

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

**FORM 10-Q**

**[ X ] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2010.

or

**[ ] TRANSITION PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 1-12616

**SUN COMMUNITIES, INC.**

(Exact Name of Registrant as Specified in its Charter)

**Maryland**

(State of Incorporation)

**27777 Franklin Rd.**

**Suite 200**

**Southfield, Michigan**

(Address of Principal Executive Offices)

**38-2730780**

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

**48034**

(Zip Code)

**(248) 208-2500**

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. (Check one):

Large accelerated filer [ ]

Accelerated filer [ X ]

Non-accelerated filer [ ]

Smaller reporting company [ ]

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [ X ]

Number of shares of Common Stock, \$0.01 par value per share, outstanding  
as of September 30, 2010: 19,598,872

**SUN COMMUNITIES, INC.**

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**SUN COMMUNITIES, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**AS OF SEPTEMBER 30, 2010 AND DECEMBER 31, 2009**  
(In thousands, except per share amounts)

	(Unaudited) September 30, 2010	December 31, 2009
<b>ASSETS</b>		
Investment property, net	\$ 1,037,085	\$ 1,064,305
Cash and cash equivalents	4,706	4,496
Inventory of manufactured homes	2,243	3,934
Investment in affiliates	-	1,646
Notes and other receivables	85,682	74,030
Other assets	34,346	32,954
<b>TOTAL ASSETS</b>	<b>\$ 1,164,062</b>	<b>\$ 1,181,365</b>
<b>LIABILITIES</b>		
Debt	\$ 1,164,759	\$ 1,159,442
Lines of credit	91,910	94,465
Other liabilities	38,433	38,766
<b>TOTAL LIABILITIES</b>	<b>1,295,102</b>	<b>1,292,673</b>
Commitments and contingencies		
<b>STOCKHOLDERS' DEFICIT</b>		
Preferred stock, \$0.01 par value, 10,000 shares authorized, none issued	\$ -	\$ -
Common stock, \$0.01 par value, 90,000 shares authorized (September 30, 2010 and December 31, 2009, 21,401 and 20,635 shares issued respectively)	214	206
Additional paid-in capital	485,999	463,811
Officer's notes	(2,912)	(5,028)
Accumulated other comprehensive loss	(2,772)	(1,858)
Distributions in excess of accumulated earnings	(536,866)	(498,370)
Treasury stock, at cost (September 30, 2010 and December 31, 2009, 1,802 shares)	(63,600)	(63,600)
Total Sun Communities, Inc. stockholders' deficit	(119,937)	(104,839)
Noncontrolling interests	(11,103)	(6,469)
<b>TOTAL STOCKHOLDERS' DEFICIT</b>	<b>(131,040)</b>	<b>(111,308)</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	<b>\$ 1,164,062</b>	<b>\$ 1,181,365</b>

*See accompanying Notes to Consolidated Financial Statements.*

**SUN COMMUNITIES, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE PERIODS ENDED SEPTEMBER 30, 2010 AND 2009**  
(In thousands, except per share amounts)  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
<b>REVENUES</b>				
Income from real property	\$ 50,169	\$ 48,597	\$ 152,124	\$ 148,093
Revenue from home sales	7,324	8,433	24,959	24,112
Rental home revenue	5,135	5,062	15,266	15,449
Ancillary revenues, net	35	4	369	261
Interest	2,036	1,554	5,805	4,194
Other loss, net	(654)	(258)	(748)	(161)
Total revenues	<u>64,045</u>	<u>63,392</u>	<u>197,775</u>	<u>191,948</u>
<b>COSTS AND EXPENSES</b>				
Property operating and maintenance	13,942	13,249	40,087	38,641
Real estate taxes	3,813	3,848	12,176	12,150
Cost of home sales	5,320	6,046	18,797	17,313
Rental home operating and maintenance	4,164	3,864	11,381	12,423
General and administrative - real property	3,408	3,687	12,525	12,753
General and administrative - home sales and rentals	1,873	1,890	5,659	5,532
Georgia flood damage	-	800	-	800
Depreciation and amortization	16,468	15,841	49,445	47,960
Interest	15,668	15,109	46,228	44,093
Interest on mandatorily redeemable debt	826	839	2,462	2,509
Total expenses	<u>65,482</u>	<u>65,173</u>	<u>198,760</u>	<u>194,174</u>
Loss before income taxes and equity loss from affiliates	(1,437)	(1,781)	(985)	(2,226)
Provision for state income taxes	(143)	(103)	(404)	(382)
Equity loss from affiliates	(69)	(854)	(1,646)	(1,344)
Loss from continuing operations	(1,649)	(2,738)	(3,035)	(3,952)
Income (loss) from discontinued operations	-	177	-	(155)
Net loss	(1,649)	(2,561)	(3,035)	(4,107)
Less: amounts attributable to noncontrolling interests	(246)	(526)	(520)	(690)
Net loss attributable to Sun Communities, Inc. common stockholders	<u>\$ (1,403)</u>	<u>\$ (2,035)</u>	<u>\$ (2,515)</u>	<u>\$ (3,417)</u>
Amounts attributable to Sun Communities, Inc. common stockholders:				
Loss from continuing operations, net of state income taxes	\$ (1,403)	\$ (2,193)	\$ (2,515)	\$ (3,278)
Income (loss) from discontinued operations, net of state income taxes	-	158	-	(139)
Net loss attributable to Sun Communities, Inc. common stockholders	<u>\$ (1,403)</u>	<u>\$ (2,035)</u>	<u>\$ (2,515)</u>	<u>\$ (3,417)</u>
Weighted average common shares outstanding:				
Basic	19,323	18,513	19,006	18,437
Diluted	19,323	18,513	19,006	18,437
Basic and diluted loss per share:				
Continuing operations	\$ (0.07)	\$ (0.12)	\$ (0.13)	\$ (0.18)
Discontinued operations	-	0.01	-	(0.01)
Basic and diluted loss per share	<u>\$ (0.07)</u>	<u>\$ (0.11)</u>	<u>\$ (0.13)</u>	<u>\$ (0.19)</u>

*See accompanying Notes to Consolidated Financial Statements.*

**SUN COMMUNITIES, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
**FOR THE PERIODS ENDED SEPTEMBER 30, 2010 AND 2009**  
(In thousands)  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net loss	\$ (1,649)	\$ (2,561)	\$ (3,035)	\$ (4,107)
Unrealized gain (loss) on interest rate swaps	(261)	(494)	(1,018)	832
Total comprehensive loss	(1,910)	(3,055)	(4,053)	(3,275)
Less: amounts attributable to noncontrolling interests	(273)	(324)	(624)	(347)
Comprehensive loss attributable to Sun Communities, Inc. common stockholders	<u>\$ (1,637)</u>	<u>\$ (2,731)</u>	<u>\$ (3,429)</u>	<u>\$ (2,928)</u>

**SUN COMMUNITIES, INC.**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010**  
(In thousands, except per share amounts)  
(Unaudited)

	Common Stock	Additional Paid-in Capital	Officer's Notes	Accumulated Other Comprehensive Loss	Distributions in Excess of Accumulated Earnings	Treasury Stock	Total Sun Communities Stockholders' Deficit	Non- controlling Interest	Total Stockholders' Deficit
Balance as of December 31, 2009	\$ 206	\$ 463,811	\$ (5,028)	\$ (1,858)	\$ (498,370)	\$ (63,600)	\$ (104,839)	\$ (6,469)	\$ (111,308)
Issuance of common stock from exercise of options, net	-	48	-	-	-	-	48	-	48
Issuance and associated costs of common stock, net	8	20,678	-	-	-	-	20,686	-	20,686
Stock-based compensation - amortization and forfeitures	-	1,462	-	-	49	-	1,511	-	1,511
Net loss	-	-	-	-	(2,515)	-	(2,515)	(520)	(3,035)
Unrealized loss on interest rate swaps and cap	-	-	-	(914)	-	-	(914)	(104)	(1,018)
Repayment of officer's notes	-	-	2,116	-	-	-	2,116	-	2,116
Cash distributions declared of \$1.89 per share	-	-	-	-	(36,030)	-	(36,030)	(4,010)	(40,040)
Balance as of September 30, 2010	<u>\$ 214</u>	<u>\$ 485,999</u>	<u>\$ (2,912)</u>	<u>\$ (2,772)</u>	<u>\$ (536,866)</u>	<u>\$ (63,600)</u>	<u>\$ (119,937)</u>	<u>\$ (11,103)</u>	<u>\$ (131,040)</u>

*See accompanying Notes to Consolidated Financial Statements.*

**SUN COMMUNITIES, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009**  
**(In thousands)**  
**(Unaudited)**

	<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>OPERATING ACTIVITIES:</b>		
Net loss	\$ (3,035)	\$ (4,107)
Less: Loss from discontinued operations, net of tax	-	(155)
Loss from continuing operations	<u>(3,035)</u>	<u>(3,952)</u>
Adjustments to reconcile loss from continuing operations to net cash provided by operating activities:		
Gain from land disposition	-	(90)
Gain on disposal of other assets and depreciated homes, net	(2,145)	(3,643)
Loss (gain) on valuation of derivative instruments	16	(5)
Stock compensation expense	1,593	2,335
Depreciation and amortization	51,248	49,796
Amortization of deferred financing costs	1,248	1,228
Equity loss from affiliates, net	1,646	1,344
Change in notes receivable from financed sales of inventory homes, net of repayments	(3,343)	(3,036)
Change in inventory, other assets and other receivables, net	(877)	(2,200)
Change in accounts payable and other liabilities	<u>(4,316)</u>	<u>3,119</u>
Net cash provided by operating activities of continuing operations	42,035	44,896
Net cash used for operating activities of discontinued operations	-	(438)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>42,035</u>	<u>44,458</u>
<b>INVESTING ACTIVITIES:</b>		
Investment in properties	(34,255)	(30,321)
Proceeds related to disposition of land	-	172
Proceeds related to disposition of other assets and depreciated homes, net	691	455
Reduction of notes receivable and officer's notes, net	<u>3,223</u>	<u>4,566</u>
<b>NET CASH USED FOR INVESTING ACTIVITIES</b>	<u>(30,341)</u>	<u>(25,128)</u>
<b>FINANCING ACTIVITIES:</b>		
Issuance and associated costs of common stock and OP units, net	20,686	1,509
Net proceeds from stock option exercise	48	-
Borrowings on lines of credit	103,773	106,197
Payments on lines of credit	(106,328)	(107,733)
Payments to retire preferred operating partnership units	(925)	-
Proceeds from issuance of other debt	21,877	40,231
Payments on other debt	(10,407)	(20,891)
Payments for deferred financing costs	(168)	(477)
Distributions to stockholders and OP unit holders	<u>(40,040)</u>	<u>(39,249)</u>
<b>NET CASH USED FOR FINANCING ACTIVITIES</b>	<u>(11,484)</u>	<u>(20,413)</u>
Net increase (decrease) in cash and cash equivalents	210	(1,083)
Cash and cash equivalents, beginning of period	4,496	6,162
Cash and cash equivalents, end of period	<u>\$ 4,706</u>	<u>\$ 5,079</u>
<b>SUPPLEMENTAL INFORMATION:</b>		
Cash paid for interest	\$ 39,959	\$ 39,545
Cash paid for interest on mandatorily redeemable debt	\$ 2,462	\$ 2,509
Cash paid for state income taxes	\$ 492	\$ 526
Noncash investing and financing activities:		
Unrealized gain (loss) on interest rate swaps	\$ (1,018)	\$ 832
Reduction in secured borrowing balance	\$ 5,228	\$ 2,846

*See accompanying Notes to Consolidated Financial Statements.*

**SUN COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. Basis of Presentation**

These unaudited interim Consolidated Financial Statements of Sun Communities, Inc., a Maryland corporation, and all wholly-owned or majority-owned and controlled subsidiaries, including Sun Communities Operating Limited Partnership (the “Operating Partnership”), SunChamp LLC (“SunChamp”), and Sun Home Services, Inc. (“SHS”), have been prepared pursuant to the Securities and Exchange Commission (“SEC”) rules and regulations and in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Certain information and footnote disclosures required for annual financial statements have been condensed or excluded pursuant to SEC rules and regulations. Accordingly, the interim financial statements do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with the Consolidated Financial Statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2009 as filed with the SEC on March 11, 2010, as amended on March 30, 2010 (the “2009 Annual Report”).

Reference in this report to Sun Communities, Inc., “we”, “our”, “us” and the “Company” refer to Sun Communities, Inc. and its subsidiaries, unless the context indicates otherwise.

The accompanying Consolidated Financial Statements reflect, in the opinion of management, all adjustments necessary for a fair presentation of the interim financial statements. All such adjustments are of a normal and recurring nature.

We completed the sale of our cable television services business during the third quarter ended September 30, 2009. The cable television services business has been classified and presented as discontinued operations in the Consolidated Financial Statements and related notes. See Note 2 for additional information.

The following Notes to Consolidated Financial Statements present interim disclosures as required by the SEC. These statements have been prepared on a basis that is substantially consistent with the accounting principles applied in our 2009 Annual Report.

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

**2. Discontinued Operations**

In the third quarter of 2009, we sold our investments in certain land improvements and equipment that provided cable television services to certain communities within the Real Property Operations segment. Cash proceeds from this sale were \$0.3 million, resulting in a net gain on sale of \$0.1 million. The results of the cable television service business for the prior periods have been presented as a discontinued operation in the Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Total revenues	\$ -	\$ 268	\$ -	\$ 623
Total expenses	-	(91)	-	(778)
Income (loss) from discontinued operations	-	177	-	(155)
Less: amounts attributable to noncontrolling interest	-	19	-	(16)
Income (loss) from discontinued operations attributable to Sun Communities, Inc. common stockholders	\$ -	\$ 158	\$ -	\$ (139)

**SUN COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**3. Investment Property**

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

	September 30, 2010	December 31, 2009
Land	\$ 116,363	\$ 116,266
Land improvements and buildings	1,189,587	1,183,613
Rental homes and improvements	204,727	203,435
Furniture, fixtures, and equipment	36,131	35,400
Land held for future development	26,889	26,986
Investment property	1,573,697	1,565,700
Accumulated depreciation	(536,612)	(501,395)
Investment property, net	<u>\$ 1,037,085</u>	<u>\$ 1,064,305</u>

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

In September 2009, a flood caused substantial damage to our property, Countryside Village of Atlanta, located in Lawrenceville, Georgia. We have comprehensive insurance coverage for both property damage and business interruption, subject to deductibles and certain limitations. We recorded a charge of \$0.8 million associated with the flooding in the third quarter of 2009. This charge represents our deductible, net of expected insurance recoveries for the replacement of assets that exceed the net book value of assets damaged in the flood. The claim remains under review.

**4. Transfers of Financial Assets**

We have completed various transactions involving our installment notes and during 2010 we have received a total of \$21.9 million of cash proceeds, including \$6.3 million which was transferred at par value as a lump sum transaction in May 2010, in exchange for relinquishing our right, title and interest in the installment notes. We have no further obligations or rights with respect to the control, management, administration, servicing, or collection of the installment notes.

However, we are subject to certain recourse provisions requiring us to purchase the underlying homes collateralizing such notes, in the event of a note default and subsequent repossession of the home. The recourse provisions are considered to be a form of continuing involvement, and we have recorded these transactions as a transfer of financial assets.

In the event of note default, and subsequent repossession of a manufactured home, the terms of the agreement require us to repurchase the manufactured home. Default is defined as the failure to repay the installment note according to contractual terms. The repurchase price is calculated as a percentage of the outstanding principal balance of the installment note, plus any outstanding late fees, accrued interest, legal fees, and escrow advances associated with the installment note. The percentage used to determine the repurchase price of the outstanding principal balance on the installment note is based on the number of payments made on the note. In general, the repurchase price is determined as follows:

Number of Payments	Recourse %
Less than or equal to 15	100%
Greater than 15 but less than 64	90%
64 or more	65%

The transferred assets have been classified as collateralized receivables in Notes and Other Receivables (see Note 5) and the cash proceeds received from these transactions have been classified as a secured borrowing in Debt (see Note 7) within the Consolidated Balance Sheets. The balance of the collateralized receivables was \$68.8 million (net of allowance of \$0.2 million) and \$52.2 million (net of allowance of \$0.2 million) as of September 30, 2010 and December 31, 2009, respectively. The outstanding balance on the secured borrowing was \$69.0 million and \$52.4 million as of September 30, 2010 and December 31, 2009, respectively.



**SUN COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**4. Transfers of Financial Assets, continued**

The balances of the collateralized receivables and secured borrowings fluctuate. The balances increase as additional installment notes are transferred and exchanged for cash proceeds. The balances are reduced as the related installment notes are collected from the customers, or as the underlying collateral is repurchased. The change in the aggregate gross principal balance of the collateralized receivables is as follows (in thousands):

Beginning balance as of December 31, 2009	\$ 52,368
Financed sales of manufactured homes	21,878
Principal payments and payoffs from our customers	(2,485)
Repurchases	(2,743)
Total activity	16,650
Ending balance as of September 30, 2010	\$ 69,018

The collateralized receivables earn interest income and the secured borrowings accrue interest expense at the same interest rates. The amount of interest income and expense recognized was \$1.8 million and \$1.2 million for the three months ended September 30, 2010 and 2009, respectively. The amount of interest income and expense recognized was \$5.0 million and \$2.8 million for the nine months ended September 30, 2010 and 2009, respectively.

**5. Notes and Other Receivables**

The following table sets forth certain information regarding notes and other receivables (in thousands):

	September 30, 2010	December 31, 2009
Installment notes receivable on manufactured homes, net	\$ 8,847	\$ 12,627
Collateralized receivables, net (see Note 4)	68,795	52,201
Other receivables, net	8,040	9,202
Total notes and other receivables, net	\$ 85,682	\$ 74,030

*Installment Notes Receivable on Manufactured Homes*

The installment notes of \$8.8 million (net of allowance of \$0.1 million) and \$12.6 million (net of allowance of \$0.1 million) as of September 30, 2010 and December 31, 2009, respectively, are collateralized by manufactured homes. The notes represent financing provided by us to purchasers of manufactured homes generally located in our communities and require monthly principal and interest payments. The notes have a net weighted average interest rate and maturity of 6.7 percent and 11.0 years as of September 30, 2010, and 7.4 percent and 12.4 years as of December 31, 2009.

*Collateralized Receivables*

Certain transactions involving our installment notes were recorded as a transfer of financial assets (see Note 4) and classified as collateralized receivables. The receivables have a balance of \$68.8 million (net of allowance of \$0.2 million) and \$52.2 million (net of allowance of \$0.2 million) as of September 30, 2010 and December 31, 2009, respectively. The receivables have a net weighted average interest rate and maturity of 11.3 percent and 13.5 years as of September 30, 2010, and 10.9 percent and 13.8 years as of December 31, 2009.

*Allowance for Losses for Collateralized and Installment Notes Receivable*

We are generally able to recover our investment in uncollectible notes receivable by repurchasing the homes that collateralized these notes receivable and then selling or leasing these homes to potential residents in our communities. Although our experience supports a high recovery rate for repossessed homes, we believe there is some degree of uncertainty about recoverability of our investment in these repossessed homes. We have established a loan loss reserve to record our estimated unrecoverable costs associated with these repossessed homes. We estimate our unrecoverable costs to be the repurchase price plus repair and remarketing costs that exceed the estimated selling price of the home being repossessed. A historical average of this excess cost is calculated based on prior repossessions and applied to our estimated annual future repossessions to create the allowance for installment notes and collateralized receivables. The allowance for losses for collateralized and installment notes receivable was approximately \$0.3 million as of September 30, 2010 and December 31, 2009.

**SUN COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**5. Notes and Other Receivables, continued**

*Other Receivables*

Other receivables were comprised of amounts due from residents for rent and water usage of \$1.6 million (net of allowance of \$0.4 million), home sale proceeds of \$2.7 million, insurance receivables of \$0.9 million, and rebates and other receivables of \$2.8 million as of September 30, 2010. Other receivables were comprised of amounts due from residents for rent and water usage of \$1.5 million (net of allowance of \$0.2 million), home sale proceeds of \$3.4 million, an employee loan of \$0.5 million, insurance receivables of \$0.9 million, and rebates and other receivables of \$2.9 million as of December 31, 2009.

*Officer's Notes*

Officer's notes, presented as a portion of the stockholders' deficit in the balance sheet, are 10 year, LIBOR + 1.75% notes, with a minimum and maximum interest rate of 6% and 9%, respectively. The following table sets forth certain information regarding officer's notes as of September 30, 2010 and December 31, 2009 (in thousands except for common stock and OP units):

	September 30, 2010			December 31, 2009		
	Outstanding Principal Balance	Secured by		Outstanding Principal Balance	Secured by	
Promissory Notes		Common Stock	Common OP Units		Common Stock	Common OP Units
Secured - \$1.3 million	\$ 337	20,705	-	\$ 581	35,756	-
Secured - \$6.6 million	1,708	45,974	33,075	2,952	79,395	57,118
Secured - \$1.0 million	265	24,476	-	457	42,268	-
Subtotal secured notes	2,310	91,155	33,075	3,990	157,419	57,118
Unsecured - \$1.0 million	265	-	-	457	-	-
Unsecured - \$1.3 million	337	-	-	581	-	-
Subtotal unsecured notes	602	-	-	1,038	-	-
Total promissory notes	\$ 2,912	91,155	33,075	\$ 5,028	157,419	57,118

The officer's personal liability on the secured promissory notes is limited to all accrued interest on such notes plus fifty percent of the deficiency, if any, after application of the proceeds from the sale of the secured shares and/or the secured units to the then outstanding principal balance of the promissory notes. The value of secured common stock and secured OP Units total approximately \$3.8 million based on the closing price of our shares on the New York Stock Exchange of \$30.70 as of September 30, 2010. The unsecured notes are fully recourse to the officer.

Total interest received was insignificant for the three months ended September 30, 2010 and \$0.1 million for the three months ended September 30, 2009. Total interest received was \$0.1 million and \$0.2 million for the nine months ended September 30, 2010 and 2009, respectively. The reduction in the aggregate principal balance of these notes was \$2.1 million and \$3.2 million for the nine months ended September 30, 2010 and 2009, respectively. The terms of the officer's notes require that any remaining balance is due on December 31, 2010.

**6. Investment in Affiliates**

*Origen Financial, LLC. ("LLC")*

In August 2008, we entered into an agreement with four unrelated companies ("Members") to form a new limited liability company. We contributed cash of approximately \$0.5 million toward the formation of the LLC. The LLC purchased the origination platform of Origen Financial, Inc. ("Origen"). The purpose of the venture is to originate manufactured housing installment contracts for its Members thereby eliminating the need for us to become licensed to originate loans in each of the 18 states in which we do business.

**SUN COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**6. Investment in Affiliates, continued**

As of September 30, 2010, we had an ownership interest in the LLC of 25 percent. In December 2009, we concluded that our investment in the LLC was not recoverable due to operating losses, liquidity concerns, and declining revenue trends and recorded an other than temporary impairment charge to reduce the carrying value of our investment to zero. Equity accounting is suspended in periods when the recognition of equity losses would reduce the carrying value of our investment below zero and also because we are not obligated to provide additional funding to the LLC. In the event the LLC reports net income in future periods, we will resume application of the equity method only after our share of the LLC's net income equals or exceeds the share of net losses not recognized during the period in which equity accounting was suspended. We recorded a loss associated with our equity allocation of the LLC's financial results for the three months ended September 30, 2010 which completely offset the insignificant amount of income we recorded in the three months ended June 30, 2010. The carrying value of our investment in the LLC was zero as of September 30, 2010. Our equity allocation of the LLC's losses was insignificant for the three months ended September 30, 2009 and \$0.1 million for the nine months ended September 30, 2009.

*Origen*

In October 2003, we purchased 5,000,000 shares of common stock of Origen. As of September 30, 2010, we had an ownership interest in Origen of approximately 19 percent, and the carrying value of our investment was zero. Our investment in Origen had a market value of approximately \$9.1 million based on a quoted market closing price of \$1.82 per share from the "Pink Sheet Electronic OTC Trading System" as of September 30, 2010.

Our equity allocations of the anticipated losses from Origen were an insignificant amount for the three months ended September 30, 2010 and \$1.6 million nine months ended September 30, 2010. Equity accounting is suspended in periods when the recognition of equity losses would reduce the carrying value of our investment below zero and also because we are not obligated to provide additional funding to Origen. In the event Origen reports net income in future periods, we will resume application of the equity method only after our share of Origen's net income equals or exceeds the share of net losses not recognized during the period in which equity accounting was suspended.

Our equity allocation for 2010 is based on estimated revenue and expense amounts included in the table below. These unaudited revenue and expense amounts represent actual results through August 2010 and estimated September 2010 results. The Origen results for the nine months ended September 30, 2010 include an adjustment for the difference between the actual June 2010 results and estimated June 2010 results previously reported. We recorded our equity allocation of the reported losses from Origen of \$0.8 million and \$1.2 million for the three and nine months ended September 30, 2009, respectively.

The following table sets forth certain summarized unaudited financial information for Origen (amounts in thousands):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Revenues	\$ 18,917	\$ 19,791	\$ 56,981	\$ 62,538
Expenses	(22,144)	(24,119)	(68,185)	(68,810)
Net loss	<u>\$ (3,227)</u>	<u>\$ (4,328)</u>	<u>\$ (11,204)</u>	<u>\$ (6,272)</u>

**7. Debt and Lines of Credit**

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

	<b>Principal Outstanding</b>		<b>Weighted Average Years to Maturity</b>		<b>Weighted Average Interest Rates</b>	
	<b>September 30, 2010</b>	<b>December 31, 2009</b>	<b>September 30, 2010</b>	<b>December 31, 2009</b>	<b>September 30, 2010</b>	<b>December 31, 2009</b>
Collateralized term loans - CMBS	\$ 465,344	\$ 471,299	3.8	4.6	5.1%	5.1%
Collateralized term loans - FNMA	370,260	373,501	3.7	4.4	4.1%	4.1%
Preferred OP Units	48,022	48,947	10.5	3.7	6.9%	6.8%
Secured borrowing (see Note 4)	69,018	52,368	13.5	13.8	11.3%	10.9%
Mortgage notes, other	212,115	213,327	4.9	5.6	5.2%	5.2%
Total debt	<u>\$ 1,164,759</u>	<u>\$ 1,159,442</u>	4.8	5.1	5.3%	5.1%

**SUN COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**7. Debt and Lines of Credit, continued**

*Collateralized Term Loans*

The collateralized term loans totaling \$835.6 million as of September 30, 2010, are secured by 87 properties comprised of 31,272 sites representing approximately \$524.0 million of net book value.

*Preferred OP Units*

We redeemed \$0.9 million and \$0.5 million of Series B-3 Preferred OP Units in the nine months ended September 30, 2010 and 2009, respectively.

Our Operating Partnership had \$35.8 million of convertible Preferred OP Units that were redeemable January 1, 2014. In February 2010, our Operating Partnership completed a ten year extension on the redemption date associated with the \$35.8 million convertible Preferred OP Units. The Preferred OP Units provided for an annual preferred rate that was the greater of the 10 year U.S. Treasury bond yield in effect as of January 2nd each calendar year plus a spread of 239 basis points, or 6.5 percent, but no greater than 8.6 percent. In connection with the extension, the maximum annual preferred rate on the Preferred OP Units was increased to 9.0 percent from 8.6 percent. These Preferred OP Units are convertible into 526,212 common shares based on a conversion price of \$68 per share.

*Secured Borrowing*

See Note 4 for additional information regarding our collateralized receivables and secured borrowing transactions.

*Mortgage Notes*

The mortgage notes totaling \$212.1 million as of September 30, 2010, are collateralized by 19 communities comprised of 6,394 sites representing approximately \$178.0 million of net book value.

*Lines of Credit*

We have an unsecured revolving line of credit facility with a maximum borrowing capacity of \$115.0 million, subject to certain borrowing base calculations. The outstanding balance on the line of credit was \$78.8 million and \$89.1 million as of September 30, 2010 and December 31, 2009, respectively. In addition, \$4.0 million of availability was used to back standby letters of credit as of September 30, 2010 and December 31, 2009. Borrowings under the line of credit bear an interest rate of LIBOR plus 165 basis points, or Prime plus 40 basis points at our option. Prime means for any month, the prevailing "prime rate" as quoted in the *Wall Street Journal*. The weighted average interest rate on the outstanding borrowings was 1.9 percent as of September 30, 2010. The borrowings under the line of credit mature October 1, 2011. As of September 30, 2010 and December 31, 2009, \$32.2 million and \$21.9 million, respectively, were available to be drawn under the facility based on the calculation of the borrowing base at each date.

In May 2010, we entered into a \$20.0 million secured line of credit agreement collateralized by a portion of our rental home portfolio. The net book value of the rental homes pledged as security for the loan must meet or exceed 200 percent of the outstanding loan balance. The agreement has a maximum 10 year term that can be prepaid partially or in full at our option any time before the maturity date without penalty. The terms of the agreement require interest only payments for the first 5 years, with the remainder of the term being amortized based on a 10 year term. The interest rate for the first 5 years is Prime plus 200 basis points, with a minimum rate of 5.5 percent and a maximum rate of 9.0 percent (effective rate 5.5 percent at September 30, 2010); and thereafter at a fixed rate of 5.15 percent over the 5-year U.S. Treasury rate in effect on May 1, 2015. Prime shall mean the prime rate published in the *Wall Street Journal* adjusted the first day of each calendar month. The outstanding balance was \$9.0 million as of September 30, 2010 and was collateralized by 522 rental homes with a net book value of \$18.0 million.

In March 2009, we entered into a \$10.0 million manufactured home floor plan facility. The floor plan facility initially had a committed term of one year. In February 2010, the floor plan facility was renewed indefinitely until our lender provides us 12 month notice of their intent to terminate the agreement. The interest rate is 100 basis points over the greater of Prime or 6.0 percent (effective rate 7.0 percent at September 30, 2010). Prime means the prevailing "prime rate" as quoted in the *Wall Street Journal* on the first business day of each month. The outstanding balance was \$4.1 million and \$5.4 million as of September 30, 2010 and December 31, 2009, respectively.

**SUN COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**7. Debt and Lines of Credit, continued**

As of September 30, 2010, the total of maturities and amortization of debt and lines of credit during the next five years, are as follows (in thousands):

	Maturities and Amortization By Year						
	Total Due	2010	2011	2012	2013	2014	After 5 years
Lines of credit	\$ 91,910	\$ -	\$ 82,910	\$ -	\$ -	\$ -	\$ 9,000
Mortgage loans payable:							
Maturities	988,027	-	103,708	31,577	26,818	480,894	345,030
Principal amortization	59,692	3,632	13,887	13,040	13,260	8,457	7,416
Preferred OP Units	48,022	370	-	4,300	3,345	4,225	35,782
Secured borrowing	69,018	647	2,764	3,070	3,349	3,664	55,524
Total	<u>\$ 1,256,669</u>	<u>\$ 4,649</u>	<u>\$ 203,269</u>	<u>\$ 51,987</u>	<u>\$ 46,772</u>	<u>\$ 497,240</u>	<u>\$ 452,752</u>

The most restrictive of our debt agreements place limitations on secured and unsecured borrowings and contain minimum fixed charge coverage, leverage, distribution and net worth requirements. As of September 30, 2010, we were in compliance with all covenants.

**8. Equity Transactions**

In November 2004, our Board of Directors authorized us to repurchase up to 1,000,000 shares of our common stock. We have 400,000 common shares remaining in the repurchase program. No common shares were repurchased under this buyback program during 2010 or 2009. There is no expiration date specified for the buyback program.

Common OP Unit holders can convert their Common OP units into an equivalent number of shares of common stock at any time. During 2010, holders of Common OP Units converted 32,699 units to common stock.

The vesting requirements for 52,273 restricted shares granted to our employees were satisfied during the nine months ended September 30, 2010.

Our shelf registration statement on Form S-3 for a proposed offering of up to \$300.0 million of our common stock, preferred stock and debt securities was declared effective with the SEC in May 2009. We entered into a sales agreement to issue and sell up to 1,600,000 shares of common stock from time to time pursuant to our effective shelf registration statement on Form S-3. Sales under the agreement commenced during the third quarter of 2009. We issued 736,800 shares of common stock during the nine months ended September 30, 2010. The shares of common stock were sold at the prevailing market price of our common stock at the time of each sale with a weighted average sale price of \$29.14. During the nine months ended September 30, 2010, we received net proceeds of approximately \$21.0 million related to the issuance of common stock. The proceeds were used to pay down our unsecured line of credit. We issued an additional 100,000 shares of common stock at a weighted average sale price of \$31.29 and received additional net proceeds of \$3.1 million subsequent to September 30, 2010. We have 663,200 shares remaining and we may continue to sell shares of common stock under this program from time to time based on market conditions, although we are not under any obligation to sell shares.

On August 6, 2010, we entered into a Common Stock Purchase Agreement (the "Purchase Agreement") with REIT Opportunity, Ltd. ("REIT Ltd."), which provides that, upon the terms and subject to the conditions set forth in the Purchase Agreement, REIT Ltd. is committed to purchase up to the lesser of \$100,000,000 of our common stock, or 3,889,493 shares of our common stock, which is equal to one share less than twenty percent of our issued and outstanding shares of common stock on the effective date of the Purchase Agreement. From time to time over the two year term of the Purchase Agreement, and at our sole discretion, we may present REIT Ltd. with draw down notices to purchase our common stock. Any and all issuances of shares of common stock to REIT Ltd. pursuant to the Purchase Agreement will be registered on our effective shelf registration statement on Form S-3. No common shares were purchased under this agreement as of September 30, 2010.

**SUN COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**8. Equity Transactions, continued**

Cash dividends of \$0.63 and \$1.89 per share were declared for the three and nine months ended September 30, 2010, respectively. Cash payments for aggregate dividends, distributions and dividend equivalents made to common stockholders, common OP unitholders, and restricted stockholders were \$13.5 million and \$40.0 million for three and nine months ended September 30, 2010, respectively. On October 22, 2010, aggregate dividends, distributions and dividend equivalents of \$13.7 million were made to common stockholders, common OP unitholders, and restricted stockholders of record on October 12, 2010.

**9. Share-Based Compensation**

On August 30, 2010, we issued 5,000 shares of restricted stock to a key employee under the 2009 Equity Plan. The awards vest ratably over a six year period beginning on the third anniversary of the grant date, and have a fair value of \$28.31 per share. The fair value was determined by using the closing share price of our common stock on the date the grant was issued.

During the nine months ended September 30, 2010, 1,890 shares of common stock were issued in connection with the exercise of stock options and the net proceeds we received were less than \$0.1 million.

On July 28, 2010, we issued 10,500 director options under our 2004 Non-Employee Director Option Plan. The weighted average fair value of the options issued is estimated on the date of the grant using the Binomial (lattice) option pricing model, with the following weighted average assumptions used for the grants in the period indicated:

	<b>July 2010 Award</b>
Estimated fair value per share of options granted:	\$ 6.93
Assumptions:	
Annualized dividend yield	8.50%
Common stock price volatility	40.77%
Risk-free rate of return	2.40%
Expected option terms (in years)	7.3

**10. Other Loss**

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Brokerage commissions	\$ 80	\$ 107	\$ 354	\$ 380
Gain on sale of land	-	94	-	90
Loss on disposition of assets, net	(664)	(454)	(1,210)	(565)
Other, net	(70)	(5)	108	(66)
Total other loss, net	<u>\$ (654)</u>	<u>\$ (258)</u>	<u>\$ (748)</u>	<u>\$ (161)</u>

**SUN COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**11. Segment Reporting**

Our consolidated operations can be segmented into Real Property Operations and Home Sales and Rentals. Transactions between our segments are eliminated in consolidation. Seasonal recreational vehicle revenue is included in Real Property Operations' revenues and is approximately \$5.5 million annually. This seasonal revenue is recognized approximately 50% in the first quarter, 6.5% in both the second and third quarters and 37% in the fourth quarter of each fiscal year.

A presentation of segment financial information is summarized as follows (amounts in thousands):

	<b>Three Months Ended September 30, 2010</b>			<b>Three Months Ended September 30, 2009</b>		
	<b>Real Property Operations</b>	<b>Home Sales and Home Rentals</b>	<b>Consolidated</b>	<b>Real Property Operations</b>	<b>Home Sales and Home Rentals</b>	<b>Consolidated</b>
Revenues	\$ 50,169	\$ 12,459	\$ 62,628	\$ 48,597	\$ 13,495	\$ 62,092
Operating expenses/Cost of sales	17,755	9,484	27,239	17,097	9,910	27,007
Net operating income/Gross profit	32,414	2,975	35,389	31,500	3,585	35,085
Adjustments to arrive at net income (loss):						
Other revenues (loss)	1,455	(38)	1,417	1,308	(8)	1,300
General and administrative	(3,408)	(1,873)	(5,281)	(3,687)	(1,890)	(5,577)
Georgia flood damage	-	-	-	(800)	-	(800)
Depreciation and amortization	(11,154)	(5,314)	(16,468)	(11,045)	(4,796)	(15,841)
Interest expense	(16,304)	(190)	(16,494)	(15,876)	(72)	(15,948)
Equity loss from affiliates, net	(19)	(50)	(69)	(836)	(18)	(854)
Provision for state income tax	(143)	-	(143)	(103)	-	(103)
Income (loss) from continuing operations	2,841	(4,490)	(1,649)	461	(3,199)	(2,738)
Income from discontinued operations	-	-	-	177	-	177
Net income (loss)	2,841	(4,490)	(1,649)	638	(3,199)	(2,561)
Less: Net income (loss) attributable to noncontrolling interest	197	(443)	(246)	(189)	(337)	(526)
Net income (loss) attributable to Sun Communities, Inc.	<u>\$ 2,644</u>	<u>\$ (4,047)</u>	<u>\$ (1,403)</u>	<u>\$ 827</u>	<u>\$ (2,862)</u>	<u>\$ (2,035)</u>

	<b>Nine Months Ended September 30, 2010</b>			<b>Nine Months Ended September 30, 2009</b>		
	<b>Real Property Operations</b>	<b>Home Sales and Home Rentals</b>	<b>Consolidated</b>	<b>Real Property Operations</b>	<b>Home Sales and Home Rentals</b>	<b>Consolidated</b>
Revenues	\$ 152,124	\$ 40,225	\$ 192,349	\$ 148,093	\$ 39,561	\$ 187,654
Operating expenses/Cost of sales	52,263	30,178	82,441	50,791	29,736	80,527
Net operating income/Gross profit	99,861	10,047	109,908	97,302	9,825	107,127
Adjustments to arrive at net income (loss):						
Other revenues	5,157	269	5,426	4,046	248	4,294
General and administrative	(12,525)	(5,659)	(18,184)	(12,753)	(5,532)	(18,285)
Georgia flood damage	-	-	-	(800)	-	(800)
Depreciation and amortization	(33,565)	(15,880)	(49,445)	(33,318)	(14,642)	(47,960)
Interest expense	(48,264)	(426)	(48,690)	(46,379)	(223)	(46,602)
Equity loss from affiliates, net	(1,646)	-	(1,646)	(1,211)	(133)	(1,344)
Provision for state income tax	(404)	-	(404)	(382)	-	(382)
Income (loss) from continuing operations	8,614	(11,649)	(3,035)	6,505	(10,457)	(3,952)
Loss from discontinued operations	-	-	-	(155)	-	(155)
Net income (loss)	8,614	(11,649)	(3,035)	6,350	(10,457)	(4,107)
Less: Net income (loss) attributable to noncontrolling interest	649	(1,169)	(520)	418	(1,108)	(690)
Net income (loss) attributable to Sun Communities, Inc.	<u>\$ 7,965</u>	<u>\$ (10,480)</u>	<u>\$ (2,515)</u>	<u>\$ 5,932</u>	<u>\$ (9,349)</u>	<u>\$ (3,417)</u>

**SUN COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**11. Segment Reporting, continued**

	September 30, 2010			December 31, 2009		
	Real Property Operations	Home Sales and Home Rentals	Consolidated	Real Property Operations	Home Sales and Home Rentals	Consolidated
Identifiable assets:						
Investment property, net	\$ 898,635	\$ 138,450	\$ 1,037,085	\$ 922,094	\$ 142,211	\$ 1,064,305
Cash and cash equivalents	4,291	415	4,706	4,616	(120)	4,496
Inventory of manufactured homes	-	2,243	2,243	-	3,934	3,934
Investment in affiliate	-	-	-	1,646	-	1,646
Notes and other receivables	81,934	3,748	85,682	69,625	4,405	74,030
Other assets	32,089	2,257	34,346	30,624	2,330	32,954
Total assets	<u>\$ 1,016,949</u>	<u>\$ 147,113</u>	<u>\$ 1,164,062</u>	<u>\$ 1,028,605</u>	<u>\$ 152,760</u>	<u>\$ 1,181,365</u>

**12. Derivative Instruments and Hedging Activities**

Our objective in using interest rate derivatives is to manage exposure to interest rate movements thereby minimizing the effect of interest rate changes and the effect it could have on future cash flows. Interest rate swaps and caps are used to accomplish this objective. We require hedging derivative instruments to be highly effective in reducing the risk exposure that they are designated to hedge. We formally designate any instrument that meets these hedging criteria as a hedge at the inception of the derivative contract.

As of September 30, 2010, we had four derivative contracts consisting of three interest rate swap agreements with a total notional amount of \$70.0 million and an interest rate cap agreement with a notional amount of \$152.4 million. We generally employ derivative instruments that effectively convert a portion of our variable rate debt to fixed rate debt and to cap the maximum interest rate on certain variable rate borrowings. We do not enter into derivative instruments for speculative purposes.

The following table provides the terms of our interest rate derivative contracts that were in effect as of September 30, 2010:

Type	Purpose	Effective Date	Maturity Date	Notional (in millions)	Based on	Variable Rate	Fixed Rate	Spread	Effective Fixed Rate
Swap	Floating to Fixed Rate	09/04/02	07/03/12	25.0	3 Month LIBOR	0.5336%	4.7000%	2.0000%	6.7000%
Swap	Floating to Fixed Rate	01/02/09	01/02/14	20.0	3 Month LIBOR	0.5339%	2.1450%	2.0000%	4.1450%
Swap	Floating to Fixed Rate	02/13/09	02/13/11	25.0	1 Month LIBOR	0.2573%	1.5700%	2.0500%	3.6200%
Cap	Cap Floating Rate	04/28/09	05/01/12	152.4	3 Month LIBOR	0.2894%	11.0000%	0.0000%	N/A

Our financial derivative instruments are designated and qualify as cash flow hedges and the effective portion of the gain or loss on such hedges are reported as a component of accumulated other comprehensive income (loss) in our Consolidated Balance Sheets. To the extent that the hedging relationship is not effective, the ineffective portion is recorded in interest expense. Hedges that receive designated hedge accounting treatment are evaluated for effectiveness at the time that they are designated as well as through the hedging period.

We have recorded the fair value of our derivative instruments designated as cash flow hedges on the balance sheet. See Note 15 for information on the determination of fair value for the derivative instruments. The following table summarizes the fair value of derivative instruments included in our Consolidated Balance Sheets as of September 30, 2010 and December 31, 2009 (in thousands):

	Asset Derivatives			Liability Derivatives		
	Balance Sheet Location	Fair Value		Balance Sheet Location	Fair Value	
		September 30, 2010	December 31, 2009		September 30, 2010	December 31, 2009
Derivatives designated as hedging instruments						
Interest rate swaps and cap agreement	Other assets	\$ -	\$ 379	Other liabilities	\$ 2,778	\$ 2,123
Total derivatives designated as hedging instruments		<u>\$ -</u>	<u>\$ 379</u>		<u>\$ 2,778</u>	<u>\$ 2,123</u>



**SUN COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**12. Derivative Instruments and Hedging Activities, continued**

These valuation adjustments will only be realized under certain situations. For example, if we terminate the swaps prior to maturity or if the derivatives fail to qualify for hedge accounting, then we would need to amortize amounts currently included in other comprehensive income (loss) into interest expense over the terms of the derivative contracts. We do not intend to terminate the swaps prior to maturity and, therefore, the net of valuation adjustments through the various maturity dates will approximate zero, unless the derivatives fail to qualify for hedge accounting.

Our hedges were highly effective and had minimal effect on income. The following table summarizes the impact of derivative instruments for the three months ended September 30, 2010 and 2009 as recorded in the Consolidated Statements of Operations (in thousands):

Derivatives in cash flow hedging	Amount of Gain or (Loss) Recognized in OCI (Effective Portion)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)		Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	Three Months Ended September 30,			Three Months Ended September 30,			Three Months Ended September 30,	
	2010	2009		2010	2009		2010	2009
Interest rate swaps and cap agreement	\$ (260)	\$ (494)	Interest expense	\$ -	\$ -	Interest expense	\$ (4)	\$ (7)
Total	\$ (260)	\$ (494)	Total	\$ -	\$ -	Total	\$ (4)	\$ (7)

The following table summarizes the impact of derivative instruments for the nine months ended September 30, 2010 and 2009 as recorded in the Consolidated Statements of Operations (in thousands):

Derivatives in cash flow hedging	Amount of Gain or (Loss) Recognized in OCI (Effective Portion)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)		Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	Nine Months Ended September 30,			Nine Months Ended September 30,			Nine Months Ended September 30,	
	2010	2009		2010	2009		2010	2009
Interest rate swaps and cap agreement	\$ (1,017)	\$ 832	Interest expense	\$ -	\$ -	Interest expense	\$ (17)	\$ 5
Total	\$ (1,017)	\$ 832	Total	\$ -	\$ -	Total	\$ (17)	\$ 5

Certain of our derivative instruments contain provisions that require us to provide ongoing collateralization on derivative instruments in a liability position. As of September 30, 2010 and December 31, 2009, we had collateral deposits recorded in other assets of approximately \$3.8 million and \$3.2 million, respectively.

**SUN COMMUNITIES, INC.**  
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**13. Income Taxes**

We have elected to be taxed as a real estate investment trust ("REIT") as defined under Section 856(c) of the Internal Revenue Code of 1986 ("Code"), as amended. In order for us to qualify as a REIT, at least ninety-five percent (95%) of our 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 our control. In addition, frequent changes occur in the area of REIT taxation which requires us to continually monitor our tax status. We analyzed the various REIT tests and confirmed that we continued to qualify as a REIT for the quarter ended September 30, 2010.

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

SHS, our taxable REIT subsidiary, is subject to U.S. federal income taxes. Our deferred tax assets and liabilities reflect the impact of temporary differences between the amounts of assets and liabilities for financial reporting purposes and the bases of such assets and liabilities as measured by tax laws. Deferred tax assets are reduced, if necessary, by a valuation allowance to the amount where realization is more likely than not assured after considering all available evidence. Our temporary differences primarily relate to net operating loss carryforwards and depreciation. A federal deferred tax asset of \$1.0 million is included in other assets in our Consolidated Balance Sheets as of September 30, 2010 and December 31, 2009.

We had no unrecognized tax benefits as of September 30, 2010 and 2009. We expect no significant increases or decreases in unrecognized tax benefits due to changes in tax positions within one year of September 30, 2010.

We classify certain state taxes as income taxes for financial reporting purposes. We record the Michigan Business Tax and Texas Margin Tax as income taxes in our financial statements. We recorded a provision for state income taxes of approximately \$0.1 million for the three months ended September 30, 2010 and 2009. We recorded a provision for state income taxes of approximately \$0.4 million for the nine months ended September 30, 2010 and 2009.

A deferred tax liability is included in our Consolidated Balance Sheets of \$0.4 million, as of September 30, 2010 and December 31, 2009, in relation to the Michigan Business Tax. No deferred tax liability is recorded in relation to the Texas Margin Tax as of September 30, 2010 and December 31, 2009.

We and our subsidiaries are subject to income taxes in the U.S. and various state jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. With few exceptions, we are no longer subject to U.S. Federal, State and Local, examinations by tax authorities before 2005.

Our policy is to report income tax penalties and income tax related interest expense as a component of income tax expense. No interest or penalty associated with any unrecognized income tax benefit or provision was accrued, nor was any income tax related interest or penalty recognized during the nine months ended September 30, 2010.

**SUN COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**14. Loss Per Share**

We have outstanding stock options and unvested restricted shares, and our Operating Partnership has Common OP Units, and convertible Preferred OP Units, which if converted or exercised, may impact dilution. Although our unvested restricted shares qualify as participating securities, we do not include them in the computation of basic earnings (loss) per share under the two-class method in periods we report net losses, as the result would be anti-dilutive.

Computations of basic and diluted loss per share from continuing operations were as follows (in thousands, except per share data):

<b>Numerator</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Net loss from continuing operations attributable to common stockholders	\$ (1,403)	\$ (2,193)	\$ (2,515)	\$ (3,278)
<b>Denominator</b>				
Basic weighted average common shares outstanding	19,323	18,513	19,006	18,437
Add: dilutive securities	-	-	-	-
Diluted weighted average common shares and securities	<u>19,323</u>	<u>18,513</u>	<u>19,006</u>	<u>18,437</u>
Basic and diluted loss per share from continuing operations available to common stockholders	\$ (0.07)	\$ (0.12)	\$ (0.13)	\$ (0.18)

We excluded securities from the computation of diluted loss per share because the inclusion of these securities would have been anti-dilutive for the periods presented. The following table presents the number of outstanding potentially dilutive securities that were excluded from the computation of diluted loss per share as of September 30, 2010 and 2009 (amounts in thousands):

	<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>
Stock options	150	214
Unvested restricted stock	140	188
Common OP units	2,107	2,178
Convertible preferred OP units	526	526
Total securities	<u>2,923</u>	<u>3,106</u>

The figures above represent the total number of potentially dilutive securities, and do not reflect the incremental impact to the number of diluted weighted average shares outstanding that would be computed if the impact to us had been dilutive to the calculation of loss per share available to common stockholders.

**SUN COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**15. Fair Value of Financial Instruments**

Our financial instruments consist primarily of cash and cash equivalents, accounts and notes receivable, accounts payable, derivative instruments, and debt. We utilize fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

*Derivative Instruments*

The derivative instruments held by us are interest rate swaps and cap agreements for which quoted market prices are indirectly available. For those derivatives, we use model-derived valuations in which all observable inputs and significant value drivers are observable in active markets provided by brokers or dealers to determine the fair values of derivative instruments on a recurring basis.

*Installment Notes on Manufactured Homes*

The net carrying value of the installment notes on manufactured homes reasonably estimates the fair value of the underlying collateral (manufactured home) which would be placed into service for use in our Rental Program or held for sale.

*Long Term Debt and Lines of Credit*

The fair value of long term debt (excluding the secured borrowing) is based on the estimates of management and on rates currently quoted and rates currently prevailing for comparable loans and instruments of comparable maturities.

*Collateralized Receivables and Secured Borrowing*

The fair value of these financial instruments offset each other as our collateralized receivables represent a transfer of financial assets and the cash proceeds received from these transactions have been classified as a secured borrowing in the Consolidated Balance Sheets.

*Other Financial Instruments*

The carrying values of cash and cash equivalents, accounts receivable, and accounts payable approximate their fair market values due to the short-term nature of these instruments.

The table below sets forth our financial assets and liabilities that required disclosure of their fair values on a recurring basis as of September 30, 2010. The table presents the carrying values and fair values of our financial instruments as of September 30, 2010 and December 31, 2009 that were measured using the valuation techniques described above. The table excludes other financial instruments such as cash and cash equivalents, accounts receivable, and accounts payable because the carrying values associated with these instruments approximate fair value since their maturities are less than one year.

	<b>September 30, 2010</b>		<b>December 31, 2009</b>	
	<b>Carrying Value</b>	<b>Fair Value</b>	<b>Carrying Value</b>	<b>Fair Value</b>
<b>Financial assets</b>				
Derivative instruments	\$ -	\$ -	\$ 379	\$ 379
Installment notes on manufactured homes, net	8,847	8,847	12,627	12,627
Collateralized receivables, net	68,795	-	52,201	-
<b>Financial liabilities</b>				
Derivative instruments	\$ 2,778	\$ 2,778	\$ 2,123	\$ 2,123
Long term debt (excluding secured borrowing)	1,095,741	1,147,113	1,107,074	1,057,326
Secured borrowing	69,018	-	52,368	-
Lines of credit	91,910	91,910	94,465	94,465

**SUN COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**15. Fair Value of Financial Instruments, continued**

We use a fair value hierarchy established by FASB guidance that requires the use of observable market data, when available, and prioritizes the inputs to valuation techniques used to measure fair value in the following categories:

Level 1—Quoted unadjusted prices for identical instruments in active markets.

Level 2—Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations in which all observable inputs and significant value drivers are observable in active markets.

Level 3—Model derived valuations in which one or more significant inputs or significant value drivers are unobservable, including assumptions developed by us.

The table below sets forth, by level, our financial assets and liabilities that were required to be carried at fair value in the Consolidated Balance Sheets as of September 30, 2010.

<b>Assets</b>	<b>Total Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Derivative instruments	\$ -	\$ -	\$ -	\$ -
Total assets	\$ -	\$ -	\$ -	\$ -
<b>Liabilities</b>				
Derivative instruments	\$ 2,778	\$ -	\$ 2,778	\$ -
Total liabilities	\$ 2,778	\$ -	\$ 2,778	\$ -

**16. Recent Accounting Updates and Pronouncements**

*Accounting Updates to be Adopted*

In July 2010, the FASB issued ASU 2010-20, “Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses,” (ASU 2010-20) which amends ASC Topic 310, “Receivables,” which will require significant new disclosures about the allowance for credit losses and the credit quality of an entity’s financing receivables. The requirements are intended to enhance transparency regarding credit losses and the credit quality of financing receivables by disclosing an evaluation of (i) the nature of credit risk inherent in the entity’s portfolio of financing receivables, (ii) how that risk is analyzed and assessed in arriving at the allowance for credit losses and (iii) the changes and reasons for those changes in the allowance for credit losses. The new and amended disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The new and amended disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of ASU 2010-20 will impact disclosures and is not expected to have any impact on our results of operations or financial condition.

*Accounting Standards Adopted in 2010*

In June 2009, the FASB issued SFAS No. 166, “Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140”, which is included in ASC Topic 860, “Transfers and Servicing”. The updated guidance in ASC Topic 860 removes the concept of a QSPE and eliminates the exception for QSPEs from consolidation guidance. In addition, it also established specific conditions for reporting a transfer of a portion of a financial asset as a sale. If the transfer does not meet established sale conditions, sale accounting can be achieved only if the transferor transfers an entire financial asset or a group of entire financial assets and surrenders control over the entire transferred asset(s). The updated guidance in ASC Topic 860 is effective for fiscal years beginning after November 15, 2009. The adoption of the updated guidance within ASC Topic 860 did not have any impact on our results of operations or financial condition.

**SUN COMMUNITIES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**16. Recent Accounting Updates and Pronouncements, continued**

In June 2009, the FASB issued SFAS No. 167, “Amendments to FASB Interpretation No. 46(R)”, which is included in ASC Topic 810, Consolidation. The updated guidance in ASC Topic 810 requires an enterprise to perform an analysis to determine whether the enterprise’s variable interest or interests give it a controlling financial interest in a VIE. This analysis identifies the primary beneficiary of a VIE as the enterprise that has both of the following characteristics, among others: (a) the power to direct the activities of a VIE that most significantly impact the entity’s economic performance and (b) the obligation to absorb losses of the entity, or the right to receive benefits from the entity, that could potentially be significant to the VIE. Under the updated guidance in ASC Topic 810, ongoing reassessments of whether an enterprise is the primary beneficiary of a VIE are required. The updated guidance in ASC Topic 810 is effective as of the beginning of an entity’s first annual reporting period that begins after November 15, 2009. The adoption of the updated guidance within ASC Topic 810 did not have any impact on our results of operations or financial condition as we do not currently have an unconsolidated VIE.

**17. Commitments and Contingencies**

On or about November 19, 2009, we, Sun Secured Financing LLC, Aspen-Ft. Collins Limited Partnership, Sun Secured Financing Houston Limited Partnership, Sun Communities Finance, LLC, Sun Holly Forest LLC and Sun Saddle Oak LLC (collectively, the “Plaintiffs”) filed suit against ARCS Commercial Mortgage Co., L.P., PNC ARCS, LLC, and the Federal National Mortgage Association (collectively, the “Defendants”) in the United States District Court for the District of Columbia as Case No. 1:09-cv-02162. The essence of the dispute is whether the terms of a commercial credit facility permitted Defendants to increase the Variable Facility Fee applicable to the outstanding variable rate loans in conjunction with an extension of the credit facility (and, if so, whether the Defendants properly exercised that right). As of April 29, 2009, the Plaintiffs have been paying the increased Variable Facility Fee. The Plaintiffs seek a judgment for the amount paid above the original Variable Facility Fee from April 29, 2009 to the date of judgment and an order that the Variable Facility Fee shall be returned to the original rate of 58 basis points on a going forward basis through the end of the extension period. The Defendants’ motion to dismiss the lawsuit was denied and discovery is ongoing.

On June 4, 2010, we settled all of the claims arising out of the litigation filed in 2003 by TJ Holdings, LLC in the Superior Court of Guilford County, North Carolina and the associated arbitration proceeding commenced by TJ Holdings in Southfield, Michigan. Under the terms of the settlement agreement, in which neither party admitted any liability whatsoever, we paid TJ Holdings \$360,000. In addition, pursuant to this settlement, TJ Holdings’ percentage ownership interest in Sun/Forest, LLC will be increased on a one time basis, in the event of a sale or refinance of all of the Sunchamp Properties, to between 9.03% and 28.99% depending on our average closing stock price as reported by the NYSE during the 30 days preceding the sale or refinanc e of all the Sunchamp Properties. Once this percentage ownership interest has been adjusted, there will be no further adjustments from subsequent sales or refinances of the Sunchamp Properties. The likelihood of a sale or refinancing of all of the SunChamp properties is not probable and we do not expect it to have a material adverse impact, if any on our results of operations or financial condition.

We are 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.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 the notes thereto, along with our 2009 Annual Report. Capitalized terms are used as defined elsewhere in this Form 10-Q.

### OVERVIEW

We are a self-administered and self-managed real estate investment trust, or REIT. We own, operate, and develop manufactured housing communities concentrated in the midwestern, southern, and southeastern United States. We are fully integrated real estate companies which, together with our affiliates and predecessors, have been in the business of acquiring, operating, and expanding manufactured housing communities since 1975. As of September 30, 2010, we owned and operated a portfolio of 136 properties located in 18 states (the "Properties" or "Property"), including 124 manufactured housing communities, 4 recreational vehicle communities, and 8 properties containing both manufactured housing and recreational vehicle sites. As of September 30, 2010, the Properties contained an aggregate of 47,579 developed sites comprised of 42,328 developed manufactured home sites and 5,251 recreational vehicle sites and approximately 6,000 manufactured home sites suitable for development. We lease individual parcels of land ("sites") with utility access for placement of manufactured homes and recreational vehicles to our customers. The Properties are designed to offer affordable housing to individuals and families, while also providing certain amenities.

We are engaged through a taxable subsidiary, SHS, in the marketing, selling, and leasing of new and pre-owned homes to current and future residents in our communities. The operations of SHS support and enhance our occupancy levels, property performance, and cash flows.

### SIGNIFICANT ACCOUNTING POLICIES

We have identified significant accounting policies that, as a result of the judgments, uncertainties, and complexities of the underlying accounting standards and operations involved could result in material changes to our financial condition or results of operations under different conditions or using different assumptions. Details regarding significant accounting policies are described fully in our 2009 Annual Report.

**SUPPLEMENTAL MEASURES**

In addition to the results reported in accordance with GAAP, we have provided information regarding Net Operating Income (“NOI”) in the following tables. NOI is derived from revenues minus property operating expenses and real estate taxes. We use NOI as the primary basis to evaluate the performance of our operations. A reconciliation of NOI to net loss attributable to Sun Communities, Inc. is included in “Results of Operations” below.

We believe that NOI is helpful to investors and analysts as a measure of operating performance because it is an indicator of the return on property investment, and provides a method of comparing property performance over time. We use NOI as a key management tool when evaluating performance and growth of particular properties and/or groups of properties. The principal limitation of NOI is that it excludes depreciation, amortization, interest expense, and non-property specific expenses such as general and administrative expenses, all of which are significant costs, and therefore, NOI is a measure of the operating performance of our properties rather than of the Company overall. We believe that these costs included in net income (loss) often have no effect on the market value of our property and therefore limit its use as a performance measure. In addition, such expenses are often incurred at a parent company level and therefore are not necessarily linked to the performance of a real estate asset.

NOI should not be considered a substitute for the reported results prepared in accordance with GAAP. NOI should not be considered as an alternative to net income (loss) as an indicator of our financial performance, or to cash flows as a measure of liquidity; nor is it indicative of funds available for our cash needs, including our ability to make cash distributions. NOI, as determined and presented by us, may not be comparable to related or similarly titled measures reported by other companies.

We also provide information regarding Funds From Operations (“FFO”). A definition of FFO and a reconciliation of FFO to net loss are included in the presentation of FFO in “Results of Operations” following the “Comparison of the Nine Months ended September 30, 2010 and 2009”.

**RESULTS OF OPERATIONS**

We report operating results under two segments: Real Property Operations and Home Sales and Rentals. The Real Property Operations segment owns, operates, and develops manufactured housing communities concentrated in the midwestern, southern, and southeastern United States and is in the business of acquiring, operating, and expanding manufactured housing communities. The Home Sales and Rentals segment offers manufactured home sales and leasing services to tenants and prospective tenants of our communities. We evaluate segment operating performance based on NOI.

The accounting policies of the segments are the same as those applied in the Consolidated Financial Statements, except for the use of NOI. We may allocate certain common costs, primarily corporate functions, between the segments differently than we would for standalone financial information prepared in accordance with GAAP. These allocated costs include expenses for shared services such as information technology, finance, communications, legal, and human resources. We do not allocate interest expense and certain other corporate costs not directly associated with the segments’ NOI.



## COMPARISON OF THE THREE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

## REAL PROPERTY OPERATIONS - SAME SITE

A key management tool we use when evaluating performance and growth of our properties is a comparison of Same Site communities. Same Site communities consist of properties owned and operated for the same period in both years for the three months ended September 30, 2010 and 2009. Our Same Site portfolio is equal to our total portfolio for the three months ended September 30, 2010 and 2009. The Same Site data may change from time-to-time depending on acquisitions, dispositions, management discretion, significant transactions, or unique situations.

In order to evaluate the growth of the Same Site communities, management has classified certain items differently than our GAAP statements. The reclassification difference between our GAAP statements and our Same Site portfolio is the reclassification of water and sewer revenues from income from real property to utilities. A significant portion of our utility charges are re-billed to our residents. We reclassify these amounts to reflect the utility expenses associated with our Same Site portfolio net of recovery.

The following tables reflect certain financial and other information for our Same Site communities as of and for the three months ended September 30, 2010 and 2009:

Financial Information (in thousands)	Three Months Ended September 30,			
	2010	2009	Change	% Change
Income from Real Property	\$ 47,242	\$ 45,915	\$ 1,327	2.9%
Property operating expenses:				
Payroll and benefits	4,289	4,302	(13)	-0.3%
Legal, taxes, & insurance	759	706	53	7.5%
Utilities	2,620	2,641	(21)	-0.8%
Supplies and repair	2,350	2,100	250	11.9%
Other	997	818	179	21.9%
Real estate taxes	3,813	3,848	(35)	-0.9%
Property operating expenses	14,828	14,415	413	2.9%
Real Property NOI	\$ 32,414	\$ 31,500	\$ 914	2.9%

Other Information	As of September 30,		
	2010	2009	Change
Number of properties	136	136	-
Developed sites	47,579	47,587	(8)
Occupied sites <sup>(1)</sup>	38,445	37,954	491
Occupancy % <sup>(1)</sup>	84.5%	83.5%	1.0%
Weighted average monthly rent per site <sup>(2)</sup>	\$ 412	\$ 402	\$ 10
Sites available for development	5,574	5,583	(9)

<sup>(1)</sup> Occupied sites and occupancy % include manufactured housing and permanent recreational vehicle sites, and exclude seasonal recreational vehicle sites.

<sup>(2)</sup> Average rent relates only to manufactured housing sites, and excludes permanent and seasonal recreational vehicle sites.

Real Property NOI increased by approximately \$0.9 million or 2.9 percent. The growth in NOI is primarily due to increased revenues of \$1.3 million offset by increased expenses of \$0.4 million.

Income from real property consists of manufactured home and recreational vehicle site rent and miscellaneous other property revenues. Revenue from our manufactured home and recreational vehicle portfolio increased by \$1.2 million due to rental rate increases and the increased number of occupied home sites as indicated in the table above. This growth in revenue was partially offset by rent concessions offered to new residents and current residents who convert from home renters to home owners. We entered into a data service and cable royalty fee agreement in the fourth quarter of 2009 that has resulted in an increase of \$0.1 million in other miscellaneous property revenues.

Property operating expenses increased \$0.4 million or 2.9 percent. Supplies and repair expenses increased by \$0.2 million due to increased landscape maintenance costs. Other increased by \$0.1 million due to increased advertising costs and \$0.1 million due to increased bad debt expense that was due to an increase in the allowance for doubtful accounts.

## HOME SALES AND RENTALS

We acquire pre-owned and repossessed manufactured homes located within our communities from lenders and dealers at substantial discounts. We lease or sell these value priced homes to current and prospective residents. We also purchase new homes to lease and sell to current and prospective residents. The programs we have established for our customers to lease or buy new and pre-owned homes have helped to stabilize portfolio occupancy.

The Rental Program has proven to be an effective response to the adverse factors we faced during the industry downturn and will draw an estimated 17,500 applications per year to rent homes in our properties. The program has replaced the independent dealer network, a majority of which were forced to go out of business in prior years, which formerly directed potential residents to our properties.

The following table reflects certain financial and other information for our Rental Program as of and for the three months ended September 30, 2010 and 2009 (in thousands, except for certain items marked with \*):

Financial Information	Three Months Ended September 30,			
	2010	2009	Change	% Change
Rental home revenue	\$ 5,135	\$ 5,062	\$ 73	1.4%
Site rent from Rental Program <sup>(1)</sup>	7,164	6,738	426	6.3%
Rental Program revenue	12,299	11,800	499	4.2%
Expenses				
Payroll and commissions	453	556	(103)	-18.5%
Repairs and refurbishment	2,122	1,761	361	20.5%
Taxes and insurance	807	777	30	3.9%
Marketing and other	782	770	12	1.6%
Rental Program operating and maintenance	4,164	3,864	300	7.8%
Rental Program NOI	<u>\$ 8,135</u>	<u>\$ 7,936</u>	<u>\$ 199</u>	2.5%
<b>Other Information</b>				
Number of occupied rentals, end of period*	5,998	5,749	249	4.3%
Investment in occupied rental homes	\$ 193,324	\$ 180,118	\$ 13,206	7.3%
Number of sold rental homes*	193	185	8	4.3%
Weighted average monthly rental rate*	\$ 731	\$ 726	\$ 5	0.7%

<sup>(1)</sup> The renter's monthly payment includes the site rent and an amount attributable to the leasing of the home. The site rent is reflected in the Real Property Operations segment. For purposes of management analysis, the site rent is included in the Rental Program revenue to evaluate the revenue gains associated with implementation of the Rental Program, and assess the overall growth and performance of Rental Program and financial impact to the Company's operations.

Rental Program NOI increased \$0.2 million or 2.5 percent due to increased revenues of approximately \$0.5 million offset by increased expenses of \$0.3 million. Revenues increased approximately \$0.5 million primarily due to the increased number of residents participating in the Rental Program as indicated in the table above.

Operating and maintenance expenses increased \$0.3 million or 7.8 percent. Expenses associated with repairs and refurbishment increased by \$0.4 million, primarily due to increased preventative maintenance costs associated with our occupied rental homes for air conditioning units, siding, and skirting. Commissions decreased by approximately \$0.1 million due to a realignment of the commission plan that decreased the amount of commission paid on new and renewed leases.

**SUN COMMUNITIES, INC.**

The following table reflects certain financial and statistical information for our Home Sales Program for the three months ended September 30, 2010 and 2009 (in thousands, except for statistical information):

<b>Financial Information</b>	<b>Three Months Ended September 30,</b>			
	<b>2010</b>	<b>2009</b>	<b>Change</b>	<b>% Change</b>
New home sales	\$ 244	\$ 1,525	\$ (1,281)	-84.0%
Pre-owned home sales	7,080	6,908	172	2.5%
Revenue from homes sales	7,324	8,433	(1,109)	-13.2%
New home cost of sales	217	1,265	(1,048)	-82.8%
Pre-owned home cost of sales	5,103	4,781	322	6.7%
Cost of home sales	5,320	6,046	(726)	-12.0%
NOI / Gross profit	\$ 2,004	\$ 2,387	\$ (383)	-16.0%
Gross profit – new homes	27	260	(233)	-89.6%
Gross margin % – new homes	11.1%	17.0%		-5.9%
Gross profit – pre-owned homes	1,977	2,127	(150)	-7.1%
Gross margin % – pre-owned homes	27.9%	30.8%		-2.9%
<b>Statistical Information</b>				
Home sales volume:				
New home sales	3	21	(18)	-85.7%
Pre-owned home sales	340	272	68	25.0%
Total homes sold	343	293	50	17.1%

Home Sales NOI decreased by \$0.4 million or 16.0 percent due to reduced gross profit on new and pre-owned homes.

The gross margin on new home sales decreased 5.9 percent from 17.0 percent to 11.1 percent. The decline in the gross margin was primarily due to a 20 percent increase in average cost of sales partially offset by an increase in selling price.

The gross margin on pre-owned home sales decreased 2.9 percent from 30.8 percent to 27.9 percent. The majority of our pre-owned home sales are related to homes previously used in our Rental Program. These sales convert home renters to home owners and thereby allow us to recycle capital invested in the rental program. We decreased the average selling price of our pre-owned homes to increase the volume of sales thereby accelerating the recycling of this capital. Approximately 90 percent of these home sales are financed by third party lenders or are paid for in cash.

## OTHER INCOME STATEMENT ITEMS

**Other revenues** include other income, interest income, and ancillary revenues, net. Other revenues increased by \$0.1 million, from \$1.3 million to \$1.4 million, or 7.7 percent. This increase was primarily due to increased interest income on collateralized notes of \$0.7 million, mostly offset by decreased interest income on installment notes of \$0.2 million, increased losses associated with asset dispositions of \$0.2 million, increased expense associated with the note receivable loan loss reserve of \$0.1 million, and decreased gain recognized on the sale of land of \$0.1 million which occurred in the prior year. The interest income recognized on our collateralized receivables was offset by the same amount of interest expense associated with our secured borrowing arrangement. See Note 4 for additional information.

**Real Property general and administrative** costs decreased by \$0.3 million, from \$3.7 million to \$3.4 million, or 8.1 percent decrease due to decreased salary and other compensation costs of \$0.3 million and reduction in sales, use, and other taxes of \$0.2 million partially offset by increased insurance premiums and other corporate costs of \$0.2 million, .

**Home Sales and Rentals general and administrative** costs remained flat at \$1.9 million.

**Georgia flood damage** charges of \$0.8 million were recorded during the same period in the prior year. During the three months ended September 30, 2009, a flood caused substantial damage to our property, Countryside Village of Atlanta, located in Lawrenceville. We have comprehensive insurance coverage for both property damage and business interruption, subject to deductibles and certain limitations, and we have submitted a claim under these policies. The claim remains under review.

**Depreciation and amortization** costs increased by \$0.7 million, from \$15.8 million to \$16.5 million, or 4.4 percent due to increased depreciation on investment property for use in our Rental Program of \$0.5 million and increased depreciation on other investment property of \$0.2 million.

**Interest expense** on debt, including interest on mandatorily redeemable debt, increased by \$0.6 million, from \$15.9 million to \$16.5 million, or 3.8 percent due to increased expense associated with our secured borrowing arrangements of \$0.7 million, partially offset by a reduction in expense of \$0.1 million primarily due to lower interest rates charged on variable rate debt. The interest expense on our secured borrowing is offset completely by the interest income recognized on our collateralized receivables. See Note 4 for additional information.

**Equity loss from affiliates** decreased by \$0.8 million, from a loss of \$0.9 million to a loss of \$0.1 million due to the limited recognition of our allocation of Origen's and the LLC's equity losses. We suspend equity accounting in periods in which the recognition of equity losses would reduce the carrying value of our investment below zero.

The following is a summary of our consolidated financial results which were discussed in more detail in the preceding paragraphs (in thousands):

	Three Months Ended September 30,	
	2010	2009
Real Property NOI	\$ 32,414	\$ 31,500
Rental Program NOI	8,135	7,936
Home Sales NOI/Gross Profit	2,004	2,387
Site rent from Rental Program (included in Real Property NOI)	(7,164)	(6,738)
NOI/Gross profit	35,389	35,085
Adjustments to arrive at net loss:		
Other revenues	1,417	1,300
General and administrative	(5,281)	(5,577)
Georgia flood damage	-	(800)
Depreciation and amortization	(16,468)	(15,841)
Interest expense	(16,494)	(15,948)
Equity loss from affiliates, net	(69)	(854)
Provision for state income taxes	(143)	(103)
Loss from continuing operations	(1,649)	(2,738)
Income (loss) from discontinued operations	-	177
Net loss	(1,649)	(2,561)
Less: amounts attributable to noncontrolling interest	(246)	(526)
Net loss attributable to Sun Communities, Inc. common stockholders	\$ (1,403)	\$ (2,035)

## COMPARISON OF THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

## REAL PROPERTY OPERATIONS - SAME SITE

A key management tool we use when evaluating performance and growth of our properties is a comparison of Same Site communities. Same Site communities consist of properties owned and operated for the same period in both years for the nine months ended September 30, 2010 and 2009. Our Same Site portfolio is equal to our total portfolio for the nine months ended September 30, 2010 and 2009. The Same Site data may change from time-to-time depending on acquisitions, dispositions, management discretion, significant transactions, or unique situations.

In order to evaluate the growth of the Same Site communities, management has classified certain items differently than our GAAP statements. The reclassification difference between our GAAP statements and our Same Site portfolio is the reclassification of water and sewer revenues from income from real property to utilities. A significant portion of our utility charges are re-billed to our residents. We reclassify these amounts to reflect the utility expenses associated with our Same Site portfolio net of recovery.

The following tables reflect certain financial and other information for our Same Site communities as of and for the nine months ended September 30, 2010 and 2009:

Financial Information (in thousands)	Nine Months Ended September 30,			
	2010	2009	Change	% Change
Income from Real Property	\$ 143,603	\$ 140,405	\$ 3,198	2.3%
Property operating expenses:				
Payroll and benefits	12,045	11,757	288	2.4%
Legal, taxes, & insurance	2,136	2,370	(234)	-9.9%
Utilities	8,792	9,150	(358)	-3.9%
Supplies and repair	5,953	5,351	602	11.3%
Other	2,640	2,325	315	13.5%
Real estate taxes	12,176	12,150	26	0.2%
Property operating expenses	43,742	43,103	639	1.5%
Real Property NOI	<u>\$ 99,861</u>	<u>\$ 97,302</u>	<u>\$ 2,559</u>	2.6%

Other Information	As of September 30,		
	2010	2009	Change
Number of properties	136	136	-
Developed sites	47,579	47,587	(8)
Occupied sites <sup>(1)</sup>	38,445	37,954	491
Occupancy % <sup>(1)</sup>	84.5%	83.5%	1.0%
Weighted average monthly rent per site <sup>(2)</sup>	\$ 412	\$ 402	\$ 10
Sites available for development	5,574	5,583	(9)

<sup>(1)</sup> Occupied sites and occupancy % include manufactured housing and permanent recreational vehicle sites, and exclude seasonal recreational vehicle sites.

<sup>(2)</sup> Average rent relates only to manufactured housing sites, and excludes permanent and seasonal recreational vehicle sites.

Real Property NOI increased by \$2.6 million or 2.6 percent. The growth in NOI is primarily due to increased revenues of \$3.2 million partially offset by increased expenses of \$0.6 million.

Income from real property consists of manufactured home and recreational vehicle site rent and miscellaneous other property revenues. Revenue from our manufactured home and recreational vehicle portfolio increased by \$2.9 million due to rental rate increases and the increased number of occupied home sites as indicated in the table above. This growth in revenue was partially offset by rent concessions offered to new residents and current residents who convert from home renters to home owners. We entered into a data service and cable royalty fee agreement in the fourth quarter of 2009 that has resulted in an increase of \$0.3 million in other miscellaneous property revenues.

Property operating expenses increased \$0.6 million or 1.5 percent. Payroll and benefits increased by \$0.3 million due to increased wages and workers compensation expense. Supplies and repair expenses increased by \$0.6 million due to increased landscape costs of \$0.3 million, increased community maintenance costs of \$0.1 million, increased water system repairs of \$0.1 million and increased miscellaneous other costs of \$0.1 million. Other property operating expenses increased by \$0.3 million due to increased bad debt expense and increased administrative costs for postage, office supplies, and other general office charges. These costs were partially offset by increased utility recoveries of \$0.4 million and decreased insurance charges of approximately \$0.2 million.

## HOME SALES AND RENTALS

We acquire pre-owned and repossessed manufactured homes located within our communities from lenders and dealers at substantial discounts. We lease or sell these value priced homes to current and prospective residents. We also purchase new homes to lease and sell to current and prospective residents. The programs we have established for our customers to lease or buy new and pre-owned homes have helped to stabilize portfolio occupancy.

The Rental Program has proven to be an effective response to the adverse factors we faced during the industry downturn and will draw an estimated 17,500 applications per year to rent homes in our properties. The program has replaced the independent dealer network, a majority of which were forced to go out of business in prior years, which formerly directed potential residents to our properties.

The following table reflects certain financial and other information for our Rental Program as of and for the nine months ended September 30, 2010 and 2009 (in thousands, except for certain items marked with \*):

Financial Information	Nine Months Ended September 30,			
	2010	2009	Change	% Change
Rental home revenue	\$ 15,266	\$ 15,449	\$ (183)	-1.2%
Site rent from Rental Program <sup>(1)</sup>	21,298	19,861	1,437	7.2%
Rental Program revenue	36,564	35,310	1,254	3.6%
Expenses				
Payroll and commissions	1,391	1,935	(544)	-28.1%
Repairs and refurbishment	5,470	5,729	(259)	-4.5%
Taxes and insurance	2,402	2,323	79	3.4%
Marketing and other	2,118	2,436	(318)	-13.1%
Rental Program operating and maintenance	11,381	12,423	(1,042)	-8.4%
Rental Program NOI	<u>\$ 25,183</u>	<u>\$ 22,887</u>	<u>\$ 2,296</u>	10.0%
Other Information				
Number of occupied rentals, end of period*	5,998	5,749	249	4.3%
Investment in occupied rental homes	\$ 193,324	\$ 180,118	\$ 13,206	7.3%
Number of sold rental homes*	585	531	54	10.2%
Weighted average monthly rental rate*	\$ 731	\$ 726	\$ 5	0.7%

<sup>(1)</sup> The renter's monthly payment includes the site rent and an amount attributable to the leasing of the home. The site rent is reflected in the Real Property Operations segment. For purposes of management analysis, the site rent is included in the Rental Program revenue to evaluate the incremental revenue gains associated with implementation of the Rental Program, and assess the overall growth and performance of Rental Program and financial impact to the Company's operations.

Rental Program NOI increased \$2.3 million or 10.0 percent due to increased revenues of approximately \$1.2 million and decreased expenses of \$1.1 million. Revenues increased primarily due to the increased number of residents participating in the Rental Program as indicated in the table above.

The decline in operating and maintenance expenses of \$1.1 million was due to several factors. Commissions decreased by \$0.5 million due to a realignment of the commission plan that decreased the amount of commission paid on new and renewed leases. Expenses associated with repairs and refurbishment decreased by \$0.3 million, primarily due to a decline in the average cost associated with preparing a previously leased home for a new occupant and fewer homes requiring refurbishments due to lower turnover rates. Marketing and other costs decreased by approximately \$0.3 million due to reductions in bad debt expense, advertising, and utility expenses associated with unoccupied rental homes.

**SUN COMMUNITIES, INC.**

The following table reflects certain financial and statistical information for our Home Sales Program for the nine months ended September 30, 2010 and 2009 (in thousands, except for statistical information):

<b>Financial Information</b>	<b>Nine Months Ended September 30,</b>			
	<b>2010</b>	<b>2009</b>	<b>Change</b>	<b>% Change</b>
New home sales	\$ 1,904	\$ 3,877	\$ (1,973)	-50.9%
Pre-owned home sales	23,055	20,235	2,820	13.9%
Revenue from homes sales	24,959	24,112	847	3.5%
New home cost of sales	1,595	3,298	(1,703)	-51.6%
Pre-owned home cost of sales	17,202	14,015	3,187	22.7%
Cost of home sales	18,797	17,313	1,484	8.6%
NOI / Gross profit	\$ 6,162	\$ 6,799	\$ (637)	-9.4%
Gross profit – new homes	309	579	(270)	-46.6%
Gross margin % – new homes	16.2%	14.9%		1.3%
Gross profit – pre-owned homes	5,853	6,220	(367)	-5.9%
Gross margin % – pre-owned homes	25.4%	30.7%		-5.3%
<b>Statistical Information</b>				
Home sales volume:				
New home sales	29	55	(26)	-47.3%
Pre-owned home sales	1,046	756	290	38.4%
Total homes sold	1,075	811	264	32.6%

Home Sales NOI decreased by \$0.6 million or 9.4 percent primarily due to reduced gross profit on new and reduced gross margins on pre-owned sales.

The gross margin on new home sales increased 1.3 percent from 14.9 percent to 16.2 percent. Although the gross margin increased, total gross profit earned on new home sales for the nine months ended September 30, 2010 decreased primarily due to a 47.3 percent decline in sales volume.

The gross margin on pre-owned home sales decreased 5.3 percent from 30.7 percent to 25.4 percent. The majority of our pre-owned home sales are related to homes previously used in our Rental Program. These sales convert home renters to home owners and thereby allow us to recycle capital invested in the rental program. We decreased the average selling price of our pre-owned homes to increase the volume of sales thereby accelerating the recycling of this capital. Approximately 90 percent of these home sales are financed by third party lenders or are paid for in cash.

**OTHER INCOME STATEMENT ITEMS**

**Other revenues** include other income, interest income, and ancillary revenues, net. Other revenues increased by \$1.1 million, from \$4.3 million to \$5.4 million, or 25.6 percent. This increase was primarily due to increased interest income of \$2.2 million on collateralized notes, increased ancillary revenue of \$0.1 million, and certain fees of \$0.2 million received related to property easements, partially offset by decreased interest income on installment and other notes of \$0.6 million, losses associated with asset dispositions of approximately \$0.7 million, and decreased gain recognized on the sale of land of \$0.1 million which occurred in the prior year. The interest income recognized on our collateralized receivables was offset by the same amount of interest expense associated with our secured borrowing arrangement. See Note 4 for additional information.

**Real Property general and administrative** costs decreased by \$0.3 million, from \$12.8 million to \$12.5 million, or a 2.3 percent decrease due to lower salary and other compensation costs of \$0.2 million, a reduction in sales, use and other taxes of \$0.2 million and decreased other tax expense of \$0.7 million. The decreased other tax expense includes the reversal of a provision for \$0.7 million related to the filing methodology for federally disregarded single member limited liability companies under the former Michigan Single Business Tax. The liability was required to be recorded at December 31, 2009 and was reversed in March 2010 after legislative action by the state of Michigan that partially offset by the settlement of the TJ Holdings lawsuit (see Note 17) for \$0.4 million, increased insurance premiums of \$0.3 million and other net corporate costs of \$0.1 million,

**Home Sales and Rentals general and administrative** costs increased by \$0.2 million, from \$5.5 million to \$5.7 million, or 3.6 percent due to increased salary, bonus, and commission costs.

**Georgia flood damage** charges of \$0.8 million were recorded during the same period in the prior year. During the nine months ended September 30, 2009, a flood caused substantial damage to our property, Countryside Village of Atlanta, located in Lawrenceville. We have comprehensive insurance coverage for both property damage and business interruption, subject to deductibles and certain limitations, and we have submitted a claim under these policies. The claim remains under review.

**Depreciation and amortization** costs increased by \$1.5 million, from \$48.0 million to \$49.5 million, or 3.1 percent due to increased depreciation on investment property for use in our Rental Program of \$1.2 million, increased depreciation on other investment property of \$0.2 million, and increased amortization of promotions of \$0.1 million.

**Interest expense** on debt, including interest on mandatorily redeemable debt, increased by \$2.1 million, from \$46.6 million to \$48.7 million, or 4.5 percent due to increased expense associated with the increase in our FNMA facility fee of \$0.7 million and our secured borrowing arrangements of \$2.2 million, partially offset by a reduction in expense of \$0.8 million primarily due to lower interest rates charged on variable rate debt. The interest expense on our secured borrowing is offset completely by the interest income recognized on our collateralized receivables. See Note 4 for additional information.

**Equity loss from affiliates** increased by \$0.3 million, from a loss of \$1.3 million to a loss of \$1.6 million due to the recognition of our equity allocation of anticipated losses from Origen. The recognition of Origen's equity losses was limited in 2010 due to the suspension of equity accounting in periods in which the recognition of equity losses would reduce the carrying value of our investment below zero.



**SUN COMMUNITIES, INC.**

The following is a summary of our consolidated financial results which were discussed in more detail in the preceding paragraphs (in thousands):

	<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
Real Property NOI	\$ 99,861	\$ 97,302
Rental Program NOI	25,183	22,887
Home Sales NOI/Gross Profit	6,162	6,799
Site rent from Rental Program (included in Real Property NOI)	(21,298)	(19,861)
NOI/Gross profit	109,908	107,127
Adjustments to arrive at net loss:		
Other revenues	5,426	4,294
General and administrative	(18,184)	(18,285)
Georgia flood damage	-	(800)
Depreciation and amortization	(49,445)	(47,960)
Interest expense	(48,690)	(46,602)
Equity loss from affiliates, net	(1,646)	(1,344)
Provision for state income taxes	(404)	(382)
Loss from continuing operations	(3,035)	(3,952)
Loss from discontinued operations	-	(155)
Net loss	(3,035)	(4,107)
Less: amounts attributable to noncontrolling interest	(520)	(690)
Net loss attributable to Sun Communities, Inc. common stockholders	<u>\$ (2,515)</u>	<u>\$ (3,417)</u>

**FUNDS FROM OPERATIONS**

We provide information regarding FFO as a supplemental measure of operating performance. FFO is defined by the National Association of Real Estate Investment Trusts (“NAREIT”) as net income (loss) (computed in accordance GAAP), 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. Due to the variety among owners of identical assets in similar condition (based on historical cost accounting and useful life estimates), we believe excluding gains and losses related to sales of previously depreciated operating real estate assets, and excluding real estate asset depreciation and amortization, provides a better indicator of our operating performance. FFO is a useful supplemental measure of our operating performance because it reflects the impact to operations from trends in occupancy rates, rental rates, and operating costs, providing perspective not readily apparent from net income (loss). 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. Management, the investment community, and banking institutions routinely use FFO, together with other measures, to measure operating performance in our industry. Further, management uses FFO for planning and forecasting future periods.

Because FFO excludes significant economic components of net income (loss) including depreciation and amortization, FFO should be used as an adjunct to net income (loss) and not as an alternative to net income (loss). 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 (loss) 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. Management also uses an Adjusted Funds from Operations (“Adjusted FFO”) non-GAAP financial measure, which excludes certain gain and loss items that management considers unrelated to the operational and financial performance of our core business. We believe that Adjusted FFO provides investors with another financial measure of our operating performance that is more comparable when evaluating period over period results. Other REITs may use different methods for calculating FFO and Adjusted FFO and, accordingly, our FFO and Adjusted FFO may not be comparable to other REITs.

**SUN COMMUNITIES, INC.**

The following table reconciles net loss to FFO and calculates FFO data for both basic and diluted purposes for the periods ended September 30, 2010 and 2009 (in thousands, except for per share/OP unit amounts):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Net loss	\$ (1,649)	\$ (2,561)	\$ (3,035)	\$ (4,107)
Adjustments:				
Depreciation and amortization	16,945	16,329	50,787	49,364
Benefit for state income taxes <sup>(1)</sup>	-	(42)	(24)	(55)
Gain on disposition of assets, net	(490)	(1,237)	(2,145)	(3,933)
Funds from operations (FFO)	<u>\$ 14,806</u>	<u>\$ 12,489</u>	<u>\$ 45,583</u>	<u>\$ 41,269</u>
Weighted average Common Shares/OP Units outstanding:				
Basic	<u>21,570</u>	<u>20,856</u>	<u>21,284</u>	<u>20,787</u>
Diluted	<u>21,581</u>	<u>20,856</u>	<u>21,291</u>	<u>20,787</u>
FFO per weighted average Common Share/OP Unit - Basic	<u>\$ 0.69</u>	<u>\$ 0.60</u>	<u>\$ 2.15</u>	<u>\$ 1.99</u>
FFO per weighted average Common Share/OP Unit - Diluted	<u>\$ 0.69</u>	<u>\$ 0.60</u>	<u>\$ 2.15</u>	<u>\$ 1.99</u>

The table below adjusts FFO to exclude certain items as detailed below (in thousands, except for per share/OP unit amounts):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Net loss	\$ (1,649)	\$ (2,561)	\$ (3,035)	\$ (4,107)
Michigan Business tax reversal	-	-	(740)	-
Georgia flood damage	-	800	-	800
Equity affiliate adjustment	19	836	1,646	1,211
Adjusted net loss	<u>(1,630)</u>	<u>(925)</u>	<u>(2,129)</u>	<u>(2,096)</u>
Depreciation and amortization	16,945	16,329	50,787	49,364
Benefit for state income taxes <sup>(1)</sup>	-	(42)	(24)	(55)
Gain on disposition of assets, net	(490)	(1,237)	(2,145)	(3,933)
Adjusted funds from operations (FFO)	<u>\$ 14,825</u>	<u>\$ 14,125</u>	<u>\$ 46,489</u>	<u>\$ 43,280</u>
Adjusted FFO per weighted average Common Share/OP Unit - Diluted	<u>\$ 0.69</u>	<u>\$ 0.68</u>	<u>\$ 2.19</u>	<u>\$ 2.08</u>

<sup>(1)</sup> The tax benefit for the periods ended September 30, 2010 and 2009 represents the reversal of a tax provision for potential taxes payable on the sale of company assets related to the enactment of the Michigan Business Tax. These taxes do not impact Funds from Operations and would be payable from prospective proceeds of such sales.

## LIQUIDITY AND CAPITAL RESOURCES

Our principal liquidity demands have historically been, and are expected to continue to be, distributions to our stockholders and the unitholders of the Operating Partnership, capital improvements of properties, the purchase of new and pre-owned homes, property acquisitions, development and expansion of properties, and debt repayment.

We expect to meet our immediate needs through working capital provided by operating activities and through borrowings on our lines of credit. We consider these resources to be adequate to meet our operating requirements, including recurring capital improvements, routinely amortizing debt and other normally recurring expenditures of a capital nature, payment of dividends to our stockholders to maintain qualification as a REIT in accordance with the Code, and payment of distributions to our Operating Partnership's unitholders.

From time to time, we evaluate acquisition opportunities that meet our criteria for acquisition. Should such investment opportunities arise in 2010, we will finance the acquisitions through secured financing, debt and/or equity venture capital, the assumption of existing debt on the properties or the issuance of certain equity securities.

During the nine months ended September 30, 2010, we have invested \$5.1 million in the acquisition of homes intended for the Rental Program net of proceeds from third party financing from homes sales. Expenditures for the remainder of 2010 will be dependent upon the condition of the markets for repossessions and new home sales, as well as rental homes. We have a \$10.0 million floor plan facility. Our ability to purchase homes for sale or rent may be limited by cash received from third party financing of our home sales, available floor plan financing and working capital available on our secured and unsecured lines of credit.

Cash and cash equivalents increased by \$0.2 million from \$4.5 million as of December 31, 2009, to \$4.7 million as of September 30, 2010. Net cash provided by operating activities from continuing operations decreased by \$2.9 million from \$44.9 million for the nine months ended September 30, 2009 to \$42.0 million for the nine months ended September 30, 2010. Our operating cash flows decreased because of payments in relation to the settlement of the TJ holdings lawsuit and other corporate costs of \$0.9 million compared to the prior year and we did not receive the same benefit from refunds of collateral deposits in relation to our swaps and tax escrows of approximately \$2.0 million that occurred in the prior year.

Our net cash flows provided by operating activities from continuing operations may be adversely impacted by, among other things: (a) the market and economic conditions in our current markets generally, and specifically in metropolitan areas of our current markets; (b) lower occupancy and rental rates of our properties; (c) increased operating costs, such as wage and benefit costs, insurance premiums, real estate taxes and utilities, that cannot be passed on to our tenants; (d) decreased sales of manufactured homes and (e) current volatility in economic conditions and the financial markets. See "Risk Factors" in our 2009 Annual Report.

We have an unsecured revolving line of credit facility with a maximum borrowing capacity of \$115.0 million, subject to certain borrowing base calculations. The outstanding balance on the line of credit as of September 30, 2010 and December 31, 2009 was \$78.8 million and \$89.1 million, respectively. In addition, \$4.0 million of availability were used to back standby letters of credit as of September 30, 2010 and December 31, 2009. Borrowings under the line of credit bear an interest rate of LIBOR plus 165 basis points, or Prime plus 40 basis points. We have the option to borrow at either rate. The effective weighted average interest rate on the outstanding borrowings was 1.9 percent as of September 30, 2010. As of September 30, 2010, \$32.2 million was available to be drawn under the facility based on the calculation of the borrowing base. During 2010, the highest balance on the line of credit was \$102.3 million. The borrowings under the line of credit mature October 1, 2011. If we are unable to refinance our facility, we cannot be sure we will be able to secure alternative financing on satisfactory terms or at all. If the revolving facility matures without renewal, replacement, or extension, our borrowing capacity would immediately be reduced by \$115.0 million and it would adversely impact our business, results of operation and financial condition. We are evaluating options to renew, replace, or amend the facility. Although the unsecured revolving line of credit is a committed facility, the financial failure of one or more of the participating financial institutions may reduce the amount of available credit for use by us.

The line of credit facility contains various leverage, fixed charge coverage, net worth maintenance and other customary covenants all of which were complied with as of September 30, 2010. The most limiting covenants contained in the line of credit are the distribution coverage and fixed charge coverage ratios. The distribution coverage covenant requires that distributions be no more than 90 percent of funds from operations as defined in the terms of the line of credit agreement. The fixed charge coverage ratio covenant requires a minimum ratio of 1.45:1. As of September 30, 2010, the distribution coverage was 80.4 percent and the fixed charge coverage ratio was 1.66:1.

While many of our business fundamentals and those of the manufactured housing industry have been improving over recent years, the current economic downturn and the lack of liquidity in the lending environment have generally resulted in a reduction of the availability of financing and higher borrowing costs which may result in us not being able to successfully extend, refinance or repay our debt. Although base interest rates have generally decreased relative to their levels prior to the disruptions in the financial markets, the tightening of credit markets has affected the credit risk spreads charged over base interest rates on, and the availability of, mortgage loan financing. For us, this is the most relevant consequence of this financial turmoil. Since we carry a substantial amount of debt, it may limit our ability to obtain additional financing; and in planning for, or reacting to, changes in our business and our industry. It also renders us more vulnerable to general adverse economic and industry conditions and requires us to dedicate a significant portion of our cash flow to service our debt. We believe this risk is somewhat mitigated because we have adequate working capital provided by operating activities as noted above and we have only limited debt maturities until July 2011. We are evaluating options to renew, replace, or amend our debt agreements. Specifically, our debt maturities (excluding normal amortization payments and assuming the election of certain extension provisions which are at our discretion) for 2010 through 2014 are as follows:

2010	\$0.4 million
2011	\$103.7 million and any balance outstanding on the unsecured line of credit or the floor plan facility
2012	\$35.8 million
2013	\$30.2 million
2014	\$485.1 million

We anticipate meeting our long-term liquidity requirements, such as scheduled debt maturities, large property acquisitions, and Operating Partnership unit redemptions through the issuance of certain debt or equity securities potentially using the agreements as described in Note 8 and/or the collateralization of our properties. We currently have 30 unencumbered properties with an estimated market value of \$208.2 million, most of which support the borrowing base for our \$115.0 million unsecured line of credit. As of September 30, 2010, the borrowing base was in excess of \$115.0 million by \$21.1 million, which would allow us to remove properties from the borrowing base at our discretion for collateralization. From time to time, we may also issue shares of our capital stock or preferred stock, issue debt, issue equity units in our Operating Partnership, utilize debt and/or equity venture capital, or sell selected assets. Our ability to finance our long-term liquidity requirements in such a 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, our financial condition, the operating history of the properties, the state of the debt and equity markets, and the general national, regional, and local economic conditions. If it were to become necessary for us to approach the credit markets, the current volatility in the credit markets could make borrowing more difficult to secure and more expensive. See “Risk Factors” in Item 1A of our 2009 Annual Report. If we are unable to obtain additional debt or equity financing on acceptable terms, our business, results of operations and financial condition would be adversely impacted.

As of September 30, 2010, our debt to total market capitalization approximated 65.3 percent (assuming conversion of all Common Operating Partnership Units to shares of common stock). Our debt (including lines of credit) has a weighted average maturity of approximately 4.6 years and a weighted average interest rate of 5.1 percent.

Capital expenditures for the nine months ended September 30, 2010 and 2009 included recurring capital expenditures of \$5.0 million and \$5.4 million, respectively. We are committed to the continued upkeep of our Properties and therefore do not expect a significant decline in our recurring capital expenditures during 2010.

Net cash used for investing activities was approximately \$30.3 million for the nine months ended September 30, 2010, compared to \$25.1 million for the nine months ended September 30, 2009. The difference is due to increased investment in property of \$3.9 million and decreased principal repayment on an officer’s note and other notes receivable of \$1.3 million.

Net cash used for financing activities was \$11.5 million for the nine months ended September 30, 2010, compared to \$20.4 million for the nine months ended September 30, 2009. The difference is due to increased net proceeds received from the issuance of additional shares of \$19.2 million, decreased repayments on other debt of \$9.6 million, decreased payments for deferred financing costs of \$0.3 million, partially offset by increased repayments on the lines of credit of \$1.0 million, reduced proceeds received from the issuance of other debt of \$18.4 million, and increased distributions to our stockholders and OP unitholders of \$0.8 million.

## FORWARD-LOOKING STATEMENTS

This Form 10-Q contains various “forward-looking statements” within the meaning of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended,, and we intend that such forward-looking statements will be subject to the safe harbors created thereby. Forward-looking statements can be identified by words such as “believes,” “forecasts,” “anticipates,” “intends,” “plans,” “expects,” “may”, “will” and similar expressions in this Form 10-Q that predict or indicate future events and trends and that do not report historical matters. These forward-looking statements reflect our current views with respect to future events and financial performance, but involve known and unknown risks and uncertainties, and o ther factors, some of which are beyond our control. These risks, uncertainties, and other factors may cause our actual results 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 interest, the ability of manufactured home buyers to obtain financing, the level of repossessions by manufactured home lenders and those risks and uncertainties referenced under the headings entitled “Risk Factors” contained in our 2009 Annual Report, and our other periodic filings with the SEC. The forward-looking statements contained in this Quarterly Report on Form 10-Q speak only as of the date hereof and we expressly disclaim any obligation to provide public updates, revisions or amendments to any forward-looking statements made herein to reflect chang es in our assumptions, expectations of future events, or trends.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our principal market risk exposure is interest rate risk. We mitigate this risk by maintaining prudent amounts of variable rate debt while continuously evaluating all available debt and equity resources and following established risk management policies and procedures, which include the periodic use of derivatives. Our primary strategy in entering into derivative contracts is to minimize the variability interest rate changes could have on our future cash flows. We generally employ derivative instruments that effectively convert a portion of our variable rate debt to fixed rate debt. We do not enter into derivative instruments for speculative purposes.

We have four derivative contracts consisting of three interest rate swap agreements with a total notional amount of \$70.0 million, and an interest rate cap agreement with a notional amount of \$152.4 million as of September 30, 2010. The first swap agreement fixes \$25.0 million of variable rate borrowings at 6.70 percent through July 2012. The second swap agreement fixes \$20.0 million of variable rate borrowings at 4.15 percent through January 2014. The third swap agreement fixes \$25.0 million of variable rate borrowing at 3.62 percent through February 2011 and is based upon 30-day LIBOR. We have an interest cap agreement with a cap rate of 11.0 percent, a notional amount of \$152.4 million, and a termination date of May 1, 2012. Each of these derivative contracts is based upon 90-day LIBOR unless otherwise noted.

Our remaining variable rate debt totals \$240.1 million and \$238.3 million as of September 30, 2010 and 2009, respectively, which bear interest at Prime, various LIBOR or Fannie Mae Discounted Mortgage Backed Securities (“DMBS”) rates. If Prime, LIBOR, or DMBS increased or decreased by 1.0 percent during the nine months ended September 30, 2010 and 2009, we believe our interest expense would have increased or decreased by approximately \$1.8 million and \$1.6 million based on the \$243.9 million and \$216.0 million average balances outstanding under our variable rate debt facilities for the nine months ended September 30, 2010 and 2009, respectively. A portion of our variable debt is floating on DMBS rates. If the credit markets tighten, and there are fewer or no buyers of this security, the interest rate may be negatively impacted resulting in higher interest expense.

**ITEM 4. CONTROLS AND PROCEDURES**

- (a) Under the supervision and with the participation of our management, including the Chief Executive Officer, Gary A. Shiffman, and Chief Financial Officer, Karen J. Dearing, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this quarterly report, pursuant to Rule 13a-15 of the Securities Exchange Act of 1934 (the “Exchange Act”). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report were effective to ensure that information we are required to disclose in our filings with the SEC under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms, and to ensure that information we are required to disclose in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.
- (b) There have been no changes in our internal control over financial reporting during the quarterly period ended September 30, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



**PART II – OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

See Note 17 of the Consolidated Financial Statements contained herein.

**ITEM 1A. RISK FACTORS**

You should review our 2009 Annual Report, which contains a detailed description of risk factors that may materially affect our business, financial condition, or results of operations. There are no material changes to the disclosure on these matters set forth in the 2009 Annual Report.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

**Issuer Purchases of Equity Securities**

In November 2004, the Board of Directors authorized us to repurchase up to 1,000,000 shares of our common stock. We have 400,000 common shares remaining in the repurchase program. No common shares were repurchased under this buyback program during the nine months ended September 30, 2010. There is no expiration date specified for the buyback program.

**Recent Sales of Unregistered Securities**

Holders of our Common OP Units have converted 32,699 units to common stock during 2010.

All of the above partnership units and shares of common stock were issued in private placements in reliance on Section 4(2) of the Securities Act of 1933, as amended, including Regulation D promulgated there under. No underwriters were used in connection with any of such issuances.

**Use of Proceeds from Sales of Registered Securities**

Pursuant to our Registration Statement on Form S-3 (Commission File No. 333-158623) declared effective by the SEC on May 14, 2009 we issued 736,800 shares of common stock during the nine months ended September 30, 2010. The weighted average price of the issued shares was \$29.14 and we received net proceeds of approximately \$21.0 million which were used to pay down our unsecured line of credit. We issued an additional 100,000 shares of common stock at a weighted average sale price of \$31.29 and received additional net proceeds of \$3.1 million subsequent to September 30, 2010 which were used to pay down our unsecured line of credit.

## ITEM 6. EXHIBITS

<b>Exhibit No.</b>	<b>Description</b>
31.1	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a)/15(d)-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a)/15(d)-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

**SIGNATURES**

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.

**SUN COMMUNITIES, INC.**

Dated: October 28, 2010

**By:** /s/ Karen J. Dearing  
Karen J. Dearing, Chief Financial Officer and Secretary  
(Duly authorized officer and principal financial officer)



CERTIFICATIONS

(As Adopted Under Section 302 of the Sarbanes-Oxley Act of 2002)

I, Gary A. Shiffman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sun Communities, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: October 28, 2010

/s/ Gary A. Shiffman

Gary A. Shiffman, Chief Executive Officer

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CERTIFICATIONS

(As Adopted Under Section 302 of the Sarbanes-Oxley Act of 2002)

I, Karen J. Dearing, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sun Communities, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: October 28, 2010

/s/ Karen J. Dearing

Karen J. Dearing, Chief Financial Officer

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CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350  
(Adopted Under Section 906 of the Sarbanes-Oxley Act of 2002)

The undersigned officers, Gary A. Shiffman and Karen J. Dearing, hereby certify that to the best of their knowledge: (a) this Quarterly Report on Form 10-Q of Sun Communities, Inc., for the quarter ended September 30, 2010, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and (b) the information contained in this Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the issuer.

Signature	Date
<div>/s/ Gary A. Shiffman</div> <div>Gary A. Shiffman, Chief Executive Officer</div>	October 28, 2010
<div>/s/ Karen J. Dearing</div> <div>Karen J. Dearing, Chief Financial Officer</div>	October 28, 2010

A signed original of this written statement required by Section 906 has been provided to Sun Communities, Inc. and will be retained by Sun Communities, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

