites at certain of the Company's Properties and costs for improvements to sites when a smaller used home is replaced with a larger new home. Reduction in site development costs is due to the decrease in new home sales volumes. In addition, during the nine months ended September 30, 2007 and 2006, we spent \$1.4 million and \$1.5 million, respectively, on capitalized Hurricane related repairs.

**Financing Activities*****Financing, Refinancing and Early Debt Retirement******2007 Activity***

During the quarter ended September 30, 2007, the company repaid the outstanding mortgage indebtedness on Ft. Myers Beach of approximately \$2.9 million.

In connection with the acquisition of Mesa Verde, during the first quarter of 2007, the Company assumed \$3.5 million in mortgage debt bearing interest at 4.94% per annum and maturing in May 2008. In connection with the acquisition of Winter Garden, during the second quarter of 2007, the Company assumed \$4.0 million in mortgage debt bearing interest at 4.3% per annum and maturing in September 2008. In addition, the Company

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repaid approximately \$1.9 million of mortgage debt in connection with the sale of Lazy Lakes. Refer to Note 4 - Investment in Real Estate for acquisition and disposition activity.

*2006 Activity*

During the nine months ended September 30, 2006, the Company assumed \$25.9 million in mortgage debt on four of the eleven Properties related to the acquisition of the Mezzanine Portfolio. This debt was subsequently defeased and refinanced in the same year. In addition, the Company financed \$47.1 million of mortgage debt to acquire the remaining seven Properties in the Mezzanine Portfolio. The seven mortgages bear interest at weighted average rates ranging from 5.70% to 5.72% per annum, and mature in April 2016.

We received approximately \$5.9 million in new financing proceeds from an earn-out on debt secured by the Monte Vista Property and the Viewpoint Property and a refinancing we completed in the second quarter 2006. These proceeds were used to pay down the lines of credit.

We replaced the term loan, which had a remaining balance of \$100 million maturing in 2007 and \$160 million in lines of credit maturing in August 2006 with \$275 million in lines of credit with a four-year maturity and one-year extension option. The new facilities bear interest at LIBOR plus 1.20% per annum with a 0.15% facility fee per annum. The interest rate on the term loan was LIBOR plus 1.75% per annum and the \$160 million lines of credit had an interest rate of LIBOR plus 1.65% and had a 0.15% unused fee, both per annum.

We also acquired land for \$2.4 million, in the third quarter 2006, subject to a ground lease previously classified as mortgage debt relating to the Golden Terrace South Property.

*Secured Debt*

As of September 30, 2007, our secured long-term debt balance was approximately \$1.6 billion, with a weighted average interest rate including amortization in 2007 of approximately 6.1% per annum. The debt bears interest at rates between 4.3% and 10.0% per annum and matures on various dates mainly ranging from 2007 to 2016. Included in our debt balance are three capital leases with an imputed interest rate of 13.1% per annum. We do not have any significant long-term debt maturing in 2007 or 2008, with \$216 million being the maximum amount maturing in any of the succeeding 5 years beginning in 2008. The weighted average term to maturity for the long-term debt is approximately 5.5 years.

*Unsecured Debt*

In September of 2007, we completed an amendment of existing unsecured Lines of Credit ( LOC ) to expand our borrowing capacity from \$275 million to \$420 million. Prior to the amendment, the Company had a \$225 million line of credit and a \$50 million line of credit. The amendment increased the \$225 million LOC to \$400 million and decreased the \$50 million LOC to \$20 million. The lines of credit continue to accrue interest at LIBOR plus a maximum of 1.20% per annum, have a 0.15% facility fee, mature on June 30, 2010, and have a one-year extension option. Our current group of banks have committed up to \$370 million on our \$420 million borrowing capacity. The Company incurred commitment and arrangement fees of approximately \$0.3 million to increase its borrowing capacity.

The weighted average interest rate in 2007 for our unsecured debt was approximately 6.8% per annum. Throughout the nine months ended September 30, 2007, we borrowed \$81.1 million and paid down \$114.4 million on the lines of credit for a net pay-down of \$33.3 million funded by our operations. The balance outstanding as of September 30, 2007 was \$97.9 million.

*Other Loans*

During the nine months ended September 30, 2007, we borrowed \$4.3 million to finance our insurance premium payments. As of September 30, 2007, this loan has been paid off.

**Table of Contents***Covenants*

Certain of the Company's secured mortgages contain covenants and restrictions including, but not limited to, obligations to maintain borrower entity ownership structure, prohibitions against subordinated financing, maintenance of insurance coverage, delivery of financial and operating information, and compliance with applicable environmental laws.

In addition, the Company's credit agreements also contain covenants and restrictions including restrictions as to the ratio of secured or unsecured debt versus encumbered or unencumbered assets, the ratio of fixed charges-to-earnings before interest, taxes, depreciation and amortization (EBITDA), and limitations on certain holdings and other restrictions.

*Contractual Obligations*

As of September 30, 2007, we were subject to certain contractual payment obligations as described in the table below (dollars in thousands).

	<b>Total</b>	<b>2007(2)</b>	<b>2008</b>	<b>2009</b>	<b>2010 (3)</b>	<b>2011</b>	<b>Thereafter</b>
Long Term Borrowings (1)	\$ 1,671,353	\$ 29,538	\$ 209,687	\$ 86,286	\$ 326,175	\$ 65,032	\$ 954,635
Weighted average interest rates	6.13%	7.50%	5.68%	7.00%	7.16%	7.07%	5.62%

(1) Balance excludes net premiums and discounts of \$3.0 million.

(2) Includes principal amortizations and one loan maturing in November 2007 for approximately \$20 million. We are currently assessing our refinancing options for this loan.

(3) Includes lines of credit repayments in 2010 of \$98 million. We have an option to extend this maturity for one year to 2011.

Included in the above table are certain capital lease obligations totaling approximately \$6.6 million. These agreements expire in June 2009 and are paid semi-annually at an imputed interest rate of 13.1% per annum.

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 2008 to 2032, 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 \$1.6 million per year for each of the next five years and approximately \$20.7 million thereafter.

With respect to maturing debt, the Company has staggered the maturities of its long-term mortgage debt over an average of approximately seven years, with no more than \$600 million 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 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***

#### ***2007 Activity***

The 2007 quarterly distribution per common share is \$0.15 per share, up from \$0.075 per share in 2006. On October 12, 2007, the Company paid a \$0.15 per share distribution for the quarter ended September 30, 2007 to

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stockholders of record on September 28, 2007. On July 13, 2007, the Company paid a \$0.15 per share distribution for the quarter ended June 30, 2007 to stockholders of record on June 29, 2007. On April 13, 2007, the Company paid a \$0.15 per share distribution for the quarter ended March 31, 2007 to stockholders of record on March 30, 2007. On September 28, 2007, June 29, 2007 and March 30, 2007, the Operating Partnership paid distributions of 8.0625% per annum on the \$150 million Series D 8% Units and 7.95% per annum on the \$50 million of Series F 7.95% Units.

During the nine months ended September 30, 2007, we received approximately \$3.4 million in proceeds from the issuance of shares of common stock through stock option exercises and the Company's Employee Stock Purchase Plan ( ESPP ).

*2006 Activity*

On October 13, 2006, we paid a \$0.075 per share distribution for the quarter ended September 30, 2006 to the stockholders of record on September 29, 2006. On July 14, 2006, we paid a \$0.075 per share distribution for the quarter ended June 30, 2006 to the stockholders of record on June 30, 2006. On April 14, 2006, the Company paid a \$0.075 per share distribution for the quarter ended March 31, 2006 to stockholders of record on March 31, 2006. On September 29, 2006, June 30, 2006 and March 31, 2006, the Operating Partnership paid distributions of 8.0625% per annum on the \$150 million of Series D 8% Units and 7.95% per annum on the \$50 million of Series F 7.95% Units.

During the nine months ended September 30, 2006, we received approximately \$3.5 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 the Company with the opportunity to achieve increases, where justified by the market, as each lease matures. Such types of leases generally minimize the risk of inflation to the Company.

***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 ), to be 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.

FFO is defined as net income, computed in accordance with GAAP, excluding gains or 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 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 effects of depreciation, amortization and gains or 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. 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 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.

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The following table presents a calculation of FFO for the quarters and nine months ended September 30, 2007 and 2006 (amounts in thousands):

	<b>Quarters Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Computation of funds from operations:</b>				
Net income available for common shares	\$ 9,652	\$ 3,554	\$ 27,445	\$ 14,846
Income allocated to common OP Units	2,308	911	6,592	3,863
Depreciation on real estate assets and other	15,901	15,137	47,232	44,570
Depreciation on unconsolidated joint ventures	354	459	1,088	1,465
Depreciation on discontinued real estate assets		21		63
Gain on sale of property	(6,858)		(11,444)	(852)
Funds from operations available for common shares	\$ 21,357	\$ 20,082	\$ 70,913	\$ 63,955
Weighted average common shares outstanding fully diluted	30,418	30,239	30,402	30,209

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**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 September 30, 2007, approximately 93% or approximately \$1.6 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 \$86.7 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 \$91.8 million.

At September 30, 2007, approximately 7% or approximately \$117 million of our outstanding debt was at variable rates. Earnings are affected by increases and decreases in market interest rates on this debt. For each increase/decrease in interest rates of 1% (or 100 basis points), our earnings and cash flows would increase/decrease by approximately \$1.2 million annually.



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**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 financial officer), has evaluated the effectiveness of the Company's disclosure controls and procedures as of September 30, 2007. 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 at the reasonable assurance level as of September 30, 2007.

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 September 30, 2007.

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**Part II Other Information**

**Item 1. Legal Proceedings**

See Note 10 of the Consolidated Financial Statements contained herein.

**Item 1A. Risk Factors**

With the exception of the following there have been no material changes to the factors disclosed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2006.

*Some Potential Losses Are Not Covered by Insurance.* We carry comprehensive insurance coverage for losses resulting from property damage, liability claims and business interruption on all of our Properties. We believe the policy specifications and coverage limits of these policies are adequate and appropriate. There are, however, certain types of losses, such as lease and other contract claims that generally are not insured. Should an uninsured loss or a loss in excess of coverage limits occur, we could lose all or a portion of the capital we have invested in a Property, as well as the anticipated future revenue from the Property. In such an event, we might nevertheless remain obligated for any mortgage debt or other financial obligations related to the Property.

During the quarter ended March 31, 2007, we renewed our property and casualty insurance policies through March 31, 2008. We have a \$100 million property insurance program. The program limits coverage to \$10 million annually for losses associated with earthquakes and floods. In addition, losses resulting from hurricanes are limited to \$10 million per occurrence. As we reviewed options available in the market, we determined that deductible amounts would be significantly higher than in previous years. The deductibles related to named windstorms, earthquakes, and floods are five percent of insurable value (property values plus 25 percent of business interruption) per occurrence. The deductibles under our previous policy were two percent of property values per occurrence. The larger deductibles expose us to larger potential uninsured losses.

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

None.

**Item 3. Defaults Upon Senior Securities**

None.

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

None.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

- 3.8(a) Second Amended and Restated Bylaws, effective as of August 8, 2007.
- 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
- 10.35(b) Credit Agreement (\$400 million Revolving Facility) dated September 21, 2007
- 10.36(b) Second Amendment and Restated Loan Agreement (\$20 million Revolving Facility) dated September 21, 2007
  - (a) Included as an exhibit to the Company's Report on Form 8-K dated August 8, 2007

- (b) Included as an exhibit to the Company's Report on Form 8-K dated September 21, 2007  
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**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: November 9, 2007

By: /s/ Thomas P. Heneghan  
Thomas P. Heneghan  
President and Chief Executive Officer  
(Principal executive officer)

Date: November 9, 2007

By: /s/ Michael B. Berman  
Michael B. Berman  
Executive Vice President and Chief Financial  
Officer  
(Principal financial and accounting officer)