SUN COMMUNITIES INC
Form 10-Q
August 07, 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 June 30, 2009.

or

o **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	**38-2730780**
(State of Incorporation)	(I.R.S. Employer Identification No.)
27777 Franklin Rd.	
Suite 200	
Southfield, Michigan	**48034**
(Address of Principal Executive Offices)	(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 June 30, 2009: 18,607,686

SUN COMMUNITIES, INC.

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SUN COMMUNITIES, INC.

CONSOLIDATED BALANCE SHEETS

AS OF JUNE 30, 2009 AND DECEMBER 31, 2008

(In thousands, except per share amounts)

	(Unaudited) June 30, 2009	December 31, 2008
ASSETS		
Investment property, net	$ 1,080,973	$ 1,099,020
Cash and cash equivalents	4,625	6,162
Inventory of manufactured homes	3,426	3,342
Investment in affiliates	3,282	3,772
Notes and other receivables	64,818	57,481
Other assets	35,106	37,152
Assets of discontinued operations	19	70
TOTAL ASSETS	$ 1,192,249	$ 1,206,999
LIABILITIES		
Debt	$ 1,150,198	$ 1,139,152
Lines of credit	84,322	90,419
Other liabilities	39,276	37,240
Liabilities of discontinued operations	78	70
TOTAL LIABILITIES	$ 1,273,874	$ 1,266,881
Commitments and contingencies		
STOCKHOLDERS' DEFICIT		
Preferred stock, $.01 par value, 10,000 shares authorized, none issued	$—	$—
Common stock, $.01 par value, 90,000 shares authorized (June 30, 2009 and December 31, 2008, 20,409 and 20,313 shares issued respectively)	204	203
Additional paid-in capital	461,441	459,847
Officer's notes	(5,296)	(8,334)
Accumulated other comprehensive loss	(1,666)	(2,851)
Distributions in excess of accumulated earnings	(469,928)	(445,147)
Treasury stock, at cost (June 30, 2009 and December 31, 2008, 1,802 shares)	(63,600)	(63,600)
Total Sun Communities, Inc. stockholders' deficit	(78,845)	(59,882)
Noncontrolling interest	(2,780)	—
TOTAL STOCKHOLDERS' DEFICIT	(81,625)	(59,882)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 1,192,249	$ 1,206,999

See accompanying notes to Consolidated Financial Statements.

SUN COMMUNITIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE PERIODS ENDED JUNE 30, 2009 AND 2008

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
REVENUES				
Income from real property	$48,497	$47,655	$99,496	$ 98,004
Revenue from home sales	8,218	8,768	15,679	16,271
Rental home revenue	5,187	5,136	10,387	10,132
Ancillary revenues, net	62	88	257	314
Interest	1,368	807	2,640	1,612
Other income (loss)	(60)	2,829	97	3,700
Total revenues	63,272	65,283	128,556	130,033
COSTS AND EXPENSES				
Property operating and maintenance	12,787	12,314	25,392	24,388
Real estate taxes	4,118	4,170	8,302	8,339
Cost of home sales	5,844	6,981	11,267	12,820
Rental home operating and maintenance	4,022	3,965	8,559	7,431
General and administrative - real property	4,900	4,697	9,066	8,855
General and administrative - home sales and rentals	1,816	1,715	3,642	3,327
Depreciation and amortization	15,915	16,211	32,119	32,072
Interest	14,739	14,570	28,984	29,950
Interest on mandatorily redeemable debt	835	844	1,670	1,688
Total expenses	64,976	65,467	129,001	128,870
Income (loss) before income taxes and equity loss from affiliates	(1,704)	(184)	(445)	1,163
Benefit (provision) for state income tax	(146)	(128)	(279)	107
Equity loss from affiliates	(517)	(7,720)	(490)	(12,550)
Loss from continuing operations	(2,367)	(8,032)	(1,214)	(11,280)
Loss from discontinued operations	(160)	(270)	(332)	(511)
Net loss	(2,527)	(8,302)	(1,546)	(11,791)
Less: Loss attributable to noncontrolling interest	(268)	(934)	(164)	(1,328)
Net loss attributable to Sun Communities, Inc.	$(2,259)	$(7,368)	$(1,382)	$ (10,463)
Weighted average common shares outstanding:				
Basic	18,469	18,162	18,399	18,119
Diluted	18,469	18,162	18,399	18,119

Basic and diluted loss per share:				
Continuing operations	$(0.11)	$(0.39)	$(0.05)	$ (0.55)
Discontinued operations	(0.01)	(0.02)	(0.02)	(0.03)
Basic and diluted loss per share	$(0.12)	$(0.41)	$(0.07)	$ (0.58)
Cash dividends per common share:	$0.63	$0.63	$1.26	$ 1.26

See accompanying notes to Consolidated Financial Statements.

SUN COMMUNITIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS, CONTINUED

FOR THE PERIODS ENDED JUNE 30, 2009 AND 2008

(In thousands)

(Unaudited)

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Amounts attributable to Sun Communities, Inc. common stockholders:				
Loss from continuing operations, net of state income taxes	$ (2,116)	$ (7,129)	$ (1,085)	$ (10,010)
Loss from discontinued operations, net of state income taxes	(143)	(239)	(297)	(453)
Loss attributable to Sun Communities, Inc.	$ (2,259)	$ (7,368)	$ (1,382)	$ (10,463)

SUN COMMUNITIES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

FOR THE PERIODS ENDED JUNE 30, 2009 AND 2008

(In thousands)

(Unaudited)

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Net loss	$ (2,527)	$ (8,302)	$ (1,546)	$ (11,791)
Unrealized gain (loss) on interest rate swaps	1,330	1,348	1,326	(68)
Total comprehensive loss	(1,197)	(6,954)	(220)	(11,859)
Less: Comprehensive loss attributable to the noncontrolling interest	(127)	(783)	(23)	(1,337)
Comprehensive loss attributable to Sun Communities, Inc.	$ (1,070)	$ (6,171)	$ (197)	$ (10,522)

SUN COMMUNITIES, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT

FOR THE SIX MONTHS ENDED JUNE 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 stockholders' 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	1	(378)	—	—	—	—	(377)	—	(377)
Stock-based compensation - amortization and forfeitures	—	1,972	—	—	(7)	—	1,965	—	1,965
Repayment of officer's notes	—	—	3,038	—	—	—	3,038	—	3,038
Net loss	—	—	—	—	(1,382)	—	(1,382)	(164)	(1,546)
Unrealized gain on interest rate swaps	—	—	—	1,185	—	—	1,185	141	1,326
Cash distributions declared of $1.26 per share	—	—	—	—	(23,392)	—	(23,392)	(2,757)	(26,149)
Balance as of June 30, 2009	$ 204	$ 461,441	$ (5,296)	$ (1,666)	$ (469,928)	$ (63,600)	$ (78,845)	$ (2,780)	$ (81,625)

See accompanying notes to Consolidated Financial Statements.

SUN COMMUNITIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2009 AND 2008

(In thousands)

(Unaudited)

	Six Months Ended June 30, 2009	2008
OPERATING ACTIVITIES:		
Net loss	$ (1,546)	$ (11,791)
Less: Loss from discontinued operations, net of tax	(332)	(511)
Loss from continuing operations	(1,214)	(11,280)
Adjustments to reconcile loss from continuing operations to net cash provided by operating activities:		
Loss (gain) from land disposition	4	(3,303)
Gain on disposal of other assets and depreciated homes, net	(2,695)	(1,966)
Gain on valuation of derivative instruments	(12)	(2)
Stock compensation expense	1,986	1,354
Depreciation and amortization	34,319	34,095
Amortization of deferred financing costs	796	749
Equity loss from affiliates	490	12,550
Change in notes receivables from financed sales of inventory homes, net of repayments	(1,716)	(1,696)
Change in inventory, other assets and other receivables, net	(248)	(2,894)
Change in accounts payable and other liabilities	2,904	4,093
Net cash provided by operating activities of continuing operations	34,614	31,700
Net cash used for operating activities of discontinued operations	(273)	(222)
NET CASH PROVIDED BY OPERATING ACTIVITIES	34,341	31,478
INVESTING ACTIVITIES:		
Investment in properties	(18,132)	(20,031)
Proceeds related to disposition of land	9	6,461
Proceeds (financing) related to disposition of other assets and depreciated homes, net	167	(160)
Payment of notes receivable and officer's notes, net	4,132	1,187
NET CASH USED FOR INVESTING ACTIVITIES	(13,824)	(12,543)
FINANCING ACTIVITIES:		
Redemption of common stock and OP units, net	(377)	(360)
Borrowings on lines of credit	80,456	49,544
Payments on lines of credit	(86,553)	(59,749)
Proceeds from issuance of notes payable and other debt	31,111	27,000
Payments on notes payable and other debt	(20,065)	(10,112)
Payments for deferred financing costs	(477)	(308)
Distributions to stockholders and OP unit holders	(26,149)	(26,052)

NET CASH USED FOR FINANCING ACTIVITIES	(22,054)	(20,037)
Net decrease in cash and cash equivalents	(1,537)	(1,102)
Cash and cash equivalents, beginning of period	6,162	5,415
Cash and cash equivalents, end of period	$ 4,625	$ 4,313
SUPPLEMENTAL INFORMATION:		
Cash paid for interest	$ 25,970	$ 28,248
Cash paid for interest on mandatorily redeemable debt	$ 1,670	$ 1,740
Noncash investing and financing activities:		
Unrealized gain (loss) on interest rate swaps	$ 1,326	$ (68)

See accompanying to Consolidated Financial Statements.

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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.

Our cable television services are held for sale 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 Statement of Financial Accounting Standards (SFAS) No. 160, "Noncontrolling Interests in Consolidated Financial Statements" ("SFAS 160") 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" ("FSP EITF 03-6-1"). See Recent Accounting Pronouncements in Note 16 for further information on our adoption of SFAS 160 and FSP EITF 03-6-1.

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

SUN COMMUNITIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

2. Discontinued Operations

We have investments in certain land improvements and equipment that provide 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 SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144").

SFAS 144 also provides criteria to evaluate if a component of an entity is deemed to be held for sale and eligible for presentation as a discontinued operation. We are under contract to sell and exit the cable television services business within the next six months, the cable television services business is reported as a discontinued operation in the Consolidated Financial Statements for all periods presented.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Total revenues	$172	$191	$355	$395
Total expenses	(332)	(461)	(687)	(906)
Loss from discontinued operations	(160)	(270)	(332)	(511)
Less: Loss attributable to noncontrolling interest	(17)	(31)	(35)	(58)
Loss from discontinued operations attributable to Sun Communities, Inc common stockholders	$(143)	$(239)	$(297)	$(453)

	June 30, 2009	December 31, 2008
ASSETS		
Accounts receivable, net	$ 19	$ 16
Other assets	—	54
Total assets	$ 19	$ 70
LIABILITIES		
Accounts payable	$ 22	$ 16
Deferred income	34	38
Other liabilities	22	16
Total liabilities	$ 78	$ 70

3. Investment Property

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

	June 30, 2009	December 31, 2008
Land	$ 116,279	$ 116,292
Land improvements and buildings	1,182,359	1,177,362
Rental homes and improvements	198,233	194,649
Furniture, fixtures, and equipment	34,230	34,050
Land held for future development	26,986	26,986
Investment property	1,558,087	1,549,339
Less: Accumulated depreciation	(477,114)	(450,319)
Investment property, net	$ 1,080,973	$ 1,099,020

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

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 $40.1 million of cash proceeds in exchange for relinquishing our right, title and interest in the installment notes. 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.

FASB Statement No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities” (“SFAS 140”) sets forth the criteria that must be met for control over transferred assets to be considered to have been surrendered, which includes, amongst other things: (1) the transferred assets have been isolated from the transferor, including put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee must obtain the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the transferor cannot maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. When a company transfers financial assets and fails any one of the SFAS 140 criteria, the company is prevented from derecognizing the transferred financial assets and the transaction is accounted for as a secured borrowing. The determination about whether the isolation criteria of SFAS 140 have been met to support a conclusion regarding surrender of control is largely a matter of law. As such, the evidence required for testing whether or not the first criteria of SFAS 140 has been satisfied requires a legal "true sale" opinion analyzing the treatment of the transfer under state laws as if we were a debtor under the bankruptcy code. A "true sale" legal opinion includes several legally relevant factors, including the nature of retained interests in the loans sold. Legal opinions as to a "true sale" are never absolute and unconditional, but contain qualifications based on the inherent equitable powers of a bankruptcy court, as well as the unsettled state of the common law.

It was the intent of both parties for these transactions to qualify for sale accounting under SFAS 140 and the terms of the agreements clearly stipulate that we have no further obligations or rights with respect to the control, management, administration, servicing, or collection of the installment notes. In addition, the transferee has obtained the right to pledge or exchange the installment notes. For federal tax purposes, we treat the transfers of loans which do not qualify as “true sales” under SFAS 140, as sales.

Notwithstanding these facts, we were unable to satisfy the first criteria for sale accounting treatment under SFAS 140 and therefore, we have recorded these transactions as a transfer of financial assets. The transferred assets have been classified as collateralized receivables and the cash proceeds received from these transactions have been classified as a secured borrowing in the Consolidated Balance Sheets.

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 $0.9 million and $1.6 million for the three and six months ended June 30, 2009, respectively. The collateralized receivables and secured borrowings are reduced as the related installment notes are collected from the customers. The balance of the collateralized receivables was $36.4 million, net of a loan loss provision of $0.1 million as of June 30, 2009. The balance of the collateralized receivables was $26.1 million, net of a loan loss provision of $0.1 million as of December 31, 2008. The outstanding balance on the secured borrowing was $36.5 million and $26.2 million as of June 30, 2009 and December 31, 2008, respectively.

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. If default on the installment note results in repossession of the home, the home is repurchased. 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, based on the number of payments made since the loan origination date, 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	%

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):

	June 30, 2009	December 31, 2008
Installment notes receivable on manufactured homes, net	$ 20,146	$ 21,232
Collateralized receivables, net (see Note 4)	36,412	26,159
Other receivables, net	8,260	10,090
Total notes and other receivables, net	$ 64,818	$ 57,481

Installment Notes Receivable on Manufactured Homes

The installment notes of $20.1 million and $21.2 million as of June 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 June 30, 2009 and December 31, 2008. The installment notes represent financing provided by us to purchasers of manufactured homes 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 13.1 years and 7.6 percent and 13.8 years at June 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 $40.1 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 $36.4 million and $26.1 million as of June 30, 2009 and December 31, 2008, respectively. The collateralized receivables are presented net of allowance for losses of $0.1 million as of June 30, 2009 and December 31, 2008. The collateralized receivables have interest payable monthly at a weighted average interest rate and maturity of 10.7 percent and 13.7 years and 10.1 percent and 14.0 years, as of June 30, 2009 and December 31, 2008, respectively. See Note 4 for additional information.

The net increase of $10.3 million during 2009 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	12,570
Principal payments and payoffs from our customers	(1,156)
Repurchases	(1,084)
Total activity	10,330
Ending balance as of June 30, 2009	$36,541

Other Receivables

Other receivables were comprised of amounts due from residents of $1.3 million (net of allowance of $0.2 million), home sale proceeds of $3.7 million, an employee loan of $0.5 million, insurance proceeds of $0.1 million, and rebates and other receivables of $2.7 million as of June 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 proceeds of $0.3 million, and rebates and other receivables of $4.0 million as of December 31, 2008.

SUN COMMUNITIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

5. Notes and Other Receivables, continued

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 June 30, 2009 and December 31, 2008 (in thousands except for shares and units):

	June 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	$ 612	37,661	—	$ 963	59,263	—
Secured - $6.6 million	3,110	83,625	60,161	4,894	131,591	94,669
Secured - $1.0 million	481	44,520	—	757	70,057	—
Subtotal secured notes	4,203	165,806	60,161	6,614	260,911	94,669
Unsecured - $1.0 million	481	—	—	757	—	—
Unsecured - $1.3 million	612	—	—	963	—	—
Subtotal unsecured notes	1,093	—	—	1,720	—	—
Total promissory notes	$ 5,296	165,806	60,161	$ 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 $3.1 million based on the closing price of our shares on the New York Stock Exchange of $13.78 as of June 30, 2009. The unsecured notes are fully recourse to the officer.

Total interest received was $0.1 million for the three months ended June 30, 2009 and 2008. Total interest received was $0.2 million and $0.3 million for the six months ended June 30, 2009 and 2008, respectively.

The reduction in the aggregate principal balance of these notes was $3.0 million and $0.2 million for the six months ended June 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 June 30, 2009, and our investment is accounted for using the equity method of accounting. As of June 30, 2009, our investment in Origen had a market value of approximately $4.5 million based on a quoted market closing price of $0.90 per share from the “Pink Sheet Electronic OTC Trading System”.

We recorded our equity allocation of the reported losses from Origen of $0.5 million and $7.7 million for the three months ended June 30, 2009 and 2008, respectively. We recorded our equity allocation of the reported losses from Origen of $0.4 million and $12.6 million for the six months ended June 30, 2009 and 2008, respectively.

SUN COMMUNITIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

6. Investment in Affiliates

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Revenues	$21,042	$21,211	$42,747	$ 45,730
Less:				
Expenses	23,499	26,262	44,691	56,237
Loss on sale of loans	—	718	—	22,377
Investment impairment	—	11	—	11
Loss from continuing operations	(2,457)	(5,780)	(1,944)	(32,895)
Income from discontinued operations	—	1,006	—	3,129
Net loss	$(2,457)	$(4,774)	$(1,944)	$ (29,766)

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 June 30, 2009, and the investment is accounted for using the equity method of accounting. We recorded an insignificant amount of losses associated with our equity allocation of the LLC's financial results for the three months ended June 30, 2009. We recorded losses of $0.1 million associated with our equity allocation of the LLC's financial results for the six months ended June 30, 2009.

7. Debt and Lines of Credit

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

	June 30,	December 31,
	2009	2008
Collateralized term loans - CMBS, due July 1, 2011-2016 interest at 4.9-5.3% as of June 30, 2009 and December 31, 2008.	$475,118	$478,907
Collateralized term loans - FNMA, due May 1, 2014 and January 1, 2015, interest at 3.9 – 5.2% and 4.5 - 5.2% as of June 30, 2009 and December 31,	375,590	377,651

2008, respectively.		
Preferred OP Units, redeemable at various dates from December 1, 2009 through January 5, 2014, average interest at 6.8% as of June 30, 2009 and December 31, 2008.	48,947	49,447
Secured borrowing, maturing at various dates from May 30, 2010 through April 25, 2030, average interest at 10.7% and 10.1% as of June 30, 2009 and December 31, 2008, respectively (see Note 4).	36,541	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 June 30, 2009 and December 31, 2008, respectively.	214,002	206,936
Total debt	$1,150,198	$1,139,152

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SUN COMMUNITIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

7. Debt and Lines of Credit, continued

Collateralized Term Loans

The collateralized term loans totaling $850.7 million as of June 30, 2009, are secured by 87 properties comprising of 31,199 sites representing approximately $547.8 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 $214.0 million as of June 30, 2009, are collateralized by 19 communities comprising of 6,390 sites representing approximately $184.8 million of net book value.

During the quarter, 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 (5.0 percent at June 30, 2009). Proceeds of $11.2 million were used to repay mortgage notes that matured during the quarter. The remaining proceeds were used to pay down our unsecured line of credit.

In June 2008, we completed a financing of $27.0 million with Bank of America (formally LaSalle Bank Midwest). The loan has a three year term, with a two year extension at our option. The terms of the loan require interest only payments for the first year, with the remainder of the term being amortized based on a 30 year table. The interest rate is 205 basis points over LIBOR, or prime plus 25 basis points (2.4 percent at June 30, 2009). The proceeds from the financing were used to repay an existing mortgage note of $4.3 million with the remainder used to pay down our lines 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 June 30, 2009 and December 31, 2008 was $81.2 million and $85.8 million, respectively. In addition, $3.3 million of availability was used to back standby letters of credit as of June 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 2.0 percent as of June 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 June 30, 2009 and December 31, 2008, $30.5 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 (7.0 percent at June 30, 2009). The outstanding balance as of June 30, 2009 was $3.1 million.

SUN COMMUNITIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

7. Debt and Lines of Credit, continued

Our $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.

As of June 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	$84,322	$ —	$3,140	$81,182	$—	$—	$—
Mortgage loans payable:							
Maturities	988,095	—	—	103,708	31,623	26,788	825,976
Principal amortization	76,615	6,595	14,053	13,859	13,024	13,228	15,856
Preferred OP Units	48,947	470	825	—	4,300	3,345	40,007
Secured borrowing	36,541	710	1,528	1,681	1,849	1,958	28,815
Total	$1,234,520	$ 7,775	$19,546	$200,430	$50,796	$45,319	$910,654

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 June 30, 2009, we were in compliance with all covenants.

8. 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.

In March 2009, our Operating Partnership issued 110,444 Common OP Units to Water Oak, Ltd which were immediately converted to common stock. In May 2009, a holder of Common OP Units converted 1,824 units to common stock.

The vesting requirements for 56,515 restricted shares granted to our employees were satisfied during the six months ended June 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.

9. Other Income

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Brokerage commissions	$ 138	$ 168	$ 273	$ 360
Gain (loss) on sale of land	(4)	2,604	(4)	3,303
Gain (loss) on disposition of assets, net	(128)	74	(111)	87
Other, net	(66)	(17)	(61)	(50)
Total other income (loss)	$ (60)	$ 2,829	$ 97	$ 3,700

SUN COMMUNITIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

10. 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 June 30, 2009			Six Months Ended June 30, 2009		
	Real Property Operations	**Home Sales and Home Rentals**	**Consolidated**	**Real Property Operations**	**Home Sales and Home Rentals**	**Consolidated**
Revenues	$ 48,497	$ 13,405	$ 61,902	$ 99,496	$ 26,066	$ 125,562
Operating expenses/Cost of sales	16,905	9,866	26,771	33,694	19,826	53,520
Net operating income/gross profit	31,592	3,539	35,131	65,802	6,240	72,042
Adjustments to arrive at net income (loss):						
Other revenues	1,309	61	1,370	2,738	256	2,994
General and administrative	(4,900)	(1,816)	(6,716)	(9,066)	(3,642)	(12,708)
Depreciation and amortization	(11,153)	(4,762)	(15,915)	(22,273)	(9,846)	(32,119)
Interest expense	(15,488)	(86)	(15,574)	(30,503)	(151)	(30,654)
Equity loss from affiliates, net	(474)	(43)	(517)	(375)	(115)	(490)
Provision for state income taxes	(146)	—	(146)	(279)	—	(279)
Income (loss) from continuing operations	740	(3,107)	(2,367)	6,044	(7,258)	(1,214)
Loss from discontinued operations	(160)	—	(160)	(332)	—	(332)
Net income (loss)	580	(3,107)	(2,527)	5,712	(7,258)	(1,546)
Less: Net income (loss) attributable to noncontrolling interest	60	(328)	(268)	607	(771)	(164)
Net income (loss) attributable to Sun Communities, Inc.	$ 520	$ (2,779)	$ (2,259)	$ 5,105	$ (6,487)	$ (1,382)

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SUN COMMUNITIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

10. Segment Reporting, continued

	Three Months Ended June 30, 2008			Six Months Ended June 30, 2008		
	Real Property Operations	Home Sales and Home Rentals	Consolidated	Real Property Operations	Home Sales and Home Rentals	Consolidated
Revenues	$47,655	$13,904	$61,559	$98,004	$26,403	$ 124,407
Operating expenses/Cost of sales	16,484	10,946	27,430	32,727	20,251	52,978
Net operating income/gross profit	31,171	2,958	34,129	65,277	6,152	71,429
Adjustments to arrive at net income (loss):						
Other revenues	3,640	84	3,724	4,607	1,019	5,626
General and administrative	(4,697)	(1,715)	(6,412)	(8,855)	(3,327)	(12,182)
Depreciation and amortization	(11,553)	(4,658)	(16,211)	(22,859)	(9,213)	(32,072)
Interest expense	(15,330)	(84)	(15,414)	(31,515)	(123)	(31,638)
Equity loss from affiliates, net	(7,720)	—	(7,720)	(12,550)	—	(12,550)
Benefit (provision) for state income taxes	(128)	—	(128)	107	—	107
Income (loss) from continuing operations	(4,617)	(3,415)	(8,032)	(5,788)	(5,492)	(11,280)
Loss from discontinued operations	(270)	—	(270)	(511)	—	(511)
Net income (loss)	(4,887)	(3,415)	(8,302)	(6,299)	(5,492)	(11,791)
Less: Net income (loss) attributable to noncontrolling interest	(1,095)	161	(934)	(709)	(619)	(1,328)
Net income (loss) attributable to Sun Communities, Inc.	$(3,792)	$(3,576)	$(7,368)	$(5,590)	$(4,873)	$ (10,463)

	June 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	$938,811	$142,162	$ 1,080,973	$954,196	$144,824	$ 1,099,020
Cash and cash equivalents	4,493	132	4,625	6,138	24	6,162
Inventory of manufactured homes	—	3,426	3,426	—	3,342	3,342
Investment in affiliate	2,925	357	3,282	3,300	472	3,772
Notes and other receivables	60,829	3,989	64,818	52,697	4,784	57,481
Other assets	32,822	2,284	35,106	34,744	2,408	37,152

Assets of discontinued operations	19	—	19	70	—	70
Total assets	$ 1,039,899	$ 152,350	$ 1,192,249	$ 1,051,145	$ 155,854	$ 1,206,999

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SUN COMMUNITIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

11. 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 June 30, 2009, we had five derivative contracts consisting of four interest rate swap agreements with a total notional amount of $95.0 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 June 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	07/03/09	25.0	3 Month LIBOR	1.177%	4.260%	2.000%	6.260%
Swap	Floating to Fixed Rate	09/04/02	07/03/12	25.0	3 Month LIBOR	1.177%	4.700%	2.000%	6.700%
Swap	Floating to Fixed Rate	01/02/09	01/02/14	20.0	3 Month LIBOR	1.192%	2.145%	2.000%	4.145%
Swap	Floating to Fixed Rate	02/13/09	02/13/11	25.0	1 Month LIBOR	0.319%	1.570%	2.050%	3.620%
Cap	Cap Floating Rate	04/28/09	05/01/12	152.4	3 Month LIBOR	1.590%	11.000%	0.000%	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 (“AOCL”) 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 SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities” (“SFAS 133”), we have recorded the fair value of our derivative instruments designated as cash flow hedges on the balance sheet. See Note 15 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 June 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 SFAS 133		**June 30, 2009**	**December 31, 2008**		**June 30, 2009**	**December 31, 2008**
Interest rate swaps and cap agreement	Other assets	$607	$—	Other liabilities	$2,135	$2,865
Total derivatives designated as hedging instruments under SFAS 133		$607	$—		$2,135	$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.

SUN COMMUNITIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

11. 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 June 30, 2009 and 2008 as recorded in the Consolidated Statements of Operations (in thousands):

Derivatives in SFAS 133 cash flow hedging	Amount of Gain or (Loss) Recognized in AOCL (Effective Portion) Three Months Ended June 30,		Location of Gain or (Loss)Reclassified from AOCL into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCL into Income (Effective Portion) Three Months Ended June 30,		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 June 30,	
	2009	**2008**		**2009**	**2008**		**2009**	**2008**
Interest rate swaps and cap agreement	$ 1,330	$ 1,348	Interest expense	$ —	$ —	Interest expense	$ 9	$ 6
Total	$ 1,330	$ 1,348	Total	$ —	$ —	Total	$ 9	$ 6

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

Derivatives in SFAS 133 cash flow hedging	Amount of Gain or (Loss) Recognized in AOCL (Effective Portion)	Location of Gain or (Loss)Reclassified from AOCL into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCL into Income (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)