

Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A

SUN COMMUNITIES INC  
Form 10-K/A  
February 22, 2005

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-K/A  
AMENDMENT NO. 1

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

OR

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

Commission File No. 1-12616

SUN COMMUNITIES, INC.  
(Exact name of registrant as specified in its charter)

STATE OF MARYLAND  
State of Incorporation

38-2730780  
I.R.S. Employer I.D. No.

27777 FRANKLIN ROAD  
SUITE 200  
SOUTHFIELD, MICHIGAN 48034  
(248) 208-2500

(Address of principal executive offices and telephone number)

Securities Registered Pursuant to Section 12(b) of the Act:  
COMMON STOCK, PAR VALUE \$.01 PER SHARE

Securities Registered Pursuant to Section 12(g) of the Act:  
NONE

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes  No

As of June 30, 2003, the aggregate market value of the Registrant's stock

## Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A

held by non-affiliates was approximately \$688,000,000 (computed by reference to the closing sales price of the Registrant's common stock as of June 30, 2003). For this computation, the Registrant has excluded the market value of all shares of common stock reported as beneficially owned by executive officers and directors of the Registrant; such exclusion shall not be deemed to constitute an admission that any such person is an affiliate of the Registrant.

As of March 1, 2004, there were 19,009,270 shares of the Registrant's common stock issued and outstanding.

### DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant's definitive Proxy Statement to be filed for its 2004 Annual Meeting of Shareholders are incorporated by reference into Part III of this Report.

As used in this Form 10-K/A, "Company," "us," "we," "our" and similar terms means Sun Communities, Inc., a Maryland corporation, and one or more of its subsidiaries (including Sun Communities Operating Limited Partnership).

### EXPLANATORY NOTE

The Company is filing this Form 10-K/A to make the following changes to its Form 10-K for the year ended December 31, 2003:

- Part 1, Item 7 -- Management's Discussion and Analysis of Financial Condition and Results of Operations
  - Overview - Revised to include additional discussion of the recent industry trends and their potential impact on future results of operations and our investment in Origen Financial, Inc.
  - Other - Revised to include additional discussion of the use of Funds from Operations (FFO) and the Company's adjustments from net income to FFO and revised 2003 FFO to not add-back an impairment loss on a property in strict accordance with the NAREIT definition of FFO. The impairment was due to the impracticality of further development of the property.
- Part IV, Item 15 -- Exhibits, Financial Statement Schedules and Reports on Form 8-K
  - Consolidated Statements of Income - Revised to separately reflect an impairment charge on a property and income from Origen, net, principally interest.
  - Consolidated Statements of Cash Flows - Revised to separately state mortgage loans purchased from and sold to Origen.
  - Note 1 -- Summary of Significant Accounting Policies - Revised to add additional clarification to 1. b. Principles of Consolidation, 1.c. Rental Property, 1. f. Investments in and Advances to Affiliates, 1.g. Revenue Recognition, 1.h. Other Capitalized Costs, and to add 1.o. Use of Estimates.
  - Note 3 -- Disposition of Properties - Revised to note our policy with respect to properties "held for sale".
  - Note 8 Other Income - Revised to remove the property impairment charge.

## Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A

- Note 15 Related Party Transactions - Revised to include additional information regarding certain related party transactions with Origen Financial, LLC and Origen Financial, Inc.

With the exception of the foregoing, no other changes have been made to the Company's Consolidated Financial Statements or Financial Statement Schedule and the Company's Form 10-K for the year ended December 31, 2003 has not otherwise been updated to reflect events that occurred subsequent to the original filing date.

### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### OVERVIEW

The following discussion and analysis of the consolidated financial condition and results of operations should be read in conjunction with the Consolidated Financial Statements and notes thereto elsewhere herein.

The Company is a fully integrated, self-administered and self-managed REIT which owns, operates, develops and finances manufactured housing communities concentrated in the midwestern and southeastern United States. As of December 31, 2003, the Company owned and operated a portfolio of 127 developed properties located in seventeen states, including 115 manufactured housing communities, five recreational vehicle communities, and seven properties containing both manufactured housing and recreational vehicle sites.

During 2003, the Company acquired one manufactured housing community located in East Lansing, Michigan, comprising 62 developed sites and 182 sites suitable for development for \$4.5 million, and the Company sold four manufactured housing communities located in Michigan and Illinois which comprised 731 sites for \$24.8 million.

The Company invested \$50 million as common equity in Origen, Inc. in October, 2003. An additional \$100 million was similarly invested by other investors thus capitalizing Origen, Inc. at \$150 million. The Company determined that this investment was reasonable and prudent because it resulted in a stabilized and well-financed Origen, Inc., which allowed Origen, Inc. to finance its operations from traditional sources of warehouse financing and access to the securitization marketplace. This investment occurred at the time that the manufactured home finance industry was beginning to rebound as interest rates stabilized, two lenders were emerging from bankruptcy and new entrants dedicated to financing manufactured homes buoyed the industry. The Company had written off its \$13.6 million investment in Origen Financial, L.L.C., a predecessor to Origen, Inc., at December 31, 2002 because of severely deteriorated industry conditions marked by the above-mentioned bankruptcies, the closure of the securitization marketplace, and the resultant liquidity squeeze impacting the Origen, Inc. predecessor. Origen, Inc. has raised approximately an additional \$80 million since October, 2003 and is now a public company with demonstrated access to a broad range of capital markets.

In recent years the operations of manufactured homebuilders, dealers, and the companies that finance the purchase of the homes have experienced severe losses and substantial volatility. New home shipments have declined from 373,000 in 1998 to 131,000 in 2003. The decline was largely due to the turmoil in the financing side of the industry as lenders experienced substantial losses arising from defaults on poorly underwritten loans in the mid to late 1990s. As a result of the losses, the lenders experienced liquidity constraints and significantly tightened underwriting standards thus reducing the demand for new homes. Two

## Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A

large lenders entered bankruptcy in the Fall of 2002.

These trends appear to be abating as several large home manufacturers are reporting operating income and the volume of repossessed homes in the market place appears to be declining. Newly repossessed homes are also declining as the reinforcing effects of tightened underwriting standards and reduced new home financing volumes impact the industry.

The effect of these trends on the Company has been to reduce occupancies in our portfolio as the demand of tenants for sites in our communities has declined for the above-stated reasons. The leasing tempo in our new community developments has likewise slowed. Despite these trends, the Company's same property portfolio has consistently reflected growth in net operating income evidencing the revenue and operating stability long associated with the business of owning and operating manufactured housing communities.

While the problems which directly impacted the manufacturers, dealers, and lenders appear to be bottoming, the Company does not expect a rapid or strong recovery in their operations. The Company expects that their improving operations as the problems noted above are overcome will result in a gradually improving leasing environment in the Company's portfolio.

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses the Company's consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. In preparing these financial statements, management has made its best estimates and judgment of certain amounts included in the financial statements. Nevertheless, actual results may differ from these estimates under different assumptions or conditions.

Management believes the following significant accounting policies, among others, affect its more significant judgments and estimates used in the preparation of its consolidated financial statements:

**Impairment of Long-Lived Assets.** Rental property is recorded at cost, less accumulated depreciation. Management evaluates the recoverability of its investment in rental property whenever events or changes in circumstances, such as recent operating results, expected net operating cash flow and plans for future operations, indicate that full asset recoverability is questionable. If such assets were deemed to be impaired as a result of this measurement, the impairment that would be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset as determined on a discounted net cash flow basis.

**Notes Receivable.** The Company evaluates the recoverability of its notes receivable whenever events occur or there are changes in circumstances such that management believes it is probable that it will be unable to collect all amounts due according to the contractual terms of the loan agreement. The loan is then measured based on the present value of the expected future cash flow discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent.

## Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A

**Depreciation.** Depreciation is computed on a straight-line basis over the estimated useful lives of the assets. The Company uses a thirty year useful life for land improvements and buildings and a seven to fifteen year useful life for furniture, fixtures and equipment.

**Revenue Recognition.** Rental income attributable to leases is recorded on a straight-line basis when earned from tenants. Leases entered into by tenants generally range from month-to-month to one year and are renewable by mutual agreement of the Company and the resident.

**Capitalized Costs.** The Company capitalizes certain costs (including interest and other costs) incurred in connection with the development, redevelopment, capital enhancement and leasing of its properties. Management is required to use professional judgment in determining whether such costs meet the criteria for immediate expense or capitalization. The amounts are dependent on the volume and timing of such activities and the costs associated with such activities. Maintenance, repairs and minor improvements to properties are expensed when incurred. Renovations and improvements to properties are capitalized and depreciated over their estimated useful lives and construction costs related to the development of new community or expansion sites are capitalized until the property is substantially complete. Certain expenditures to dealers and residents related to obtaining lessees in our communities are capitalized and amortized over a seven year period; shorter than the average resident's occupancy in the home and the average term that the home is in our community. Costs associated with implementing the Company's new computer systems are capitalized and amortized over the estimated useful lives of the related software and hardware.

**Derivative Instruments and Hedging Activities.** The Company has entered into three interest rate swap agreements to offset interest rate risk. The Company does not enter into derivative transactions for speculative purposes. The Company adjusts its balance sheet on an ongoing quarterly basis to reflect current fair market value of its derivatives. Changes in the fair value of derivatives are recorded each period in earnings or comprehensive income, as appropriate. The ineffective portion of the hedge is immediately recognized in earnings to the extent that the change in value of a derivative does not perfectly offset the change in value of the instrument being hedged. The unrealized gains and losses held in accumulated other comprehensive income will be reclassified to earnings over time and occurs when the hedged items are also recognized in earnings. The Company uses standard market conventions to determine the fair values of derivative instruments, including the quoted market prices or quotes from brokers or dealers for the same or similar instruments. All methods of assessing fair value result in a general approximation of value and such value may never actually be realized.

**Deferred Tax Assets.** SHS currently has significant deferred tax assets, which are subject to periodic recoverability assessments. SHS has recognized deferred tax assets of \$2.0 million, net of a valuation reserve of \$3.0 million. Realization of these deferred tax assets is principally dependent upon SHS's achievement of expected future taxable income. Judgments regarding future profitability may change due to future market conditions, SHS's ability to continue to successfully execute its business plan, and other factors.

**Income Taxes.** The Company has elected to be taxed as a REIT as defined under Section 856(c) of the Internal Revenue Code of 1986, as amended. In order for the Company to qualify as a REIT, at least ninety-five percent (95%) of the Company's gross income in any year must be derived from qualifying sources. As a REIT, the Company generally will not be subject to U.S. Federal income taxes at the corporate level if it distributes at least ninety percent (90%) of its

## Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A

REIT ordinary taxable income to its stockholders, which it fully intends to do. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to Federal income tax (including any applicable alternative minimum tax) on its taxable income at regular corporate rates. The Company remains subject to certain state and local taxes on its income and property as well as Federal income and excise taxes on its undistributed income.

### RESULTS OF OPERATIONS

Comparison of year ended December 31, 2003 to year ended December 31, 2002

For the year ended December 31, 2003, income from operations increased by \$3.8 million from \$21.6 million to \$25.4 million, when compared to the year ended December 31, 2002. The increase was due to increased revenues of \$33.9 million and increased results from affiliates of \$17.3 million partially offset by increased expenses of \$47.4 million. The year 2003 included SHS on a consolidated basis as discussed below.

Income from rental property increased by \$9.2 million from \$149.9 million to \$159.1 million, or 6.2 percent, due to rent increases and other community revenues (\$3.4 million) and acquisitions (\$5.8 million).

Interest income, including income from Origen, increased by \$3.4 million from \$8.0 million to \$11.4 million, or 42.1 percent, due principally to larger outstanding balances of notes and investments at higher rates of interest.

Other operating income decreased by \$1.6 million from \$2.3 million to \$0.7 million, due primarily to reduced development fee income.

The remaining revenue increases of \$22.9 million relate to the consolidation of Sun Home Services which is discussed in detail below.

Property operating and maintenance expenses increased by \$6.1 million from \$33.7 million to \$39.8 million, or 18.0 percent. The increase was primarily due to increases in utility costs (\$1.8 million) and increases in repair and maintenance expenses (\$1.3 million). Acquisitions during 2002 and the consolidation of SunChamp properties accounted for the remaining increase of \$3.0 million.

Real estate taxes increased by \$1.5 million from \$10.2 million to \$11.7 million, or 15.0 percent due to acquisitions made in 2002 (\$0.7 million) and increases in assessments and tax rate (\$0.8 million).

Selling, general, and administrative expenses increased by \$10.4 million from \$7.7 million to \$18.1 million, due to the consolidation of Sun Home Services (\$7.6 million), professional fees (\$0.4 million), expenses related to office relocation (\$0.2 million), Michigan Single Business tax (\$0.2 million), compensation expenses, including benefits, primarily related to the SunChamp acquisition and a systems conversion (\$1.7 million), and assorted other minor increases (\$0.3 million).

Depreciation and amortization increased by \$6.2 million from \$37.9 million to \$44.1 million, or 16.4 percent, due primarily to the consolidation of Sun Home Services (\$1.0 million) and additional investment in rental property.

Interest expense increased by \$4.3 million from \$32.4 million to \$36.7 million, or 13.3 percent, due to increased debt levels partially offset by lower interest rates (\$1.5 million), decreased capitalized interest (\$0.8 million), an increase in financing costs (\$0.6 million), and an increase in interest rates related to fixing rates on \$75.0 million of debt (\$2.7 million). These increases

## Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A

were partially offset by \$1.3 million of income related primarily to the change in market value of an interest rate swap contract that does not qualify for hedge accounting.

Equity income from affiliates of \$0.7 million represents the Company's one-third interest in the operations of Origen for its initial operating period after a recapitalization in October, 2003.

The \$4.9 million impairment charge relates to a reduction in the book value of a new community development due to the impracticality of future phase construction.

The remaining expense increase of \$13.9 million relates to the consolidation of Sun Home Services which is discussed in detail below.

### Sun Home Services

Prior to January 1, 2003, the results of operations of Sun Home Services were accounted for using the equity method and reported as a single line item called equity in income from affiliates. As the Company is the primary beneficiary of the results of operations of Sun Home Services, it is appropriate to consolidate Sun Home Services at December 31, 2003. This has no effect on previously reported net income.

The following table summarizes certain financial and statistical data for Sun Home Services for the years ended December 31, 2003 and 2002:

	2003 -----	2002 -----	INCREASE/ (DECREASE) -----	PERCENT CHANGE -----
		(Pro Forma)		
New home sales revenues	\$ 13,169	\$ 15,890	\$ (2,721)	(17.1%)
Cost of sales	9,159	12,907	(3,748)	(29.0%)
	-----	-----	-----	-----
Gross profit	4,010	2,983	1,027	34.4%
	=====	=====	=====	=====
Pre-owned home sales revenues	\$ 6,347	\$ 3,214	\$ 3,133	97.5%
Cost of sales	4,720	2,586	2,134	82.5%
	-----	-----	-----	-----
Gross profit	1,627	628	999	159.1%
	=====	=====	=====	=====
Ancillary revenue, net	\$ 3,409	\$ 1,519	\$ 1,890	124.4%
	=====	=====	=====	=====
Home sales volumes:				
New homes	257	286	(29)	(10.1%)
Pre-owned homes	283	174	109	62.6%

New home sales declined by 10.1 percent, while revenues and costs of sales declined by 17.1 and 29.0 percent, respectively. Gross profit increased by 34.4 percent as cost of sales declined by more than revenues due to the purchase of new homes at a substantial discount. Pre-owned home unit sales increased by 62.6 percent while revenues and cost of sales increased by 97.5 percent and 82.5

## Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A

percent, respectively. Gross profit increased by 159.1 percent as revenues grew more than cost of sales due to strong demand for the value in pre-owned homes.

The increase in ancillary revenue, net, is primarily due to increased activity in the Company's rental home program.

Comparison of year ended December 31, 2002 to year ended December 31, 2001

For the year ended December 31, 2002, income from operations decreased by \$20.0 million from \$41.6 million to \$21.6 million, when compared to the year ended December 31, 2001. The decrease was due to increased expenses of \$12.5 million, increased revenues of \$9.2 million and increased loss from affiliates of \$16.7 million as described in more detail below.

Income from rental property increased by \$12.9 million from \$137.0 million to \$149.9 million, or 9.4 percent, due to rent increases and other community revenues (\$5.9 million) and acquisitions (\$7.0 million).

Interest income, including income from Origen, decreased by \$2.3 million from \$10.3 million to \$8.0 million, or 22.5 percent, due primarily to a decrease in interest earning notes and receivables.

Other income decreased by \$1.4 million from \$3.7 million to \$2.3 million, or 37.8 percent, due primarily to reduced development fee income.

Property operating and maintenance expenses increased by \$4.4 million from \$29.3 million to \$33.7 million, or 15.0 percent, due to acquired communities (\$1.9 million) and increases in costs including payroll (\$1.2 million), workers' compensation (\$0.5 million), and cable television (\$0.3 million), and other expenses (\$0.5 million).

Real estate taxes increased by \$1.0 million from \$9.2 million to \$10.2 million, or 11.5 percent due to acquired communities (\$0.5 million) and changes in certain assessments.

General and administrative expenses increased by \$0.3 million from \$7.4 million to \$7.7 million, representing 4.8 percent and 4.9 percent of total revenues in 2002 and 2001, respectively.

Depreciation and amortization increased by \$5.2 million from \$32.7 million to \$37.9 million, due primarily to the net additional investments in rental properties.

Interest expense increased by \$1.4 million from \$31.0 million to \$32.4 million due primarily to financing additional investments in rental property (\$6.0 million), offset by decreasing rates on variable rate debt (\$4.9 million).

Equity loss from affiliates increased by \$16.7 million from income of \$0.1 million to a loss of \$16.6 million primarily due to equity losses at SHS (\$0.7 million), SunChamp (\$0.4 million) and Origen (\$1.7 million) and the valuation adjustment of the Company's investment in Origen (\$13.6 million) and a technology investment (\$0.3 million).

### SAME PROPERTY INFORMATION

The following table reflects property-level financial information as of and for the years ended December 31, 2003 and 2002. The "Same Property" data represents information regarding the operation of communities owned as of January 1, 2002 and December 31, 2003. Site, occupancy, and rent data for those communities is presented as of the last day of each period presented. The "Total



## Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A

Portfolio" column differentiates from the "Same Property" column by including financial information for properties acquired after January 1, 2002 and new development communities.

	SAME PROPERTY (3)		TOTAL PORTFOLIO	
	2003	2002	2003	
	(in thousands)		(in thousands)	
Income from property	\$ 135,220	\$ 132,100	\$ 159,115	\$
Property operating expenses				
Property operating and maintenance	26,663	24,865	39,837	
Real estate taxes	10,578	9,892	11,746	
Property operating expenses	37,241	34,757	51,583	
Property net operating income (2)	\$ 97,979	\$ 97,343	\$ 107,532	\$
Number of properties	105	105	127	
Developed sites	38,255	38,253	43,875	
Occupied sites	33,533	34,514	36,361	
Occupancy %	89.1%(1)	92.0%(1)	86.1%(1)	
Weighted Average monthly rent per site	\$ 328(1)	\$ 315(1)	\$ 328(1)	\$
Sites available for development	1,545	2,018	6,756	
Sites planned for development in next year	30	99	258	

(1) Occupancy % and weighted average rent relates to manufactured housing sites, excluding recreational vehicle sites.

(2) Investors in and analysts following the real estate industry utilize net operating income ("NOI") as a supplemental performance measure. The Company considers NOI, given its wide use by and relevance to investors and analysts, an appropriate supplemental measure to net income because NOI provides a measure of rental operations and does not factor in depreciation/amortization and non-property specific expenses such as general and administrative expenses. (3) Same property information does not include properties sold during the year ended December 31, 2003.

(3) Same property information does not include properties sold during the year ended December 31, 2003.

On a same property basis, property net operating income increased by \$0.6 million from \$97.3 million to \$97.9 million, or 0.6 percent. Income from property increased by \$3.1 million from \$132.1 million to \$135.2 million, or 2.3 percent, due primarily to increases in rents including water and property tax pass through.

Property operating expenses increased by \$1.8 million from \$24.9 million to \$26.7 million, or 7.2 percent, due to increases in real estate taxes (\$0.7 million), repair and maintenance (\$0.9 million), and payroll (\$0.2 million).

### LIQUIDITY AND CAPITAL RESOURCES

## Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A

The Company's principal liquidity demands have historically been, and are expected to continue to be, distributions to the Company's stockholders and the Operating Partnership's unitholders, property acquisitions, development and expansion of properties, capital improvements of properties and debt repayment.

The Company expects to meet its short-term liquidity requirements through its working capital provided by operating activities and its line of credit, as described below. The Company considers its ability to generate cash from operations (anticipated to be approximately \$70 million) to be adequate to meet all operating requirements, including recurring capital improvements, routinely amortizing debt and other normally recurring expenditures of a capital nature, pay dividends to its stockholders to maintain qualification as a REIT in accordance with the Internal Revenue Code and make distributions to the Operating Partnership's unitholders.

The Company plans to invest approximately \$5.0 million in developments consisting of expansions to existing communities and the continuing development of new communities. The Company expects to finance these investments by using net cash flows provided by operating activities and by drawing upon its line of credit.

Furthermore, the Company expects to invest in the range of \$20.0 to \$40.0 million in the acquisition of individual properties in 2004, depending upon market conditions. The Company plans to finance these investments by using net cash flows provided by operating activities and by drawing upon its line of credit.

Cash and cash equivalents increased by \$21.4 million to \$24.1 million at December 31, 2003 compared to \$2.7 million at December 31, 2002 due to the net proceeds received from the sale of four properties. Net cash provided by operating activities increased by \$12.3 million to \$63.3 million for the year ended December 31, 2003 compared to \$51.0 million for the year ended December 31, 2002. The increase resulted primarily from increased net income, higher depreciation, the effect of consolidating SHS, and changes in other miscellaneous asset and liabilities accounts.

The Company's net cash flows provided by operating activities may be adversely impacted by, among other things: (a) the market and economic conditions in the Company's markets; (b) lower occupancy rates of the Properties; (c) increased operating costs, including insurance premiums, real estate taxes and utilities, that cannot be passed on to the Company's tenants; and (d) decreased sales of manufactured homes. See "Factors that May Affect Future Results."

In October 2003, the Company acquired a community in East Lansing, MI and financed the acquisition with a mortgage for \$2.3 million and the remainder in cash.

The Company entered into a \$25 million loan facility in September of 2003, of which \$25 million was available to be borrowed at December 31, 2003. Borrowings bear an interest rate of Federal Funds Effective Rate plus .85% and mature on March 24, 2004.

In April 2003 the Company issued \$150 million of 5.75 percent senior notes, due April 15, 2010, and used the proceeds from the offering to retire the bridge loan of \$48 million and

senior notes of \$85 million which matured on April 30 and May 1, 2003, respectively. The remaining proceeds paid down the Company's line of credit.

## Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A

The Company has a \$105 million unsecured line of credit facility, which matures in July 2005, with a one-year optional extension. At December 31, 2003, the average interest rate of outstanding borrowings under the line of credit was 2.05%, \$99 million was outstanding and \$6 million was available to be drawn under the facility. The line of credit facility contains various leverage, debt service coverage, net worth maintenance and other customary covenants all of which the Company was in compliance with at December 31, 2003.

The Company's primary long-term liquidity needs are principal payments on outstanding indebtedness. At December 31, 2003, the Company's outstanding contractual obligations were as follows:

CONTRACTUAL CASH OBLIGATIONS	TOTAL DUE	PAYMENTS DUE BY PERIOD (IN THOUSANDS)		
		1 YEAR	2-3 YEARS	4-5 YEARS
Line of credit	\$ 99,000	\$ -	\$ 99,000	\$ -
Collateralized term loan	41,547	706	1,569	39,272
Collateralized term loan - FNMA	152,363	-	-	-
Senior notes (1)	350,000	-	65,000	135,000
Mortgage notes, other	62,664	24,823	12,276	8,000
Capitalized lease obligations	9,606	9,606	-	-
Redeemable Preferred OP Units	58,148	-	8,176	4,500
	\$ 773,328	\$ 35,135	\$ 186,021	\$ 186,788

- (1) The provisions of the callable/redeemable \$65 million notes are such that the maturity date will likely be 2005 if the 10-year treasury rate is greater than 5.7% on May 16, 2005. The maturity is reflected in the above table based on that assumption.

The Company anticipates meeting its long-term liquidity requirements, such as scheduled debt maturities, large property acquisitions and Operating Partnership unit redemptions, through the issuance of debt or equity securities, including equity units in the Operating Partnership, or from selective asset sales. Since 1993, the Company has raised, in the aggregate, nearly \$1 billion from the sale of shares of its common stock, from the sale of OP units in the Operating Partnership, and the issuance of secured and unsecured debt securities. In addition, at December 31, 2003, 92 of the Properties were unencumbered by debt, therefore, providing substantial financial flexibility. The ability of the Company to finance its long-term liquidity requirements in such manner will be affected by numerous economic factors affecting the manufactured housing community industry at the time, including the availability and cost of mortgage debt, the financial condition of the Company, the operating history of the Properties, the state of the debt and equity markets, and the general national, regional and local economic conditions. See "Factors that May Affect Future Results". If the Company is unable to obtain additional equity or debt financing on acceptable terms, the Company's business, results of operations and financial condition will be harmed.

Included in debt are \$35.8 million of Preferred OP Units which would require collateralization were the Company to no longer be classified as investment grade by the rating agencies.

## Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A

At December 31, 2003, the Company's debt to total market capitalization approximated 46.0 percent (assuming conversion of all Common OP Units to shares of common stock). The debt has a weighted average maturity of approximately 5.2 years and a weighted average interest rate of 5.4 percent.

Capital expenditures for the years ended December 31, 2003 and 2002 included recurring capital expenditures of \$6.5 million (excluding \$1.7 million related to a main office relocation and \$3.4 million related to a software conversion) and \$7.1 million, respectively.

Net cash used in investing activities was \$58.9 million for the year ended December 31, 2003 compared to \$168.9 million in the prior year. The differences are due to: decreased investment in rental properties of \$37.0 million; increased proceeds from property disposition of \$19.3 million; increased repayments of notes receivables of \$61.7 million; decreased investment in and advances to affiliates of \$4.2 million; offset by net payments for loans purchased from and sold to Origen of \$12.2 million. Included in proceeds from property dispositions is \$22.5 million of proceeds deposited with an intermediary for Section 1031 exchange purposes. These sales proceeds will be disbursed as the Company exchanges properties under Section 1031 of the Internal Revenue Code.

Net cash provided by financing activities was \$17.0 million for the year ended December 31, 2003, compared to \$116.0 million in the prior year. The differences were primarily due to changes in net proceeds from notes payable, inclusive of borrowings on line of credit, of \$109.6 million, increased distributions of \$2.4 million, offset by changes in net proceeds from common stock issuance of \$12.4 million and changes in payments of deferred financing costs of \$0.6 million.

### RATIO OF EARNINGS TO FIXED CHARGES

The Company's ratio of earnings to fixed charges for the years ended December 31, 2003, 2002, and 2001 was 1.29:1, 1.68:1 and 1.73:1 respectively.

### INFLATION

Most of the leases allow for periodic rent increases which provide the Company with the opportunity to achieve increases in rental income as each lease expires. Such types of leases generally minimize the risk of inflation to the Company.

### SAFE HARBOR STATEMENT

This Form 10-K/A contains various "forward-looking statements" within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934, and the Company intends that such forward-looking statements will be subject to the safe harbors created thereby. For this purpose, any statements contained in this press release that relate to prospective events or developments are deemed to be forward-looking statements. Words such as "believes," "forecasts," "anticipates," "intends," "plans," "expects," "will" and similar expressions are intended to identify forward-looking statements. These forward-looking statements reflect the Company's current views with respect to future events and financial performance, but involve known and unknown risks and uncertainties, both general and specific to the matters discussed in this press release. These risks and uncertainties may cause the actual results of the Company to be materially different from any future results expressed or implied by such forward looking statements. Such risks and uncertainties include the national, regional and local economic climates, the ability to maintain rental rates and occupancy levels, competitive market forces, changes in market rates of

## Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A

interest, the ability of manufactured home buyers to obtain financing, the level of repossessions by manufactured home lenders and those referenced under the headings entitled "Factors That May Affect Future Results" or "Risk Factors" contained in this Form 10-K and the Company's filings with the Securities and Exchange Commission. The forward-looking statements contained in this Form 10-K speak only as of the date hereof and the Company expressly disclaims any obligation to provide public updates, revisions or amendments to any forward-looking statements made herein to reflect changes in the Company's expectations of future events.

### RECENT ACCOUNTING PRONOUNCEMENTS

In May 2003, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" which establishes standards for how financial instruments that have characteristics of both liabilities and equity instruments should be classified on the balance sheet. The requirements of SFAS 150 generally outline that financial instruments that give the issuer a choice of settling an obligation with a variable number of securities or settling an obligation with a transfer of assets or any mandatorily redeemable security should be classified as a liability on the balance sheet. The Company has reclassified mandatorily redeemable preferred operating partnership units of \$58.1 million into debt as of December 31, 2003. The reclassification had no effect on the Company's compliance with the covenant requirements of its credit agreements.

In April 2003, FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." The statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FASB Statements No. 133, "Accounting for Derivative Instruments and Hedging Activities." This Statement is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. In addition, all provisions of this Statement should be applied prospectively. The provisions of this Statement that relate to Statement 133 Implementation Issues that have been effective for fiscal quarters that began prior to June 15, 2003, should continue to be applied in accordance with their respective effective dates. The adoption of this Statement did not have a significant impact on the financial position or results of the operations of the Company.

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities." The objective of this interpretation is to provide guidance on how to identify a variable interest entity ("VIE") and determine when the assets, liabilities, non-controlling interests and results of operations of a VIE need to be included in a company's consolidated financial statements. A company that holds variable interests in an entity will need to consolidate the entity if the company's interest in the VIE is such that the company will absorb a majority of the VIE's expected losses and/or receive a majority of the VIE's expected residual returns, if they occur. FIN 46 also requires additional disclosures by primary beneficiaries and other significant variable interest holders. The provisions of this interpretation apply to the end of the first interim period or annual period ending after December 15, 2003 (i.e., December 31, 2003) to VIEs in which a company holds a variable interest that it acquired before February 1, 2003. The Company has consolidated SHS in its financial reporting beginning December 31, 2003.

### OTHER

## Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A

Funds from operations ("FFO") is defined by the National Association of Real Estate Investment Trusts ("NAREIT") as net income (computed in accordance with generally accepted accounting principles), excluding gains (or losses) from sales of depreciable operating property, plus real estate-related depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. FFO is a non-GAAP financial measure that management believes is a useful supplemental measure of the Company's operating performance. Management generally considers FFO to be a useful measure for reviewing comparative operating and financial performance because, by excluding gains and losses related to sales of previously depreciated operating real estate assets and excluding real estate asset depreciation and amortization (which can vary among owners of identical assets in similar condition based on historical cost accounting and useful life estimates), FFO provides a performance measure that, when compared year over year, reflects the impact to operations from trends in occupancy rates, rental rates and operating costs, providing perspective not readily apparent from net income. Management believes that the use of FFO has been beneficial in improving the understanding of operating results of REITs among the investing public and making comparisons of REIT operating results more meaningful.

Because FFO excludes significant economic components of net income including depreciation and amortization, FFO should be used as an adjunct to net income and not as an alternative to net income. The principal limitation of FFO is that it does not represent cash flow from operations as defined by GAAP and is a supplemental measure of performance that does not replace net income as a measure of performance or net cash provided by operating activities as a measure of liquidity. In addition, FFO is not intended as a measure of a REIT's ability to meet debt principal repayments and other cash requirements, nor as a measure of working capital. FFO only provides investors with an additional performance measure. Other REITs may use different methods for calculating FFO and, accordingly, the Company's FFO may not be comparable to other REITs.

The following table reconciles net income to FFO and calculates FFO data for both basic and diluted purposes for the years ended December 31, 2003, 2002, 2001 (in thousands):

SUN COMMUNITIES, INC.		
RECONCILIATION OF NET INCOME TO FUND FROM OPERATIONS		
(AMOUNTS IN THOUSANDS, EXCEPT FOR PER SHARE/OP UNIT AMOUNTS)		
	2003	2002
	-----	-----
Net Income	\$ 23,714	\$ 13,592
Adjustments:		
Depreciation and amortization	43,458	38,262
Valuation adjustment (1)	(879)	449
Allocation of SunChamp losses (2)	4,548	1,315
(Gain) loss on dispositions, net	(8,590)	13,612
Income allocated to common minority interests	3,274	2,003
	-----	-----
Funds from Operations (FFO) (3)	\$ 65,525	\$ 69,233
	=====	=====
FFO - Continuing Operations	\$ 63,605	\$ 67,055
	=====	=====
FFO - Discontinued Operations	\$ 1,920	\$ 2,178
	=====	=====
Weighted average common shares/OP Units outstanding:		

Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A

Basic	20,717	20,177
	=====	=====
Diluted	20,856	20,363
	=====	=====
Continuing Operations:		
FFO per weighted average Common Share/OP Unit - Basic(3)	\$ 3.07	\$ 3.32
	=====	=====
FFO per weighted average Common Share/OP Unit - Diluted(3)	\$ 3.05	\$ 3.29
	=====	=====
Discontinued Operations:		
FFO per weighted average Common Share/OP Unit - Basic	\$ 0.09	\$ 0.11
	=====	=====
FFO per weighted average Common Share/OP Unit - Diluted	\$ 0.09	\$ 0.11
	=====	=====
Total Operations:		
FFO per weighted average Common Share/OP Unit - Basic(3)	\$ 3.16	\$ 3.43
	=====	=====
FFO per weighted average Common Share/OP Unit - Diluted(3)	\$ 3.14	\$ 3.40
	=====	=====

- (1) The Company entered into three interest rate swaps and an interest rate cap agreement. The valuation adjustment reflects the theoretical noncash profit and loss were those hedging transactions terminated at the balance sheet date. As the Company has no expectation of terminating the transactions prior to maturity, the net of these noncash valuation adjustments will be zero at the various maturities. As any imperfection related to hedging correlation in these swaps is reflected currently in cash as interest, the valuation adjustments reflect volatility that would distort the comparative measurement of FFO and on a net basis approximate zero. Accordingly, the valuation adjustments are excluded from Funds from Operations. The valuation adjustment is included in interest expense.
- (2) The Company acquired the equity interest of another investor in SunChamp in December 2002. Consideration consisted of a long-term note payable at net book value. Although the adjustment for the allocation of the SunChamp losses (based on SunChamp as a stand-alone entity) is not reflected in the accompanying financial statements, management believes that it is appropriate to provide for this adjustment because the Company's payment obligations with respect to the note are subordinate in all respects to the return of the members' equity (including the gross book value of the acquired equity) plus a preferred return. As a result, the losses that are allocated to the Company from SunChamp as a stand-alone entity under generally accepted accounting principles are effectively reallocated to the note for purposes of calculating Funds from Operations. At December 31, 2003, the remaining balance on the SunChamp note is approximately \$0.3 million and, accordingly, the financial impact of excluding the SunChamp losses from FFO is immaterial and will cease during the first quarter of 2004. A situation such as this is not contemplated in the NAREIT definition of FFO due to the unique circumstances of the transaction. Although not comparable to the precise NAREIT definition, the Company believes the inclusion of this item in its calculation of FFO to be appropriate as noted above.
- (3) 2003 Funds from Operations was previously reported as \$70,457 and is now \$65,525. The difference is \$4,932. This amount represents \$0.24 of FFO per weighted average share (both basic and diluted) and is related to an impairment of a property due to the impracticality of its development .

PART IV

Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) The following documents are filed herewith as part of this Form 10-K/A:

(1) A list of the financial statements required to be filed as a part of this Form 10-K/A is shown in the "Index to the Consolidated Financial Statements and Financial Statement Schedule" filed herewith.

(2) A list of the financial statement schedules required to be filed as a part of this Form 10-K/A is shown in the "Index to the Consolidated Financial Statements and Financial Statement Schedule" filed herewith.

(3) A list of the exhibits required by Item 601 of Regulation S-K to be filed as a part of this Form 10-K/A is shown on the "Exhibit Index" filed herewith.

(b) Reports on Form 8-K:

(1) Form 8-K, dated October 2, 2003, filed for the purpose of reporting, under Item 5 - Other Events, the Company's investment in Origen Financial, Inc.

(2) Form 8-K, dated October 29, 2003, furnished for the purpose of reporting, under Item 12 - Results of Operations and Financial Condition, the Company's 2003 third quarter earnings and results of operations.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 21, 2005

SUN COMMUNITIES, INC., a Maryland corporation

By: /s/ Jeffrey P. Jorissen

-----  
Jeffrey P. Jorissen, Chief Financial Officer

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION	MET FI
-----	-----	---
2.1	Form of Sun Communities, Inc.'s Common Stock Certificate	
3.1	Amended and Restated Articles of Incorporation of Sun Communities, Inc	
3.2	Bylaws of Sun Communities, Inc.	
4.1	Indenture, dated as of April 24, 1996, among Sun Communities, Inc., Sun Communities Operating Limited Partnership (the "Operating Partnership") and Bankers Trust Company, as Trustee	



## Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A

- 4.2 Form of Note for the 2001 Notes
- 4.3 Form of Note for the 2003 Notes
- 4.4 First Supplemental Indenture, dated as of August 20, 1997, by and between the Operating Partnership and Bankers Trust Company, as Trustee
- 4.5 Form of Medium-Term Note (Floating Rate)
- 4.6 Form of Medium-Term Note (Fixed Rate)
- 4.7 Articles Supplementary of Board of Directors of Sun Communities, Inc. Designating a Series of Preferred Stock and Fixing Distribution and other Rights in such Series
- 4.8 Articles Supplementary of Board of Directors of Sun Communities, Inc. Designating a Series of Preferred Stock
- 10.1 Second Amended and Restated Agreement of Limited Partnership of Sun Communities Operating Limited Partnership
- 10.2 Second Amended and Restated 1993 Stock Option Plan
- 10.3 Amended and Restated 1993 Non-Employee Director Stock Option Plan
- 10.4 Form of Stock Option Agreement between Sun Communities, Inc. and certain directors, officers and other individuals#
- 10.5 Form of Non-Employee Director Stock Option Agreement between Sun Communities, Inc. and certain directors#
- 10.6 Employment Agreement between Sun Communities, Inc. and Gary A. Shiffman #
- 10.7 Amended and Restated Loan Agreement between Sun Communities Funding Limited Partnership and Lehman Brothers Holdings Inc.
- 10.8 Amended and Restated Loan Agreement among Miami Lakes Venture Associates, Sun Communities Funding Limited Partnership and Lehman Brothers Holdings Inc.
- 10.9 Form of Indemnification Agreement between each officer and director of Sun Communities, Inc. and Sun Communities, Inc.
- 10.10 Loan Agreement among the Operating Partnership, Sea Breeze Limited Partnership and High Point Associates, LP.
- 10.11 Option Agreement by and between the Operating Partnership and Sea Breeze Limited Partnership
- 10.12 Option Agreement by and between the Operating Partnership and High Point Associates, LP
- 10.13 Stock Pledge Agreement between Gary A. Shiffman and the Operating Partnership for 94,570 shares of Common Stock
- 10.14 Stock Pledge Agreement between Gary A. Shiffman and the Operating Partnership for 305,430 shares of Common Stock
- 10.15 Stock Pledge Agreement between Gary A. Shiffman and the Operating Partnership with respect to 80,000 shares of Common Stock
- 10.16 Employment Agreement between Sun Communities, Inc. and Jeffrey P. Jorissen#

Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A

10.17 Long Term Incentive Plan

EXHIBIT NUMBER -----	DESCRIPTION -----
10.18	Restricted Stock Award Agreement between Sun Communities, Inc. and Gary A. Shiffman, dated June 5, 1998#
10.19	Restricted Stock Award Agreement between Sun Communities, Inc. and Jeffrey P. Jorissen, dated June 5, 1998#
10.20	Restricted Stock Award Agreement between Sun. Communities, Inc. and Jonathan M. Colman, dated June 5, 1998#
10.21	Restricted Stock Award Agreement between Sun Communities, Inc. and Brian W. Fannon, dated June 5, 1998#
10.22	Sun Communities, Inc. 1998 Stock Purchase Plan#
10.23	Facility and Guaranty Agreement among Sun Communities, Inc., the Operating Partnership, Certain Subsidiary Guarantors and First National Bank of Chicago, dated December 10, 1998
10.24	Rights Agreement between Sun Communities, Inc. and State Street Bank and Trust Company, dated April 24, 1998
10.25	Contribution Agreement, dated as of September 29, 1999, by and among the Sun Communities, Inc., the Operating Partnership, Belcrest Realty Corporation and Belair Real Estate Corporation
10.26	One Hundred Third Amendment to Second Amended and Restated Limited Partnership Agreement of the Operating Partnership
10.27	One Hundred Eleventh Amendment to Second Amended and Restated Limited Partnership Agreement of the Operating Partnership
10.28	One Hundred Thirty-Sixth Amendment to Second Amended and Restated Limited Partnership Agreement of the Operating Partnership
10.29	One Hundred Forty-Fifth Amendment to Second Amended and Restated Limited Partnership Agreement of the Operating Partnership
10.30	Restricted Stock Award Agreement between Sun Communities, Inc. and Gary A. Shiffman, dated March 30, 2001#
10.31	Restricted Stock Award Agreement between Sun Communities, Inc. and Jeffrey P. Jorissen, dated March 30, 2001#
10.32	Restricted Stock Award Agreement between Sun Communities, Inc. and Jonathan M. Colman, dated March 30, 2001#
10.33	Restricted Stock Award Agreement between Sun Communities, Inc. and Brian W. Fannon, dated March 30, 2001#
10.34	Second Amended and Restated Subordinated Loan Agreement, dated December 4,

**Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A**

2002, by and between Origen Financial L.L.C. and the Operating Partnership

- 10.35 Subordinated Term Loan Agreement, dated December 4, 2002, by and between Origen Financial L.L.C. and the Operating Partnership
- 10.36 First Amendment to Second Amended and Restated Subordinated Loan Agreement, dated December 30, 2002, by and between Origen Financial L.L.C. and Sun Home Services
- 10.37 First Amendment to Subordinated Term Loan Agreement, dated December 30, 2002, by and between Origen Financial L.L.C. and Sun Home Services
- 10.38 Seventh Amended and Restated Promissory Note, dated December 30, 2002, made by Origen Financial L.L.C. in favor of Sun Home Services
- 10.39 First Amended and Restated Subordinated Term Promissory Note, dated December 30, 2002, made by Origen Financial L.L.C. in favor of Sun Home Services
- 10.40 First Amended and Restated Security Agreement, dated December 30, 2002, by and between Origen Financial L.L.C. and Sun Home Services
- 10.41 Second Amended and Restated Stock Pledge Agreement, dated December 30, 2002, by and between Origen Financial L.L.C. and Sun Home Services

EXHIBIT  
NUMBER  
-----

DESCRIPTION  
-----

MET  
FI  
---

- 10.42 First Amended and Restated Limited Liability Company Interest Security and Pledge Agreement, dated December 30, 2002, by and between Origen Financial L.L.C. and Sun Home Services
- 10.43 Second Amended and Restated Guaranty, dated December 30, 2002, by Bingham in favor of the Operating Partnership
- 10.44 Second Amended and Restated Security Agreement, dated December 30, 2002, by and between Bingham and Sun Home Services.
- 10.45 Amended and Restated Stock Pledge Agreement, dated December 30, 2002, by and between Bingham and Sun Home Services
- 10.46 Amended and Restated Membership Pledge Agreement, dated December 30, 2002, by and between Bingham and Sun Home Services.
- 10.47 Second Amended and Restated Participation Agreement, dated December 30, 2002, by and among Sun Home Services, the Milton M. Shiffman Spouse's Marital Trust and Woodward Holding LLC
- 10.48 Master Credit Facility Agreement, dated as of May 29, 2002, by and between Sun Secured Financing LLC, Aspen-Ft. Collins Limited Partnership, Sun Secured Financing Houston Limited Partnership and ARCS Commercial Mortgage Co., L.P.
- 10.49 Credit Agreement, dated as of July 3, 2002, by and between the Operating Partnership, Sun Communities, Inc., Banc One Capital Markets, Inc., Bank One, N.A. and other lenders which are signatories thereto

## Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A

- 10.50 First Amendment to Master Credit Facility Agreement, dated as of August 29, 2002, by and between Sun Secured Financing LLC, Aspen-Ft. Collins Limited Partnership, Sun Secured Financing Houston Limited Partnership and ARCS Commercial Mortgage Co., L.P.
- 10.51 First Amendment to Employment Agreement, dated as of July 15, 2002, by and between Sun Communities, Inc. and Gary A. Shiffman#
- 10.52 Second Amended and Restated Promissory Note (Secured), dated as of July 15, 2002, made by Gary A. Shiffman in favor of the Operating Partnership
- 10.53 First Amended and Restated Promissory Note (Unsecured), dated as of July 15, 2002, made by Gary A. Shiffman in favor of the Operating Partnership
- 10.54 First Amended and Restated Promissory Note (Secured), dated as of July 15, 2002, made by Gary A. Shiffman in favor of the Operating Partnership
- 10.55 Second Amended and Restated Promissory Note (Unsecured), dated as of July 15, 2002, made by Gary A. Shiffman in favor of the Operating Partnership
- 10.56 Second Amended and Restated Promissory Note (Secured), dated as of July 15, 2002, made by Gary A. Shiffman in favor of the Operating Partnership
- 10.57 Employment Agreement, dated as of January 1, 2003, by and between Brian W. Fannon and Sun Home Services, Inc.#
- 10.58 Employment Agreement, dated as of January 1, 2003, by and between Brian W. Fannon and Sun Communities, Inc.#
- 10.59 Lease, dated November 1, 2002, by and between the Operating Partnership as Tenant and American Center LLC as Landlord
- 10.60 Term Loan Agreement, dated as of October 10, 2002, among Sun Financial, LLC, Sun Financial Texas Limited Partnership, the Operating Partnership, Sun Communities, Inc. and Lehman Commercial Paper, Inc.

EXHIBIT  
NUMBER  
-----

DESCRIPTION  
-----

- 10.61 Concurrent Private Placement Agreement dated October 8, 2003 among Sun OFI, Inc., Origen Financial, Inc., and the Purchasers(as defined therein)
- 10.62 Registration Rights Agreement dated as of October 8, 2003 among Sun OFI, Inc., Origen Financial, Inc., Lehman Brothers Inc., on behalf of itself and as agent for the investors listed on Schedule A thereto and those persons listed on Schedule B thereto
- 12.1 Computation of Ratio of Earnings to Fixed Charges and Ratio Earnings to Combined Fixed Charges and Preferred Dividends
- 21.1 List of Subsidiaries of Sun Communities, Inc.
- 23.1 Consent of PricewaterhouseCoopers LLP

## Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A

- 23.2 Consent of Grant Thornton LLP
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 99.1 Audited financial statements of Origen Financial L.L.C.
- 99.2 Audited Financial Statements of Origen Financial, Inc.

-----

- (1) Incorporated by reference to Sun Communities, Inc.'s Registration Statement No. 33-69340.
- (2) Incorporated by reference to Sun Communities, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1995.
- (3) Incorporated by reference to Sun Communities, Inc.'s Current Report on Form 8-K dated April 24, 1996.
- (4) Incorporated by reference to Sun Communities, Inc.'s Registration Statement No. 33-80972.
- (5) Incorporated by reference to Sun Communities, Inc.'s Quarterly Report on Form 10-K for the quarter ended September 30, 1995.
- (6) Incorporated by reference to Sun Communities, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1996.
- (7) Incorporated by reference to Sun Communities, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1997.
- (8) Incorporated by reference to Sun Communities, Inc.'s Current Report on Form 8-A dated May 27, 1998.
- (9) Incorporated by reference to Sun Communities, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1998.
- (10) Incorporated by reference to Sun Communities, Inc.'s Proxy Statement, dated April 20, 1999
- (11) Incorporated by reference to Sun Communities, Inc.'s Current Report on Form 8-K dated October 14, 1999.
- (12) Incorporated by reference to Sun Communities, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2001.
- (13) Incorporated by reference to Sun Communities, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.
- (14) Incorporated by reference to Sun Communities, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2002.
- (15) Incorporated by reference to Sun Communities, Inc.'s Annual Report on Form

## Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A

10-K for the year ended December 31, 2002, as amended.

- (16) Incorporated by reference to pages F-1 through F-48 of Origen Financial, Inc.'s Registration Statement on Form S-11, No. 333-112516
  - (17) Incorporated by reference to Sun Communities, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2003.
  - (18) Filed herewith.
- # Management contract or compensatory plan or arrangement required to be identified by Form 10-K Item 14.

### SUN COMMUNITIES, INC. INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

Report of Independent Registered Public Accounting Firm - Grant Thornton LLP

Report of Independent Registered Public Accounting Firm - PricewaterhouseCoopers LLP

Financial Statements:

Consolidated Balance Sheets as of December 31, 2003 and 2002

Consolidated Statements of Income  
for the Years Ended December 31, 2003, 2002 and 2001

Consolidated Statements of Comprehensive Income  
for the Years Ended December 31, 2003, 2002 and 2001

Consolidated Statements of Stockholders' Equity  
for the Years Ended December 31, 2003, 2002 and 2001

Consolidated Statements of Cash Flows  
for the Years Ended December 31, 2003, 2002 and 2001

Notes to Consolidated Financial Statements

F-9

F-1

[GRANT THORNTON LOGO]

#### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders  
Sun Communities, Inc.

We have audited the accompanying consolidated balance sheet of Sun Communities, Inc. and subsidiaries as of December 31, 2003, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an

## Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A

opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sun Communities, Inc. and subsidiaries as of December 31, 2003, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 13 to the consolidated financial statements, the Company adopted Financial Accounting Standards Board Interpretation No. 46, "Consolidation of Variable Interest Entities" and Statement of Financial Accounting Standards No. 150 "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" during 2003.

We have also audited Schedule III for the year ended December 31, 2003. In our opinion, this schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information therein.

/S/ GRANT THORNTON LLP

Southfield, Michigan  
February 19, 2004

F-2

### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
Sun Communities, Inc.:

In our opinion, based on our audits and the report of other auditors, the accompanying consolidated balance sheet and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows present fairly, in all material respects, the financial position of Sun Communities, Inc. and its subsidiaries (the "Company") at December 31, 2002, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Origen Financial, L.L.C., an investee of the Company, which statements reflect total assets of \$227,748,000 as of December 31, 2002 and total revenues of \$20,385,000 for the period ended December 31, 2002. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Origen Financial, L.L.C., is based solely on the report of the other auditors. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain

## Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A

reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, on January 1, 2002, the Company adopted the provisions of Statement of Accounting Standards No. 144, "Accounting for the Impairment on Disposal of Long-Lived Assets."

/S/ PRICEWATERHOUSECOOPERS LLP

Detroit, Michigan

March 12, 2003 except for Note 3 as to  
which the date is March 12, 2004

F-3

SUN COMMUNITIES, INC.  
CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2003 AND 2002  
(AMOUNTS IN THOUSANDS)

	2003	2002
	-----	-----
<b>ASSETS</b>		
Investment in rental property, net	\$ 1,010,484	\$ 999,360
Cash and cash equivalents	24,058	2,664
Inventory of manufactured homes	17,236	-
Investment in and advances to affiliates	50,667	67,719
Notes and other receivables	74,828	56,329
Other assets	44,301	37,904
	-----	-----
Total assets	\$ 1,221,574	\$ 1,163,976
	=====	=====
<b>LIABILITIES</b>		
Line of credit	\$ 99,000	\$ 63,000
Debt	674,328	604,373
Other liabilities	24,833	24,581
	-----	-----
Total liabilities	798,161	691,954
	-----	-----
Minority interests	96,803	152,490
	-----	-----
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, \$.01 per value, 10,000 shares authorized, none issued	-	-
Common stock, \$.01 per value, 100,000 shares authorized, 19,192 and 18,311 issued and outstanding in 2003 and 2002, respectively	192	183
Paid-in capital	446,211	420,683



Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A

Officers' notes	(10,299)	(10,703)
Unearned compensation	(7,337)	(8,622)
Accumulated comprehensive earnings	(1,294)	(1,851)
Distributions in excess of accumulated earnings	(94,479)	(73,774)
Treasury stock, at cost, 202 shares	(6,384)	(6,384)
	-----	-----
Total stockholders' equity	326,610	319,532
	-----	-----
Total liabilities and stockholders' equity	\$ 1,221,574	\$ 1,163,976
	=====	=====

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

F-4

SUN COMMUNITIES, INC.  
CONSOLIDATED STATEMENTS OF INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001  
(AMOUNTS IN THOUSANDS EXCEPT FOR PER SHARE DATA)

	2003	2002	2001
	-----	-----	-----
REVENUES			
Income from rental property	\$ 159,115	\$ 149,875	\$ 136,969
Revenues from home sales	19,516	-	-
Ancillary service revenues, net	3,409	-	-
Interest	7,434	6,169	6,505
Income from Origen, net, principally interest	3,920	1,821	3,800
Other income	676	2,304	3,695
	-----	-----	-----
Total revenues	194,070	160,169	150,969
COSTS AND EXPENSES			
Property operating and maintenance	39,837	33,751	29,258
Cost of home sales	13,879	-	-
Real estate taxes	11,746	10,217	9,162
Selling, general and administrative	18,181	7,722	7,373
Depreciation and amortization	44,120	37,900	32,716
Interest	36,680	32,375	31,016
Impairment charge	4,932	-	-
	-----	-----	-----
Total expenses	169,375	121,965	109,525
Equity income (loss) from affiliates	667	(16,627)	131
	-----	-----	-----
Income from operations	25,362	21,577	41,575
Less income allocated to minority interest:			
Preferred OP Units	8,537	7,803	8,131
Common OP Units	3,083	1,802	5,019
	-----	-----	-----
Income from continuing operations	13,742	11,972	28,425

Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A

Income from discontinued operations	9,972	1,620	5,485
	-----	-----	-----
Net income	\$ 23,714	\$ 13,592	\$ 33,910
	=====	=====	=====
Weighted average common shares outstanding:			
Basic	18,206	17,595	17,258
	=====	=====	=====
Diluted	18,345	17,781	17,440
	=====	=====	=====
Basic earnings per share:			
Continuing operations	\$ 0.75	\$ 0.68	\$ 1.64
Discontinued operations	0.55	0.09	0.32
	-----	-----	-----
Net Income	\$ 1.30	\$ 0.77	\$ 1.96
	=====	=====	=====
Diluted earnings per share:			
Continuing operations	\$ 0.75	\$ 0.67	\$ 1.63
Discontinued operations	0.54	0.09	0.31
	-----	-----	-----
Net Income	\$ 1.29	\$ 0.76	\$ 1.94
	=====	=====	=====

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

F-5

SUN COMMUNITIES, INC.  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001  
(AMOUNTS IN THOUSANDS EXCEPT FOR PER SHARE DATA)

	2003	2002	2001
	-----	-----	-----
Net income	\$ 23,714	\$ 13,592	\$ 33,910
Unrealized income (loss) on interest rate swaps	557	(1,851)	-
	-----	-----	-----
Comprehensive income	\$ 24,271	\$ 11,741	\$ 33,910
	=====	=====	=====

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

F-6

SUN COMMUNITIES, INC.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001  
(AMOUNTS IN THOUSANDS EXCEPT FOR PER SHARE DATA)

ACCUMULATED  
OTHER                      DISTRIBUTIONS  
IN EXCESS OF

Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A

	COMMON STOCK	PAID-IN CAPITAL	UNEARNED COMPENSATION	COMPREHENSIVE LOSS	ACCUMULATED EARNINGS
Balance, January 1, 2001	\$ 175	\$ 393,771	\$ (4,746)	\$ -	\$ (41,688)
Issuance of common stock, net	3	4,077	(3,188)		
Amortization			935		
Repayment of officers' notes					
Treasury stock purchased, 194 shares					
Reclassification and conversion of minority interest		1,941			
Net income					33,910
Cash distributions declared of \$2.18 per share					(38,161)
Balance, December 31, 2001	178	399,789	(6,999)		(45,939)
Issuance of common stock, net	5	17,406	(2,767)		
Amortization			1,144		
Repayment of officers' notes					
Reclassification and conversion of minority interest		3,488			
Net income					13,592
Unrealized loss on interest rate swaps				(1,851)	
Cash distributions declared of \$2.29 per share					(41,427)
Balance, December 31, 2002	183	420,683	(8,622)	(1,851)	(73,774)
Issuance of common stock, net	9	27,640			
Amortization			1,285		
Repayment of officers' notes					
Reclassification and conversion of minority interest		(2,112)			
Net income					23,714
Unrealized loss on interest rate swaps				557	
Cash distributions declared of \$2.41 per share					(44,419)
Balance, December 31, 2003	\$ 192	\$ 446,211	\$ (7,337)	\$ (1,294)	\$ (94,479)

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

F-7

SUN COMMUNITIES, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001  
(AMOUNTS IN THOUSANDS)

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 23,714	\$ 13,

## Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A

Adjustments to reconcile NI to cash provided by operating activities:		
Income allocated to minority interests	3,083	1,
Income from discontinued operations allocated to minority interests	191	
Gain from property dispositions, net	(3,658)	(
Depreciation and amortization	44,120	37,
Depreciation allocated to income from discontinued operations	347	
Amortization of deferred financing costs	1,835	1,
Reduction in book value of investments	-	13,
Decrease in inventory	1,970	
Increase in other assets	(7,520)	(15,
Increase (decrease) in accounts payable and other liabilities	(814)	(2,
	-----	-----
Net cash provided by operating activities	63,268	50,
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in rental properties	(50,310)	(87,
Proceeds related to property dispositions	22,499	3,
Investment in and advances to affiliates	(47,612)	(51,
Repayments of (increase in) notes receivable, net	28,343	(33,
Sale of installment loans on manufactured homes to Origen	61,994	
Purchase of installment loans on manufactured homes from Origen Officers' notes	(74,206)	
	404	
	-----	-----
Net cash used in investing activities	(58,888)	(168,
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of common stock and OP units, net	26,222	13,
Treasury stock purchases	-	
Borrowings (repayments) on line of credit, net	36,000	(30,
Proceeds from (repayments on) notes payable and other debt, net	6,226	181,
Payments for deferred financing costs	(2,281)	(2,
Distributions	(49,153)	(46,
	-----	-----
Net cash provided by (used in) financing activities	17,014	115,
	-----	-----
Net increase (decrease) in cash and cash equivalents	21,394	(1,
Cash and cash equivalents, beginning of period	2,664	4,
	-----	-----
Cash and cash equivalents, end of period	\$ 24,058	\$ 2,
	=====	=====
SUPPLEMENTAL INFORMATION:		
Cash paid for interest including capitalized amounts of \$2,082, \$2,915 and \$3,704 in 2003, 2002 and 2001, respectively	\$ 35,744	\$ 34,
Noncash investing and financing activities:		
Debt assumed for rental properties	\$ 2,288	\$ 20,
Issuance of partnership units for rental properties	\$ -	\$ 4,
Issuance of partnership units to retire capitalized lease obligations	\$ 4,170	\$ 5,
Restricted common stock issued as unearned compensation, net	\$ -	\$ 2,
Issuance of common stock pursuant to dividend reinvestment plan	\$ 1,334	\$
Unrealized gains (losses) on interest rate swaps	\$ 557	\$ (1,

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

F-8

SUN COMMUNITIES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2003, 2002 AND 2001

## Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

- A. **BUSINESS:** Sun Communities, Inc. (the "Company") is a real estate investment trust ("REIT") which owns and operates 127 manufactured housing communities at December 31, 2003 located in seventeen states concentrated principally in the Midwest and Southeast comprising approximately 43,875 developed sites and approximately 6,756 sites suitable for development.

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

- B. **PRINCIPLES OF CONSOLIDATION:** The accompanying financial statements include the accounts of the Company and all majority-owned and controlled subsidiaries including Sun Communities Operating Limited Partnership (the "Operating Partnership") SunChamp LLC ("SunChamp"), and effective December 31, 2003, Sun Home Services, Inc. ("SHS"). SHS is consolidated beginning in 2003 in accordance with Financial Interpretation No. 46, "Consolidation of Variable Interest Entities" as further described in Note 13. With total assets of approximately \$63 million, SHS actively markets, sells and leases new and pre-owned manufactured homes for placement in the Company's properties. SHS has a floorplan line of credit of approximately \$2.7 million which is collateralized by \$2.7 million of new homes held in inventory and which is guaranteed by the Company.

The minority interests include Common Operating Partnership Units ("OP Units") which are convertible into an equivalent number of shares of the Company's common stock. Such conversion would have no effect on earnings per share since the allocation of earnings to an OP Unit is equivalent to earnings allocated to a share of common stock. Of the 21.5 million OP Units outstanding at December 31, 2003, the Company owns 19.0 million or 88.5 percent. The minority interests are adjusted to their relative ownership interest whenever OP Units or common stock are issued, converted or retired by reclassification to/from paid-in capital.

Included in minority interests at December 31, 2003 and 2002 are 2 million Series A Perpetual Preferred OP Units ("PPOP Units") issued at \$25 per unit in September 1999 bearing an annual coupon rate of 8.875 percent. The PPOP Units may be called under certain conditions by the Company at par on or after September 29, 2004, have no stated maturity or mandatory redemption and are convertible into preferred stock under certain circumstances.

\$58.1 million of Preferred OP Units ("POP Units") are included in debt at December 31, 2003 with dividends at rates ranging from 6.0 percent to 7.6 percent and maturing between 2006 and 2014. Of these POP Units, \$43.8 million are convertible into shares of

F-9

# Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A

DECEMBER 31, 2003, 2002 AND 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

b. PRINCIPLES OF CONSOLIDATION, CONTINUED:

the Company's common stock or OP units at conversion prices ranging from \$44 to \$68 per unit. The maximum amount that the Company is required to pay to redeem its POP units is \$58.1 million and, if converted, approximately 693,000 shares of the Company's common stock or OP units would be issued.

Of the \$58.1 million POP Units included in debt, \$4.2 million were issued during 2003 in connection with property acquisitions. These POP Units pay dividends at 7.625% and mature on May 15, 2010.

c. RENTAL PROPERTY: Rental property is recorded at cost, less accumulated depreciation. Management evaluates the recoverability of its investment in rental property whenever events or changes in circumstances such as recent operating results, expected net operating cash flow and plans for future operations indicate that full asset recoverability is questionable.

The Company measures the recoverability of its assets in accordance with the Statement of Financial Accounting Standards No. 144 ("SFAS 144"), "Accounting for the Impairment or Disposal of Long Lived Assets." If such assets were deemed to be impaired as a result of this measurement, the impairment that would be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset as determined on a discounted net cash flow basis. Assets are tested for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Circumstances that may prompt a test of recoverability may include a significant decrease in anticipated market price, an adverse change to the extent or manner in which an asset may be used or in its physical condition or other such events that may significantly change the value of the long-lived asset.

The Company, periodically, receives offers for the sale of one of its properties. These offers may be the result of an active program initiated by the Company to sell the property, or from an unsolicited offer to purchase the property. The typical sale process involves a significant negotiation and due diligence period between the Company and the potential purchaser. As the intent of this process is to determine if there are items that would cause the purchaser to be unwilling to purchase or the Company unwilling to sell, it is not unusual for such potential offers of sale/purchase to be withdrawn as such issues arise. The Company classifies assets as "held for sale" when it is probable, in its opinion, that a sale transaction will be completed within one year.

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets. Useful lives are 30 years for land improvements and buildings and 7 to 15 years for furniture, fixtures and equipment.

F-10

## Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

- c. RENTAL PROPERTY, CONTINUED: Expenditures for ordinary maintenance and repairs are charged to operations as incurred and significant renovations and improvements, which improve and/or extend the useful life of the asset, are capitalized and depreciated over their estimated useful lives. Construction costs related to development of new communities or expansion sites, including interest, are capitalized until the property is substantially complete. The Company capitalizes certain costs (including interest and other costs) incurred in connection with the development, redevelopment, capital enhancement and leasing of its properties. Management is required to use professional judgment in determining whether such costs meet the criteria for immediate expense or capitalization. The amounts are dependent on the volume and timing of such activities and the costs associated with such activities.
- d. CASH AND CASH EQUIVALENTS: The Company considers all highly liquid investments with an initial maturity of three months or less to be cash and cash equivalents.
- e. NOTES AND ACCOUNTS RECEIVABLE: The Company evaluates the recoverability of its receivables whenever events occur or there are changes in circumstances such that management believes it is probable that it will be unable to collect all amounts due according to the contractual terms of the loan and lease agreements. The collectibility of loans is measured based on the present value of the expected future cash flow discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. The reserve for uncollectible accounts receivable from residents was \$0.15 million at December 31, 2003 and 2002.
- f. INVESTMENTS IN AND ADVANCES TO AFFILIATES: Origen Financial, Inc. ("Origen, Inc") is a real estate investment trust in the business of originating, acquiring and servicing manufactured home loans. In October 2003, the Company purchased 5,000,000 shares of common stock (representing approximately 33% of the issued and outstanding shares of common stock as of December 31, 2003) of Origen, Inc. for \$50 million and agreed to sell Origen, Inc. various interests in manufactured home loans. Prior to the formation and capitalization of Origen, Inc., the Company owned membership interests in Origen Financial, L.L.C., representing approximately a thirty percent (30%) equity interest therein. In connection with the formation and capitalization of Origen, Inc., all of the members of Origen Financial, L.L.C., including the Company, contributed all of their respective membership interests and warrants to purchase membership interests in Origen Financial, L.L.C. to Origen, Inc. None of the members of Origen Financial, L.L.C. (including the Company) received any monetary consideration or shares of common stock in Origen, Inc. in exchange for their contributed membership interests and warrants in Origen Financial, L.L.C. The Company's investment in Origen, Inc. was accounted for using the equity method of accounting for periods ending after September 30, 2003.

F-11

## Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

f. INVESTMENTS IN AND ADVANCES TO AFFILIATES, CONTINUED:

As noted above, the Company invested \$50 million as common equity in Origen, Inc. in October, 2003. An additional \$100 million was similarly invested by other investors thus capitalizing Origen, Inc. at \$150 million. The Company determined that this investment was reasonable and prudent because it resulted in a stabilized and well-financed Origen, Inc., which allowed Origen, Inc. to finance its operations from traditional sources of warehouse financing and access to the securitization marketplace. This investment occurred at the time that the manufactured home finance industry was beginning to rebound as interest rates stabilized, two lenders were emerging from bankruptcy and new entrants dedicated to financing manufactured homes buoyed the industry. The Company had written off its \$13.6 million investment in Origen Financial, L.L.C., a predecessor to Origen, Inc., at December 31, 2002 because of severely deteriorated industry conditions marked by the above-mentioned bankruptcies, the closure of the securitization marketplace, and the resultant liquidity squeeze impacting the Origen, Inc. predecessor. Origen, Inc. has raised approximately an additional \$80 million since October, 2003 and is now a public company with demonstrated access to a broad range of capital markets.

During 2002 and through October 7, 2003, the Company, through SHS, and two other participants (one unaffiliated and one affiliated with Gary Shiffman, the Company's Chief Executive Officer and President) provided financing to Origen Financial, L.L.C. The financing consisted of a \$48 million line of credit and a \$10 million term loan of which \$35 million was outstanding at September 30, 2003. This amount was repaid in full in October 2003 upon the formation and capitalization of Origen, Inc.

Summarized combined financial information of Origen, Inc. at December 31, 2003 and Origen LLC and SHS at December 31, 2002 is presented below before elimination of intercompany transactions. Also presented is summarized financial information for Origen Financial, LLC for the period of January 1, 2003 to October 7, 2003. This is presented for informational purposes as the Company wrote off its investment in Origen Financial, LLC in December of 2002, as previously discussed. SHS and SunChamp are consolidated in the Company's financial statements as of December 31, 2003.

F-12

SUN COMMUNITIES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2003, 2002 AND 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

	ORIGEN FINANCIAL, LLC 01/01/03-10/07/03 -----	ORIGEN, INC. 10/08/03-12/31/03 -----	ORIGEN FI -----
Loans receivable, net	\$ 279,300	\$ 368,509	



Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A

Other assets	47,903	76,033
	-----	-----
Total assets	\$ 327,203	\$ 444,542
	=====	=====
Notes payable	\$ 273,186	\$ 277,441
Advances under repurchase agreements	-	-
Other liabilities	22,345	24,312
	-----	-----
Total liabilities	295,531	301,753
	-----	-----
Preferred interests in subsidiary	45,617	-
Equity (deficit)	(13,945)	142,789
	-----	-----
Total liabilities and equity	\$ 327,203	\$ 444,542
	=====	=====
Revenues	\$ 23,755	\$ 10,657
Expenses	47,683	8,691
Loss from equity investee	-	-
	-----	-----
Net income (loss)	\$ (23,928)	\$ 1,966
	=====	=====
Sun's equity income (loss)	\$ -	\$ 667
	=====	=====

- g. REVENUE RECOGNITION: Rental income attributable to leases is recorded on a straight-line basis when earned from tenants. Leases entered into by tenants generally range from month-to-month to one year and are renewable by mutual agreement of the Company and resident or, in some cases, as provided by state statute. Revenue from the sale of manufactured homes is recognized upon transfer of title at the closing of the sales transaction. In 2003, the Company announced its Home Buying Made Easy program which provides interest rates of 4.99 to 5.99 percent to qualified buyers of homes within its communities. During 2003, 67 loans were closed under this program totaling \$2.4 million. The Company amortizes the interest discount from current market rates related to this program into income over the term of the note. The Company also bifurcates the discounted present value of the interest differential between the home sale and the anticipated rental revenue as required by EITF00-21. The differential allocated to the home sale is recognized as a reduction of revenue from the sale of the home and the differential allocated to future rental revenue is amortized as rental discount over the term of the loan.
- h. OTHER CAPITALIZED COSTS: Certain expenditures to dealers and residents related to obtaining lessees in our communities are capitalized, as intangible assets, and are amortized over a seven year period based on the anticipated term of occupancy of a resident. Costs associated with implementing the Company's new computer systems are capitalized and amortized over the estimated useful lives of the related software and hardware.

F-13

SUN COMMUNITIES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2003, 2002 AND 2001

## Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

- i. **FAIR VALUE OF FINANCIAL INSTRUMENTS:** The carrying values of cash and cash equivalents, escrows, receivables, accounts payable, accrued expenses and other assets and liabilities are reasonable estimates of their fair values because of the shorter maturities of these instruments. The fair value of the Company's long-term indebtedness, which is based on the estimates of management and on rates currently quoted and rates currently prevailing for comparable loans and instruments of comparable maturities, exceeds the aggregate carrying value by approximately \$28.0 million at December 31, 2003. Potential expenses that would be incurred in an actual sale or settlement are not taken into consideration.
- j. **DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES:** The Company has entered into four derivative contracts consisting of three interest rate swap agreements and an interest rate cap agreement. The Company's primary strategy in entering into derivative contracts is to minimize the variability that changes in interest rates could have on its future cash flows. The Company generally employs derivative instruments that effectively convert a portion of its variable rate debt to fixed rate debt and to cap the maximum interest rate on its variable rate borrowings. The Company does not enter into derivative instruments for speculative purposes.

The swap agreements were effective April 2003, and have the effect of fixing interest rates relative to a collateralized term loan due to FNMA. One swap matures in July 2009, with an effective fixed rate of 4.93 percent. A second swap matures in July 2012, with an effective fixed rate of 5.37 percent. The third swap matures in July 2007, with an effective fixed rate of 3.97 percent. The third swap is effective as long as 90-day LIBOR is 7 percent or lower. The three swaps have an aggregate notional amount of \$75.0 million. The interest rate cap agreement has a cap rate of 9.49 percent, a notional amount of \$152.4 million and a termination date of April 03, 2006. Each of the Company's derivative contracts is based upon 90-day LIBOR.

The Company has designated the first two swaps and the interest rate cap as cash flow hedges for accounting purposes. The changes in the value of these hedges are reflected in other comprehensive income/loss on the balance sheet. These three hedges were highly effective and had minimal effect on income. The third swap does not qualify as a hedge for accounting purposes and, accordingly, the entire change in valuation, whether positive or negative, is reflected as a component of interest expense. The valuation adjustment for the twelve month period ended December 31, 2003 totals a positive \$0.9 million.

In accordance with SFAS No. 133, the "Accounting for Derivative Instruments and Hedging Activities," which requires all derivative instruments to be carried at fair value on the balance sheet, the Company has recorded a liability of \$0.9 and \$2.3 million as of December 31, 2003 and December 31, 2002, respectively.

These valuation adjustments will only be realized if the Company terminates the swaps prior to maturity. This is not the intent of the Company and, therefore, the net of valuation adjustments through the various maturity dates will approximate zero.

# Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A

## SUN COMMUNITIES, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2003, 2002 AND 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

k. DEFERRED TAX ASSETS: The Company has certain subsidiaries that are taxed as regular corporations. Deferred tax assets or liabilities are recognized for temporary differences between the tax bases of non-REIT assets and liabilities and their carrying amounts in the financial statements and net operating loss carryforwards. Deferred tax assets and liabilities are measured using currently enacted tax rates. A valuation allowance is established if based on the insight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized

l. STOCK OPTIONS: The Company accounts for its stock options using the intrinsic value method contained in APB Opinion No. 25. "Accounting for Stock Issued to Employees." If the Company had accounted for awards using the methods contained in FASB Statement No. 123, "Accounting for Stock-Based Compensation", net income and earnings per share would have been presented as follows for the years ended December 31, 2003, 2002 and 2001 (amounts in thousands, except for per share data):

	2003	2002	2001
	-----	-----	-----
Net income, as reported	\$23,714	\$13,592	\$33,910
Stock-based compensation expense under fair value method	(274)	(478)	(321)
Pro forma net income	----- \$23,440 =====	----- \$13,114 =====	----- \$33,589 =====
EPS (Basic), as reported	\$ 1.30 =====	\$ 0.77 =====	\$ 1.96 =====
EPS (Basic), pro forma	\$ 1.29 =====	\$ 0.75 =====	\$ 1.95 =====
EPS (Diluted), as reported	\$ 1.29 =====	\$ 0.76 =====	\$ 1.94 =====
EPS (Diluted), pro forma	\$ 1.28 =====	\$ 0.74 =====	\$ 1.93 =====

m. INVENTORY: Inventory of manufactured homes is stated at lower of specific cost or market.

n. RECLASSIFICATIONS: Certain 2002 and 2001 amounts have been reclassified to conform to the 2003 financial statement presentation. Such reclassifications had no effect on results of operations as originally presented.

o. USE OF ESTIMATES: The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes including the depreciable lives and

## Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A

recoverability of real estate assets and the assumption of interest rates for present value calculations. These estimates involve judgments with respect to, among other things, future economic factors that are difficult to predict and are often beyond management's control. As a result, actual amounts could differ from these estimates.

F-15

SUN COMMUNITIES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2003, 2002 AND 2001

2. RENTAL PROPERTY (AMOUNTS IN THOUSANDS):

	AT DECEMBER 31	
	2003	2002
Land	\$ 104,541	\$ 101,926
Land improvements and buildings	1,048,576	999,540
Furniture, fixtures, and equipment	33,080	26,277
Land held for future development	31,409	34,573
Property under development	2,799	12,521
	-----	-----
	1,220,405	1,174,837
Less accumulated depreciation	(209,921)	(175,477)
	-----	-----
	\$1,010,484	\$ 999,360
	=====	=====

Land improvements and buildings consist primarily of infrastructure, roads, landscaping, clubhouses, rental homes, maintenance buildings and amenities. Included in rental property at December 31, 2003 and 2002 are net carrying amounts related to capitalized leases of \$9.6 million and \$17.9 million, respectively.

During 2003, the Company acquired one development community comprised of 62 developed sites and 180 sites available for development for \$4.5 million. During 2002, the Company acquired one stabilized community, comprising 552 developed sites, for \$21.3 million and three development communities, comprising 930 developed sites and 538 sites available for development, for \$48.6 million consisting of cash of approximately \$23.1 million, POP Units of approximately \$4.5 million and assumption of debt of approximately \$21.0 million.

These transactions have been accounted for as purchases, and the statements of income include the operations of the acquired communities from the dates of their respective acquisitions. As of December 31, 2003, in conjunction with a 1993 acquisition, the Company is obligated to issue \$6.4 million of OP Units through 2009 based on the per share market value of the Company's stock on the issuance date. This obligation was accounted for as part of the purchase price of the original acquisition.

F-16

SUN COMMUNITIES, INC.

# Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2003, 2002 AND 2001

### 3. DISPOSITION OF PROPERTIES:

In November 2003 the Company sold four manufactured home communities of which three were in Michigan and one in Illinois aggregating 731 sites for gross proceeds of approximately \$24.8 million. In February 2002, the Company sold a manufactured home community in Florida consisting of 227 sites of which 131 were occupied, for cash of approximately \$3.3 million. Net gain on sale of \$8.6 million and \$0.4 million on these transactions was recorded in income from discontinued operations in 2003 and 2002, respectively.

In accordance with FAS 144, effective for financial statements issued for all fiscal years beginning after December 15, 2001, results of operations and gain/(loss) in sales of real estate for properties with identifiable cash flows sold, and held for sale, subsequent to December 31, 2001 are reflected in the Consolidated Statements of Income as income from discontinued operations for all periods presented. For presentation purposes, income from discontinued operations also includes a gain on sale of properties sold prior to December 31, 2001 of \$4.3 million, which was reported in the Consolidated Statements of Income in prior periods as a gain from property dispositions, net. Below is a summary of the results of operations of these properties through their respective disposition dates (in thousands):

	SUMMARY STATEMENT OF OPERATIONS DISPOSED PROPERTIES		
	2003	2002	2001
	-----	-----	-----
Income from rental property	\$ 2,763	\$ 3,034	\$ 3,289
Property operating and maintenance expenses	(533)	(495)	(713)
Real estate taxes	(310)	(361)	(380)
Depreciation and amortization	(347)	(674)	(800)
	-----	-----	-----
Income from operations	1,573	1,504	1,396
Income allocated to common OP units	(191)	(243)	(186)
Gain on sale of discontinued operations	8,590	359	4,275
	-----	-----	-----
Income from discontinued operations	\$ 9,972	\$ 1,620	\$ 5,485
	=====	=====	=====

F-17

## SUN COMMUNITIES, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2003, 2002 AND 2001

### 4. NOTES AND OTHER RECEIVABLES (AMOUNTS IN THOUSANDS):

AT DECEMBER 31,	
-----	
2003	2002

Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A

	-----	-----
Mortgage and other notes receivable, primarily with minimum monthly payments at LIBOR based floating rates of approximately LIBOR + 3.0 %, maturing at various dates through August 2008, substantially collateralized by manufactured home communities	\$ 41,736	\$ 38,420
Installment loans collateralized by manufactured homes with interest payable monthly at an effective weighted average interest rate and maturity of 8.2% and 20 years, respectively	24,802	11,633
Other receivables	8,290	6,276
	-----	-----
	\$ 74,828	\$ 56,329
	=====	=====

At December 31, 2003, the maturities of mortgage notes and other receivables are approximately as follows: 2004 - \$23.2 million; 2006- \$3.8, and 2008 - \$14.7 million. Of the \$24.8 million of installment loans collateralized by manufactured homes, \$12.3 million were sold at book value in February of 2004.

Officers' notes, presented as a reduction to stockholders' equity in the balance sheet, bear interest at LIBOR + 1.75% notes, with a minimum and maximum interest rate of 6% and 9%, respectively, collateralized by 352,206 shares of the Company's common stock and 127,794 OP Units at December 31, 2003 with substantial personal recourse. The notes become due in three equal installments on each of December 31, 2008, 2009 and 2010. Reductions in the principal balance of these notes were \$0.5 million and \$0.3 million for the years 2003 and 2002, respectively.

F-18

SUN COMMUNITIES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2003, 2002 AND 2001

5. DEBT AND LINE OF CREDIT (AMOUNTS IN THOUSANDS):

The following table sets forth certain information regarding debt:

	DECEMBER 31, 2003	DECEMBER 31, 2002
	-----	-----
Callable/redeemable notes, interest at 6.770%, due May 14, 2015, callable/redeemable May 16, 2005	\$ 65,000	\$ 65,000
Senior notes, interest at 6.970%, due December 3, 2007	35,000	35,000
Senior notes, interest at 8.200%, due August 15, 2008	100,000	100,000
Senior notes, interest at 5.750%, due April 15, 2010	150,000	-
Bridge loan, at variable interest rate (2.617% at December 31, 2002), matured April 30, 2003	-	48,000
Senior notes, interest at 7.625%, matured May 1, 2003	-	85,000
Collateralized term loan, due to FNMA, due May 2007, with a		

## Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A

weighted average interest rate of 3.244% and 2.17% at December 31, 2003 and December 31, 2002, respectively, convertible to a 5 to 10 year fixed rate loan	152,363	152,363
Collateralized term loan, interest at 7.010%, due September 9, 2007	41,547	42,206
Redeemable preferred OP units, average interest at 7.046%, redeemable at various dates through May 2010	58,148	-
Capitalized lease obligations, interest at 5.510%, due January 10, 2004	9,606	16,438
Mortgage notes, other	62,664	60,366
	-----	-----
Total debt	\$ 674,328	\$ 604,373
	=====	=====

The Company entered into a \$25 million loan facility in September of 2003, of which \$25 million was available to be borrowed at December 31, 2003. Borrowings bear an interest rate of Federal Funds Effective rate plus 0.85% and mature on March 24, 2004.

In April 2003 the Company issued \$150 million of 5.75 percent senior notes, due April 15, 2010, and used the proceeds from the offering to retire the bridge loan of \$48 million and senior notes of \$85 million which matured on April 30 and May 1, 2003, respectively. The remainder of the net proceeds was used to pay down the Company's line of credit.

The collateralized term loans totaling \$193.9 at December 31, 2003 are secured by 22 properties comprising approximately 10,600 sites. The capitalized lease obligation and mortgage notes are collateralized by 14 communities comprising approximately 4,000 sites. At the lease expiration date, January 2004, the capitalized lease reflected in December 31, 2003, was paid off by the issuance of 47,250 Preferred OP Units, cash of approximately \$1.2 million and the assumption of approximately \$4.2 million of debt, which was immediately retired. A capitalized lease obligation matured on January 1, 2003 and was paid by the issuance of 41,700 Preferred OP Units, cash of approximately \$0.9 million and the assumption of approximately \$1.6 million of debt, which was immediately retired.

F-19

SUN COMMUNITIES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2003, 2002 AND 2001

5. DEBT AND LINE OF CREDIT (AMOUNTS IN THOUSANDS), CONTINUED:

The initial term of the variable rate collateralized term loan due to FNMA is five years. The Company has the option to extend such variable rate borrowings for an additional five years and/or convert them to fixed rate borrowings with a term of five or ten years, provided that in no event can the term of the borrowings exceed fifteen years.

The Company has a \$105 million unsecured line of credit, of which \$6 and \$22 million was available to borrow at December 31, 2003 and 2002, respectively. Borrowings under the line of credit bear interest at the rate of LIBOR plus 0.85% and mature July 2, 2005 with a one-year extension at the Company's option. The average interest rate of outstanding borrowings under the line of credit was 2.05 and 2.27 percent at December 31, 2003 and 2002 respectively.

## Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A

At December 31, 2003, the maturities of debt, excluding the line of credit, during the next five years are approximately as follows: 2004 - \$35.1 million; 2005 - \$66.6 million; 2006 - \$20.4 million; 2007 - \$81.1 million; 2008 - \$106.7 million and \$364.4 million thereafter.

At December 31, 2003, the Company was the guarantor of \$22.6 million in personal bank loans, made to directors, employees and consultants to purchase Company common stock and OP units pursuant to the Company's Stock Purchase Plan. The borrowers repaid the loans in January of 2004 and the guaranty was extinguished.

F-20

SUN COMMUNITIES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2003, 2002 AND 2001

6. STOCK OPTIONS:

Data pertaining to stock option plans are as follows:

	2003		2002		2001
	-----		-----		-----
Options outstanding, January 1	975,767		1,090,794		1,109,
Options granted	-		7,500		137,
Option price	N/A	\$	34.92	\$	27.03-\$32
Options exercised	154,179		97,665		59,
Option price	\$ 20.13-\$35.39	\$	20.13-\$35.39	\$	22.75-\$33
Options forfeited	10,837		24,862		96,
Option price	\$ 27.03-\$32.75	\$	27.03-\$32.75	\$	27.03-\$33
Option outstanding, December 31	810,751 (a)		975,767		1,090,
Option price	\$ 20-\$35.39	\$	20-\$35.39		\$20-\$35
Option exercisable, December 31	765,168 (a)		834,249		823,

(a) There are 190,394 options outstanding and exercisable with exercise prices ranging from \$20.00 - \$27.99 with an exercisable average life of 3.7 years related to the outstanding options. The weighted average exercise price for these outstanding and exercisable options is \$25.53. There are 620,357 and 574,774 options outstanding and exercisable, respectively, with exercise prices ranging from \$28.00 - \$35.39 with a weighted average life of 4.2 years related to the outstanding options. The weighted average exercise price for these outstanding and exercisable options is \$30.64 and \$30.46, respectively.

At December 31, 2003, 364,513 shares of common stock were available for the granting of options. Stock option plans originally provided for the grant of up to 2,117,000 options. Options are granted at fair value of the common stock and generally vest over a two-year period and may be exercised for 10 years after date of grant. In addition, the Company established a Long-Term Incentive Plan in 1997 for certain employees granting 167,918 options (of which 87,657 remain outstanding), which become exercisable in equal installments in 2002-2004.

The Company has opted to measure compensation cost utilizing the intrinsic value method. The fair value of each option grant was estimated as of the date of grant using the Black-Scholes option-pricing model with the following assumptions for options granted:



Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A

	2003 ----	2002 ----
Estimated fair value per share of options granted during year:	N/A	\$ 4.42 (1)
Assumptions:		
Annualized dividend yield	N/A	5.9% (1)
Common stock price volatility	N/A	16.4% (1)
Risk-free rate of return	N/A	5.3% (1)
Expected option term (in year)	N/A	7

(1) 2002 based on valuation as of April 2001, due to insignificant option issuance in 2002.

F-21

SUN COMMUNITIES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2003, 2002 AND 2001

7. STOCKHOLDERS' EQUITY:

In April 1998, the Company declared a dividend of one Preferred Stock Purchase Right ("Right") for each outstanding share of common stock. The Rights are not presently exercisable. Each Right entitles the holder, upon the occurrence of certain specified events, including a material change in the ownership of the Company, to purchase preferred stock and common stock, from the Company and/or from another person into which the Company is merged or which acquires control of the Company.

The Rights may be generally redeemed by the Company at a price of \$0.01 per Right or \$0.2 million in total. The Rights expire on June 8, 2008.

The Company is authorized to repurchase up to 1,000,000 shares of its common stock.

No restricted stock awards were issued during the year ended December 31, 2003. Compensation cost recognized in income for all prior restricted stock awards was \$1.3 million, \$1.1 million and \$0.9 million in 2003, 2002 and 2001, respectively.

8. OTHER INCOME (AMOUNTS IN THOUSANDS):

The components of other income are as follows for the years ended December 31, 2003, 2002 and 2001.

	2003 -----	2002 -----	2001 -----
Brokerage commissions	\$ 754	\$ 834	\$ 731
Development fee	-	1,425	2,707
Other income (loss)	(78)	45	257
	-----	-----	-----
	\$ 676	\$ 2,304	\$ 3,695
	=====	=====	=====

Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A

F-22

SUN COMMUNITIES, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2003, 2002 AND 2001

9. SEGMENT REPORTING (AMOUNTS IN THOUSANDS):

With the consolidation of the operations of Sun Home Services for the year ended December 31, 2003, the consolidated operations of the Company can be segmented into manufactured home sales and property operations segments. Following is a presentation of financial information for the year ended December 31, 2003.

	PROPERTY OPERATIONS	MANUFACTURED HOME SALES	COMBINED
Revenues	\$ 159,115	\$ 19,516	\$ 178,631
Operating expenses	51,583	13,879	65,462
	-----	-----	-----
Net operating income	107,532	5,637	113,169
Adjustments to arrive at net income:			
Other revenues	2,243	8,264	10,507
General and administrative	(10,536)	(7,645)	(18,181)
Depreciation and amortization	(43,165)	(955)	(44,120)
Interest expense	(36,530)	(150)	(36,680)
Equity income from affiliate	667	-	667
Income allocated to minority interest	(11,620)	-	(11,620)
Income from discontinued operations	9,972	-	9,972
	-----	-----	-----
Net income	\$ 18,563	\$ 5,151	\$ 23,714
	=====	=====	=====
Capital expenditures	\$ 12,829 (1)	\$ 12,353 (2)	\$ 25,182
Identifiable assets:			
Investment in rental property, net	\$ 980,149	\$ 30,335	\$ 1,010,484
Cash and cash equivalents	24,043	15	24,058
Inventory of manufactured homes	-	17,236	17,236
Investments in and advances to affiliates	50,667	-	50,667
Notes and other receivables	61,534	13,294	74,828
Other assets	41,613	2,688	44,301
	-----	-----	-----
Total assets	\$ 1,158,006	\$ 63,568	\$ 1,221,574
	=====	=====	=====

(1) Capital expenditures of Property Operations segment consist of lot modifications, recurring projects, revenue producing projects, and expenditures for acquisitions and expansions, net of asset disposals.

(2) Capital expenditures of Manufactured Home Sales segment consist primarily of acquisitions of rental homes.

10. INCOME TAXES (AMOUNTS IN THOUSANDS):

## Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A

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

Qualification as a REIT involves the satisfaction of numerous requirements (some on an annual and quarterly basis) established under highly technical and complex Code provisions for which there are only limited judicial or administrative interpretations, and involves the determination of various factual matters and circumstances not entirely within the Company's control.

F-23

SUN COMMUNITIES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2003, 2002 AND 2001

10. INCOME TAXES (AMOUNTS IN THOUSANDS), CONTINUED:

In addition, frequent changes occur in the area of REIT taxation, which require the Company continually to monitor its tax status.

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

Dividend payout on taxable income available to common stockholders for the years ended December 31, 2003, 2002 and 2001:

	2003	2002	2001
	-----	-----	-----
Taxable income available to common stockholders	\$ 0	\$ 6,046	\$ 13,149
Less tax gain on disposition of properties	0	0	(175)
	-----	-----	-----
Taxable operating income available to common stockholders	\$ 0	\$ 6,046	\$ 12,974
	=====	=====	=====
Total distributions paid to common stockholders	\$ 44,419	\$ 41,427	\$ 38,161
	=====	=====	=====

For income tax purposes, distributions paid to common stockholders consist of ordinary income, capital gains, and return of capital. For the years ended December 31, 2003, 2002 and 2001, distributions paid per share were

Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A

taxable as follows:

	2003		2002		2001	
	AMOUNT	PERCENTAGE	AMOUNT	PERCENTAGE	AMOUNT	PERCENTAGE
Ordinary income	\$ 0.65	27.1%	\$ 1.54	67.1%	\$ 1.38	63.1%
Return of capital	1.76	72.9%	0.75	32.9%	0.80	36.9%
	\$ 2.41	100.0%	\$ 2.29	100.0%	\$ 2.18	100.0%

SHS is subject to U.S Federal income taxes. Deferred taxes reflect the estimated future tax effect of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. SHS has net operating loss carryforwards of approximately \$14.7 million at December 31, 2003. A deferred asset of approximately \$2.0 million, principally related to the net operating loss carryforwards, exclusive of losses related to SHS's investment in Origen, is included in other assets in the consolidated balance sheet as of December 31, 2003. The deferred tax asset at December 31, 2003 is net of a valuation allowance of \$3.0 million related to SHS's net operating losses on its investment in Origen. SHS's losses will begin to expire in 2011 through 2022 if not offset by future taxable income. Management believes its deferred tax asset will be realized but realization is continuously subject to an assessment as to recoverability in the future.

F-24

SUN COMMUNITIES, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2003, 2002 AND 2001

11. EARNINGS PER SHARE (AMOUNTS IN THOUSANDS):

	2003	2002	2001
Earnings used for basic and diluted earnings per share computation:			
Continuing operations	\$ 13,742	\$ 11,972	\$ 28,425
Discontinued operations	\$ 9,972	\$ 1,620	\$ 5,485
Total shares used for basic earnings per share Dilutive securities:	18,206	17,595	17,258
Stock options and other	139	186	182
Total weighted average shares used for diluted earnings per share computation	18,345	17,781	17,440

## Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A

Diluted earnings per share reflect the potential dilution that would occur if dilutive securities were exercised or converted into common stock.

F-25

SUN COMMUNITIES INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2003, 2002 AND 2001

12. QUARTERLY FINANCIAL DATA (UNAUDITED):

The following unaudited quarterly amounts are in thousands, except for per share amounts:

	FIRST QUARTER MARCH 31 -----	SECOND QUARTER JUNE 30 -----	THIRD QUARTER SEPT. 30 -----	FOURTH QUARTER DEC. 31 -----
2003				
Total revenues (a)	\$ 48,251	\$ 48,911	\$ 48,074	\$ 48,834
Total expenses (a)	\$ 39,188	\$ 41,696	\$ 39,172	\$ 49,319
Net income	\$ 6,343	\$ 4,539	\$ 6,421	\$ 6,411
Weighted average common shares outstanding	17,789	17,902	18,504	18,628
Earnings per common share-basic	\$ 0.36	\$ 0.25	\$ 0.35	\$ 0.34
2002				
Total revenues (c)	\$ 40,347	\$ 39,493	\$ 40,327	\$ 40,002
Total expenses (c)	\$ 29,603	\$ 28,947	\$ 30,629	\$ 32,786
Net income (loss) (b)	\$ 8,114	\$ 7,002	\$ 5,802	\$ (7,326)
Weighted average common shares outstanding	17,322	17,544	17,739	17,777
Earnings (loss) per common share-basic	\$ 0.47	\$ 0.40	\$ 0.33	\$ (0.41)

- (a) The Company's investment in Sun Home Services was accounted for using the equity method of accounting for the quarters ended March 31, June 30, and September 30, 2003. The total revenues and total expenses for these periods have been restated to include Sun Home Services' operating revenues and expenses.
- (b) Included in net income for the fourth quarter of 2002 is the write-off of \$13.6 million pertaining to the Company's investment in Origen.
- (c) Revenues and expenses have been restated to conform to SFAS 144 which requires operations of properties sold or held for sale to be reclassified as discontinued operations.

F-26

SUN COMMUNITIES INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2003, 2002 AND 2001

## Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A

### 13. RECENT ACCOUNTING PRONOUNCEMENTS:

In May 2003, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" which establishes standards for how financial instruments that have characteristics of both liabilities and equity instruments should be classified on the balance sheet. The requirements of SFAS 150 generally outline that financial instruments that give the issuer a choice of settling an obligation with a variable number of securities or settling an obligation with a transfer of assets or any mandatorily redeemable security should be classified as a liability on the balance sheet. The Company has reclassified mandatorily redeemable preferred operating partnership units of \$58.1 million into debt as of December 31, 2003. The reclassification had no effect on the Company's compliance with the covenant requirements of its credit agreements.

In April 2003, FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." The statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FASB Statements No. 133, "Accounting for Derivative Instruments and Hedging Activities." This Statement is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. In addition, all provisions of this Statement should be applied prospectively. The provisions of this Statement that relate to Statement 133 Implementation Issues that have been effective for fiscal quarters that began prior to June 15, 2003, should continue to be applied in accordance with their respective effective dates. The adoption of this Statement did not have a significant impact on the financial position or results of the operations of the Company.

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities." The objective of this interpretation is to provide guidance on how to identify a variable interest entity ("VIE") and determine when the assets, liabilities, non-controlling interests and results of operations of a VIE need to be included in a company's consolidated financial statements. A company that holds variable interests in an entity will need to consolidate the entity if the company's interest in the VIE is such that the company will absorb a majority of the VIE's expected losses and/or receive a majority of the VIE's expected residual returns, if they occur. FIN 46 also requires additional disclosures by primary beneficiaries and other significant variable interest holders. The provisions of this interpretation apply to the end of the first interim period or annual period ending after December 15, 2003 (i.e., December 31, 2003) to VIEs in which a company holds a variable interest that it acquired before February 1, 2003. The Company consolidated SHS in its financial reporting beginning December 31, 2003. The consolidation did not have a significant impact on the financial condition or results of operations of the Company.

F-27

SUN COMMUNITIES INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2003, 2002 AND 2001

### 14. CONTINGENCIES:

## Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A

On April 9, 2003, T.J. Holdings, LLC ("TJ Holdings"), a member of Sun/Forest, LLC ("Sun/Forest") (which, in turn, owns an equity interest in SunChamp LLC), filed a complaint against the Company, SunChamp LLC, certain other affiliates of the Company and two directors of Sun Communities, Inc. in the Superior Court of Guilford County, North Carolina. The complaint alleges that the defendants wrongfully deprived the plaintiff of economic opportunities that they took for themselves in contravention of duties allegedly owed to the plaintiff and purports to claim damages of \$13.0 million plus an unspecified amount for punitive damages. The Company believes the complaint and the claims threatened therein have no merit and will defend it vigorously.

The Company is involved in various other legal proceedings arising in the ordinary course of business. All such proceedings, taken together, are not expected to have a material adverse impact on our results of operations or financial condition.

### 15. RELATED PARTY TRANSACTIONS:

The Company and its affiliates have entered into the following transactions with Origen Inc. and its predecessor, Origen Financial, L.L.C., during 2002 and 2003:

- Capital Investment in Origen, Inc. As described in Note 1, the Company acquired 5,000,000 shares of common stock in Origen Inc. in a private placement transaction at \$10 per share. In addition, Shiffman Origen LLC (100 percent of which is owned by the Estate of Milton M. Shiffman, Gary A. Shiffman and members of his family), acquired 1,025,000 shares of common stock of Origen Inc. at \$10 per share.
- Loan Servicing Agreement. Origen Servicing, Inc., a wholly-owned subsidiary of Origen, services approximately \$23.0 million in manufactured home loans for SHS as of December 31, 2003. Sun Home Services pays Origen Servicing, Inc. an annual servicing fee of 1.25 percent of the outstanding principal balance of the loans.
- Board Membership. Gary A. Shiffman, the Chairman and Chief Executive Officer of the Company, is a board member of Origen Inc.
- Remarketing Alliance Program. The Company had agreed to provide Origen, Inc. certain concessions on manufactured homes that Origen, Inc. repossesses in its communities. These concessions may include rent abatement for the first 12 months that a repossessed home, owned by Origen, Inc., is held for sale and abatement of the commission that the Company would earn if it brokers such sale. The Company also abates rent for other major lenders who own repossessed homes in our communities. The Company may also assist with coordinating the refurbishment and marketing of the home. The fair value of these abatements amounted to less than \$65,000 during 2003.

F-28

## Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A

### 15. RELATED PARTY TRANSACTIONS, CONTINUED:

- Home Buying Made Easy Program. Certain loans under the Company's Home Buying Made Easy (HBME) program are originated and serviced by Origen, Inc. Loans under this program may, from time to time, be sold to Origen, Inc. As these loans are made below published rates, the Company will pay Origen, Inc. the interest differential between market rates and the rate paid by the borrower for any such loans sold to Origen, Inc. No HBME loans were sold to Origen in 2003 and, accordingly, no interest differential was paid in 2003.
- Preferred Membership Interests. During 2003, the Company purchased \$20.5 million in preferred membership interests of Origen Securitization Company, LLC as an interim financing measure until Origen's securitization financing arrangement with Citigroup could be finalized. The investment was recorded at cost which approximated market value, earned an 11% distribution preference and was redeemed on October 8, 2003. No gain or loss was recorded on the transaction.
- Master Loan Purchase Agreement. In June 2003, the Company and Origen Financial, L.L.C. entered into a master loan purchase agreement under which the Company from time to time could purchase from Origen Financial L.L.C. manufactured home loans at a purchase price equal to the book value of the loans (the "Sun Purchase Price"), plus accrued and unpaid interest. During 2003, the Company purchased approximately \$74.2 million of manufactured home loans from Origen Financial, L.L.C. under the master loan purchase agreement. The loans were subsequently sold back to Origen Financial, L.L.C. at 100.10% of the Sun Purchase Price plus accrued and unpaid interest on the loans. Both the purchase and the sale were made at book value, which approximated fair market value, and no gain or loss was recorded on the transactions. These transactions were merely interim financing transactions and the master loan purchase agreement was terminated in October of 2003.

In addition to the transactions with Origen Inc. described above, Mr. Shiffman and his affiliates have entered into the following transactions with the Company:

- Related Party Lease. The Company leases its executive offices in Southfield, Michigan from an entity in which Mr. Shiffman and certain of his affiliates beneficially own approximately a 21 percent interest.
- Capital Investment in Origen Financial, Inc. Ownership of SHS. Gary Shiffman, and the Estate of Milton M. Shiffman (former Chairman of the Board), are the owners of all of the outstanding common stock of SHS, and as such are entitled to 5% of the cash flow from the operating activities of SHS.
- Tax Consequences Upon Sale of Properties. Gary Shiffman holds limited partnership interests in the Operating Partnership which were received in connection with the contribution of 24 properties from partnerships previously affiliated with him (the "Sun Partnerships"). Prior to any redemption of these limited partnership interests for the Company's common stock, Mr. Shiffman will have tax consequences different from those of the Company and the Company's public stockholders on the sale of any of the Sun Partnerships. Four of the properties have been sold to date.



# Edgar Filing: SUN COMMUNITIES INC - Form 10-K/A

## SUN COMMUNITIES INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2003, 2002 AND 2001

### 16. SUBSEQUENT EVENTS:

In February, 2004, the Company entered into an agreement with certain affiliates of Property Asset Management Inc. ("PAMI") to acquire all of the equity interests in partnerships that directly and indirectly own and operate 19 properties and entered into a real estate purchase agreement to acquire 7 other properties. The properties are recreational vehicle communities, some of which include manufactured home sites. The portfolio consists of 11,331 sites, including 10,586 developed sites and 745 expansion recreational vehicle sites. Completion of the purchases is subject to customary closing conditions.

PAMI, the seller under the purchase agreements, is the sole general partner and owns a substantial majority of the equity interests in the partnerships that own the properties subject to the purchase agreements. PAMI has exercised its rights under the relevant partnership agreements to acquire the equity interests of its minority partner. PAMI has informed us that its minority partner has disputed PAMI's rights to purchase its interests under the partnership agreements. As a result, PAMI has filed suit in the Delaware Chancery Court requesting, among other things, that the court specifically enforce PAMI's right to purchase the minority interests. The minority partner in the partnerships has filed an answer and counterclaim in the case requesting that the court find that the minority partner has the right to buy PAMI's interests under the partnership agreements.

PAMI believes that it will be successful in the litigation and we expect to complete the acquisition of the partnership interests and properties. However, due to the uncertain nature of litigation and the other conditions to closing, we can provide no assurance that we will be able to successfully complete the proposed acquisitions and cannot reliably predict the timing of the resolution of these matters.

F-30

### Exhibit Index

Number	Description
23.1	Consent of PricewaterhouseCoopers LLP
23.2	Consent of Grant Thornton LLP
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002