SUN COMMUNITIES INC
Form 10-Q
November 06, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2009.

or

[ ] TRANSITION PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-12616

SUN COMMUNITIES, INC.
(Exact Name of Registrant as Specified in its Charter)

Maryland (State of Incorporation)	38-2730780 (I.R.S. Employer Identification No.)
27777 Franklin Rd. Suite 200 Southfield, Michigan (Address of Principal Executive Offices)	48034 (Zip Code)

(248) 208-2500
(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 [X] No [ ]

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. (Check one):

Large accelerated filer [ ] Accelerated filer [X] Non-accelerated filer [ ] Smaller reporting company [ ]

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

Number of shares of Common Stock, $0.01 par value per share, outstanding
as of September 30, 2009: 18,794,736

SUN COMMUNITIES, INC.

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SUN COMMUNITIES, INC.
CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2009 AND DECEMBER 31, 2008
(In thousands, except per share amounts)

	(Unaudited) September 30, 2009	December 31, 2008
ASSETS		
Investment property, net	$ 1,072,850	$ 1,099,020
Cash and cash equivalents	5,079	6,162
Inventory of manufactured homes	3,683	3,342
Investment in affiliates	2,428	3,772
Notes and other receivables	69,781	57,481
Other assets	35,384	37,152
Assets of discontinued operations	-	70
TOTAL ASSETS	$ 1,189,205	$ 1,206,999
LIABILITIES		
Debt	$ 1,155,646	$ 1,139,152
Lines of credit	88,883	90,419
Other liabilities	40,133	37,240
Liabilities of discontinued operations	-	70
TOTAL LIABILITIES	1,284,662	1,266,881
Commitments and contingencies		
STOCKHOLDERS' DEFICIT		
Preferred stock, $0.01 par value, 10,000 shares authorized, none issued	$ -	$ -
Common stock, $0.01 par value, 90,000 shares authorized (September 30, 2009 and December 31, 2008, 20,597 and 20,313 shares issued respectively)	206	203
Additional paid-in capital	463,608	459,847
Officer's notes	(5,163)	(8,334)
Accumulated other comprehensive loss	(2,108)	(2,851)
Distributions in excess of accumulated earnings	(483,666)	(445,147)
Treasury stock, at cost (September 30, 2009 and December 31, 2008, 1,802 shares)	(63,600)	(63,600)
Total Sun Communities, Inc. stockholders' deficit	(90,723)	(59,882)
Noncontrolling interest	(4,734)	-
TOTAL STOCKHOLDERS' DEFICIT	(95,457)	(59,882)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 1,189,205	$ 1,206,999

See accompanying Notes to Consolidated Financial Statements.

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SUN COMMUNITIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE PERIODS ENDED SEPTEMBER 30, 2009 AND 2008
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
REVENUES				
Income from real property	$ 48,597	$ 47,788	$ 148,093	$ 145,792
Revenue from home sales	8,433	7,933	24,112	24,204
Rental home revenue	5,062	5,186	15,449	15,318
Ancillary revenues, net	4	35	261	349
Interest	1,554	1,129	4,194	2,741
Other income (loss)	(258)	(816)	(161)	2,884
Total revenues	63,392	61,255	191,948	191,288
COSTS AND EXPENSES				
Property operating and maintenance	13,249	12,469	38,641	36,857
Real estate taxes	3,848	3,844	12,150	12,183
Cost of home sales	6,046	6,073	17,313	18,893
Rental home operating and maintenance	3,864	4,135	12,423	11,566
General and administrative - real property	3,687	3,691	12,753	12,546
General and administrative - home sales and rentals	1,890	1,676	5,532	5,003
Georgia flood damage	800	-	800	-
Depreciation and amortization	15,841	16,025	47,960	48,097
Interest	15,109	15,361	44,093	45,311
Interest on mandatorily redeemable debt	839	847	2,509	2,535
Total expenses	65,173	64,121	194,174	192,991
Loss before income taxes and equity loss from affiliates	(1,781)	(2,866)	(2,226)	(1,703)
Provision for state income tax	(103)	(141)	(382)	(34)
Equity loss from affiliates	(854)	(1,486)	(1,344)	(14,036)
Loss from continuing operations	(2,738)	(4,493)	(3,952)	(15,773)
Income (loss) from discontinued operations	177	(274)	(155)	(785)
Net loss	(2,561)	(4,767)	(4,107)	(16,558)
Less: income (loss) attributable to noncontrolling interest	(526)	726	(690)	(602)
Net loss attributable to Sun Communities, Inc.	$ (2,035)	$ (5,493)	$ (3,417)	$ (15,956)
Weighted average common shares outstanding:				
Basic	18,513	18,213	18,437	18,151
Diluted	18,513	18,213	18,437	18,151
Basic and diluted loss per share:				
Continuing operations	$ (0.12)	$ (0.28)	$ (0.18)	$ (0.84)

Discontinued operations	0.01	(0.02)	(0.01)	(0.04)
Basic and diluted loss per share	$ (0.11)	$ (0.30)	$ (0.19)	$ (0.88)
Cash dividends per common share:	$ 0.63	$ 0.63	$ 1.89	$ 1.89

See accompanying Notes to Consolidated Financial Statements.

SUN COMMUNITIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS, CONTINUED
FOR THE PERIODS ENDED SEPTEMBER 30, 2009 AND 2008
(In thousands)
(Unaudited)

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Amounts attributable to Sun Communities, Inc. common stockholders:				
Loss from continuing operations, net of state income taxes	$ (2,193)	$ (5,190)	$ (3,278)	$ (15,200)
Income (loss) from discontinued operations, net of state income taxes	158	(303)	(139)	(756)
Loss attributable to Sun Communities, Inc.	$ (2,035)	$ (5,493)	$ (3,417)	$ (15,956)

SUN COMMUNITIES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
FOR THE PERIODS ENDED SEPTEMBER 30, 2009 AND 2008
(In thousands)
(Unaudited)

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Net loss	$ (2,561)	$ (4,767)	$ (4,107)	$ (16,558)
Unrealized gain (loss) on interest rate swaps	(494)	4	832	(64)
Total comprehensive loss	(3,055)	(4,763)	(3,275)	(16,622)
Less: Comprehensive income (loss) attributable to the noncontrolling interest	(324)	733	(347)	(604)
Comprehensive loss attributable to Sun Communities, Inc.	$ (2,731)	$ (5,496)	$ (2,928)	$ (16,018)

SUN COMMUNITIES, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009
(In thousands, except per share amounts)
(Unaudited)

	Common Stock	Additional Paid-in Capital	Officer's Notes	Accumulated Other Comprehensive Loss	Distributions in Excess of Accumulated Earnings	Treasury Stock	Total Sun Communities Stockholders' Deficit	Non-controlling Interest	Total Stock-holders' Deficit
Balance as of December 31, 2008	$ 203	$ 459,847	$ (8,334)	$ (2,851)	$ (445,147)	$ (63,600)	$ (59,882)	$ -	$ (59,882)

Issuance of common stock, net	3	1,506	-	-	-	-	1,509	-	1,509
Stock-based compensation - amortization and forfeitures	-	2,255	-	-	14	-	2,269	-	2,269
Net loss	-	-	-	-	(3,417)	-	(3,417)	(690)	(4,107)
Unrealized gain on interest rate swaps	-	-	-	743	-	-	743	89	832
Repayment of officer's notes	-	-	3,171	-	-	-	3,171	-	3,171
Cash distributions declared of $1.89 per share	-	-	-	-	(35,116)	-	(35,116)	(4,133)	(39,249)
Balance as of September 30, 2009	$ 206	$ 463,608	$ (5,163)	$ (2,108)	$ (483,666)	$ (63,600)	$ (90,723)	$ (4,734)	$ (95,457)

See accompanying Notes to Consolidated Financial Statements.

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SUN COMMUNITIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008
(In thousands)
(Unaudited)

	2009	2008
OPERATING ACTIVITIES:		
Net loss	$ (4,107)	$ (16,558)
Less: Loss from discontinued operations, net of tax	(155)	(785)
Loss from continuing operations	(3,952)	(15,773)
Adjustments to reconcile loss from continuing operations to net cash provided by operating activities:		
Gain from land dispositions	(90)	(3,336)
Gain on disposal of other assets and depreciated homes, net	(3,643)	(2,502)
Gain on valuation of derivative instruments	(5)	(2)
Stock compensation expense	2,335	1,696
Depreciation and amortization	51,342	51,137
Amortization of deferred financing costs	1,228	1,145
Equity loss from affiliates	1,344	14,036
Change in notes receivables from financed sales of inventory homes, net of repayments	(2,554)	(3,226)
Change in inventory, other assets and other receivables, net	(3,746)	(6,445)
Change in accounts payable and other liabilities	3,119	4,010
Net cash provided by operating activities of continuing operations	45,378	40,740
Net cash used for operating activities of discontinued operations	(438)	(351)
NET CASH PROVIDED BY OPERATING ACTIVITIES	44,940	40,389
INVESTING ACTIVITIES:		
Investment in properties	(30,321)	(32,316)
Investment in affiliate	-	(500)
Proceeds related to dispositions of land	172	6,508
Proceeds related to disposition of other assets and depreciated homes, net	455	342
Payment of notes receivable and officer's notes, net	6,930	1,692
NET CASH USED FOR INVESTING ACTIVITIES	(22,764)	(24,274)
FINANCING ACTIVITIES:		
Issuance (redemption) of common stock and OP units, net	1,509	(459)
Borrowings on lines of credit	106,197	88,785
Payments on lines of credit	(107,733)	(102,612)
Proceeds from issuance of notes payable and other debt	40,231	52,549
Payments on notes payable and other debt	(23,737)	(13,538)
Payments for deferred financing costs	(477)	(338)
Distributions to stockholders and OP unit holders	(39,249)	(39,093)
NET CASH USED FOR FINANCING ACTIVITIES	(23,259)	(14,706)
		-
Net increase (decrease) in cash and cash equivalents	(1,083)	1,409
Cash and cash equivalents, beginning of period	6,162	5,415
Cash and cash equivalents, end of period	$ 5,079	$ 6,824

SUPPLEMENTAL INFORMATION:				
Cash paid for interest	$	39,545	$	42,990
Cash paid for interest on mandatorily redeemable debt	$	2,509	$	2,587
Cash paid for state income taxes	$	526	$	249
Noncash investing and financing activities:				
Unrealized gain (loss) on interest rate swaps	$	832	$	(64)

See accompanying Notes to Consolidated Financial Statements.

SUN COMMUNITIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

These unaudited interim Consolidated Financial Statements of Sun Communities, Inc., a Maryland corporation, and all majority-owned or wholly-owned and controlled subsidiaries, including Sun Communities Operating Limited Partnership (the "Operating Partnership"), SunChamp LLC ("SunChamp"), and Sun Home Services, Inc. ("SHS"), have been prepared pursuant to the Securities and Exchange Commission ("SEC") rules and regulations and in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Certain information and footnote disclosures required for annual financial statements have been condensed or excluded pursuant to SEC rules and regulations. Accordingly, the interim financial statements do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with the Consolidated Financial Statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2008 as filed with the SEC on March 13, 2009, as amended on March 30, 2009 (the "2008 Annual Report").

Reference in this report to Sun Communities, Inc., "we", "our" and "us" and the "Company" refer to Sun Communities, Inc and its subsidiaries, unless the context indicates otherwise.

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.

We completed the sale of our cable television services business during the third quarter ended September 30, 2009. The cable television services business has been classified and presented as discontinued operations in the Consolidated Financial Statements and related notes. See Note 2 for additional information.

The following Notes to Consolidated Financial Statements present interim disclosures as required by the SEC. These statements have been prepared on a basis that is substantially consistent with the accounting principles applied in our 2008 Annual Report, with the exception of the impact of our adoption in the first quarter of 2009 of the following accounting standards: Statement of Financial Accounting Standards (SFAS) No. 160, "Noncontrolling Interests in Consolidated Financial Statements", which is now included within the FASB Accounting Standards Codification TM ("ASC") Topic 810, Consolidation; and FASB Staff Position Emerging Issues Task Force ("EITF") No. 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities", which is included within ASC Topic 260, Earnings Per Share. See Recent Accounting Pronouncements in Note 17 for further information on our adoption of these accounting standards.

Certain reclassifications have been made to prior periods' financial statements in order to conform to current period presentation.

2. Discontinued Operations

We had investments in certain land improvements and equipment that provided cable television services to certain communities within the Real Property Operations segment. In December 2008, we determined that the cable television assets could not provide the necessary return on investment to justify the capital investment required to keep up with the technological advances in the offered product. In the fourth quarter of fiscal 2008, we announced our intention to exit the cable television service business and recorded a $4.1 million impairment charge on the cable television assets. This impairment charge was recognized in accordance with ASC Topic 360, Plant Property and Equipment.

We completed the sale of the cable television services business during the third quarter ended September 30, 2009. Cash proceeds from this sale were $0.3 million, resulting in a net gain on sale of $0.2 million, which is recorded in loss from discontinued operations. In accordance with ASC Topic 205, Presentation of Financial Statements, the cable television service business has been presented as a discontinued operation in the Consolidated Financial Statements for all periods presented.

SUN COMMUNITIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

2. Discontinued Operations, continued

The following tables set forth certain summarized financial information of the discontinued operation (in thousands):

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Total revenues	$ 268	$ 178	$ 623	$ 573
Total expenses	(91)	(452)	(778)	(1,358)
Income (loss) from discontinued operations	177	(274)	(155)	(785)
Less: Income (loss) attributable to noncontrolling interest	19	29	(16)	(29)
Income (loss) from discontinued operations attributable to Sun Communities, Inc. common stockholders	$ 158	$ (303)	$ (139)	$ (756)

	September 30, 2009	December 31, 2008
ASSETS		
Accounts receivable, net	$ -	$ 16
Other assets	-	54
Total assets	$ -	$ 70
LIABILITIES		
Accounts payable	$ -	$ 16
Deferred income	-	38
Other liabilities	-	16
Total liabilities	$ -	$ 70

3. Investment Property

The following table sets forth certain information regarding investment property (in thousands):

	September 30, 2009	December 31, 2008
Land	$ 116,266	$ 116,292
Land improvements and buildings	1,184,893	1,177,362
Rental homes and improvements	199,677	194,649
Furniture, fixtures, and equipment	34,523	34,050
Land held for future development	26,986	26,986
Investment property	1,562,345	1,549,339
Less: Accumulated depreciation	(489,495)	(450,319)
Investment property, net	$ 1,072,850	$ 1,099,020

Land improvements and buildings consist primarily of infrastructure, roads, landscaping, clubhouses, maintenance buildings and amenities.

On September 21, 2009, a flood caused substantial damage to our property, Countryside Village of Atlanta, located in Lawrenceville, Georgia. We are still in the preliminary stages of assessing the damage to our property. We have comprehensive insurance coverage for both property damage and business interruption, subject to deductibles and certain limitations. We believe the cost of the damage sustained from the flooding will be in excess of our insurance deductible. We have recorded a charge of $0.8 million associated with the flooding. This charge represents our deductible, net of expected insurance recoveries for the replacement of assets that exceed the net book value of assets damaged in the flood.

SUN COMMUNITIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

4. Secured Borrowing and Collateralized Receivables

We have completed various transactions involving our installment notes since the third quarter of fiscal 2008. We have received a total of $49.2 million of cash proceeds in exchange for relinquishing our right, title and interest in the installment notes. We have no further obligations or rights with respect to the control, management, administration, servicing, or collection of the installment notes.

However, we are subject to certain recourse provisions requiring us to purchase the underlying homes collateralizing such notes, in the event of a note default and subsequent repossession of the home. The recourse provisions are considered to be a form of continuing involvement, and we have recorded these transactions as a transfer of financial assets in accordance with ASC Topic 860, Transfers and Servicing.

In the event of note default, and subsequent repossession of a manufactured home, the terms of the agreement require us to repurchase the manufactured home. Default is defined as the failure to repay the installment note according to contractual terms. The repurchase price is calculated as a percentage of the outstanding principal balance of the installment note, plus any outstanding late fees, accrued interest, legal fees and escrow advances associated with the installment note. The percentage used to determine the repurchase price of the outstanding principal balance on the installment note is based on the number of payments made on the note. In general, the repurchase price is determined as follows:

Number of Payments	Recourse %
Less than or equal to 15	100%
Greater than 15 but less than 64	90%
64 or more	65%

The transferred assets have been classified as collateralized receivables in Notes and Other Receivables (see Note 5) and the cash proceeds received from these transactions have been classified as a secured borrowing in Debt (see Note 7) within the Consolidated Balance Sheets. The net balance of the collateralized receivables was $44.9 million and $26.1 million as of September 30, 2009 and December 31, 2008, respectively. The collateralized receivables are presented net of allowance for losses of $0.1 million as of September 30, 2009 and December 31, 2008. The outstanding balance on the secured borrowing was $45.0 million and $26.2 million as of September 30, 2009 and December 31, 2008, respectively.

The balances of the collateralized receivables and secured borrowings fluctuate. The balances increase as additional installment notes are transferred and exchanged for cash proceeds. The balances are reduced as the related installment notes are collected from the customers, or as the underlying collateral is repurchased. The change in the aggregate gross principal balance of the collateralized receivables is as follows (in thousands):

Beginning balance as of December 31, 2008	$	26,211
Financed sales of manufactured homes		21,690
Principal payments and payoffs from our customers		(1,439)
Repurchases		(1,406)
Total activity		18,845
Ending balance as of September 30, 2009	$	45,056

The collateralized receivables earn interest income and the secured borrowings accrue borrowing costs at the same interest rates. The amount of interest income and expense recognized was $1.2 million and $0.7 million for the three months ended September 30, 2009 and 2008, respectively. The amount of interest income and expense recognized was $2.8 million and $0.7 million for the nine months ended September 30, 2009 and 2008, respectively.

For federal tax purposes, we treat these transfers of collateralized receivables as sales of financial assets.

SUN COMMUNITIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

5. Notes and Other Receivables

The following table sets forth certain information regarding notes and other receivables (in thousands):

	September 30, 2009	December 31, 2008
Installment notes receivable on manufactured homes, net	$ 16,407	$ 21,232
Collateralized receivables, net (see Note 4)	44,913	26,159
Other receivables, net	8,461	10,090
Total notes and other receivables, net	$ 69,781	$ 57,481

Installment Notes Receivable on Manufactured Homes

The installment notes of $16.4 million and $21.2 million as of September 30, 2009 and December 31, 2008, respectively, are collateralized by manufactured homes. The installment notes are presented net of allowance for losses of $0.1 million as of September 30, 2009 and December 31, 2008. The installment notes represent financing provided by us to purchasers of manufactured homes generally located in our communities. The installment notes receivable have interest payable monthly at a net weighted average interest rate and a maturity of 7.8 percent and 12.8 years and 7.6 percent and 13.8 years at September 30, 2009 and December 31, 2008, respectively.

Collateralized Receivables

We have completed various transactions involving our installment notes since the third quarter of fiscal 2008. We have received a total of $49.2 million of cash proceeds in exchange for relinquishing our right, title and interest in the installment notes. These transactions were recorded as a transfer of financial assets. The transferred assets have been classified as collateralized receivables with a net balance of $44.9 million and $26.1 million as of September 30, 2009 and December 31, 2008, respectively. The collateralized receivables are presented net of allowance for losses of $0.1 million as of September 30, 2009 and December 31, 2008. The collateralized receivables have interest payable monthly at a weighted average interest rate and maturity of 10.8 percent and 13.8 years and 10.1 percent and 14.0 years, as of September 30, 2009 and December 31, 2008, respectively. See Note 4 for additional information.

Allowance for Losses for Collateralized and Installment Notes Receivable

We are generally able to recover our investment in uncollectible notes receivable by repurchasing the homes that collateralized these notes receivables, and then selling or leasing these homes to potential residents in our communities. Although our experience supports a high recovery rate for repossessed homes, we believe there is some degree of uncertainty about recoverability of our investment in these repossessed homes. We have established a loan loss reserve that estimates our unrecoverable costs associated with these repossessed homes. We estimate our unrecoverable costs to be the repurchase price plus repair costs that exceed the estimated selling price of the home being repossessed. A historical average of this excess cost is calculated based on prior repossessions and applied to our estimated annual future repossessions to create the allowance for installment notes and collateralized receivables. The allowance for losses for collateralized and installment notes receivable was $0.2 million as of September 30, 2009 and December 31, 2008.

SUN COMMUNITIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

5. Notes and Other Receivables, continued

Other Receivables

Other receivables were comprised of amounts due from residents of $1.6 million (net of allowance of $0.2 million), home sale proceeds of $3.4 million, an employee loan of $0.5 million, insurance receivables of $0.4 million, and rebates and other receivables of $2.6 million as of September 30, 2009. Other receivables were comprised of amounts due from residents of $1.6 million (net of allowance of $0.3 million), home sale proceeds of $3.7 million, an employee loan of $0.5 million, insurance receivables of $0.3 million, and rebates and other receivables of $4.0 million as of December 31, 2008.

Officer's Notes

Officer's notes, presented as a portion of the stockholders' deficit in the balance sheet, are 10 year, LIBOR + 1.75% notes, with a minimum and maximum interest rate of 6% and 9%, respectively. The following table sets forth certain information regarding officer's notes as of September 30, 2009 and December 31, 2008 (in thousands except for shares and units):

	September 30, 2009			December 31, 2008		
		Secured by			Secured by	
Promissory Notes	Outstanding Principal Balance	Common Stock	Common OP Units	Outstanding Principal Balance	Common Stock	Common OP Units
Secured - $1.3 million	$ 597	36,711	-	$ 963	59,263	-
Secured - $6.6 million	3,031	81,515	58,643	4,894	131,591	94,669
Secured - $1.0 million	469	43,397	-	757	70,057	-
Subtotal secured notes	4,097	161,623	58,643	6,614	260,911	94,669
Unsecured - $1.0 million	469	-	-	757	-	-
Unsecured - $1.3 million	597	-	-	963	-	-
Subtotal unsecured notes	1,066	-	-	1,720	-	-
Total promissory notes	$ 5,163	161,623	58,643	$ 8,334	260,911	94,669

The officer's personal liability on the secured promissory notes is limited to all accrued interest on such notes plus fifty percent of the deficiency, if any, after application of the proceeds from the sale of the secured shares and/or the secured units to the then outstanding principal balance of the promissory notes. The value of secured shares and secured OP Units total approximately $4.7 million based on the closing price of our shares on the New York Stock Exchange of $21.52 as of September 30, 2009. The unsecured notes are fully recourse to the officer.

Total interest received was $0.1 million for the three months ended September 30, 2009 and 2008. Total interest received was $0.2 million and $0.4 million for the nine months ended September 30, 2009 and 2008, respectively.

The reduction in the aggregate principal balance of these notes was $3.2 million and $0.3 million for the nine months ended September 30, 2009 and 2008, respectively. The notes are due in two remaining installments on December 31, 2009 and 2010.

6. Investment in Affiliates

In October 2003, we purchased 5,000,000 shares of common stock of Origen Financial, Inc. ("Origen"). We own approximately 19 percent of Origen as of September 30, 2009, and our investment is accounted for using the equity method of accounting. As of September 30, 2009, our investment in Origen had a market value of approximately $8.0 million based on a quoted market closing price of $1.60 per share from the "Pink Sheet Electronic OTC Trading System".

We recorded our estimated equity allocation of the reported losses from Origen of $0.8 million and $1.2 million for the three and nine months ended September 30, 2009, respectively. We recorded equity losses from Origen of $1.5 million and $14.1 million for the three and nine months ended September 30, 2008, respectively. These equity losses included other than temporary impairment charges of $1.3 million and $8.1 million for the three and nine months ended September 30, 2008, respectively.

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6. Investment in Affiliates, continued

Summarized consolidated financial information of Origen at September 30, 2009 and 2008 is presented below before elimination of inter-company transactions (amounts in thousands):

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Revenues	$ 19,791	$ 23,469	$ 62,538	$ 69,199
Less:				
Expenses	24,119	32,517	68,810	88,765
Loss on sale of loans	-	-	-	22,377
Loss from continuing operations	(4,328)	(9,048)	(6,272)	(41,943)
Income from discontinued operations	-	7,875	-	11,004
Net loss	$ (4,328)	$ (1,173)	$ (6,272)	$ (30,939)

In August 2008, we entered into an agreement with four unrelated companies ("Members") to form a new limited liability company, Origen Financial Services, LLC (the "LLC"). We contributed cash of $0.5 million toward the formation of the limited liability company. The LLC purchased the origination platform of Origen. The purpose of the venture is to originate manufactured housing installment contracts for its Members thereby eliminating the need for us to become licensed to originate loans in each of the 18 states in which we do business. We own 25.0 percent of the LLC as of September 30, 2009, and the investment is accounted for using the equity method of accounting. We recorded an insignificant amount of income (loss) associated with our equity allocation of the LLC's financial results for the three months ended September 30, 2009 and 2008, respectively. We recorded losses of $0.1 million associated with our equity allocation of the LLC's financial results for the nine months ended September 30, 2009.Our equity allocation of the LLC's financial results was insignificant for the nine months ended September 30, 2008.

7. Debt and Lines of Credit

The following table sets forth certain information regarding debt (in thousands):

	September 30, 2009	December 31, 2008
Collateralized term loans - CMBS, due July 1, 2011-2016 interest at 4.9-5.3% as of September 30, 2009 and December 31, 2008.	$ 473,254	$ 478,907
Collateralized term loans - FNMA, due May 1, 2014 and January 1, 2015, interest at 3.2 – 5.2% and 4.5 - 5.2% as of September 30, 2009 and December 31, 2008, respectively.	374,562	377,651
Preferred OP Units, redeemable at various dates from December 1, 2009 through January 5, 2014, average interest at 6.8% as of September 30, 2009 and December 31, 2008.	48,947	49,447
Secured borrowing, maturing at various dates from April 30, 2010 through November 24, 2031, average interest at 10.8% and 10.1% as of September 30, 2009 and December 31, 2008, respectively (see Note 4).	45,056	26,211
Mortgage notes, other, maturing at various dates from April 1, 2012 through May 1, 2017, average interest at 5.3% and 5.4% as of September 30, 2009 and December 31,	213,827	206,936

2008, respectively.		
Total debt	$ 1,155,646	$ 1,139,152

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7. Debt and Lines of Credit, continued

Collateralized Term Loans

The collateralized term loans totaling $473.3 million as of September 30, 2009, are secured by 87 properties comprising of 31,211 sites representing approximately $543.4 million of net book value.

We recently exercised our option to extend the due date of approximately $152.4 million of secured, variable rate borrowings to May 1, 2014. In connection with this extension, the lender increased the facility fee resulting in an increase of the effective interest rate on the borrowings, which resulted in higher interest expense. We do not believe that the lender had the right to increase the facility fee and have reserved all of our rights with respect to the increased fee. We are considering all of our available remedies to challenge the validity of the increased fee.

Preferred OP Units

Our Operating Partnership had $13.7 million of Series B-3 Preferred OP Units that were redeemable at various dates from December 1, 2009 through January 1, 2011. In October 2008, our Operating Partnership completed a three year extension on the redemption dates for $11.9 million of these units; the remaining $1.8 million of these units mature in accordance with the original agreement.

In January 2009, we redeemed $0.5 million of the $1.8 million of the Series B-3 Preferred OP Units.

Secured Borrowing

Since the third quarter of fiscal 2008, we have completed various transactions involving our installment notes. These transactions were recorded as a transfer of financial assets, and the cash proceeds related to these transactions were recorded as a secured borrowing. See Note 4 for additional information regarding our collateralized receivables and secured borrowing transactions.

Mortgage Notes

The mortgage notes totaling $213.8 million as of September 30, 2009, are collateralized by 19 communities comprising of 6,387 sites representing approximately $184.4 million of net book value.

During June 2009, we completed a financing of $18.5 million with Bank of America. The loan has a three year term. The interest rate is 400 basis points over LIBOR, with a minimum rate of 5.0 percent (effective rate 5.0 percent at September 30, 2009). Proceeds of $11.2 million were used to repay mortgage notes that matured in June 2009. The remaining proceeds were used to pay down our unsecured line of credit.

Lines of Credit

We have an unsecured revolving line of credit facility with a maximum borrowing capacity of $115.0 million, subject to certain borrowing base calculations. The outstanding balance on the line of credit as of September 30, 2009 and December 31, 2008 was $84.3 million and $85.8 million, respectively. In addition, $3.3 million of availability was used to back standby letters of credit as of September 30, 2009 and December 31, 2008. Borrowings under the line of credit bear an interest rate of LIBOR plus 165 basis points, or prime plus 40 basis points at our option. Prime means for any month, the prevailing "prime rate" as quoted in the Wall Street Journal on last day of such calendar month. The weighted average interest rate on the outstanding borrowings was 1.9 percent as of September 30, 2009. The borrowings under the line of credit mature October 1, 2011, assuming the election of a one year extension that is available at our discretion. As of September 30, 2009 and December 31, 2008, $27.4 million and $25.9 million, respectively, were available to be drawn under the facility based on the calculation of the borrowing base at each date.

In March 2009, we entered into a $10.0 million manufactured home floor plan facility. The floor plan facility has a committed term of one year; thereafter, advances are discretionary and terms are subject to change. The interest rate is 100 basis points over the greater of prime or 6.0 percent (effective rate 7.0 percent at September 30, 2009). The outstanding balance as of September 30, 2009 was $4.6 million.

Our previous $40.0 million floor plan facility matured on March 1, 2009. As of December 31, 2008, the outstanding balance on the floor plan was $4.6 million.

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7. Debt and Lines of Credit, continued

As of September 30, 2009, the total of maturities and amortization of debt and lines of credit during the next five years, are as follows (in thousands):

		Maturities and Amortization By Year					
	Total Due	Remainder of 2009	2010	2011	2012	2013	After 5 years
Lines of credit	$ 88,883	$ -	$ 4,583	$ 84,300	$ -	$ -	$ -
Mortgage loans payable:							
Maturities	988,123	-	-	103,708	31,623	26,816	825,976
Principal amortization	73,520	3,479	14,060	13,865	13,030	13,230	15,856
Preferred OP Units	48,947	470	825	-	4,300	3,345	40,007
Secured borrowing	45,056	428	1,823	2,010	2,216	2,360	36,219
Total	$ 1,244,529	$ 4,377	$ 21,291	$ 203,883	$ 51,169	$ 45,751	$ 918,058

The most restrictive of our debt agreements place limitations on secured and unsecured borrowings and contain minimum debt service coverage, leverage, distribution and net worth requirements. As of September 30, 2009, we were in compliance with all covenants.

8. Share-Based Compensation

At the Annual Meeting of Stockholders held on July 29, 2009, the stockholders approved the Sun Communities, Inc. Equity Incentive Plan (“2009 Equity Plan”). The 2009 Equity Plan had been adopted by the Board and was effective upon approval by our stockholders. The 2009 Equity Plan replaced the Sun Communities, Inc. Stock Option Plan adopted in 1993, amended and restated in 1996 and 2000. The 2009 Equity Plan terminates automatically July 29, 2019. The maximum number of shares of common stock that may be issued under the 2009 Equity Plan is 950,000 shares.

The purpose of the 2009 Equity Plan was to provide certain key employees additional incentive to promote our financial success and to provide an incentive which we may use to induce able persons to enter into or remain in the employment of the Company or a Subsidiary by providing such persons an opportunity to acquire or increase his or her direct proprietary interest in the operations and future of the Company.

On July 29, 2009, we issued 80,000 shares of restricted stock to our officers under the 2009 Equity Plan. The awards vest ratably over a six year period beginning on the fourth anniversary of the grant date, and have a fair value of $14.95 per share. The fair value was determined by using the closing share price of our common stock on the date the grant was issued.

Additionally, on July 29, 2009, we issued 10,500 director options under our 2004 Non-Employee Director Option Plan. The weighted average fair value of the options issued is estimated on the date of the grant using the Binomial (lattice) option pricing model, with the following weighted average assumptions used for the grants in the period indicated:

	July 2009 Award
Estimated fair value per share of options granted:	$ 1.66
Assumptions:	
Annualized dividend yield	16.90%
Common stock price volatility	32.70%
Risk-free rate of return	3.24%
Expected option terms (in years)	7.3

In September 2009, we filed a registration statement on Form S-8 with the SEC. The Form S-8 registered the remaining 870,000 that are issuable under the 2009 Equity Plan. The Form S-8 also registered 100,000 shares of common stock that are issuable under the 2004 Non-Employee Director Option Plan.

SUN COMMUNITIES, INC.
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9. Stockholders' Deficit

In November 2004, our Board of Directors authorized us to repurchase up to 1,000,000 shares of our common stock. We have 400,000 common shares remaining in the repurchase program. No common shares were repurchased during 2009 or 2008. There is no expiration date specified for the buyback program.

In March 2009, our Operating Partnership issued 110,444 Common OP Units to Water Oak, Ltd. During 2009, holders of Common OP Units converted 119,806 units to common stock.

The vesting requirements for 67,598 restricted shares granted to our employees were satisfied during the nine months ended September 30, 2009.

Our shelf registration for up to $300.0 million of common stock, preferred stock and debt securities expired December 31, 2008. In March 2009, we filed a new shelf registration statement on Form S-3 with the SEC to replace the previous shelf registration for a proposed offering of up to $300.0 million of our common stock, preferred stock and debt securities. The SEC declared the new shelf registration effective in May 2009.

We registered 1.6 million shares of common stock for sale pursuant to a sales agreement that we entered into with Brinson Patrick Securities Corporation. Sales under the agreement commenced on August 27, 2009 and 100,000 shares of common stock were sold as of September 30, 2009. The shares of common stock were sold at the prevailing market price of our common stock at the time of each sale with a weighted average sale price of $19.98. We received net proceeds of approximately $1.9 million during the quarter ended September 30, 2009 from the sales of these shares of common stock. The proceeds were used to pay down our unsecured line of credit.

10. Other Income

The components of other income are summarized as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Brokerage commissions	$ 107	$ 114	$ 380	$ 474
Gain on sale of land	94	33	90	3,336
Loss on disposition of assets, net	(454)	(615)	(565)	(528)
Other, net	(5)	(348)	(66)	(398)
Total other income (loss)	$ (258)	$ (816)	$ (161)	$ 2,884

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11. Segment Reporting

Our consolidated operations can be segmented into Real Property Operations and Home Sales and Rentals. Transactions between our segments are recorded at cost. Seasonal recreational vehicle revenue is included in Real Property Operations' revenues and is approximately $5.5 million annually. This seasonal revenue is recognized approximately 50% in the first quarter, 6.5% in both the second and third quarters and 37% in the fourth quarter of each fiscal year.

A presentation of segment financial information is summarized as follows (amounts in thousands):

	Three Months Ended September 30, 2009			Three Months Ended September 30, 2008		
	Real Property Operations	Home Sales and Home Rentals	Consolidated	Real Property Operations	Home Sales and Home Rentals	Consolidated
Revenues	$ 48,597	$ 13,495	$ 62,092	$ 47,788	$ 13,119	$ 60,907
Operating expenses/Cost of sales	17,097	9,910	27,007	16,313	10,208	26,521
Net operating income/gross profit	31,500	3,585	35,085	31,475	2,911	34,386
Adjustments to arrive at net income (loss):						
Other revenues	1,308	(8)	1,300	317	31	348
General and administrative	(3,687)	(1,890)	(5,577)	(3,691)	(1,676)	(5,367)
Georgia flood damage	(800)	-	(800)	-	-	-
Depreciation and amortization	(11,045)	(4,796)	(15,841)	(11,314)	(4,711)	(16,025)
Interest expense	(15,876)	(72)	(15,948)	(16,103)	(105)	(16,208)
Equity income (loss) from affiliates, net	(836)	(18)	(854)	(1,500)	14	(1,486)
Provision for state income taxes	(103)	-	(103)	(141)	-	(141)
Income (loss) from continuing operations	461	(3,199)	(2,738)	(957)	(3,536)	(4,493)
Income (loss) from discontinued operations	177	-	177	(274)	-	(274)
Net income (loss)	638	(3,199)	(2,561)	(1,231)	(3,536)	(4,767)
Less: Net income (loss) attributable to noncontrolling interest	(189)	(337)	(526)	435	291	726
Net income (loss) attributable to Sun Communities, Inc.	$ 827	$ (2,862)	$ (2,035)	$ (1,666)	$ (3,827)	$ (5,493)

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11. Segment Reporting, continued

	Nine Months Ended September 30, 2009			Nine Months Ended September 30, 2008		
	Real Property Operations	Home Sales and Home Rentals	Consolidated	Real Property Operations	Home Sales and Home Rentals	Consolidated
Revenues	$ 148,093	$ 39,561	$ 187,654	$ 145,792	$ 39,522	$ 185,314
Operating expenses/Cost of sales	50,791	29,736	80,527	49,040	30,459	79,499
Net operating income/gross profit	97,302	9,825	107,127	96,752	9,063	105,815
Adjustments to arrive at net income (loss):						
Other revenues	4,046	248	4,294	4,924	1,050	5,974
General and administrative	(12,753)	(5,532)	(18,285)	(12,546)	(5,003)	(17,549)
Georgia flood damage	(800)	-	(800)	-	-	-
Depreciation and amortization	(33,318)	(14,642)	(47,960)	(34,173)	(13,924)	(48,097)
Interest expense	(46,379)	(223)	(46,602)	(47,618)	(228)	(47,846)
Equity income (loss) from affiliates, net	(1,211)	(133)	(1,344)	(14,050)	14	(14,036)
Provision for state income taxes	(382)	-	(382)	(34)	-	(34)
Income (loss) from continuing operations	6,505	(10,457)	(3,952)	(6,745)	(9,028)	(15,773)
Loss from discontinued operations	(155)	-	(155)	(785)	-	(785)
Net income (loss)	6,350	(10,457)	(4,107)	(7,530)	(9,028)	(16,558)
Less: Net income (loss) attributable to noncontrolling interest	418	(1,108)	(690)	(274)	(328)	(602)
Net income (loss) attributable to Sun Communities, Inc.	$ 5,932	$ (9,349)	$ (3,417)	$ (7,256)	$ (8,700)	$ (15,956)

	September 30, 2009			December 31, 2008		
	Real Property Operations	Home Sales and Home Rentals	Consolidated	Real Property Operations	Home Sales and Home Rentals	Consolidated
Identifiable assets:						
Investment property, net	$ 931,565	$ 141,285	$ 1,072,850	$ 954,196	$ 144,824	$ 1,099,020
Cash and cash equivalents	4,126	953	5,079	6,138	24	6,162
	-	3,683	3,683	-	3,342	3,342

Inventory of manufactured homes						
Investment in affiliate	2,089	339	2,428	3,300	472	3,772
Notes and other receivables	65,439	4,342	69,781	52,697	4,784	57,481
Other assets	33,216	2,168	35,384	34,744	2,408	37,152
Assets of discontinued operations	-	-	-	70	-	70
Total assets	$ 1,036,435	$ 152,770	$ 1,189,205	$ 1,051,145	$ 155,854	$ 1,206,999

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12. Derivative Instruments and Hedging Activities

Our objectives in using interest rate derivatives are to add stability to interest expense, manage exposure to interest rate movements, and minimize the variability that changes in interest rates could have on future cash flows. Interest rate swaps and caps are used to accomplish this objective. We require hedging derivative instruments to be highly effective in reducing the risk exposure that they are designated to hedge. We formally designate any instrument that meets these hedging criteria as a hedge at the inception of the derivative contract.

As of September 30, 2009, we had four derivative contracts consisting of three interest rate swap agreements with a total notional amount of $70.0 million and an interest rate cap agreement with a notional amount of $152.4 million. We generally employ derivative instruments that effectively convert a portion of our variable rate debt to fixed rate debt and to cap the maximum interest rate on certain variable rate borrowings. We do not enter into derivative instruments for speculative purposes.

The following table provides the terms of our interest rate derivative contracts that were in effect as of September 30, 2009:

Type	Purpose	Effective Date	Maturity Date	Notional (in millions)	Based on	Variable Rate	Fixed Rate	Spread	Effective Fixed Rate
Swap	Floating to Fixed Rate	09/04/02	07/03/12	25.0	3 Month LIBOR	0.5875%	4.7000%	2.0000%	6.7000%
Swap	Floating to Fixed Rate	01/02/09	01/02/14	20.0	3 Month LIBOR	0.5950%	2.1450%	2.0000%	4.1450%
Swap	Floating to Fixed Rate	02/13/09	02/13/11	25.0	1 Month LIBOR	0.2438%	1.5700%	2.0500%	3.6200%
Cap	Cap Floating Rate	04/28/09	05/01/12	152.4	3 Month LIBOR	0.6013%	11.0000%	0.0000%	N/A

Our financial derivative instruments are designated and qualify as cash flow hedges and the effective portion of the gain or loss on such hedges are reported as a component of accumulated other comprehensive loss in our Consolidated Balance Sheets. To the extent that the hedging relationship is not effective, the ineffective portion is recorded in interest expense. Hedges that received designated hedge accounting treatment are evaluated for effectiveness at the time that they are designated as well as through the hedging period.

In accordance with ASC Topic 815, Derivatives and Hedging, we have recorded the fair value of our derivative instruments designated as cash flow hedges on the balance sheet. See Note 16 for information on the determination of fair value for the derivative instruments. The following table summarizes the fair value of derivative instruments included in our Consolidated Balance Sheets as of September 30, 2009 and December 31, 2008 (in thousands):

Asset Derivatives		Liability Derivatives	
Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value

Derivatives designated as hedging instruments under ASC Topic 815		September 30, 2009	December 31, 2008		September 30, 2009	December 31, 2008
Interest rate swaps and cap agreement	Other assets	$ 305	$ -	Other liabilities	$ 2,333	$ 2,865
Total derivatives designated as hedging instruments under SFAS 133		$ 305	$ -		$ 2,333	$ 2,865

These valuation adjustments will only be realized under certain situations. For example, if we terminate the swaps prior to maturity or if the derivatives fail to qualify for hedge accounting, then we would need to amortize amounts currently included in other comprehensive loss into interest expense over the terms of the derivative contracts. We do not intend to terminate the swaps prior to maturity and, therefore, the net of valuation adjustments through the various maturity dates will approximate zero, unless the derivatives fail to qualify for hedge accounting.

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12. Derivative Instruments and Hedging Activities, continued

Our hedges were highly effective and had minimal effect on income. The following table summarizes the impact of derivative instruments for the three months ended September 30, 2009 and 2008 as recorded in the Consolidated Statements of Operations (in thousands):

Derivatives in ASC Topic 815 cash flow hedging	Amount of Gain or (Loss) Recognized in OCI (Effective Portion) Three Months Ended September 30, 2009	2008	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) Three Months Ended September 30, 2009	2008	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) Three Months Ended September 30, 2009	2008
Interest rate swaps and cap agreement	$ (494)	$ 4	Interest expense	$ -	$ -	Interest expense	$ (7)	$ -
Total	$ (494)	$ 4	Total	$ -	$ -	Total	$ (7)	$ -

The following table summarizes the impact of derivative instruments for the nine months ended September 30, 2009 and 2008 as recorded in the Consolidated Statements of Operations (in thousands):

Derivatives in ASC Topic 815 cash flow hedging	Amount of Gain or (Loss) Recognized in OCI (Effective Portion) Nine Months Ended September 30, 2009	2008	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) Nine Months Ended September 30, 2009	2008	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) Nine Months Ended September 30, 2009	2008
Interest rate swaps and cap agreement	$ 832	$ (64)	Interest expense	$ -	$ -	Interest expense	$ 5	$ 2
Total	$ 832	$ (64)	Total	$ -	$ -	Total	$ 5	$ 2

Certain of our derivative instruments contain provisions that require us to provide ongoing collateralization on derivative instruments in a liability position. As of September 30, 2009 and December 31, 2008, we had collateral deposits recorded in other assets of $3.0 million and $4.4 million, respectively.

13. Income Taxes

We have elected to be taxed as a real estate investment trust ("REIT") as defined under Section 856(c) of the Internal Revenue Code of 1986 ("Code"), as amended. In order for us to qualify as a REIT, at least ninety-five percent (95%) of our gross income in any year must be derived from qualifying sources. In addition, a REIT must distribute at least ninety percent (90%) of its REIT ordinary taxable income to its stockholders.

Qualification as a REIT involves the satisfaction of numerous requirements (some on an annual and quarterly basis) established under highly technical and complex Code provisions for which there are only limited judicial or administrative interpretations, and involves the determination of various factual matters and circumstances not entirely within our control. In addition, frequent changes occur in the area of REIT taxation which requires us to continually monitor our tax status. We analyzed the various REIT tests and confirmed that we continued to qualify as a REIT for the quarter ended September 30, 2009.

As a REIT, we generally will not be subject to U.S. federal income taxes at the corporate level on the ordinary taxable income we distribute to our stockholders as dividends. If we fail to qualify as a REIT in any taxable year, our taxable income will be subject to U.S. federal income tax at regular corporate rates (including any applicable alternative minimum tax). Even if we qualify as a REIT, we may be subject to certain state and local income taxes and to U.S. federal income and excise taxes on our undistributed income.

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13. Income Taxes, continued

SHS, our taxable REIT subsidiary, is subject to U.S. federal income taxes. Our deferred tax assets and liabilities reflect the impact of temporary differences between the amounts of assets and liabilities for financial reporting purposes and the bases of such assets and liabilities as measured by tax laws. Deferred tax assets are reduced, if necessary, by a valuation allowance to the amount where realization is more likely than not assured after considering all available evidence. Our temporary differences primarily relate to net operating loss carryforwards and depreciation. A federal deferred tax asset of $1.0 million is included in other assets in our Consolidated Balance Sheets as of September 30, 2009 and December 31, 2008.

We had no unrecognized tax benefits as defined by ASC Topic 740, Income Taxes, as of September 30, 2009 and 2008. We expect no significant increases or decreases in unrecognized tax benefits due to changes in tax positions within one year of September 30, 2009.

We classify certain state taxes as income taxes for financial reporting purposes in accordance with ASC Topic 740, Income Taxes. We record the Michigan Business Tax and Texas Margin Tax as income taxes in our financial statements. The provision for state income taxes was approximately $0.1 million for the three months ended September 30, 2009 and 2008, respectively. We recorded a provision for state income taxes of approximately $0.4 million and a nominal amount in the nine months ended September 30, 2009 and 2008, respectively.

A deferred tax liability is included in our Consolidated Balance Sheets of $0.5 million, as of September 30, 2009 and December 31, 2008, in relation to the Michigan Business Tax. No deferred tax liability is recorded in relation to the Texas Margin Tax as of September 30, 2009 and December 31, 2008.

We and our subsidiaries are subject to income taxes in the U.S. and various state jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. With few exceptions, we are no longer subject to U.S. Federal, State and Local, examinations by tax authorities before 2005.

Our policy is to report income tax penalties and income tax related interest expense as a component of income tax expense. No interest or penalty associated with any unrecognized income tax benefit or provision was accrued, nor was any income tax related interest or penalty recognized during the nine months ended September 30, 2009.

14. Noncontrolling Interests in Consolidated Financial Statements

In December 2007 the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB 51”, which is included within ASC Topic 810, Consolidation. The updated guidance in ASC Topic 810 nullified the consolidation guidance in ASC Topic 974. The updated guidance within ASC Topic 810 was effective on a prospective basis for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, except for the presentation and disclosure requirements, which apply retrospectively. We applied the updated provisions of ASC Topic 810 beginning January 1, 2009. ASC Topic 810 required that losses be allocated to the noncontrolling interest even when such allocation results in a deficit balance, reducing the losses attributed to the controlling interest.

Certain partners in our consolidated subsidiaries receive dividend distributions on a 1:1 ratio to the dividend distributions provided to common shareholders. During fiscal year 2008, these partners' net equity position declined below zero due to accumulated distributions in excess of allocated accumulated earnings (losses). Prior to the adoption of the updated guidance within ASC Topic 810, we would have been required to record the deficit balance to the Consolidated Statements of Operations as a charge to noncontrolling interest dividend distributions.

Additionally, the noncontrolling interests in our consolidated partnerships receive an allocation of their proportionate share of these consolidated subsidiaries' net losses, even when the allocation results in a deficit balance, reducing the losses attributed to the controlling interest. The dividend distributions and the noncontrolling interests' proportionate share of net losses were recorded as a deficit balance to the equity position of the noncontrolling interest in our Consolidated Balance Sheets as of September 30, 2009.

The provisions of ASC Topic 810 require that if an entity's results are different due to the adoption of the new guidance that the entity must disclose selected pro forma financial information as if the deficit balance was recorded as a charge to our Consolidated Statements of Operations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

14. Noncontrolling Interests in Consolidated Financial Statements, continued

Our proforma results for the three and nine months ended September 30, 2009 are as follows (in thousands):

	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
Loss from continuing operations	$ (2,738)	$ (3,952)
Income (loss) from discontinued operations	177	(155)
Net loss	(2,561)	(4,107)
Noncontrolling interest dividend distributions	(1,377)	(4,133)
Net loss attributable to Sun Communities, Inc.	$ (3,938)	$ (8,240)
Basic and diluted weighted average common shares outstanding	18,513	18,437
Basic and diluted loss per share	$ (0.21)	$ (0.45)

15. Loss Per Share

We have outstanding stock options and unvested restricted shares, and our Operating Partnership has Common OP Units, and convertible Preferred OP Units, which if converted or exercised, may impact dilution. On January 1, 2009, we adopted FSP EITF 03-6-1, which is included within ASC Topic 260, Earnings Per Share, which addressed whether instruments granted in share-based payment transactions were participating securities prior to vesting and, therefore, needed to be included in earnings allocation in computing basic earnings per share under the two-class method. Our unvested restricted shares qualified as participating securities as defined by ASC Topic 260. We adjusted our calculation of basic and diluted earnings per share ("EPS") to conform to the updated guidance provided in ASC Topic 260, which also required retrospective application for all periods presented. The updated guidance within ASC Topic 260 did not affect per share amounts for the three and nine months ended September 30, 2009 and 2008, because we reported net losses in these periods. Loss per share for the year may not equal the sum of the fiscal quarters' loss per share due to changes in basic and diluted shares outstanding.

Computations of basic and diluted loss per share from continuing operations were as follows (in thousands, expect per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Numerator				
Net loss from continuing operations attributable to common stockholders	$ (2,193)	$ (5,190)	$ (3,278)	$ (15,200)

Denominator				
Basic weighted average common shares outstanding	18,513	18,213	18,437	18,151
Add: dilutive securities	-	-	-	-