

MANUFACTURED HOME COMMUNITIES INC

Form 8-K/A

April 30, 2004

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 8-K/A

CURRENT REPORT

Pursuant to Section 13 or 15(d) of  
the Securities Exchange Act of 1934

APRIL 30, 2004  
(Date of Report)

MANUFACTURED HOME COMMUNITIES, INC.  
(Exact name of registrant as specified in its Charter)

1-11718  
(Commission File No.)

MARYLAND  
(State or other jurisdiction  
of incorporation or organization)

36-3857664  
(I.R.S. Employer  
Identification No.)

TWO NORTH RIVERSIDE PLAZA, CHICAGO, ILLINOIS  
(Address of principal executive offices)

60606  
(Zip Code)

(312) 279-1400  
(Registrant's telephone number, including area code)

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ITEM 2. ACQUISITION OF ASSETS

Manufactured Home Communities, Inc. and its subsidiaries (the "Company") have acquired or invested in 58 manufactured home communities ("Communities") and

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park model communities ("Resorts") during the period from January 1, 2004 through April 30, 2004. Of these communities, 30 were reported on Form 8-K dated March 2, 2004, and 28 were reported on Form 8-K dated March 3, 2004. The combined investment in these 58 properties was approximately \$377.4 million.

### MANUFACTURED HOME COMMUNITIES, INC. PROFORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

REQUIRED UNDER ITEM 7(b) OF FORM 8-K

#### MANUFACTURED HOME COMMUNITIES, INC. PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED

The following unaudited Pro Forma Condensed Consolidated Balance Sheet presents the effect of the acquisition of ten properties from Diversified Investments, Inc. ("Diversified"), the NHC Portfolio ("NHC Portfolio"), and O'Connell's, Spring Gulch, Paradise, Twin Lakes, and Lakeside ("Other 2004 Acquisitions"). The Pro Forma also includes the investment of \$29.7 million in preferred equity interest in six entities controlled by Diversified Investments, Inc. and the \$1.4 million investment in the Diversified entities managing these properties (the "Mezzanine Investments"), the \$1.4 million investment in the Lake Myers, Pine Haven, Twin Mills and Plymouth Rock joint ventures ("Joint Ventures"), the payment of a one-time special distribution of \$8.00 per share, and an additional borrowing of \$35 million under the Company's line of credit.

Related to the acquisition of the NHC portfolio, beginning in 1996, a series of partnerships were formed between "NHC" entities and "PAMI" (the former General Partner of NHC) entities. A trial on all claims between NHC and PAMI, including whether NHC had the authority to consummate the transaction with the Company was held on April 15 and 16, 2004. The Company continues to believe in the merit of NHC's claims and defenses. Under the terms and conditions of the partnership agreements, \$69 million was paid to acquire the PAMI entities' interests. Principals of the NHC entities will continue to operate the properties under a management agreement with the Company and maintain a minority equity position in the new entity. The existing dispute is related to the PAMI entities' desire to liquidate their investments. While the possibility of additional litigation and its attendant risks remain, we believe that providing liquidity to the NHC entities to acquire the PAMI interests may assist in resolving the dispute.

The Company, after advice from its legal counsel, believes that there is substantial merit to its' position that the NHC Portfolio transaction is valid. Accordingly, the Company has treated the NHC Portfolio transaction as an acquisition in the financial statements.

The following unaudited Pro Forma Condensed Consolidated Statement of Operations for the year ended December 31, 2003 presents the effect of the following acquisitions as if they had occurred on January 1, 2003: Diversified, NHC, and the Other 2004 Acquisitions; and the income from the Mezzanine Investments and Joint Ventures.

The following unaudited Pro Forma Condensed Consolidated Financial Statements are not necessarily indicative of the results of future operations, nor the results of historical operations, had all the transactions occurred as described above on January 1, 2003.

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The unaudited Pro Forma Condensed Consolidated Financial Statements should be read in conjunction with the accompanying Notes to Pro Forma Condensed Consolidated Financial Statements and Combined Statements of Revenue and Certain Expenses (included elsewhere herein).

MANUFACTURED HOME COMMUNITIES, INC  
 PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET  
 AS OF DECEMBER 31, 2003  
 (unaudited)  
 (amounts in thousands)

|  | Historical   | Diversified<br>(A) | NHC<br>(B) | Other<br>Acquisi<br>(C) |
|--|--------------|--------------------|------------|-------------------------|
|  | -----        | -----              | -----      | -----                   |
| <b>ASSETS</b>                                    |              |                    |            |                         |
| Investment in real estate:                       |              |                    |            |                         |
| Land   | \$ 282,803   | \$ 14,559          | \$ 58,798  | \$ 11,8                 |
| Land improvements                                | 911,176      | 43,673             | 176,545    | 33,7                    |
| Buildings and other depreciable property         | 121,117      | 0                  | 0          |                         |
|  | -----        | -----              | -----      | -----                   |
|  | 1,315,096    | 58,232             | 235,343    | 45,5                    |
| Accumulated depreciation                         | (272,497)    | 0                  | 0          |                         |
|  | -----        | -----              | -----      | -----                   |
| Net investment in real estate                    | 1,042,599    | 58,232             | 235,343    | 45,5                    |
| Cash and cash equivalents                        | 325,740      | (15,144)           | (65,326)   | (9,5                    |
| Notes receivable                                 | 11,551       | -                  | 31         |                         |
| Investment in and advances to joint ventures     | 18,828       | -                  | -          |                         |
| Rents receivable, net                            | 2,385        | -                  | 547        |                         |
| Deferred financing costs, net                    | 14,164       | -                  | -          |                         |
| Inventory  | 31,604       | -                  | 718        | 4                       |
| Prepaid expenses and other assets                | 27,044       | -                  | 4,343      |                         |
|  | -----        | -----              | -----      | -----                   |
| Total assets                                     | \$ 1,473,915 | \$ 43,088          | \$ 175,656 | \$ 36,4                 |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>      |              |                    |            |                         |
| <b>Liabilities:</b>                              |              |                    |            |                         |
| Mortgage notes payable                           | \$ 1,076,183 | \$ 41,550          | \$ 159,003 | \$ 33,6                 |
| Unsecured term loan                              | -            | -                  | -          |                         |
| Unsecured line of credit                         | -            | -                  | -          |                         |
| Other notes payable                              | 113          | -                  | -          |                         |
| Accounts payable and accrued expenses            | 27,815       | 421                | 4,388      | 4                       |
| Accrued interest payable                         | 5,978        | -                  | 614        |                         |
| Rents received in advance and security deposits  | 6,616        | 1,117              | 6,051      | 2,3                     |
| Distributions payable                            | 224,696      | -                  | -          |                         |
|  | -----        | -----              | -----      | -----                   |
| Total liabilities                                | 1,341,401    | 43,088             | 170,056    | 36,4                    |
| <b>Commitments and contingencies</b>             |              |                    |            |                         |
| Minority interest - Common OP Units and other    | 1,716        | -                  | 5,600      |                         |
| Minority interest - Perpetual Preferred OP Units | 125,000      | -                  | -          |                         |

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|   |              |           |            |         |
|---|--------------|-----------|------------|---------|
| Stockholders' equity:                           | -            |           |            |         |
| Common stock, \$.01 par value                   | 222          | -         | -          |         |
| Paid-in capital                                 | 263,066      | -         | -          |         |
| Deferred compensation                           | (494)        | -         | -          |         |
| Distributions in excess of accumulated earnings | (256,996)    | -         | -          |         |
| Total stockholders' equity                      | 5,798        | -         | -          |         |
| Total liabilities and stockholders' equity      | \$ 1,473,915 | \$ 43,088 | \$ 175,656 | \$ 36,4 |

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- (A) Reflects the acquisition of ten properties from Diversified Investments, Inc. on February 5, 2004 for a total purchase price of \$64 million. The amounts presented include the initial purchase price and subsequent closing costs and were allocated based on the fair value of the assets acquired and liabilities assumed.
- (B) Reflects the acquisition of the NHC Portfolio on February 17, 2004 for a total purchase price of \$235 million. The amounts presented include the initial purchase price and subsequent closing costs and were allocated based on the fair value of the assets acquired and liabilities assumed.
- (C) Reflects the acquisitions of O'Connell's on January 15, 2004, Spring Gulch on January 30, 2004, Paradise on February 3, 2004, Twin Lakes on February 18, 2004, and Lakeside on February 19, 2004. The amounts presented include the initial purchase price and subsequent closing costs and were allocated based on the fair value of the assets acquired and liabilities assumed.
- (D) Reflects the Mezzanine Investment, the investment in the Joint Ventures, an additional borrowing of \$35.0 million under the Company's line of credit, payment of the one-time special distribution of approximately \$225 million, and approximately \$5.8 million related to the Diversified acquisition which is being held in escrow contingent upon future revenues.

MANUFACTURED HOME COMMUNITIES, INC  
PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
(unaudited)  
(amounts in thousands, except per share data)

|                              | Historical | Diversified<br>(A) | NHC<br>(B) | Oth<br>Acqu |
|------------------------------|------------|--------------------|------------|-------------|
|                              | -----      | -----              | -----      | -----       |
| PROPERTY OPERATIONS:         |            |                    |            |             |
| Community base rental income | \$ 196,919 |                    |            |             |
| Resort base rental income    | 11,780     | 5,565              | 32,083     | 5           |
| Utility and other income     | 20,150     | 462                | 4,927      |             |
| Property operating revenues  | 228,849    | 6,027              | 37,010     | 6           |

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|  |           |       |        |   |
|--|-----------|-------|--------|---|
| Property operating & maintenance                   | 64,996    | 2,577 | 17,659 | 4 |
| Real estate taxes                                  | 18,917    | 392   | 2,533  |   |
| Property management                                | 9,373     |       |        |   |
| <hr style="border-top: 1px dashed black;"/>        |           |       |        |   |
| Property operating expenses                        | 93,286    | 2,969 | 20,192 | 4 |
| <hr style="border-top: 1px dashed black;"/>        |           |       |        |   |
| Income from property operations                    | 135,563   | 3,058 | 16,818 | 2 |
| <br>   |           |       |        |   |
| HOME SALES OPERATIONS:                             |           |       |        |   |
| Gross revenues from inventory home sales           | 36,606    |       |        | 1 |
| Cost of inventory home sales                       | (31,767)  |       |        |   |
| <hr style="border-top: 1px dashed black;"/>        |           |       |        |   |
| Gross profit from inventory home sales             | 4,839     | 0     | 0      |   |
| Brokered resale revenues, net                      | 1,724     |       |        |   |
| Home selling expenses                              | (7,360)   |       |        |   |
| Ancillary services revenues, net                   | 216       |       |        |   |
| <hr style="border-top: 1px dashed black;"/>        |           |       |        |   |
| Income (loss) from home sales operations           | (581)     | -     | -      |   |
| <br>   |           |       |        |   |
| OTHER INCOME AND EXPENSES:                         |           |       |        |   |
| Interest income                                    | 1,695     |       |        |   |
| Equity in income of unconsolidated joint ventures  | 2,065     |       |        |   |
| General and administrative                         | (8,060)   |       |        |   |
| Interest and related amortization                  | (58,402)  |       |        |   |
| Depreciation on corporate assets                   | (1,240)   |       |        |   |
| Depreciation on real estate assets and other costs | (38,034)  |       |        |   |
| <hr style="border-top: 1px dashed black;"/>        |           |       |        |   |
| Total other income and expenses                    | (101,976) | -     | -      |   |
| <hr style="border-top: 1px dashed black;"/>        |           |       |        |   |
| MINORITY INTERESTS:                                |           |       |        |   |
| (Income) allocated to Common OP Units              | (4,330)   |       |        |   |
| (Income) allocated to Perpetual Preferred OP Units | (11,252)  |       |        |   |
| <hr style="border-top: 1px dashed black;"/>        |           |       |        |   |
| Income from continuing operations                  | 17,424    | 3,058 | 16,818 | 3 |
| <br>   |           |       |        |   |
| DISCONTINUED OPERATIONS:                           |           |       |        |   |
| Discontinued operations                            | 1,043     |       |        |   |
| Depreciation on discontinued operations            | (135)     |       |        |   |
| Gain on sale of properties and other               | 10,826    |       |        |   |
| Minority interests on discontinued operations      | (2,144)   |       |        |   |
| <hr style="border-top: 1px dashed black;"/>        |           |       |        |   |
| Income from discontinued operations                | 9,590     | -     | -      |   |
| <hr style="border-top: 1px dashed black;"/>        |           |       |        |   |
| NET INCOME AVAILABLE TO COMMON SHARES              | 27,014    | 3,058 | 16,818 | 3 |
| <hr style="border-top: 3px double black;"/>        |           |       |        |   |
| EARNINGS PER COMMON SHARE - BASIC                  |           |       |        |   |
| Income from continuing operations                  | \$ 0.79   |       |        |   |
| <hr style="border-top: 1px dashed black;"/>        |           |       |        |   |
| Income from discontinued operations                | \$ 0.43   |       |        |   |
| <hr style="border-top: 1px dashed black;"/>        |           |       |        |   |
| Income available for Common Shares                 | \$ 1.22   |       |        |   |
| <hr style="border-top: 1px dashed black;"/>        |           |       |        |   |
| EARNINGS PER COMMON SHARE - FULLY DILUTED          |           |       |        |   |
| Income from continuing operations                  | \$ 0.78   |       |        |   |
| <hr style="border-top: 1px dashed black;"/>        |           |       |        |   |
| Income from discontinued operations                | \$ 0.42   |       |        |   |
| <hr style="border-top: 1px dashed black;"/>        |           |       |        |   |

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|   |                  |
|---|------------------|
| Income available for Common Shares                            | \$ 1.20<br>===== |
|   |                  |
| Weighted average common shares<br>outstanding - basic         | 22,077<br>=====  |
|   |                  |
| Weighted average common shares<br>outstanding - fully diluted | 28,002<br>=====  |

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- (A) Reflects the audited results of operations of the Diversified portfolio. The amounts presented represent the historical amounts for certain revenues and expenses for the periods from January 1, 2003 through December 31, 2003.
  
- (B) Reflects the audited results of operations of the NHC Portfolio. The amounts presented represent the historical amounts for certain revenues and expenses for the periods from January 1, 2003 through December 31, 2003.
  
- (C) Reflects the results of operations of the Other 2004 Acquisitions. The amounts presented represent the historical amounts for certain revenues and expenses for the periods from January 1, 2003 through December 31, 2003 for each of the properties
  
- (D) Reflects the following adjustments:

Equity in income of unconsolidated joint ventures:  
     Income on \$29.7 million Mezzanine Investments  
  
     Income on \$1.4 million Joint Venture investments

Interest and related amortization:  
     Interest associated with debt assumed in Diversified transaction bearing interest at an average rate of 5.81% which reflects effective rates  
     Interest associated with debt assumed in NHC Portfolio transaction bearing interest at an average rate of 5.14%, which reflects effective rates  
     Interest associated with debt assumed in Other 2004 Acquisitions bearing interest at an average rate of 5.6%, which reflects effective rates  
     Interest associated with borrowings under the Company's line of credit bearing interest at LIBOR plus 1.65%, which based on the 30-day LIBOR rate at the time of borrowings was 2.87%

Depreciation:  
     Depreciation based on real property acquired in the amount \$339 million less approximately 25% allocated to land, in the amount of \$254 million, and depreciated over a 30-year life for real property  
     Reflects the Company's 25% interest in the depreciation on the Joint Ventures  
     Reflects 7.59% minority interest in net income of NHC of \$2.8 million

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Income allocated to minority interests:

Reflects allocation of proforma net income to Common OP Units

SIGNATURE

Pursuant to the requirements 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.

MANUFACTURED HOME COMMUNITIES, INC.

BY: \s\ Thomas P. Heneghan

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Thomas P. Heneghan  
President and Chief Executive Officer

BY: \s\ Michael B. Berman

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Michael B. Berman  
Vice President, Treasurer and  
Chief Financial Officer

DATE: April 30, 2004

Manufactured Home Communities, Inc.

Diversified Investments Companies Portfolio  
- Sacramento, California  
Statement of Revenue and Certain Expenses  
For The Year Ended December 31, 2003

Report of Independent Auditors

The Board of Directors of  
Manufactured Home Communities, Inc.

We have audited the accompanying combined statement of revenue and certain expenses of the Diversified Investments Companies Portfolio (the Properties) as described in Note 2 for the year ended December 31, 2003. The combined statement of revenue and certain expenses is the responsibility of the Properties' management. Our responsibility is to express an opinion on the combined statement of revenue and certain expenses based on our audit.

We conducted our audit in accordance with auditing standards generally accepted

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in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined statement of revenue and certain expenses is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures made in the combined statement of revenue and certain expenses. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the combined statement of revenue and certain expenses. We believe that our audit provides a reasonable basis for our opinion.

The accompanying combined statement of revenue and certain expenses was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission, for inclusion in the Current Report on Form 8-K of Manufactured Home Communities, Inc. as described in Note 1, and is not intended to be a complete presentation of the Properties' combined revenue and expenses.

In our opinion, the combined statement of revenue and certain expenses referred to above presents fairly, in all material respects, the combined revenue and certain expenses as described in Note 1 of the Properties for the year ended December 31, 2003 in conformity with accounting principles generally accepted in the United States.

ERNST & YOUNG LLP

Chicago, Illinois  
April 1, 2004

1

Diversified Investments Companies Portfolio  
- Sacramento, California  
Statement of Revenue and Certain Expenses  
For The Year Ended December 31, 2003

|                                       |              |
|---------------------------------------|--------------|
| REVENUE                               |              |
| Rental income                         | \$5,564,827  |
| Other income                          | 462,483      |
|                                       | -----        |
|                                       | 6,027,310    |
| CERTAIN EXPENSES                      |              |
| General and administrative            | 381,502      |
| Utilities                             | 808,744      |
| Repairs and maintenance               | 227,284      |
| Real estate taxes                     | 392,374      |
| Insurance                             | 261,120      |
| Payroll and benefits                  | 823,082      |
| Marketing                             | 75,690       |
|                                       | -----        |
|                                       | 2,969,796    |
|                                       | -----        |
| Revenue in excess of certain expenses | \$ 3,057,514 |
|                                       | =====        |

See accompanying notes.

2

Diversified Investments Companies Portfolio  
- Sacramento, California  
Statement of Revenue and Certain Expenses  
For The Year Ended December 31, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying combined statement of revenue and certain expenses for the year ended December 31, 2003 was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission for inclusion in the Current Report on Form 8-K of Manufactured Home Communities, Inc. The accompanying financial statements are not representative of the actual operations of the acquired Properties for the period presented as certain expenses, which may not be comparable to the expenses to be incurred by Manufactured Home Communities, Inc. in the proposed future operations of the Properties, have been excluded. Expenses excluded consist of interest expense depreciation and amortization, professional fees and other costs not directly related to the future operations of the Properties.

Revenue and Expense Recognition

Rental income attributable to leases is recorded when earned from tenants. Expenses are recognized in the period in which they are incurred.

Use of Estimates

The preparation of the combined statement of revenue and certain expenses in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of the combined revenue and expenses during the reporting period. Actual results could differ from these estimates.

2. DESCRIPTION OF PROPERTIES

The accompanying combined statements of revenue and certain expenses relate to the combined operations of the Diversified Investments Companies Portfolio (the "Properties"), which are located in Arizona, Florida and North Carolina. The Properties have been presented on a combined basis because the Properties were under common ownership and management prior to acquisition. The Properties listed below were acquired on February 5, 2004 for \$64 million by Manufactured Home Communities, Inc. from an unrelated party.

| Property Name | Location | Number of Sites |
|---------------|----------|-----------------|
| -----         | -----    | -----           |

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(unaudited)

|                      |                 |       |
|----------------------|-----------------|-------|
| Shangri-La MHP       | Largo, FL       | 160   |
| Coachwood Colony MHP | Leesburg, FL    | 200   |
| Southernaire MHP     | Mount Dora, FL  | 134   |
| Sixth Avenue MHP     | Zephyrhills, FL | 140   |
| Topics RV Community  | Spring Hill, FL | 230   |
| Waterway RV Park     | Cedar Point, NC | 336   |
| Goose Creek Resort   | Newport, NC     | 598   |
| Desert Paradise RV   | Yuma, AZ        | 260   |
| Suni Sands RV Resort | Yuma, AZ        | 336   |
| Terra Ceia Village   | Palmetto, FL    | 203   |
|                      |                 | ----- |
|                      |                 | 2,597 |

3

Manufactured Home Communities, Inc.

NHC Corporation Portfolio  
- Scottsdale, Arizona

Combined Statement of Revenue and Certain Expenses  
For The Year Ended December 31, 2003

Report of Independent Auditors

The Board of Directors of  
Manufactured Home Communities, Inc.

We have audited the accompanying combined statement of revenue and certain expenses of the NHC Corporation Portfolio (the Properties) as described in Note 2 for the year ended December 31, 2003. The combined statement of revenue and certain expenses is the responsibility of the Properties' management. Our responsibility is to express an opinion on the combined statement of revenue and certain expenses based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of revenue and certain expenses is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures made in the statement of revenue and certain expenses. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the combined statement of revenue and certain expenses. We believe that our audit provides a reasonable basis for our opinion.

The accompanying combined statement of revenue and certain expenses was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission, for inclusion in the Current Report on Form 8-K of Manufactured Home Communities, Inc. as described in Note 1, and is not intended to be a complete presentation of the Properties' combined revenue and expenses.

In our opinion, the combined statement of revenue and certain expenses referred to above presents fairly, in all material respects, the combined revenue and certain expenses as described in Note 1 of the Properties for the year ended December 31, 2003 in conformity with accounting principles generally accepted in

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the United States.

ERNST & YOUNG LLP

Chicago, Illinois  
April 15, 2004

1

NHC Corporation Portfolio  
- Scottsdale, Arizona  
Combined Statement of Revenue and Certain Expenses  
For The Year Ended December 31, 2003

|                                       |              |
|---------------------------------------|--------------|
| REVENUE                               |              |
| Rental income                         | \$32,083,332 |
| Other income                          | 4,927,261    |
|                                       | -----        |
|                                       | 37,010,593   |
| CERTAIN EXPENSES                      |              |
| General and administrative            | 2,849,777    |
| Utilities                             | 5,444,927    |
| Repairs and maintenance               | 1,568,194    |
| Real estate taxes                     | 2,533,121    |
| Insurance                             | 1,355,148    |
| Payroll and Benefits                  | 6,441,433    |
|                                       | -----        |
|                                       | 20,192,600   |
|                                       | -----        |
| Revenue in excess of certain expenses | \$16,817,993 |
|                                       | =====        |

See accompanying notes.

2

NHC Corporation Portfolio  
- Scottsdale, Arizona  
Combined Statement of Revenue and Certain Expenses  
For The Year Ended December 31, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying combined statement of revenue and certain expenses for the year

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ended December 31, 2003 was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission for inclusion in the Current Report on Form 8-K of Manufactured Home Communities, Inc. The accompanying financial statements are not representative of the actual operations of the acquired Properties for the period presented as certain expenses, which may not be comparable to the expenses to be incurred by Manufactured Home Communities, Inc. in the proposed future operations of the Properties, have been excluded. Expenses excluded consist of interest expense depreciation and amortization, professional fees and other costs not directly related to the future operations of the Properties.

### Revenue and Expense Recognition

Rental income attributable to leases is recorded when earned from tenants. Expenses are recognized in the period in which they are incurred.

### Use of Estimates

The preparation of the combined statement of revenue and certain expenses in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of the combined revenue and expenses during the reporting period. Actual results could differ from these estimates.

## 2. DESCRIPTION OF PROPERTIES

The accompanying combined statements of revenue and certain expenses relate to the combined operations of the NHC Corporation Portfolio (the "Properties"), which are located in Texas, Florida and California. The Properties have been presented on a combined basis because the Properties were under common ownership and management prior to acquisition. The Properties listed below were acquired on February 17, 2004 for approximately \$235 million by Manufactured Home Communities, Inc. from an unrelated party.

| Property Name          | Location            | Sites<br>(unaudited) | Property Name              |
|------------------------|---------------------|----------------------|----------------------------|
| Encore Harlingen       | Harlingen, TX       | 1,027                | Encore Orlando             |
| Sunburst Harlingen     | Harlingen, TX       | 301                  | Fort Myers Beach           |
| Paradise Park          | Harlingen, TX       | 563                  | Encore Daytona Beach North |
| Southern Comfort       | Weslaco, TX         | 403                  | Silver Dollar              |
| Sunburst Weslaco       | Weslaco, TX         | 390                  | Sunburst Lake Placid       |
| Encore Mercedes        | Mercedes, TX        | 493                  | Encore Sarasota North      |
|                        |                     |                      | Encore Tampa North         |
| Sunburst Port Richey   | Hudson, FL          | 392                  | Sunshine Key Fun           |
| Sunburst St Petersburg | Largo, FL           | 293                  | Sunburst Fort Myers        |
| Encore Sarasota South  | Nokomis, FL         | 548                  | Sunburst Florida Keys      |
| Encore Port Charlotte  | Port Charlotte, FL  | 528                  | Sunburst North Fort Myers  |
| Park City West         | Fort Lauderdale, FL | 363                  | Tropical Palms Fun         |
| Encore Punta Gorda     | Punta Gorda, FL     | 206                  |                            |
| Encore Vero Beach      | Sebastian, FL       | 300                  | Pacific Dunes Ranch        |
| Encore Crystal River   | Crystal River, FL   | 260                  | Tahoe Valley               |