

EQUITY LIFESTYLE PROPERTIES INC

Form 10-Q

August 04, 2011

Table of Contents

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

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

For the quarterly period ended June 30, 2011

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

For the transition period from _____ to _____

Commission file number: 1-11718

EQUITY LIFESTYLE PROPERTIES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Maryland

(State or Other Jurisdiction of Incorporation or Organization)

36-3857664

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

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

(Address of Principal Executive Offices)

60606

(Zip Code)

(312) 279-1400

(Registrant's Telephone Number, Including Area Code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

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

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

38,931,446 shares of Common Stock as of August 2, 2011.

Equity LifeStyle Properties, Inc.
Table of Contents

	Page
<u>Part I Financial Information</u>	
<u>Item 1. Financial Statements</u>	
Index To Financial Statements	
<u>Consolidated Balance Sheets as of June 30, 2011 (unaudited) and December 31, 2010</u>	3
<u>Consolidated Statements of Operations for the quarters and six months ended June 30, 2011 and 2010 (unaudited)</u>	4
<u>Consolidated Statements of Changes in Equity for the six months ended June 30, 2011 (unaudited)</u>	6
<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2011 and 2010 (unaudited)</u>	7
<u>Notes to Consolidated Financial Statements</u>	9
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	27
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	42
<u>Item 4. Controls and Procedures</u>	42
<u>Part II Other Information</u>	
<u>Item 1. Legal Proceedings</u>	43
<u>Item 1A. Risk Factors</u>	43
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	43
<u>Item 3. Defaults Upon Senior Securities</u>	43
<u>Item 4. [Removed and Reserved]</u>	43
<u>Item 5. Other Information</u>	43
<u>Item 6. Exhibits</u>	44
<u>EX-4.2</u>	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	

Table of Contents

Equity LifeStyle Properties, Inc.
Consolidated Balance Sheets
As of June 30, 2011 and December 31, 2010
(amounts in thousands, except share and per share data)

	June 30,	December
	2011	31,
	(unaudited)	2010
Assets		
Investment in real estate:		
Land	\$ 544,470	\$ 544,462
Land improvements	1,766,231	1,762,122
Buildings and other depreciable property	298,438	278,403
	2,609,139	2,584,987
Accumulated depreciation	(737,354)	(700,665)
Net investment in real estate	1,871,785	1,884,322
Cash and cash equivalents	85,344	12,659
Short-term investments		52,266
Acquisition escrow deposit	300,000	
Notes receivable, net	28,116	25,726
Investment in joint ventures	8,322	8,446
Rent and other customer receivables, net	482	419
Deferred financing costs, net	13,123	10,688
Inventory	2,762	3,177
Deferred commission expense	17,245	14,898
Escrow deposits and other assets	41,374	35,794
Total Assets	\$ 2,368,553	\$ 2,048,395
Liabilities and Equity		
Liabilities:		
Mortgage notes payable	\$ 1,357,458	\$ 1,412,919
Unsecured lines of credit		
Accrued payroll and other operating expenses	61,824	52,782
Deferred revenue upfront payments from right-to-use contracts	50,259	44,349
Deferred revenue right-to-use annual payments	16,834	12,642
Accrued interest payable	6,847	7,174
Rents and other customer payments received in advance and security deposits	52,153	47,738
Distributions payable	15,591	10,633
Total Liabilities	1,560,966	1,588,237
Commitments and contingencies		
Non-controlling interests Perpetual Preferred OP Units		200,000

Edgar Filing: EQUITY LIFESTYLE PROPERTIES INC - Form 10-Q

8.034% Series A Cumulative Redeemable Perpetual Preferred Stock, \$0.01 par value per share, 10,000,000 shares authorized, 8,000,000 issued and outstanding as of June 30, 2011 and none issued and outstanding as of December 31, 2010, at liquidation value	200,000	
Equity:		
Stockholders' Equity:		
Common stock, \$0.01 par value 100,000,000 shares authorized; 37,267,833 and 30,972,353 shares issued and outstanding as of June 30, 2011 and December 31, 2010, respectively	372	310
Paid-in capital	780,617	463,722
Distributions in excess of accumulated earnings	(236,888)	(237,002)
Accumulated other comprehensive loss	(336)	
Total Stockholders' Equity	543,765	227,030
Non-controlling interests - Common OP Units	63,822	33,128
Total Equity	607,587	260,158
Total Liabilities and Equity	\$ 2,368,553	\$ 2,048,395

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

Table of Contents

Equity LifeStyle Properties, Inc.
Consolidated Statements of Operations
For the Three Months and Six Months Ended June 30, 2011 and 2010
(amounts in thousands, except share and per share data)
(unaudited)

	Three Months Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2011	2010	2011	2010
Revenues:				
Community base rental income	\$ 66,408	\$ 64,601	\$ 132,591	\$ 129,023
Resort base rental income	29,251	28,504	65,719	65,449
Right-to-use annual payments	12,563	12,889	24,575	25,074
Right-to-use contracts current period, gross	4,857	5,681	8,710	10,618
Right-to-use contracts, deferred, net of prior period amortization	(3,414)	(4,551)	(5,910)	(8,499)
Utility and other income	12,484	11,918	25,546	24,807
Gross revenues from home sales	1,288	1,947	2,645	2,994
Brokered resale revenues, net	214	242	467	481
Ancillary services revenues, net	102	133	1,127	1,196
Interest income	1,012	997	2,051	2,189
Income from other investments, net	1,149	1,484	1,848	2,661
Total revenues	125,914	123,845	259,369	255,993
Expenses:				
Property operating and maintenance	47,655	46,998	91,966	90,452
Real estate taxes	8,161	8,326	16,218	16,640
Sales and marketing, gross	3,083	3,585	5,339	6,848
Sales and marketing, deferred commissions, net	(1,347)	(1,657)	(2,347)	(3,069)
Property management	8,193	7,793	16,656	16,533
Depreciation on real estate and other costs	17,285	16,940	34,512	33,863
Cost of home sales	1,049	1,728	2,468	2,887
Home selling expenses	406	455	883	932
General and administrative	6,011	5,548	11,658	11,224
Acquisition costs	2,117		2,117	
Rent control initiatives	476	299	588	1,013
Depreciation on corporate assets	254	379	503	589
Interest and related amortization	21,458	22,989	42,847	46,756
Total expenses	114,801	113,383	223,408	224,668
Income before equity in income of unconsolidated joint ventures	11,113	10,462	35,961	31,325
Equity in income of unconsolidated joint ventures	541	559	1,325	1,400
Consolidated income from continuing operations	11,654	11,021	37,286	32,725

Discontinued Operations:

Loss from discontinued operations		(54)		(231)
Consolidated net income	11,654	10,967	37,286	32,494
Income allocated to non-controlling interests				
Common OP Units	(789)	(928)	(3,410)	(3,360)
Income allocated to non-controlling interests				
Perpetual Preferred OP Units		(4,039)	(2,801)	(8,070)
Redeemable Perpetual Preferred Stock Dividends	(4,038)		(5,288)	
Net income available for Common Shares	\$ 6,827	\$ 6,000	\$ 25,787	\$ 21,064

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

Table of Contents

Equity LifeStyle Properties, Inc.
Consolidated Statements of Operations (Continued)
For the Three Months and Six Months Ended June 30, 2011 and 2010
(amounts in thousands, except share and per share data)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Earnings per Common Share Basic:				
Income from continuing operations	\$ 0.21	\$ 0.20	\$ 0.81	\$ 0.70
Loss from discontinued operations				(0.01)
Net income available for Common Shares	\$ 0.21	\$ 0.20	\$ 0.81	\$ 0.69
Earnings per Common Share Fully Diluted:				
Income from continuing operations	\$ 0.20	\$ 0.20	\$ 0.80	\$ 0.70
Loss from discontinued operations				(0.01)
Net income available for Common Shares	\$ 0.20	\$ 0.20	\$ 0.80	\$ 0.69
Distributions declared per Common Share outstanding	\$ 0.375	\$ 0.30	\$ 0.75	\$ 0.60
Weighted average Common Shares outstanding basic	32,629	30,412	31,817	30,358
Weighted average Common Shares outstanding fully diluted	37,262	35,506	36,441	35,471

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

Table of Contents

Equity LifeStyle Properties, Inc.
Consolidated Statements of Changes in Equity
For the Six Months Ended June 30, 2011
(amounts in thousands)
(unaudited)

	Common Stock	Paid-in Capital	Distributions in Excess of Accumulated Earnings	Non-controlling interests Common OP Units	Accumulated Other Comprehensive Loss	Total Equity
Balance, December 31, 2010	\$ 310	\$ 463,722	\$ (237,002)	\$ 33,128	\$	\$ 260,158
Conversion of OP Units to common stock	2	981		(983)		
Issuance of common stock through exercise of options		235				235
Issuance of common stock through employee stock purchase plan		437				437
Compensation expenses related to stock options and restricted stock		2,969				2,969
Repurchase of common stock or Common OP Units		(216)				(216)
Adjustment for Common OP Unitholders in the Operating Partnership		(31,500)		31,500		
Common stock offering	60	343,989				344,049
Adjustment for fair market value of swap					(336)	(336)
Net income			25,787	3,410		29,197
Distributions			(25,673)	(3,233)		(28,906)
Balance, June 30, 2011	\$ 372	\$ 780,617	\$ (236,888)	\$ 63,822	\$ (336)	\$ 607,587

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

Table of Contents

Equity LifeStyle Properties, Inc.
Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2011 and 2010
(amounts in thousands)
(unaudited)

	June 30, 2011	June 30, 2010
Cash Flows From Operating Activities:		
Consolidated net income	\$ 37,286	\$ 32,494
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on discontinued real estate and other		231
Depreciation expense	37,387	36,395
Amortization expense	2,263	1,744
Debt premium amortization	(10)	(3)
Equity in income of unconsolidated joint ventures	(1,938)	(2,009)
Distributions from unconsolidated joint ventures	1,332	829
Amortization of stock-related compensation	2,969	2,465
Revenue recognized from right-to-use contract upfront payments	(2,800)	(2,119)
Commission expense recognized related to right-to-use contracts	909	638
Accrued long term incentive plan compensation	544	181
Increase in provision for uncollectible rents receivable	608	96
Fair market value adjustment of swap	(336)	
Changes in assets and liabilities:		
Notes receivable activity, net	189	87
Rent and other customer receivables, net	(670)	
Inventory	1,742	2,042
Deferred commission expense	(3,256)	(3,708)
Escrow deposits and other assets	(6,550)	2,519
Accrued payroll and other operating expenses	8,284	9,838
Deferred revenue upfront payments from right-to-use contracts	8,710	10,618
Deferred revenue right-to-use annual payments	4,192	5,065
Rents received in advance and security deposits	4,414	2,076
Net cash provided by operating activities	95,269	99,479
Cash Flows From Investing Activities:		
Net tax-deferred exchange withdrawal		786
Proceeds from redemption of matured short-term investments	52,266	
Net (borrowings) repayment of notes receivable	(2,832)	758
Acquisition escrow deposit	(300,000)	
Capital improvements	(24,478)	(20,404)
Net cash used in investing activities	(275,044)	(18,860)
Cash Flows From Financing Activities:		
Net proceeds from stock options and employee stock purchase plan	673	1,451
Net proceeds from issuance of Common Stock	344,049	
	(32,038)	(29,282)

Edgar Filing: EQUITY LIFESTYLE PROPERTIES INC - Form 10-Q

Distributions to Common Stockholders, Common OP Unitholders, Perpetual Preferred OP Unitholders and Redeemable Perpetual Preferred Stockholders		
Stock repurchase and Unit redemption	(216)	(399)
Acquisition of non-controlling interests		(1,453)
Principal payments and mortgage debt payoff	(56,281)	(119,610)
New financing proceeds		76,615
Debt issuance costs	(3,727)	(1,264)
Net cash provided by (used in) financing activities	252,460	(73,942)
Net increase in cash and cash equivalents	72,685	6,677
Cash and cash equivalents, beginning of period	12,659	145,128
Cash and cash equivalents, end of period	\$ 85,344	\$ 151,805

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

Table of Contents

Equity LifeStyle Properties, Inc.
Consolidated Statements of Cash Flows (continued)
For the Six Months Ended June 30, 2011 and 2010
(amounts in thousands)
(unaudited)

	June 30, 2011	June 30, 2010
Supplemental Information:		
Cash paid during the period for interest	\$ 41,228	\$ 44,957
Non-cash activities:		
Manufactured homes acquired with dealer financing	\$ 830	\$ 2,268
Dealer financing	\$ (830)	\$ (2,268)
Capital improvements	\$ 252	\$ 365
Net repayments of notes receivable	\$ (252)	\$ (365)
Series A Cumulative Redeemable Perpetual Preferred Stock	\$ 200,000	\$
Perpetual Preferred OP Units conversion	\$ (200,000)	\$
Acquisitions:		
Escrow deposits and other assets	\$	\$ (10)
Notes receivable	\$	\$ (2,355)
Investment in real estate	\$	\$ 2,365
Dispositions:		
Other assets and liabilities, net	\$	\$ (97)
Investment in real estate	\$	\$ (3,531)
Mortgage notes payable assumed by purchaser	\$	\$ (3,628)

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

Table of Contents

**Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements**

Definition of Terms:

Equity LifeStyle Properties, Inc., a Maryland corporation, together with MHC Operating Limited Partnership (the Operating Partnership) and other consolidated subsidiaries (Subsidiaries), are referred to herein as the Company and ELS. Capitalized terms used but not defined herein are as defined in the Company s Annual Report on Form 10-K (2010 Form 10-K) for the year ended December 31, 2010.

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 2010 Form 10-K. The following Notes to Consolidated Financial Statements highlight significant changes to the Notes included in the 2010 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

The Company follows accounting standards set by the Financial Accounting Standards Board, commonly referred to as the FASB. The FASB sets generally accepted accounting principles (GAAP) that the Company follows to ensure that the Company consistently reports its financial condition, results of operations and cash flows. References to GAAP issued by the FASB in these footnotes are to the FASB Accounting Standards Codification (the Codification).

(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 it 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. For business combinations for which the acquisition date is on or after January 1, 2009, the purchase price of Properties is accounted for in accordance with the Codification Topic Business Combinations (FASB ASC 805).

The Company has applied the Codification Sub-Topic Variable Interest Entities (FASB ASC 810-10-15). The objective of FASB ASC 810-10-15 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. Prior to January 1, 2010, a company that held a variable interest in an entity was required to consolidate such entity if the company absorbed a majority of the entity s expected losses or received a majority of the entity s expected residual returns if they occur, or both (i.e., the primary beneficiary). The Company also applied the Codification Sub-Topic Control of Partnerships and Similar Entities (FASB ASC 810-20), which determines whether a general partner or the general partners as a group controls a limited partnership or similar entity and therefore should consolidate the entity. Beginning January 1, 2010, FASB ASC 810-10-15 adopted amendments to the variable interest consolidation model described above. The requirement to consolidate