EQUITY LIFESTYLE PROPERTIES INC
Form 10-Q
July 30, 2014

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

FORM 10-Q

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

For the quarterly period ended June 30, 2014

o 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 x No o

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 x No o

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	x	Accelerated filer	o
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o

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

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

83,899,574 shares of Common Stock as of July 29, 2014.

Equity LifeStyle Properties, Inc.
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Equity LifeStyle Properties, Inc.
Consolidated Balance Sheets
As of June 30, 2014 and December 31, 2013
(amounts in thousands, except share and per share data)

	June 30, 2014 (unaudited)	December 31, 2013
Assets		
Investment in real estate:		
Land	$1,065,368	$1,025,246
Land improvements	2,692,191	2,667,213
Buildings and other depreciable property	549,869	535,647
	4,307,428	4,228,106
Accumulated depreciation	(1,116,180)	(1,058,540)
Net investment in real estate	3,191,248	3,169,566
Cash	84,811	58,427
Notes receivable, net	38,208	42,990
Investment in unconsolidated joint ventures	14,709	11,583
Deferred financing costs, net	19,468	19,873
Deferred commission expense	26,585	25,251
Escrow deposits, goodwill, and other assets, net	55,395	64,619
Total Assets	$3,430,424	$3,392,309
Liabilities and Equity		
Liabilities:		
Mortgage notes payable	$1,984,727	$1,992,368
Term loan	200,000	200,000
Unsecured lines of credit	—	—
Accrued payroll and other operating expenses	77,800	65,157
Deferred revenue – up-front payments from right-to-use contracts	70,988	68,673
Deferred revenue – right-to-use annual payments	14,178	11,136
Accrued interest payable	9,480	9,416
Rents and other customer payments received in advance and security deposits	68,491	59,601
Distributions payable	29,614	22,753
Total Liabilities	2,455,278	2,429,104
Equity:		
Stockholders' Equity:		
Preferred stock, $0.01 par value 9,945,539 shares authorized as of June 30, 2014 and December 31, 2013; none issued and outstanding as of June 30, 2014 and December 31, 2013. As of June 30, 2014 and December 31, 2013, includes 125 shares 6% Series D Cumulative Preferred stock and 250 shares 18.75% Series E Cumulative Preferred stock; both issued and outstanding	—	—
6.75% Series C Cumulative Redeemable Perpetual Preferred Stock, $0.01 par value, 54,461 shares authorized and 54,458 issued and outstanding as of June 30, 2014 and December 31, 2013 at liquidation value	136,144	136,144
Common stock, $0.01 par value 200,000,000 shares authorized as of June 30, 2014 and December 31, 2013; 83,799,206 and 83,313,677 shares issued and outstanding as	837	834

of June 30, 2014 and December 31, 2013, respectively		
Paid-in capital	1,025,396	1,021,365
Distributions in excess of accumulated earnings	(254,816)	(264,083)
Accumulated other comprehensive loss	—	(927)
Total Stockholders’ Equity	907,561	893,333
Non-controlling interests – Common OP Units	67,585	69,872
Total Equity	975,146	963,205
Total Liabilities and Equity	$3,430,424	$3,392,309

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

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Equity LifeStyle Properties, Inc.
Consolidated Statements of Income and Comprehensive Income
For the Quarters Ended and Six Months Ended June 30, 2014 and 2013
(amounts in thousands, except per share data)
(unaudited)

	Quarters Ended		Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Revenues:				
Community base rental income	$106,502	$101,468	$212,547	$202,244
Rental home income	3,746	3,598	7,503	6,992
Resort base rental income	36,888	33,197	81,837	73,936
Right-to-use annual payments	11,241	12,043	22,455	23,566
Right-to-use contracts current period, gross	3,089	3,361	6,012	6,192
Right-to-use contracts, deferred, net of prior period amortization	(1,168)	(1,550)	(2,315)	(2,590)
Utility and other income	16,919	15,787	34,490	32,470
Gross revenues from home sales	6,560	4,217	11,738	6,913
Brokered resale revenues and ancillary services revenues, net	568	932	2,367	2,727
Interest income	1,878	2,076	4,575	3,974
Income from other investments, net	2,628	1,624	4,229	4,104
Total revenues	188,851	176,753	385,438	360,528
Expenses:				
Property operating and maintenance	61,217	58,345	119,913	113,401
Rental home operating and maintenance	1,639	1,487	3,547	3,357
Real estate taxes	12,157	11,888	24,642	24,290
Sales and marketing, gross	2,695	3,333	5,100	5,694
Sales and marketing, deferred commissions, net	(710)	(655)	(1,265)	(1,118)
Property management	10,451	10,170	21,083	20,303
Depreciation on real estate assets and rental homes	27,761	29,313	55,403	55,333
Amortization of in-place leases	1,401	159	2,716	318
Cost of home sales	6,155	3,919	11,523	6,700
Home selling expenses	628	454	1,197	981
General and administrative	6,795	6,946	12,555	13,655
Early debt retirement	—	1,381	—	1,381
Property rights initiatives	1,001	1,624	1,312	1,856
Interest and related amortization	28,265	30,377	56,313	60,500
Total expenses	159,455	158,741	314,039	306,651
Income from continuing operations before equity in income of unconsolidated joint ventures	29,396	18,012	71,399	53,877
Equity in income of unconsolidated joint ventures	644	609	2,531	1,185
Consolidated income from continuing operations	30,040	18,621	73,930	55,062
Discontinued Operations:				
Income from discontinued operations before gain on sale of property	—	3,165	—	6,233
Gain on sale of property, net of tax	—	—	—	958
Consolidated income from discontinued operations	—	3,165	—	7,191
Consolidated net income	30,040	21,786	73,930	62,253
Income allocated to non-controlling interests – Common OP Units	(2,229)	(1,597)	(5,710)	(4,730)

Series C Redeemable Perpetual Preferred Stock Dividends	(2,328)	(2,329)	(4,638)	(4,640)
Net income available for Common Shares	$25,483	$17,860	$63,582	$52,883
Consolidated net income	$30,040	$21,786	$73,930	$62,253
Other comprehensive income ("OCI"):				
Adjustment for fair market value of swap	483	430	927	872
Consolidated comprehensive income	30,523	22,216	74,857	63,125
Comprehensive income allocated to non-controlling interests – Common OP Units	(2,268)	(1,633)	(5,786)	(4,802)
Series C Redeemable Perpetual Preferred Stock Dividends	(2,328)	(2,329)	(4,638)	(4,640)
Comprehensive income attributable to Common Stockholders	$25,927	$18,254	$64,433	$53,683

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

Equity LifeStyle Properties, Inc.
Consolidated Statements of Income and Comprehensive Income (Continued)
For the Quarters Ended and Six Months Ended June 30, 2014 and 2013
(amounts in thousands, except per share data)
(unaudited)

	Quarters Ended		Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Earnings per Common Share – Basic:				
Income from continuing operations	$0.31	$0.18	$0.76	$0.55
Income from discontinued operations	$—	$0.04	$—	$0.09
Net income available for Common Shares	$0.31	$0.22	$0.76	$0.64
Earnings per Common Share – Fully Diluted:				
Income from continuing operations	$0.30	$0.18	$0.76	$0.55
Income from discontinued operations	$—	$0.03	$—	$0.08
Net income available for Common Shares	$0.30	$0.21	$0.76	$0.63
Distributions declared per Common Share outstanding	$0.325	$0.25	$0.65	$0.50
Weighted average Common Shares outstanding – basic	83,234	83,021	83,175	83,024
Weighted average Common Shares outstanding – fully diluted	91,420	91,128	91,411	91,110

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

Equity LifeStyle Properties, Inc.
Consolidated Statements of Changes in Equity
For the Six Months Ended June 30, 2014
(amounts in thousands)
(unaudited)

	Common Stock	Paid-in Capital	6.75% Series C Cumulative Redeemable Perpetual Preferred Stock	Distributions in Excess of Accumulated Earnings	Non-controlling interests – Common OP Units	Accumulated Other Comprehensive Loss	Total Equity
Balance, December 31, 2013	$834	$1,021,365	$136,144	$(264,083)	$69,872	$(927)	$963,205
Conversion of OP Units to common stock	4	3,185	—	—	(3,189)	—	—
Issuance of common stock through employee stock purchase plan	—	529	—	—	—	—	529
Compensation expenses related to stock options and restricted stock	—	2,431	—	—	—	—	2,431
Repurchase of common stock or Common OP Units	—	(32)	—	—	—	—	(32)
Adjustment for fair market value of swap	—	—	—	—	—	927	927
Release of common shares from escrow	(1)	(1,933)	—	—	—	—	(1,934)
Adjustment for Common OP Unitholders in the Operating Partnership	—	(50)	—	—	50	—	—
Net income	—	—	4,638	63,582	5,710	—	73,930
Distributions	—	—	(4,638)	(54,315)	(4,858)	—	(63,811)
Other	—	(99)	—	—	—	—	(99)
Balance, June 30, 2014	$837	$1,025,396	$136,144	$(254,816)	$67,585	$—	$975,146

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

Equity LifeStyle Properties, Inc.
Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2014 and 2013
(amounts in thousands)
(unaudited)

	June 30, 2014	June 30, 2013
Cash Flows From Operating Activities:		
Consolidated net income	$73,930	$62,253
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Gain on sale of property, net of tax	—	(958)
Depreciation expense	55,790	57,210
Amortization of in-place leases	2,716	318
Amortization of loan costs	2,480	2,749
Debt premium amortization	(2,640)	(2,895)
Equity in income of unconsolidated joint ventures	(2,532)	(1,185)
Distributions of income from unconsolidated joint ventures	1,669	1,099
Amortization of stock-related compensation	2,431	2,716
Revenue recognized from right-to-use contract up-front payments	(3,697)	(3,602)
Commission expense recognized related to right-to-use contracts	1,318	1,275
Long term incentive plan compensation	950	956
Recovery of (provision for) uncollectible rents receivable	(529)	187
Changes in assets and liabilities:		
Notes receivable activity, net	(1,152)	306
Deferred commission expense	(2,652)	(2,393)
Escrow deposits, goodwill and other assets	6,403	(6,169)
Accrued payroll and other operating expenses	10,799	8,966
Deferred revenue – up-front payments from right-to-use contracts	6,012	6,192
Deferred revenue – right-to-use annual payments	3,042	3,861
Rents received in advance and security deposits	7,073	7,186
Net cash provided by operating activities	161,411	138,072
Cash Flows From Investing Activities:		
Real estate acquisition	(44,225)	—
Tax deferred exchange deposit	10,576	—
Distributions of capital from unconsolidated joint ventures	116	—
Investment in unconsolidated joint ventures	(2,485)	(1,120)
Repayments of notes receivable	9,878	6,494
Issuance of notes receivable	(4,592)	(4,431)
Capital improvements	(26,534)	(35,850)
Net cash used in investing activities	(57,266)	(34,907)
Cash Flows From Financing Activities:		
Net proceeds from stock options and employee stock purchase plan	496	578
Distributions:		
Common Stockholders	(47,843)	(16,692)
Common OP Unitholders	(4,391)	(3,728)
Preferred Stockholders	(4,638)	(4,640)
Principal payments and mortgage debt payoff	(73,566)	(45,925)
New mortgage notes payable financing proceeds	54,000	110,000

Debt issuance costs	(1,720)	(1,510)
Other	(99)	(479)
Net cash (used in) provided by financing activities	(77,761)	37,604
Net increase in cash	26,384	140,769
Cash, beginning of period	58,427	37,126
Cash, end of period	$84,811	$177,895

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

Equity LifeStyle Properties, Inc.
Consolidated Statements of Cash Flows (continued)
For the Six Months Ended June 30, 2014 and 2013
(amounts in thousands)
(unaudited)

	June 30, 2014	June 30, 2013
Supplemental Information:		
Cash paid during the period for interest	$56,583	$61,495
Non-cash activities (increase/(decrease)):		
Capital improvements – used homes acquired by repossessions	$648	$1,186
Net repayments of notes receivable – used homes acquired by repossessions	$(648)	$(1,186)
Building and other depreciable property – reclassification of rental homes	$9,640	$5,823
Escrow deposits and other assets – reclassification of rental homes	$(9,640)	$(5,823)
Acquisitions:		
Investment in real estate	$61,781	$—
Deferred financing costs, net	$(180)	$—
Rents and other customer payments received in advance and security deposits	$1,817	$—
Accrued payroll and other operating expenses	$841	$—
Escrow deposits and other assets	$412	$—
Debt assumed and financed on acquisition	$14,564	$—

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

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 "we," "us," and "our." Capitalized terms used but not defined herein are as defined in our Annual Report on Form 10-K ("2013 Form 10-K") for the year ended December 31, 2013.

Basis of Presentation

These unaudited Consolidated Financial Statements have been prepared pursuant to Securities and Exchange Commission ("SEC") rules and regulations. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles ("GAAP") for complete financial statements and should be read in conjunction with the financial statements and notes thereto included in the 2013 Form 10-K. The following notes to the Consolidated Financial Statements highlight significant changes to the notes included in the 2013 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 and estimates necessary for a fair presentation of the interim financial statements, which are of a normal, recurring nature. Revenues are subject to seasonal fluctuations and accordingly, quarterly interim results may not be indicative of full year results.

Note 1 – Summary of Significant Accounting Policies

We follow accounting standards set by the Financial Accounting Standards Board, commonly referred to as the "FASB." The FASB sets GAAP, which we follow to ensure that we consistently report our financial condition, results of operations and cash flows. References to GAAP issued by the FASB in these footnotes are to the FASB Accounting Standards Codification (the "Codification").

(a) Basis of Consolidation

The accompanying Consolidated Financial Statements include the consolidation of our accounts. We do not have controlling interests in any of our joint ventures ("JV"), which are therefore treated under the equity method of accounting and not consolidated in our financial statements. The holders of limited partnership interests in the Operating Partnership ("Common OP Unitholders") receive an allocation of net income that is based on their respective ownership percentage of the Operating Partnership which is shown in our Consolidated Financial Statements as Non-controlling interests-Common OP Units. All significant intercompany balances and transactions have been eliminated in consolidation.

(b) Real Estate

Our policy is to estimate useful lives associated with our real estate assets and to depreciate the assets based on our estimates. We review useful lives periodically to ensure that these estimates accurately reflect the economic use of the assets. In January 2014, we completed a review of the useful lives and salvage values of our manufactured homes. During the first quarter of 2014, we prospectively changed the depreciable life of our new manufactured homes to 25 years straight-lined with no residual value and our used manufactured homes to 10-25 years straight-lined. This change in estimate did not have a material impact in our financial statements.

(c) Identified Intangibles and Goodwill

We record acquired intangible assets at their estimated fair value separate and apart from goodwill. We amortize identified intangible assets and liabilities that are determined to have finite lives over the period the assets and liabilities are expected to contribute directly or indirectly to the future cash flows of the property or business acquired. In accordance with the Codification Sub-Topic "Impairment or Disposal of Long Lived Assets" ("FASB ASC 360-10-35"), intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized if the carrying amount of an intangible asset is not recoverable and its carrying amount exceeds its estimated fair value.

The excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired (including identified intangible assets) and liabilities assumed is recorded as goodwill. In accordance with Codification Topic

"Goodwill and Other Intangible Assets" ("FASB ASC 350"), goodwill is not amortized but is tested for impairment at a level of reporting referred to as a reporting unit on an annual basis, or more frequently if events or changes in circumstances indicate that the asset might be impaired.

As of June 30, 2014 and December 31, 2013, the gross carrying amounts of identified intangible assets and goodwill, a component of "Escrow deposits, goodwill and other assets, net" on our consolidated balance sheets, were approximately $12.1

Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements
Note 1 – Summary of Significant Accounting Policies (continued)

million. As of June 30, 2014 and December 31, 2013, this amount was comprised of approximately $4.3 million of identified intangible assets and approximately $7.8 million of goodwill. Accumulated amortization of identified intangible assets was approximately $2.1 million and $1.9 million as of June 30, 2014 and December 31, 2013, respectively. For each of the quarters ended June 30, 2014 and 2013, amortization expense for the identified intangible assets was approximately $0.1 million . For the six months ended June 30, 2014 and 2013, amortization expense for the identified intangible assets was approximately $0.2 million.

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

Year ending December 31,	Amount
2014	$349
2015	349
2016	251
2017	87
2018	87

(d) Restricted Cash

Cash as of June 30, 2014 and December 31, 2013 included approximately $5.0 million and $5.2 million, respectively, of restricted cash for the payment of capital improvements, insurance or real estate taxes.

(e) Fair Value of Financial Instruments

Our financial instruments include notes receivable, accounts receivable, accounts payable, other accrued expenses, interest rate swaps and mortgage notes payable. We disclose the estimated fair value of our financial instruments according to a fair value hierarchy (Level 1, 2 and 3).

Our mortgage notes payable and term loan had a fair value of approximately $2.3 billion and $2.2 billion as of June 30, 2014 and December 31, 2013, respectively, measured using quoted prices and observable inputs from similar liabilities (Level 2). At June 30, 2014 and December 31, 2013, our cash flow hedge of interest rate risk included in accrued payroll and other operating expenses was measured using quoted prices and observable inputs from similar assets and liabilities (Level 2). We consider our own credit risk as well as the credit risk of our counterparties when evaluating the fair value of our derivative. The fair values of our notes receivable, accounts receivable, accounts payable, other accrued expenses and interest rate swaps approximate their carrying or contract values.

(f) Deferred Financing Costs, net

Deferred financing costs, net include fees and costs incurred to obtain long-term financing. The costs are being amortized over the terms of the respective loans on a basis that approximates level yield. Unamortized deferred financing fees are written-off when debt is retired before the maturity date. Upon amendment of the line of credit or refinancing of mortgage debt, unamortized deferred financing fees are accounted for in accordance with Codification Sub-Topic “Modifications and Extinguishments” (“FASB ASC 470-50-40”). Accumulated amortization for such costs was $27.7 million and $25.4 million at June 30, 2014 and December 31, 2013, respectively.

(g) Reclassifications

Certain 2013 amounts have been reclassified to conform to the 2014 presentation. Income statement amounts for disposed Properties were reclassified in 2013 to “Discontinued operations” on the Consolidated Statements of Income and Comprehensive Income for all transactions that occurred in 2013. In addition, certain prior period disclosures in the accompanying footnotes have been revised to exclude amounts which have been reclassified to discontinued operations. These reclassifications had no material effect on the Consolidated Statements of Income and Comprehensive Income.

(h) Recent Accounting Pronouncements

In April 2014, the FASB issued Accounting Standard Update 2014-08, “Property, Plant, and Equipment: Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity” (“ASU 2014-08”). The definition of discontinued operations has been revised to limit the criteria for the classification and presentation to disposals of components of a company that represent strategic shifts that have (or will have) a major effect on a company’s operations and financial results.

Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements
Note 1 – Summary of Significant Accounting Policies (continued)

Required expanded disclosures for disposals or disposal groups that qualify for discontinued operations are intended to provide users of financial statements with enhanced information about the assets, liabilities, revenues and expenses of such discontinued operations. While the threshold for a disposal or disposal group to qualify for discontinued operations has been revised, this pronouncement retains the held for sale classification and presentation concepts of previous authoritative literature. Accordingly, under this pronouncement, a disposal or disposal group may qualify for held for sale classification but not meet the threshold for discontinued operations treatment. This pronouncement allows for early adoption permitted January 1, 2014. Pursuant to its terms we have elected to early adopt this pronouncement effective January 1, 2014. The adoption of this pronouncement did not have an impact on our consolidated financial statements for the six months ended June 30, 2014.

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09”) which will replace most existing revenue recognition guidance in U.S. GAAP. The core principle of the ASU is that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. The ASU requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. ASU No. 2014-09 does not apply to lease contracts accounted for under ASC 840, Leases. ASU 2014-09 is effective for reporting periods beginning after December 15, 2016, and early adoption is not permitted. Entities can transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. We are in the process of assessing the impact of this ASU on our consolidated financial statements.

Note 2 – Earnings Per Common Share
Earnings per common share are based on the weighted average number of common shares outstanding during each year. Codification Topic “Earnings Per Share” (“FASB ASC 260”) defines the calculation of basic and fully diluted earnings per share. Basic and fully diluted earnings per share are based on the weighted average shares outstanding during each period and basic earnings per share exclude any dilutive effects of options, unvested restricted shares and convertible securities. The conversion of OP Units has been excluded from the basic earnings per share calculation. The conversion of an OP Unit for a share of common stock has no material effect on earnings per common share on a fully diluted basis.

Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements

Note 2 – Earnings Per Common Share (continued)

The following table sets forth the computation of the basic and diluted earnings per common share for the quarters and six months ended June 30, 2014 and 2013 (amounts in thousands, except per share data):

	Quarters Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Numerators:				
Income from Continuing Operations:				
Income from continuing operations	$30,040	$18,621	$73,930	$55,062
Amounts allocated to dilutive securities	(2,229)	(1,337)	(5,710)	(4,196)
Preferred Stock distributions	(2,328)	(2,329)	(4,638)	(4,640)
Income from continuing operations available to Common Shares – basic	25,483	14,955	63,582	46,226
Amounts allocated to dilutive securities	2,229	1,337	5,710	4,196
Income from continuing operations available to Common Shares – fully diluted	$27,712	$16,292	$69,292	$50,422
Income from Discontinued Operations:				
Income from discontinued operations, net of amounts allocated to dilutive securities	$—	$2,905	$—	$6,657
Net Income Available for Common Shares:				
Net income available for Common Shares – basic	$25,483	$17,860	$63,582	$52,883
Amounts allocated to dilutive securities	2,229	1,597	5,710	4,730
Net income available for Common Shares – fully diluted	$27,712	$19,457	$69,292	$57,613
Denominator:				
Weighted average Common Shares outstanding – basic	83,234	83,021	83,175	83,024
Effect of dilutive securities:				
Exchange of Common OP Units for Common Shares	7,530	7,456	7,582	7,456
Stock options and restricted shares	656	651	654	630
Weighted average Common Shares outstanding – fully diluted	91,420	91,128	91,411	91,110
Earnings per Common Share – Basic:				
Income from continuing operations	$0.31	$0.18	$0.76	$0.55
Income from discontinued operations	—	0.04	—	0.09
Net income available for Common Shares	$0.31	$0.22	$0.76	$0.64
Earnings per Common Share – Fully Diluted:				
Income from continuing operations	$0.30	$0.18	$0.76	$0.55
Income from discontinued operations	—	0.03	—	0.08
Net income available for Common Shares	$0.30	$0.21	$0.76	$0.63

Note 3 – Common Stock and Other Equity Related Transactions
On June 30, 2014, we paid a $0.421875 per share distribution on our Depositary Shares (each representing 1/100 of a share of our Series C Preferred Stock) to stockholders of record on June 20, 2014. On March 31, 2014, we paid a $0.421875 per share distribution on our Depositary Shares (each representing 1/100 of a share of our Series C Preferred Stock) to stockholders of record on March 21, 2014.

On July 11, 2014, we paid a $0.325 per share distribution to common stockholders of record on June 27, 2014. On April 11, 2014, we paid a $0.325 per share distribution to common stockholders of record on March 28, 2014.

Note 4 – Investment in Real Estate

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

Acquisitions

All acquisitions have been accounted for utilizing the acquisition method of accounting in accordance with FASB ASC 805 and, accordingly, the results of operations of acquired assets are included in the statements of operations from the dates of acquisition. Certain purchase price adjustments may be made within one year following the acquisition and applied retroactively to the date of acquisition.

Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements

Note 4 – Investment in Real Estate (continued)

In January 2014, we completed the acquisition of two resort properties, Blackhawk Resort, a 490-Site Property and Lakeland Resort, a 682-Site Property. On December 17, 2013, we closed on the acquisition of Neshonoc Resort, a 284-Site Property. The portfolio purchase price of $31.8 million was funded with available cash and the assumption of mortgage debt of approximately $18.7 million, excluding note premiums of $1.3 million.

On March 10, 2014, we exercised a purchase option and purchased land comprising a portion of our Colony Cove Property which was part of our 2011 Hometown acquisition. The total purchase price of $35.9 million was funded with available cash. In connection with the acquisition of the land, we terminated the ground lease related to the Property. During the quarter ended March 31, 2014, we received the final distribution of 51,290 shares of our common stock from the escrow funded by the seller.

During the year ended December 31, 2013, we acquired Fiesta Key, a resort Property with 324 Sites for a purchase price of approximately $24.6 million funded with available cash. We also acquired three manufactured home communities located in the Chicago metropolitan area collectively containing approximately 1,207 Sites for a stated purchase price of $102.0 million. The purchase price was funded with approximately $9.7 million of limited partnership interests in our Operating Partnership, equivalent to 240,969 OP units, and the remainder was funded with available cash.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed in the acquisitions for the six months ended June 30, 2014 and year ended December 31, 2013, which we determined using Level two and Level three inputs (amounts in thousands):

	Six Months Ended June 30, 2014	Year Ended December 31, 2013
Assets acquired		
Land	$40,807	$41,022
Depreciable property	20,632	87,306
Manufactured homes	769	1,155
In-place leases	773	3,910
Net investment in real estate	$62,981	$133,393
Other Assets	$1,197	$1,025
Total Assets acquired	$64,178	$134,418
Liabilities assumed		
Mortgage notes payable	14,230	5,382
Other liabilities	2,757	1,777
Total Liabilities assumed	16,987	7,159
Net assets acquired	$47,191	$127,259

Dispositions and real estate held for disposition

During the year ended December 31, 2013, we closed on the sale of 11 manufactured home communities located in Michigan (the “Michigan Properties”) collectively containing approximately 5,344 sites for a net purchase price of approximately $165.0 million.

Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements

Note 4 – Investment in Real Estate (continued)

Results of operations for the Michigan Properties have been presented separately as discontinued operations for the quarter and six months ended June 30, 2013 in the Consolidated Statements of Income and Comprehensive Income. The following table summarizes the components of income and expense relating to discontinued operations for the quarter and six months ended June 30, 2013 (amounts in thousands):

	Quarter Ended June 30, 2013	Six Months Ended June 30, 2013
Community base rental home income	$5,080	$10,117
Rental income	849	1,620
Utility and other income	515	997
Discontinued property operating revenues	6,444	12,734
Property operating expenses	2,473	4,923
Income from discontinued property operations	3,971	7,811
Loss from home sales operations	(40)	(75)
Other income and expenses	137	293
Interest and amortization	(131)	(260)
Depreciation and in place lease amortization	(772)	(1,536)
Discontinued operations, net	$3,165	$6,233

During the year ended December 31, 2013, we recognized approximately $1.0 million of gain on the sale of a property as a result of a new U.S. Federal tax law that eliminated a previously accrued built-in-gain tax liability related to the disposition of the Cascade property during 2012.

As of June 30, 2014, we have no properties designated as held for disposition pursuant to FASB ASC 360-10-35.

On May 7, 2014, we entered into a settlement agreement with the Arizona Department of Transportation related to the value of certain property taken for state highway purposes at our Seyenna Vista property in Maricopa County, Arizona. The payment for the condemned property was approximately $2.2 million. We received payment of $2.1 million in July 2014 and estimate a gain of approximately $0.9 million will be recognized in the third quarter. During the second quarter, we received a payment of $0.1 million to cover the costs of moving ten manufactured homes to another property.

Note 5 – Investment in Unconsolidated Joint Ventures

We recorded approximately $2.5 million and $1.2 million (net of approximately $0.5 million and $0.5 million of depreciation expense) of equity in income from unconsolidated joint ventures for each of the six months ended June 30, 2014 and 2013, respectively. We received approximately $1.8 million and $1.1 million in distributions from such joint ventures for each of the six months ended June 30, 2014 and 2013, respectively. Approximately $1.1 million of the distributions received exceeded our basis in our joint venture and as such was recorded as income from unconsolidated joint ventures for the six months ended June 30, 2014.

During the year ended December 31, 2013, we entered into an agreement with an unaffiliated third party to create a new joint venture named ECHO Financing, LLC (the "ECHO JV"). We entered into the ECHO JV in order to buy and sell homes, as well as to offer another financing option to purchasers of homes at our Properties. Each party to the venture made an initial contribution of $1.0 million in exchange for a pro rata ownership interest in the joint venture, which resulted in us owning 50% of the ECHO JV. We account for our investment in the ECHO JV using the equity method of accounting, since we do not have a controlling direct or indirect voting interest, but we can exercise significant influence with respect to its operations and major decisions.

Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements

Note 5 – Investment in Joint Ventures (continued)

The following table summarizes our investment in unconsolidated joint ventures (investment amounts in thousands with the number of Properties shown parenthetically as of June 30, 2014 and December 31, 2013):

				Investment as of		JV Income for the Six Months Ended	
Investment	Location	Number of Sites	Economic Interest [a]	June 30, 2014	December 31, 2013	June 30, 2014	June 30, 2013
Meadows	Various (2,2)	1,027	50 %	$2,129	$1,679	$600	$532
Lakeshore	Florida (2,2)	342	65 %	8	145	1,213	141
Voyager	Arizona (1,1)	1,706	50 % [b]	7,383	7,074	700	699
Other	Various (0,0)	—	20 %	—	—	—	(187)
ECHO JV	Various (0,0)	—	50 %	5,189	2,685	18	—
		3,075		$14,709	$11,583	$2,531	$1,185

(a) The percentages shown approximate our economic interest as of June 30, 2014. Our legal ownership interest may differ.

(b) Voyager joint venture primarily consists of a 50% interest in Voyager RV Resort and 33% interest in the utility providing water to the Property.

Note 6 – Notes Receivable

Occasionally, we purchase loans made by others to finance the sale of homes to our customers (“Chattel Loans”). The Chattel Loans receivable require monthly principal and interest payments and are collateralized by homes at certain of the Properties. As of June 30, 2014 and December 31, 2013, we had approximately $20.6 million and $21.9 million, respectively, of these Chattel Loans included in notes receivable. As of June 30, 2014, the Chattel Loans receivable had a stated per annum average rate of approximately 7.8%, with a yield of 19.5%, and had an average term remaining of approximately 12 years . These Chattel Loans are recorded net of allowances of approximately $0.4 million as of June 30, 2014 and December 31, 2013.

During the six months ended June 30, 2014, we received principal payment of approximately $1.0 million on a previously reserved loan.

We also provide financing for non-refundable sales of new or upgrades to existing right-to-use contracts (“Contracts Receivable”). As of June 30, 2014 and December 31, 2013, we had approximately $17.5 million and $17.2 million, respectively, of Contracts Receivable, net of allowances of approximately $0.2 million and $0.6 million, respectively. These Contracts Receivable represent loans to customers who have entered into right-to-use contracts. The Contracts Receivable have an average stated interest rate of 15.9% per annum, have a weighted average term remaining of approximately three years and require monthly payments of principal and interest.

Note 7 – Borrowing Arrangements

Mortgage Notes Payable

As of June 30, 2014 and December 31, 2013, we had outstanding mortgage indebtedness of approximately $1,985 million and $1,992 million, respectively. The weighted average interest rate including the impact of premium/discount amortization on this mortgage indebtedness for the six months ended June 30, 2014 was approximately 5.3% per annum. The debt bears interest at stated rates of 3.9% to 8.9% per annum and matures on various dates ranging from 2014 to 2038. The debt encumbered a total of 142 and 147 of our Properties as of June 30, 2014 and December 31, 2013, respectively, and the carrying value of such Properties was approximately $1,985 million and $2,378 million, respectively, as of such dates.

During the six months ended June 30, 2014, we closed on four loans with total proceeds of $54.0 million that are secured by two manufactured home communities and two RV resorts. The loans have a weighted average interest rate of 4.54% per annum and are set to mature in 2034 and 2038. These proceeds were used to pay off 11 mortgages totaling approximately $56.6 million that had a weighted average interest rate of 5.63% per annum. We also assumed approximately $13.3 million of mortgage debt, excluding note premiums of $1.0 million, secured by Blackhawk and Lakeland resort properties with a weighted average interest rate of 6.48% per annum which are set to mature in 2017 and 2018.

On July 1, 2014, we paid off two mortgages set to mature in November 2014. The retired loans had an outstanding principal balance of approximately $8.4 million, with a weighted average interest rate of 5.44% per annum.

Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements

Note 7 – Borrowing Arrangements (continued)

Term Loan
As of June 30, 2014, our $200.0 million Term Loan (the "Term Loan") matured on June 30, 2017, had an interest rate of LIBOR plus 1.85% to 2.80% per annum and, subject to certain conditions, may be prepaid at any time without premium or penalty. The spread over LIBOR is variable based on leverage measured quarterly throughout the loan term. The Term Loan contains customary representations, warranties and negative and affirmative covenants, and provides for acceleration of principal and payment of all other amounts payable thereunder upon the occurrence of certain events of default. In connection with the Term Loan, we also entered into a three year, $200.0 million LIBOR notional Swap Agreement (the "2011 Swap") allowing us to trade our variable interest rate for a fixed interest rate on the Term Loan. (See Note 8 in the Notes to Consolidated Financial Statements contained in this Form 10-Q for further information on the accounting for the Swap.)

On July 17, 2014, we amended our Term Loan. As amended, the Term Loan matures on January 10, 2020 and has an interest rate of LIBOR plus 1.35% to 1.95% per annum and, subject to certain conditions, may be prepaid at any time without premium or penalty. In connection with the extension of the Term Loan, we also entered into a three year LIBOR Swap Agreement (the "2014 Swap") allowing us to trade the variable interest rate for a fixed interest rate on the Term Loan. The 2014 Swap fixes the underlying LIBOR rate on the Term Loan at 1.04% per annum for the first three years and, based on anticipated leverage at the time of closing, our spread over LIBOR will be 1.35% resulting in an initial estimated all-in interest rate of 2.39% per annum.

Unsecured Line of Credit
As of June 30, 2014 and December 31, 2013, our unsecured Line of Credit ("LOC") had availability of $380 million with no amounts outstanding. Our LOC bore a LIBOR rate plus a maximum of 1.40% to 2.00%, contained a 0.25% to 0.40% facility fee and had a maturity date of September 15, 2016, with the option to extend for one year, subject to certain conditions.

On July 17, 2014, we amended our LOC to increase the borrowing capacity under the LOC from $380 million to $400 million. We have the option to increase the borrowing capacity by $100 million, subject to certain conditions. The maturity date was extended to July 17, 2018, and this term can be extended an additional year, subject to certain conditions. The amended LOC bears interest at a rate of LIBOR plus a maximum of 1.20% to 1.65% and requires an annual facility fee of 0.20% to 0.35%. The spread over LIBOR is variable based on leverage throughout the loan terms. We incurred commitment and arrangement fees of approximately $3.5 million to enter into the amended LOC and Term Loan extension.

As of June 30, 2014, we are in compliance in all material respects with the covenants in our borrowing arrangements.

Note 8 – Derivative Instruments and Hedging Activities

Cash Flow Hedges of Interest Rate Risk
In connection with the Term Loan in 2011, we entered into the 2011 Swap (see Note 7 in the Notes to the Consolidated Financial Statements contained in this Form 10-Q for information about the Term Loan related to the 2011 Swap) that fixed the underlying LIBOR rate on the Term Loan at 1.11% per annum for the first three years and matured on July 1, 2014. Based on actual leverage as of June 30, 2014, our spread over LIBOR was 1.95%, resulting in an actual all-in interest rate of 3.06% per annum. We have designated the 2011 Swap as a cash flow hedge. No gain or loss was recognized in the Consolidated Statements of Income and Comprehensive Income related to hedge ineffectiveness or to amounts excluded from effectiveness testing on our cash flow hedge during the quarter and six months ended June 30, 2014.

Amounts reported in accumulated other comprehensive loss on the Consolidated Balance Sheets related to derivatives are reclassifying to interest expense as interest payments are made on our variable-rate debt.

In connection with the amendment to our Term Loan on July 17, 2014, we also entered into a 2014 Swap (see Note 7 inthe the Notes to the Consolidated Financial Statements contained in this Form 10-Q for information about the Term Loan related to the 2014 Swap) allowing us to trade the variable interest rate for a fixed interest rate on the Term Loan. The 2014 Swap fixes the underlying LIBOR rate on the Term Loan at 1.04% per annum for the first three years and, based on anticipated leverage at the time of closing, our spread over LIBOR will be 1.35% resulting in an initial estimated all-in interest rate of 2.39% per annum.

Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements

Note 8 – Derivative Instruments and Hedging Activities (continued)

Derivative Instruments and Hedging Activities

The table below presents the fair value of our derivative financial instrument as well as our classification on our Consolidated Balance Sheets as of June 30, 2014 and December 31, 2013 (amounts in thousands).

	Balance Sheet Location	June 30, 2014	December 31, 2013
Interest Rate Swap	Accrued payroll and other operating expenses	$—	$927

Tabular Disclosure of the Effect of Derivative Instruments on the Income Statement

The tables below present the effect of our derivative financial instrument on the Consolidated Statements of Income and Comprehensive Income for the quarters ended June 30, 2014 and 2013 (amounts in thousands).

Derivatives in Cash Flow Hedging Relationship	Amount of loss recognized in OCI on derivative (effective portion)		Location of loss reclassified from accumulated OCI into income (effective portion)	Amount of loss reclassified from accumulated OCI into income (effective portion)	
	June 30, 2014	June 30, 2013		June 30, 2014	June 30, 2013
Interest Rate Swap	$(3)	$27	Interest Expense	$480	$457

The tables below present the effect of our derivative financial instrument on the Consolidated Statements of Income and Comprehensive Income for the six months ended June 30, 2014 and 2013 (amounts in thousands).

Derivatives in Cash Flow Hedging Relationship	Amount of loss recognized in OCI on derivative (effective portion)		Location of loss reclassified from accumulated OCI into income (effective portion)	Amount of loss reclassified from accumulated OCI into income (effective portion)	
	June 30, 2014	June 30, 2013		June 30, 2014	June 30, 2013
Interest Rate Swap	$23	$34	Interest Expense	$950	$906

We determined that no adjustment was necessary for nonperformance risk on our derivative obligation. As of June 30, 2014, we have not posted any collateral related to this agreement.

Note 9 – Deferred Revenue-entry of right-to-use contracts and Deferred Commission Expense

Up-front payments received upon the entry of right-to-use contracts are recognized in accordance with FASB ASC 605. We recognize the up-front non-refundable payments over the estimated customer life, which, based on historical attrition rates, we have estimated to be between one to 31 years. The commissions paid on the entry of right-to-use contracts are deferred and amortized over the same period as the related revenue.

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

	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Deferred revenue – right-to-use contracts, as of January 1,	$68,673	$62,979
Deferral of new right-to-use contracts	6,012	6,192
Deferred revenue recognized	(3,697)	(3,602)
Net increase in deferred revenue	2,315	2,590
Deferred revenue – right-to-use contracts, as of June 30,	$70,988	$65,569

Deferred commission expense, as of January 1,	$25,251	$22,842
Costs deferred	2,652	2,393
Commission expense recognized	(1,318)	(1,275)
Net increase in deferred commission expense	1,334	1,118
Deferred commission expense, as of June 30,	$26,585	$23,960

Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements

Note 10 – Equity Incentive and Stock Grants
We account for our stock-based compensation in accordance with the Codification Topic "Compensation – Stock Compensation" ("FASB ASC 718").
Stock-based compensation expense, reported in "General and administrative" on the Consolidated Statements of Income and Comprehensive Income, for the quarters ended June 30, 2014 and 2013 was approximately $1.7 million and $1.6 million, respectively, and for the six months ended June 30, 2014 and 2013 was approximately $2.4 million and $2.7 million, respectively.
Our Stock Option and Stock Award Plan (the "1992 Plan") was adopted in December 1992 and was amended and restated from time to time, most recently effective March 23, 2001 for a ten-year term. After March 23, 2011, when the 1992 Plan expired, we granted to certain directors, executive officers and a consultant a total of 383,330 shares of restricted stock, net of the number of shares that were subsequently forfeited before vesting, in private placements exempt from registration. All the restricted stock shares issued (the "Restricted Stock Grants") were approved by our Board of Directors at the recommendation of the Compensation, Nominating, and Corporate Governance Committee of our Board of Directors (the "Compensation Committee"). The expiration of the 1992 Plan did not materially impact the accounting for these awards. At our 2014 Annual Meeting of Stockholders, our stockholders ratified the Restricted Stock Grants.

Our 2014 Equity Incentive Plan (the "2014 Plan") was adopted by our Board of Directors on March 11, 2014 and approved by our stockholders on May 13, 2014. Pursuant to the 2014 Plan, our officers, directors, employees and consultants may be awarded (i) shares of common stock ("Restricted Stock Grants"), (ii) options to acquire shares of common stock ("Options"), including non-qualified stock options and, for key employees, incentive stock options within the meaning of Section 422 of the Internal Revenue Code, and (iii) other forms of equity awards, subject to conditions and restrictions determined by the Compensation Committee. The Compensation Committee will determine the vesting schedule, if any, of each Restricted Stock Grant or Option and the term of each Option, which term shall not exceed ten years from the date of grant. Shares that do not vest are forfeited. Dividends are paid on restricted stock and are not returnable, even if the underlying stock does not entirely vest. Options are awarded at the New York Stock Exchange closing price of our common stock on the grant date. A maximum of 3,750,000 shares of common stock are available for grant under the 2014 Plan.

Grants under the 2014 Plan are made by the Compensation Committee, which determines the individuals eligible to receive awards, the types of awards, and the terms, conditions and restrictions applicable to any award.
Grants Issued
On May 13, 2014, we awarded Restricted Stock Grants for 84,666 shares of common stock at a fair market value of $3.6 million to certain members of our senior management. These Restricted Stock Grants will vest on December 31, 2014.
On May 13, 2014, we awarded Restricted Stock Grants for 62,000 shares of common stock at a fair market value of approximately $2.6 million to certain members of the Board of Directors for services rendered for the remainder of 2014. One-third of the shares of restricted common stock covered by these awards vests on each of December 31, 2014, December 31, 2015, and December 31, 2016.
On May 13, 2014, we awarded Restricted Stock Grants for 40,000 shares of common stock at a fair market value of approximately $1.7 million to the Board of Directors. One-third of the shares of restricted common stock covered by these awards vests on each of November 13, 2014, May 13, 2015, and May 13, 2016.
Note 11 – Long-Term Cash Incentive Plan
On January 24, 2013, our Compensation Committee approved a Long-Term Cash Incentive Plan Award (the "2013 LTIP") to provide a long-term cash bonus opportunity to certain members of our management. The 2013 LTIP was approved by the Compensation Committee pursuant to the authority set forth in the Long-Term Cash Incentive Plan

approved by the Board of Directors on May 15, 2007. The total cumulative payment for all participants (the "Eligible Payment") is based upon certain performance conditions being met over a three year period ending December 31, 2015. The Compensation Committee has responsibility for administering the 2013 LTIP and may use its reasonable discretion to adjust the performance criteria or Eligible Payments to take into account the impact of any major or unforeseen transaction or event. Our executive officers are not participants in the 2013 LTIP. The Eligible Payment will be paid in cash upon completion of our annual audit for the 2015 fiscal year and upon satisfaction of the vesting conditions as outlined in the 2013 LTIP and, including employer costs, is currently estimated to be approximately $5.8 million. As of June 30, 2014, we had accrued

Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements

Note 11 – Long-Term Cash Incentive Plan (continued)
compensation expense of approximately $2.9 million for the 2013 LTIP, including approximately $1.0 million in the six months ended June 30, 2014 and 2013.

The amount accrued for the 2013 LTIP reflects our evaluation of the 2013 LTIP based on forecasts and other available information and is subject to performance in line with forecasts and final evaluation and determination by the Compensation Committee. There can be no assurances that our estimates of the probable outcome will be representative of the actual outcome.

Note 12 - Commitments and Contingencies

California Rent Control Litigation

As part of our effort to realize the value of our Properties subject to rent control, we have previously initiated lawsuits against certain localities in California with the goal of achieving a level of regulatory fairness in California's rent control jurisdictions, and in particular those jurisdictions that prohibit increasing rents to market upon turnover. Such regulations allow tenants to sell their homes for a price that includes a premium above the intrinsic value of the homes. The premium represents the value of the future discounted rent-controlled rents, which is fully capitalized into the prices of the homes sold. In our view, such regulations result in a transfer to the tenants of the value of our land, which would otherwise be reflected in market rents. We have discovered through the litigation process that certain municipalities considered condemning our Properties at values well below the value of the underlying land. In our view, a failure to articulate market rents for Sites governed by restrictive rent control would put us at risk for condemnation or eminent domain proceedings based on artificially reduced rents. Such a physical taking, should it occur, could represent substantial lost value to stockholders. We are cognizant of the need for affordable housing in the jurisdictions, but assert that restrictive rent regulation does not promote this purpose because tenants pay to their sellers as part of the purchase price of the home all the future rent savings that are expected to result from the rent control regulations, eliminating any supposed improvement in the affordability of housing. In a more well-balanced regulatory environment, we would receive market rents that would eliminate the price premium for homes, which would trade at or near their intrinsic value. Such efforts have included the following matters:
City of San Rafael
We sued the City of San Rafael on October 13, 2000 in the U.S. District Court for the Northern District of California, challenging its rent control ordinance (the "Ordinance") on constitutional grounds. We believe the litigation was settled by the City's agreement to amend the ordinance to permit adjustments to market rent upon turnover. The City subsequently rejected the settlement agreement. The Court refused to enforce the settlement agreement, and submitted to a jury the claim that it had been breached. In October 2002, a jury found no breach of the settlement agreement. Our constitutional claims against the City were tried in a bench trial during April 2007. On April 17, 2009, the Court issued its Order for Entry of Judgment in our favor (the "April 2009 Order"). On June 10, 2009, the Court ordered the City to pay us net fees and costs of approximately $2.1 million. On June 30, 2009, as anticipated by the April 2009 Order, the Court entered final judgment that gradually phased out the City's Site rent regulation scheme that the Court found unconstitutional. Pursuant to the final judgment, existing residents of our Property in San Rafael would be able to continue to pay Site rent as if the Ordinance were to remain in effect for a period of 10 years, enforcement of the Ordinance was immediately enjoined with respect to new residents of the Property, and the Ordinance would expire entirely ten years from the June 30, 2009 date of judgment.
The City and the residents' association (which intervened in the case) appealed, and we cross-appealed. On April 17, 2013, the United States Court of Appeals for the Ninth Circuit issued an opinion in which, among other rulings, it

reversed the trial court's determinations that the Ordinance had unconstitutionally taken our property and that we were entitled to an award of attorneys' fees and costs, and affirmed the jury verdict that the City had not breached the settlement agreement and affirmed the award to the City of approximately $1.25 million of attorneys' fees and costs on the settlement agreement claims. On May 1, 2013, we filed with the Court of Appeals a petition for panel rehearing and rehearing en banc, which was denied on June 3, 2013. On June 26, 2013, the Court of Appeals' mandate was issued. On September 3, 2013, we filed a petition for review by the U.S. Supreme Court. On September 10, 2013, the City and the residents' association each waived the right to respond to our petition. On October 7, 2013, the Supreme Court requested that a response be filed, which was filed on December 6, 2013. We filed a reply supporting our petition on December 20, 2013. On January 13, 2014, the Supreme Court issued an order denying our petition for review.

Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements
Note 12 – Commitments and Contingencies (continued)

During the year ended December 31, 2013, we paid approximately $1.4 million related to the ruling of the Court of Appeals. On July 10, 2013, we paid to the City $1.27 million to satisfy, including interest, the attorneys' fees and costs judgment affirmed by the Court of Appeals. In August 2013, we also paid to the City approximately $0.08 million to satisfy its claim for attorney's fees on appeal.

City of Santee

On January 31, 2012, we sued the City of Santee in the United States District for the Southern District of California alleging that the City's rent control ordinance effectuates a regulatory and private taking of our property and is unconstitutional under the Fifth and Fourteenth Amendments to the United States Constitution. On April 2, 2012, the City filed a motion to dismiss the complaint. On December 21, 2012, the Court entered an order in which it: (a) denied the City's motion to dismiss our private taking and substantive due process claims; (b) granted the City's motion to dismiss our procedural due process claim as not cognizable because of the availability of a state remedy of a writ of mandamus; and (c) granted the City's motion to dismiss our regulatory taking claim as being not ripe. In addition, we also filed in the California Superior Court on February 1, 2012 a petition for a writ of administrative mandamus, and on September 28, 2012 a motion for writ of administrative mandamus, seeking orders directing that a rent increase petition we had filed with the City be granted. On April 5, 2013, the Court denied our petition for writ of administrative mandamus. On June 3, 2013, we filed an appeal to the California Court of Appeal from the denial of our petition for writ of administrative mandamus.

On September 26, 2013, we entered a settlement agreement with the City of Santee pursuant to which the City agreed to the entry of a peremptory writ of mandate by the Superior Court directing the City to grant us a special adjustment under the City's rent control ordinance permitting us, subject to the terms of the agreement, to increase Site rents at the Meadowbrook community through January 1, 2034 as follows: (a) a one-time 2.5% rent increase on all Sites in January 2014; plus (b) annual rent increases of 100% of the consumer price index (CPI) beginning in 2014; and (c) a 10% increase in the rent on a site upon turnover of that site. Absent the settlement, the rent control ordinance limited us to annual rent increases of at most 70% of CPI with no increases on turnover of a site.

Colony Park

On December 1, 2006, a group of tenants at our Colony Park Property in Ceres, California filed a complaint in the California Superior Court for Stanislaus County alleging that we had failed to properly maintain the Property and had improperly reduced the services provided to the tenants, among other allegations. We answered the complaint by denying all material allegations and filed a counterclaim for declaratory relief and damages. The case proceeded in Superior Court because our motion to compel arbitration was denied and the denial was upheld on appeal. Trial of the case began on July 27, 2010. After just over three months of trial in which the plaintiffs asked the jury to award a total of approximately $6.8 million in damages, the jury rendered verdicts awarding a total of less than $44,000 to six out of the 72 plaintiffs, and awarding nothing to the other 66 plaintiffs. The plaintiffs who were awarded nothing filed a motion for a new trial or alternatively for judgment notwithstanding the jury's verdict, which the Court denied on February 14, 2011. All but three of the 66 plaintiffs to whom the jury awarded nothing appealed. Oral argument in the appeal was held on September 19, 2013 and the matter was taken under submission by the California Court of Appeal. By orders entered on December 14, 2011, the Superior Court awarded us approximately $2.0 million in attorneys' fees and other costs jointly and severally against the plaintiffs to whom the jury awarded nothing, and awarded no attorneys' fees or costs to either side with respect to the six plaintiffs to whom the jury awarded less than $44,000. Plaintiffs filed an appeal from the approximately $2.0 million award of our attorneys' fees and other costs. Oral argument in that appeal was also held on September 19, 2013. On December 3, 2013, the Court of Appeal issued a partially published opinion that rejected all of plaintiffs' claims on appeal except one, relating to whether the park's rules prohibited the renting of spaces to recreational vehicles. The Court of Appeal reversed the judgment on the recreational vehicle issue and remanded for further proceedings regarding that issue. Because the judgment was reversed, the award of attorney's fees and other costs was also reversed. Both sides filed rehearing petitions with the

Court of Appeal. On December 31, 2013, the Court of Appeal granted the defendants' rehearing petition and ordered the parties to submit supplemental briefing, which the parties did. On March 10, 2014, the Court of Appeal issued a new partially published opinion in which it again rejected all of plaintiffs' claims on appeal except the one relating to whether the park's rules prohibited the renting of spaces to recreational vehicles, reversing the judgment on that issue and remanding it for further proceedings, and accordingly vacating the award of attorney's fees and other costs. A case management conference is scheduled for September 22, 2014.

Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements
Note 12 – Commitments and Contingencies (continued)

California Hawaiian
On April 30, 2009, a group of tenants at our California Hawaiian Property in San Jose, California filed a complaint in the California Superior Court for Santa Clara County, Case No. 109CV140751, alleging that we have failed to properly maintain the Property and have improperly reduced the services provided to the tenants, among other allegations. We moved to compel arbitration and stay the proceedings, to dismiss the case, and to strike portions of the complaint. By order dated October 8, 2009, the Court granted our motion to compel arbitration and stayed the court proceedings pending the outcome of the arbitration. The plaintiffs filed with the California Court of Appeal a petition for a writ seeking to overturn the trial court's arbitration and stay orders. On May 10, 2011, the Court of Appeal granted the petition and ordered the trial court to vacate its order compelling arbitration and to restore the matter to its litigation calendar for further proceedings. On May 24, 2011, we filed a petition for rehearing requesting the Court of Appeal to reconsider its May 10, 2011 decision. On June 8, 2011, the Court of Appeal denied the petition for rehearing. On June 16, 2011, we filed with the California Supreme Court a petition for review of the Court of Appeal's decision. On August 17, 2011, the California Supreme Court denied the petition for review.

The trial commenced on January 27, 2014. On April 14-15, 2014, the jury entered verdicts against our operating partnership of approximately $15.3 million in compensatory damages and approximately $95.8 million in punitive damages. We will vigorously seek to overturn these verdicts in the trial court or on appeal, including but not limited to asking the trial judge to grant a new trial and to reduce the damages. The trial court has not yet set a definite date by which post-trial motions must be filed or oral arguments on them will be heard. At June 30, 2014, based on the information available to us, a material loss was neither probable nor estimable. We have taken into consideration the events that have occurred after the reporting period and before the financial statements were issued. We anticipate a lengthy time period to achieve resolution of this case.

Given the uncertainty related to the ultimate resolution of this case as well as the time period to reach a conclusion, we are unable to provide an estimate of any possible loss, although we currently estimate a range of possible outcomes between zero and approximately $111.1 million based on all of the facts presented. At this time, we cannot determine that any amount within the range is a better estimate and therefore we conclude that we should accrue the minimum of zero as of June 30, 2014. We will continue to evaluate the possible outcomes of this case in light of future developments and their potential impact on factors relevant to our assessment of any possible loss.
Other

In addition to legal matters discussed above, we are involved in various other legal and regulatory proceedings ("Other Proceedings") arising in the ordinary course of business. The Other Proceedings include, but are not limited to, notices, consent decrees, information requests, and additional permit requirements and other similar enforcement actions by governmental agencies relating to our water and wastewater treatment plants and other waste treatment facilities. Additionally, in the ordinary course of business, our operations are subject to audit by various taxing authorities. Management believes these Other Proceedings taken together do not represent a material liability. In addition, to the extent any such proceedings or audits relate to newly acquired Properties, we consider any potential indemnification obligations of sellers in our favor.

Note 13 – Reportable Segments

Operating segments are defined as components of an entity for which separate financial information is available that is evaluated regularly by the chief operating decision maker. The chief operating decision maker evaluates and assesses performance on a monthly basis. Segment operating performance is measured on Net Operating Income

("NOI"). NOI is defined as total operating revenues less total operating expenses. Segments are assessed before interest income, depreciation and amortization of in-place leases.

We have two reportable segments which are: (i) Property Operations and (ii) Home Sales and Rentals Operations. The Property Operations segment owns and operates land lease Properties and the Home Sales and Rentals Operations segment purchases, sells and leases homes at the Properties.

All revenues are from external customers and there is no customer who contributed 10% or more of our total revenues during the quarters or six months ended June 30, 2014 or 2013.

Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements

Note 13 – Reportable Segments (continued)

The following tables summarize our segment financial information for the quarters ended June 30, 2014 and 2013 (amounts in thousands):

Quarter Ended June 30, 2014

	Property Operations	Home Sales and Rentals Operations	Consolidated
Operations revenues	$173,754	$10,591	$184,345
Operations expenses	(85,810)	(8,422)	(94,232)
Income from segment operations	87,944	2,169	90,113
Interest income	774	1,045	1,819
Depreciation on real estate and rental homes	(24,948)	(2,813)	(27,761)
Amortization of in-place leases	(1,401)	—	(1,401)
Income from operations	$62,369	$401	$62,770
Reconciliation to Consolidated net income			
Corporate interest income			59
Income from other investments, net			2,628
General and administrative			(6,795)
Interest and related amortization			(28,265)
Property rights initiatives			(1,001)
Equity in income of unconsolidated joint ventures			644
Consolidated net income			$30,040
Total assets	$3,143,600	$286,824	$3,430,424

Quarter Ended June 30, 2013

	Property Operations	Home Sales and Rentals Operations	Consolidated
Operations revenues	$164,940	$8,113	$173,053
Operations expenses	(83,081)	(5,860)	(88,941)
Income from segment operations	81,859	2,253	84,112
Interest income	932	1,025	1,957
Depreciation on real estate and rental homes	(27,599)	(1,714)	(29,313)
Amortization of in-place leases	(159)	—	(159)
Income from operations	$55,033	$1,564	$56,597
Reconciliation to Consolidated net income			
Corporate interest income			119
Income from other investments, net			1,624
General and administrative			(6,946)
Interest and related amortization			(30,377)
Early debt retirement			(1,381)
Property rights initiatives			(1,624)
Equity in income of unconsolidated joint ventures			609
Discontinued operations			3,165
Consolidated net income			$21,786

Assets held for use	$3,104,484	$296,596	$3,401,080
Assets held for disposition [(a)]			$120,049
Total assets			$3,521,129

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(a) Asset balances as of June 30, 2013 for Properties held for disposition, have been reclassified to “Assets held for disposition.”

Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements

Note 13 – Reportable Segments (continued)

The following tables summarize our segment financial information for the six months ended June 30, 2014 and 2013 (amounts in thousands):

Six Months Ended June 30, 2014

	Property Operations	Home Sales and Rentals Operations	Consolidated
Operations revenues	$356,813	$19,820	$376,633
Operations expenses	(169,473)	(16,267)	(185,740)
Income from segment operations	187,340	3,553	190,893
Interest income	1,571	2,154	3,725
Depreciation on real estate and rental homes	(49,806)	(5,597)	(55,403)
Amortization of in-place leases	(2,716)	—	(2,716)
Income from operations	$136,389	$110	$136,499
Reconciliation to Consolidated net income			
Corporate interest income			851
Income from other investments, net			4,229
General and administrative			(12,555)
Interest and related amortization			(56,313)
Property rights initiatives			(1,312)
Equity in income of unconsolidated joint ventures			2,531
Consolidated net income			$73,930
Total assets	$3,143,600	$286,824	$3,430,424
Capital improvements	$13,519	$13,015	$26,534

Six Months Ended June 30, 2013

	Property Operations	Home Sales and Rentals Operations	Consolidated
Operations revenues	$337,930	$14,520	$352,450
Operations expenses	(162,570)	(11,038)	(173,608)
Income from segment operations	175,360	3,482	178,842
Interest income	1,733	2,002	3,735
Depreciation on real estate and rental homes	(51,975)	(3,358)	(55,333)
Amortization of in-place leases	(318)	—	(318)
Income from operations	$124,800	$2,126	$126,926
Reconciliation to Consolidated net income			
Corporate interest income			239
Income from other investments, net			4,104
General and administrative			(13,655)
Interest and related amortization			(60,500)
Early debt retirement			(1,381)
Property rights initiatives			(1,856)
Equity in income of unconsolidated joint ventures			1,185
Discontinued operations			6,233
Gain on sale of property, net of tax			958

Consolidated net income			$62,253
Assets held for use	$3,104,484	$296,596	$3,401,080
Assets held for disposition [(a)]			$120,049
Total assets			$3,521,129
Capital improvements	$13,571	$22,279	$35,850

(a) Asset balances as of June 30, 2013 for Properties held for disposition, have been reclassified to "Assets held for disposition."

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Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements

Note 13 – Reportable Segments (continued)

The following table summarizes our financial information for the Property Operations segment, specific to continuing operations, for the quarters and six months ended June 30, 2014 and 2013 (amounts in thousands):

	Quarters Ended		Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Revenues:				
Community base rental income	$106,502	$101,468	$212,547	$202,244
Resort base rental income	36,888	33,197	81,837	73,936
Right-to-use annual payments	11,241	12,043	22,455	23,566
Right-to-use contracts current period, gross	3,089	3,361	6,012	6,192
Right-to-use contracts current period, deferred	(1,168)	(1,550)	(2,315)	(2,590)
Utility income and other	16,919	15,787	34,490	32,470
Ancillary services revenues, net	283	634	1,787	2,112
Total property operations revenues	173,754	164,940	356,813	337,930
Expenses:				
Property operating and maintenance	61,217	58,345	119,913	113,401
Real estate taxes	12,157	11,888	24,642	24,290
Sales and marketing, gross	2,695	3,333	5,100	5,694
Sales and marketing deferred commissions, net	(710)	(655)	(1,265)	(1,118)
Property management	10,451	10,170	21,083	20,303
Total property operations expenses	85,810	83,081	169,473	162,570
Income from property operations segment	$87,944	$81,859	$187,340	$175,360

The following table summarizes our financial information for the Home Sales and Rentals Operations segment, specific to continuing operations, for the quarters and six months ended June 30, 2014 and 2013 (amounts in thousands):

	Quarters Ended		Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Revenues:				
Gross revenue from home sales	$6,560	$4,217	$11,738	$6,913
Brokered resale revenues, net	285	298	579	615
Rental home income [(a)]	3,746	3,598	7,503	6,992
Total revenues	10,591	8,113	19,820	14,520
Expenses:				
Cost of home sales	6,155	3,919	11,523	6,700
Home selling expenses	628	454	1,197	981
Rental home operating and maintenance	1,639	1,487	3,547	3,357
Total expenses	8,422	5,860	16,267	