

FORM 10-Q

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

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2004

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

COMMISSION FILE NUMBER: 1-11718

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

MARYLAND  
(State or other jurisdiction of  
incorporation or organization)

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

TWO NORTH RIVERSIDE PLAZA, SUITE 800, CHICAGO, ILLINOIS  
(Address of principal executive offices)

60606  
(Zip Code)

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes (X) No ( )

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

22,829,411 shares of Common Stock as of August 9, 2004

MANUFACTURED HOME COMMUNITIES, INC.

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MANUFACTURED HOME COMMUNITIES, INC.  
CONSOLIDATED BALANCE SHEETS  
AS OF JUNE 30, 2004 AND DECEMBER 31, 2003  
(AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

	JUNE 30, 2004 (UNAUDITED)	DECEMBER 31, 2003
	-----	-----
<b>ASSETS</b>		
Investment in real estate:		
Land	\$ 423,578	\$ 282,803
Land improvements.....	1,308,618	911,176
Buildings and other depreciable property.....	123,421	121,117
	-----	-----
Accumulated depreciation.....	1,855,617	1,315,096
	(295,752)	(272,497)
	-----	-----
Net investment in real estate.....	1,559,865	1,042,599
Cash and cash equivalents.....	9,426	325,740
Notes receivable.....	12,872	11,551
Investment in joint ventures.....	50,748	18,828
Rents receivable, net.....	2,085	2,385
Deferred financing costs, net.....	15,023	14,164
Inventory.....	39,662	31,604
Prepaid expenses and other assets.....	38,152	27,044
	-----	-----
<b>TOTAL ASSETS.....</b>	<b>\$ 1,727,833</b>	<b>\$ 1,473,915</b>
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities:</b>		
Mortgage notes payable.....	\$ 1,417,092	\$ 1,076,183
Unsecured line of credit.....	63,000	--
Other notes payable.....	113	113
Accounts payable and accrued expenses.....	38,124	27,815
Accrued interest payable.....	8,118	5,978
Rents received in advance and security deposits.....	18,539	6,616
Distributions payable.....	472	224,696
	-----	-----
<b>TOTAL LIABILITIES.....</b>	<b>1,545,458</b>	<b>1,341,401</b>
	-----	-----
Commitments and contingencies.....	--	--
Minority interest - Common OP Units and other.....	17,472	1,716
Minority interest - Perpetual Preferred OP Units.....	125,000	125,000
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, \$0.01 par value		
10,000,000 shares authorized; none issued.....	--	--
Common stock, \$0.01 par value		
50,000,000 shares authorized; 22,745,991 and 22,563,348		
Shares issued and outstanding for 2004 and 2003, respectively.....	223	222
Paid-in capital.....	291,943	263,066
Deferred compensation.....	(330)	(494)
Distributions in excess of accumulated earnings.....	(251,933)	(256,996)
	-----	-----
<b>TOTAL STOCKHOLDERS' EQUITY.....</b>	<b>39,903</b>	<b>5,798</b>
	-----	-----
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY.....</b>	<b>\$ 1,727,833</b>	<b>\$ 1,473,915</b>
	=====	=====

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

MANUFACTURED HOME COMMUNITIES, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE QUARTERS AND SIX MONTHS ENDED JUNE 30, 2004 AND 2003  
(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)  
(UNAUDITED)

	QUARTERS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2004	2003	2004	2003
<b>PROPERTY OPERATIONS:</b>				
Community base rental income.....	\$ 52,854	\$ 49,111	\$ 103,665	\$ 98,472
Resort base rental income.....	12,952	1,854	25,294	5,931
Utility and other income.....	6,440	5,091	12,954	10,422
	72,246	56,056	141,913	114,825
Property operating revenues.....				
Property operating and maintenance.....	23,769	15,818	44,728	32,545
Real estate taxes.....	6,055	4,745	11,555	9,383
Property management.....	3,423	2,276	6,269	4,628
	33,247	22,839	62,552	46,556
Property operating expenses.....				
Income from property operations.....	38,999	33,217	79,361	68,269
<b>HOME SALES OPERATIONS:</b>				
Gross revenues from inventory home sales.....	10,783	9,567	18,321	13,659
Cost of inventory home sales.....	(9,346)	(8,166)	(16,362)	(11,626)
	1,437	1,401	1,959	2,033
Gross profit from inventory home sales.....				
Brokered resale revenues, net.....	596	454	1,088	830
Home selling expenses.....	(2,204)	(1,808)	(4,277)	(3,702)
Ancillary services revenues (losses), net.....	735	(111)	1,647	371
	564	(64)	417	(468)
Income (loss) from home sales and other.....				
<b>OTHER INCOME (EXPENSES):</b>				
Interest income.....	314	244	767	505
Income from unconsolidated joint ventures and other...	2,170	550	3,428	1,139
General and administrative.....	(2,367)	(2,000)	(4,579)	(3,932)
Interest and related amortization.....	(23,268)	(12,652)	(43,643)	(25,045)
Depreciation on corporate assets.....	(427)	(310)	(804)	(620)
Depreciation on real estate assets and other costs....	(12,305)	(9,687)	(22,974)	(18,591)
Gain on sale of real estate and other.....	--	--	638	--
	(35,883)	(23,855)	(67,167)	(46,544)
Total other income (expenses).....				
Income before allocation to minority interests and discontinued operations.....	3,680	9,298	12,611	21,257
<b>MINORITY INTERESTS:</b>				
Income allocated to Common OP Units.....	(181)	(1,373)	(1,337)	(3,149)
Income allocated to Perpetual Preferred OP Units.....	(2,821)	(2,813)	(5,634)	(5,626)
	678	5,112	5,640	12,482
Income from continuing operations.....				
<b>DISCONTINUED OPERATIONS:</b>				
Discontinued operations.....	(20)	533	(6)	906
Gain on sale of discontinued property.....	--	10,826	--	10,826
Minority interest on discontinued operations.....	--	(2,071)	--	(2,142)
	(20)	9,288	(6)	9,590
Income (loss) from discontinued operations.....				
<b>NET INCOME AVAILABLE FOR COMMON SHARES.....</b>	<b>\$ 658</b>	<b>\$ 14,400</b>	<b>\$ 5,634</b>	<b>\$ 22,072</b>

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

MANUFACTURED HOME COMMUNITIES, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS (CONTINUED)  
FOR THE QUARTERS AND SIX MONTHS ENDED JUNE 30, 2004 AND 2003  
(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)  
(UNAUDITED)

	QUARTERS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2004	2003	2004	2003
<b>EARNINGS PER COMMON SHARE - BASIC:</b>				
Income from continuing operations .....	\$ 0.03	\$ 0.23	\$ 0.25	\$ 0.56
Income from discontinued operations .....	--	0.42	--	0.44
Net income available for Common Shares.....	\$ 0.03	\$ 0.65	\$ 0.25	\$ 1.00
<b>EARNINGS PER COMMON SHARE - FULLY DILUTED:</b>				
Income from continuing operations.....	\$ 0.03	\$ 0.23	\$ 0.24	\$ 0.56
Income from discontinued operations.....	--	0.41	--	0.42
Net income available for Common Shares.....	\$ 0.03	\$ 0.64	\$ 0.24	\$ 0.98
Distributions declared per Common Shares				
Outstanding.....	\$ 0.0125	\$ 0.495	\$ 0.025	\$ 0.99
Weighted average Common Shares outstanding -				
Basic.....	22,737	22,027	22,706	21,973
Weighted average Common Shares outstanding -				
fully diluted.....	29,142	27,965	28,840	27,853

MANUFACTURED HOME COMMUNITIES, INC.  
CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME  
FOR THE QUARTERS AND SIX MONTHS ENDED JUNE 30, 2004 AND 2003  
(AMOUNTS IN THOUSANDS)  
(UNAUDITED)

	QUARTERS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2004	2003	2004	2003
Net income available for Common Shares.....	\$ 658	\$ 14,400	\$ 5,634	\$ 22,072
Net unrealized holding gains on derivative instruments .....	--	341	--	492
Net comprehensive income .....	\$ 658	\$ 14,741	\$ 5,634	\$ 22,564

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

MANUFACTURED HOME COMMUNITIES, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2003  
(AMOUNTS IN THOUSANDS)  
(UNAUDITED)

	JUNE 30, 2004	JUNE 30, 2003
	-----	-----
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income.....	\$ 5,634	\$ 22,072
Adjustments to reconcile net income to cash provided by operating activities:		
Income allocated to Minority Interests.....	6,971	10,918
Gain on sale of real estate and other.....	(638)	(10,697)
Depreciation and amortization expense .....	24,777	19,659
Income from unconsolidated joint ventures.....	(2,405)	(1,127)
Amortization of deferred compensation and other.....	1,324	980
Increase in provision for uncollectible rents receivable.....	102	89
Changes in assets and liabilities:		
Rents receivable.....	745	(574)
Inventory.....	(6,863)	(967)
Prepaid expenses and other assets.....	(1,953)	(3,586)
Accounts payable and accrued expenses.....	7,003	(83)
Rents received in advance and security deposits.....	(1,644)	629
	-----	-----
Net cash provided by operating activities.....	33,053	37,313
	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of rental properties.....	(137,504)	--
Proceeds from disposition of assets.....	671	27,083
(Investments in) distributions from joint ventures.....	(30,080)	688
Funding of notes receivable.....	(1,290)	(545)
Improvements:		
Improvements - corporate.....	(200)	(72)
Improvements - rental properties.....	(6,509)	(6,207)
Site development costs.....	(5,695)	(3,330)
	-----	-----
Net cash (used in) provided by investing activities.....	(180,607)	17,617
	-----	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Issuance of common and preferred stock.....	4,673	4,705
Collection of principal payments on employee notes.....	--	2,713
Line of credit:		
Proceeds.....	81,000	27,000
Repayments.....	(18,000)	(57,650)
Refinancings - net proceeds (repayments).....	--	13,974
Principal payments.....	(3,926)	(2,755)
Distributions.....	(230,586)	(32,395)
Debt issuance costs.....	(1,921)	(302)
	-----	-----
Net cash used in financing activities.....	(168,760)	(44,710)
	-----	-----
Net (decrease) increase in cash and cash equivalents.....	(316,314)	10,220
Cash and cash equivalents, beginning of period.....	325,740	7,270
	-----	-----
Cash and cash equivalents, end of period.....	\$ 9,426	\$ 17,490
	=====	=====
<b>SUPPLEMENTAL INFORMATION:</b>		
Cash paid during the period for interest.....	\$ 41,475	\$ 25,651
	=====	=====

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

DEFINITION OF TERMS:

Manufactured Home Communities, Inc., together with MHC Operating Limited Partnership (the "Operating Partnership") and other consolidated subsidiaries ("Subsidiaries"), are referred to herein as the "Company", "MHC", "we", "us", and "our". The company Capitalized terms used but not defined herein are as defined in the Company's Annual Report on Form 10-K (the "2003 Form 10-K") for the year ended December 31, 2003.

PRESENTATION:

These unaudited interim consolidated financial statements of MHC, a Maryland corporation, have been prepared pursuant to the Securities and Exchange Commission ("SEC") rules and regulations and should be read in conjunction with the financial statements and notes thereto included in the 2003 Form 10-K. The following notes to consolidated financial statements highlight significant changes to the notes included in the 2003 Form 10-K and present interim disclosures as required by the SEC. The accompanying consolidated financial statements reflect, in the opinion of management, all adjustments necessary for a fair presentation of the interim financial statements. All such adjustments are of a normal and recurring nature. Certain reclassifications have been made to the prior periods' financial statements in order to conform with current period presentation.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Consolidation

The Company consolidates its majority owned subsidiaries in which it has the ability to control the operations of the subsidiaries and all variable interest entities for which the Company is the primary beneficiary. All inter-company transactions have been eliminated in consolidation. The Company's acquisitions were all accounted for as purchases in accordance with Statement of Financial Accounting Standards No. 141 "Business Combinations".

In December 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 46R, Consolidation of Variable Interest Entities - an interpretation of ARB 51 ("FIN 46R"). The objective of FIN 46R is to provide guidance on how to identify a variable interest entity ("VIE") and determine when the assets, liabilities, non-controlling interests, and results of operations of a VIE need to be included in the company's consolidated financial statements. A company that holds variable interests in an entity will need to consolidate such entity if the company absorbs a majority of the VIE's expected losses or receives a majority of the entity's expected residual returns if they occur, or both. The adoption of FIN 46R had no effect on the Company.

(b) Use of Estimates

The preparation of financial statements, in conformity with U.S. generally accepted accounting principles ("US GAAP"), requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(c) Segments

We manage all our operations on a property-by-property basis. Since each property has similar economic and operational characteristics the Company has one reportable segment, which is the operation of manufactured home communities. The distribution of the Properties throughout the United States reflects our belief that geographic diversification helps insulate the portfolio from regional economic influences. We intend to target new acquisitions in or near markets where the Properties are located and will also consider acquisitions of properties outside such markets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Inventory

Inventory consists of new and used manufactured homes, and is stated at the lower of cost or market after consideration of the N.A.D.A. (National Automobile Dealers Association) Manufactured Housing Appraisal Guide and the current market value of each home included in the manufactured home inventory. Inventory sales revenues and resale revenues are recognized when the home sale is closed. Resale revenues are stated net of commissions paid to employees of \$573,000 for the six months ended June 30, 2004.

(e) Real Estate

In accordance with SFAS No. 141, the Company allocates the purchase price of real estate to land, land improvements, buildings and, if determined to be material, intangibles, such as the value of above, below and at-market leases and origination costs associated with the in-place leases. We depreciate the amount allocated to land improvements, buildings and other intangible assets over their estimated useful lives, which generally range from three to thirty years. The values of the above and below market leases are amortized and recorded as either an increase (in the case of below market leases) or a decrease (in the case of above market leases) to rental income over the remaining term of the associated lease. The value associated with in-place leases is amortized over the expected term, which includes an estimated probability of lease renewal. Expenditures for ordinary maintenance and repairs are expensed to operations as incurred, and significant renovations and improvements that improve the asset and extend the useful life of the asset are capitalized and then expensed over their estimated useful life.

We evaluate our Properties for impairment when conditions exist which may indicate that it is probable that the sum of expected future cash flows (undiscounted) from a Property over the anticipated holding period is less than its carrying value. Upon determination that a permanent impairment has occurred, the applicable Property is reduced to fair value. For the six months ended June 30, 2004 and 2003, permanent impairment conditions did not exist at any of our Properties.

For properties to be disposed of, an impairment loss is recognized when the fair value of the property, less the estimated cost to sell, is less than the carrying amount of the property measured at the time the Company has a commitment to sell the property and/or is actively marketing the property for sale. A property to be disposed of is reported at the lower of its carrying amount or its estimated fair value, less costs to sell. Subsequent to the date that a property is held for disposition, depreciation expense is not recorded. The Company accounts for its properties held for disposition in accordance with Statement of Financial Accounting Standards No. 144 ("SFAS No. 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets". Accordingly, the results of operations for all assets sold or held for sale after January 1, 2003 have been classified as discontinued operations in all periods presented.

Certain costs, primarily legal costs, relative to our efforts to effectively change the use and operations of several Properties subject to rent control (see Note 9) are currently classified in other assets. These costs, to the extent these efforts are successful, are capitalized to the extent of the established value of the revised project and included in the net investment in real estate for the appropriate Properties. To the extent these efforts are not successful, these costs will be expensed. In addition, we capitalize certain costs, primarily legal costs, related to entering into agreements which govern the terms under which we may enter into leases with individual tenants and which are expensed over the term of the agreement.

MANUFACTURED HOME COMMUNITIES, INC.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Notes Receivable

Notes receivable generally are stated at their outstanding unpaid principal balances, net of any deferred fees or costs on originated loans, or unamortized discounts or premiums net of a valuation allowance. Interest income is accrued on the unpaid principal balance. Discounts or premiums are amortized to income using the interest method. In certain cases we finance the sale of homes to our residents (referred to as "Chattel Loans") which loans are secured by the homes. The valuation allowance for the Chattel Loans is calculated based on a comparison of the outstanding principal balance of each note compared to the N.A.D.A. value and the current market value of the underlying manufactured home collateral.

(g) Investments in and Advances to Joint Ventures

Investments in unconsolidated joint ventures are accounted for using the equity method of accounting because we do not have control over the activities of the investees. Our net equity investment is reflected on the consolidated balance sheets, and the consolidated statements of operations include our share of net income or loss from the unconsolidated joint ventures. Any difference between the carrying amount of these investments on our consolidated balance sheet and the historical cost of the underlying equity is depreciated as an adjustment to income from unconsolidated joint ventures generally over 30 years.

NOTE 2 - EARNINGS PER COMMON SHARE

Earnings per common share are based on the weighted average number of common shares outstanding during each period. Statement of Financial Accounting Standards No. 128, "Earnings Per Share" ("SFAS No. 128") defines the calculation of basic and fully diluted earnings per share. Basic and fully diluted earnings per share are based on the weighted average shares outstanding during each period and basic earnings per share excludes any dilutive effects of options, warrants and convertible securities. The conversion of OP Units has been excluded from the basic earnings per share calculation. The conversion of an OP Unit to a share of common stock has no material effect on earnings per common share.

The following table sets forth the computation of basic and fully diluted earnings per share for the quarters and six months ended June 30, 2004 and 2003 (amounts in thousands):

	QUARTERS ENDED		SIX MONTHS ENDED	
	JUNE 30, 2004	JUNE 30, 2003	JUNE 30, 2004	JUNE 30, 2003
NUMERATORS:				
INCOME FROM CONTINUING OPERATIONS:				
Income from continuing operations - basic.....	\$ 678	\$ 5,112	\$ 5,640	\$ 12,482
Amounts allocated to dilutive securities.....	181	1,373	1,337	3,149
	-----	-----	-----	-----
Income from continuing operations - fully diluted.....	\$ 859	\$ 6,485	\$ 6,977	\$ 15,631
	=====	=====	=====	=====
INCOME (LOSS) FROM DISCONTINUED OPERATIONS:				
Income (loss) from discontinued operations - basic.....	\$ (20)	\$ 9,288	\$ (6)	\$ 9,590
Amounts allocated to dilutive securities.....	---	2,071	---	2,142
	-----	-----	-----	-----
Income (loss) from discontinued operations - fully diluted....	\$ (20)	\$ 11,359	\$ (6)	\$ 11,732
	=====	=====	=====	=====

(Table continued on next page)

MANUFACTURED HOME COMMUNITIES, INC.

NOTE 2 - EARNINGS PER COMMON SHARE (CONTINUED)

(Table continued from prior page)

EARNINGS PER COMMON SHARE- FULLY DILUTED:

Net income available for Common				
Shares - basic.....	\$ 658	\$ 14,400	\$ 5,634	\$ 22,072
Amounts allocated to dilutive securities....	181	3,444	1,337	5,291
	-----	-----	-----	-----
Net income available for Common				
Shares - fully diluted.....	\$ 839	\$ 17,844	\$ 6,971	\$ 27,363
	=====	=====	=====	=====

DENOMINATOR:

Weighted average Common Shares				
outstanding - basic.....	22,737	22,027	22,706	21,973
Effect of dilutive securities:				
Redemption of Common OP Units for				
Common Shares.....	5,917	5,344	5,615	5,351
Employee stock options and restricted shares...	488	594	519	529
	-----	-----	-----	-----
Weighted average Common Shares				
outstanding - fully diluted.....	29,142	27,965	28,840	27,853
	=====	=====	=====	=====

NOTE 3 - COMMON STOCK AND RELATED TRANSACTIONS

On January 16, 2004, we paid a one-time special distribution of \$8.00 per share payable to stockholders of record on January 8, 2004. We used proceeds from the \$501 million borrowing in October 2003 to pay the special distribution. The special cash distribution will be reflected on stockholders' 2004 1099-DIV to be issued in January 2005.

In connection with the \$501 million borrowing and subsequent special distribution, on February 27, 2004, the Company contributed all of its assets to MHC Trust, a newly formed Maryland real estate investment trust, including the Company's entire partnership interest in MHC Operating Limited Partnership. In exchange for its contribution, the Company was issued all of the outstanding shares of MHC Trust. As a result of the restructuring, MHC will continue to qualify as a real estate investment trust under the Code, with its assets consisting of interests in MHC Trust. MHC Trust, in turn, will also qualify as a real estate investment trust under the Code and will be the general partner of the Operating Partnership. On May 1, 2004, in connection with the restructuring, MHC sold cumulative preferred stock ("Series A & B preferred stock") to certain unaffiliated investors.

On May 13, 2004, the Company issued 1.1 million OP units valued at \$32.2 million in connection with the acquisition of the Monte Vista property.

On April 9, 2004, the Company paid a \$0.0125 per share distribution for the quarter ended March 31, 2004 to stockholders of record on March 26, 2004. On July 9, 2004 the Company paid a \$0.0125 per share distribution for the quarter ended June 30, 2004 to stockholders of record on June 25, 2004. The Operating Partnership paid distributions of 9.0% per annum on the \$125 million of Series D Cumulative Redeemable Perpetual Preferred Units ("Preferred Units"). Distributions on the Preferred Units were paid on March 31, 2004 and June 30, 2004. On June 30, 2004 approximately \$8,000 of the \$11,915 cumulative distribution has been paid on the Series A & B preferred stock.

MANUFACTURED HOME COMMUNITIES, INC.

NOTE 4 - INVESTMENT IN REAL ESTATE

During the six months ended June 30, 2004, we acquired 51 Properties as listed in the table below. The combined investment in real estate for these 51 properties was approximately \$530 million and was funded with monies held in short-term investments and additional debt (amounts in millions, except for total sites).

CLOSING DATE	PROPERTY	LOCATION	TOTAL SITES	REAL ESTATE	DEBT	NET EQUITY
ACQUISITIONS:						
January 15, 2004	O'Connell's	Amboy, IL	668	\$ 6.6	\$ 5.0	\$ 1.6
January 30, 2004	Spring Gulch	New Holland, PA	420	6.4	4.8	1.6
February 3, 2004	Paradise	Mesa, AZ	950	25.7	20.0	5.7
February 18, 2004	Twin Lakes	Chocowinity, NC	400	5.2	3.8	1.4
February 19, 2004	Lakeside	New Carlisle, IN	95	1.7	--	1.7
February 5, 2004	Shangri La	Largo, FL	160	(b)	4.5	(b)
February 5, 2004	Terra Ceia	Palmetto, FL	203	(b)	2.6	(b)
February 5, 2004	Southernaire	Mt. Dora, FL	134	(b)	2.1	(b)
February 5, 2004	Sixth Avenue	Zephyrhills, FL	140	(b)	2.3	(b)
February 5, 2004	Suni Sands	Yuma, AZ	336	(b)	3.2	(b)
February 5, 2004	Topic's	Spring Hill, FL	230	(b)	2.2	(b)
February 5, 2004	Coachwood Colony	Leesburg, FL	200	(b)	4.3	(b)
February 5, 2004	Waterway	Cedar Point, NC	336	(b)	6.3	(b)
February 5, 2004	Desert Paradise	Yuma, AZ	260	(b)	1.5	(b)
February 5, 2004	Goose Creek	Newport, NC	598	(b)	12.6	(b)
February 17, 2004	NHC Portfolio (a)	Various	11,357	235.0	159.0	69.0
May 3, 2004	Viewpoint	Mesa, AZ	1,928	81.3	44.0	37.3
May 12, 2004	Cactus Gardens	Yuma, AZ	430	7.9	4.9	3.0
May 13, 2004	Monte Vista	Mesa, AZ	832	45.8	23.0	22.8
May 14, 2004	Carefree Cove	Ft. Lauderdale, FL	164	(c)	4.8	(c)
May 14, 2004	Sunshine Holiday	Ft. Lauderdale, FL	399	(c)	8.6	(c)
May 14, 2004	Las Palmas	Rialto, CA	135	(c)	3.8	(c)
May 14, 2004	Parque la Quinta	Rialto, CA	166	(c)	5.1	(c)
May 14, 2004	Village of the Four Seasons	San Jose, CA	271	(c)	15.4	(c)

- (a) On February 17, 2004, the Company acquired 93% of PAMI entities' interests in 28 properties and as such included the acquisition in its consolidated financial statements at that time. PAMI filed a lawsuit disputing the authority of NHC to enter into the transaction with the Company and a trial was held in mid-April 2004. On June 21, 2004, the Court of Chancery for the State of Delaware in Civil Action No. 259-N issued a Memorandum Opinion affirming NHC had the authority to enter into the transaction with the Company.
- (b) The portfolio was acquired for a total purchase price of \$64 million and \$20.9 million of net equity. The transaction was funded partially through loans obtained on the individual properties as shown in the table.
- (c) The portfolio was acquired for a total purchase price of \$52.9 million and \$15.2 million of net equity. The transaction was funded partially through loans obtained on the individual properties as shown in the table.

In connection with the 2004 acquisitions and not reflected in the table above the Company assumed inventory of approximately \$1.2 million, other assets of \$4.9 million, rents received in advance of approximately \$13.6 million and other liabilities of approximately \$5.8 million. The Company also issued operating partnership units for value of approximately \$32 million in connection with the purchase of Monte Vista.

MANUFACTURED HOME COMMUNITIES, INC.

NOTE 4 - INVESTMENT IN REAL ESTATE (CONTINUED)

On May 28, 2004, a property located in Lake Placid, Florida was sold for a selling price of \$3.4 million, with net proceeds of \$0.8 million received July 2004. No gain or loss on disposition was recognized in the period. The operating results have been reflected in discontinued operations.

All acquisitions have been accounted for utilizing the purchase method of accounting, and, accordingly, the results of operations of acquired assets are included in the statements of operations from the dates of acquisition. Certain purchase price adjustments may be recorded within one year following the acquisitions. We acquired all of these Properties from unaffiliated third parties.

The following table illustrates the effect on net income and earnings per share if the Company had consummated the acquisitions during the six months ended June 30, 2004 on January 1, 2004 and 2003, respectively:

Pro Forma Information:	FOR THE SIX MONTHS ENDED JUNE 30,	
	2004	2003
	-----	-----
Property operating revenues.....	\$ 157,182	\$ 151,219
	=====	=====
Income from continuing operations.....	\$ 7,145	\$ 12,859
	=====	=====
Net income available for Common Shares.....	\$ 7,139	\$ 22,179
	=====	=====
Earnings per Common Share - Basic:		
Income from continuing operations.....	\$ 0.31	\$ 0.59
Net income available for Common Shares.....	\$ 0.31	\$ 1.01
Earnings per Common Share - Fully Diluted:		
Income from continuing operations.....	\$ 0.31	\$ 0.58
Net income available for Common Shares.....	\$ 0.31	\$ 1.00

The Company is actively seeking to acquire additional communities and currently is engaged in negotiations relating to the possible acquisition of a number of Properties. At any time these negotiations are at varying stages which may include contracts outstanding to acquire certain properties which are subject to satisfactory completion of the Company's due diligence review.

NOTE 5 - NOTES RECEIVABLE

As of June 30, 2004 and December 31, 2003, the Company had approximately \$12.5 million and \$11.6 million in notes receivable, respectively. The Company has approximately \$11.6 million in Chattel Loans receivable, which yield interest at a per annum average rate of approximately 9.9%, have an average term and amortization of 5 to 15 years, require monthly principal and interest payments and are collateralized by manufactured homes at certain of the Properties. As of June 30, 2004, the Company had approximately \$433,000 in notes which bear interest at a per annum rate of prime plus 0.5% and mature on December 31, 2011. The notes are collateralized with a combination of Common OP Units and partnership interests in certain joint ventures.

NOTE 6 - INVESTMENT IN JOINT VENTURES

On February 3, 2004, the Company invested approximately \$29.7 million in preferred equity interests (the "Mezzanine Investment") in six entities controlled by Diversified Investments, Inc. ("Diversified"). These entities own in the aggregate 11 properties, containing 5,054 sites. Approximately \$11.7 million of the Mezzanine Investment accrues at a per annum average rate of 10%, with a minimum pay rate of 6.5%, payable quarterly, and approximately \$17.9 million of the Mezzanine Investment accrues at a per annum average rate of 11%, with a minimum pay rate of 7%, payable quarterly. To the extent the minimum pay

MANUFACTURED HOME COMMUNITIES, INC.

NOTE 6 - INVESTMENT IN JOINT VENTURES (CONTINUED)

rates on the respective Mezzanine Investments are not achieved, the accrual rates increase to 12% and 13% per annum, respectively. The Company can acquire these properties in the future at capitalization rates of between 8% and 8.5%, beginning in 2006. In addition, the Company has invested approximately \$1.4 million in the Diversified entities managing these 11 properties, which is included in prepaid expenses and other assets on the Company's Consolidated Balance Sheet as of June 30, 2004.

During the six months ended June 30, 2004, the Company invested approximately \$2.1 million with Diversified in six separate property-owning entities. The Company can acquire these properties in the future at capitalization rates of between 8% and 8.5%, beginning in 2006.

In addition, the Company recorded approximately \$1.9 million and \$1.1 million of net income from joint ventures in the six months ended June 30, 2004 and 2003, respectively, and received approximately \$2.4 million and \$0.7 million in distributions from such joint ventures for the six months ended June 30, 2004 and 2003, respectively. Included in such distributions for the six months ended June 2004 is a \$1.5 million return of capital, of which \$531,000 exceeded the Company's basis and thus was recorded in income from unconsolidated joint ventures and other.

Due to the Company's inability to control the joint ventures, the Company accounts for its investment in the joint ventures using the equity method of accounting.

The following table summarizes the Company's investments in unconsolidated joint ventures:

PROPERTY	LOCATION	NUMBER OF SITES	ECONOMIC INTEREST(a)	INVESTMENT AS OF	
				JUNE 30, 2004	DEC 31, 2003
(in thousands)					
Lake Myers	Mocksville, NC	425	25%	\$ 369	\$ --
Pine Haven	Ocean View, NJ	625	25%	384	--
Twin Mills	Howe, IN	501	25%	286	--
Plymouth Rock	Elkhart Lake, WI	609	25%	359	--
Trails West	Tucson, AZ	503	50%	1,726	1,752
Plantation	Calimesa, CA	385	50%	2,874	2,825
Manatee	Bradenton, FL	290	90%	45	45
Home	Hallandale, FL	136	90%	25	1,082
Villa del Sol	Sarasota, FL	207	90%	680	654
Voyager RV Resort	Tucson, AZ	--	25%	4,577	4,412
Preferred Interests in College Heights		--	17%	8,123	8,058
Mezzanine Investments		5,054		30,632	--
Mesa Verde	Yuma, AZ	345	25%	306	--
Winter Garden	Winter Garden, FL	350	25%	362	--
		9,430		\$ 50,748	\$ 18,828
		=====		=====	=====

(a) The percentages shown approximate the Company's economic interest. The Company's legal interest may differ.

NOTE 7 - LONG-TERM BORROWINGS

As of June 30, 2004 and December 31, 2003, the Company had outstanding mortgage indebtedness of approximately \$1,417 million and \$1,076 million, respectively, encumbering 164 and 114 of the Company's Properties, respectively. As of June 30, 2004 and December 31, 2003, the carrying value of such Properties was approximately \$1,671 million and \$1,124 million, respectively.

The outstanding mortgage indebtedness as of June 30, 2004 consists of:

- - Approximately \$500.4 million of mortgage debt ("Mortgage Debt") consisting of 49 loans collateralized by 51 Properties beneficially owned by separate legal entities that are Subsidiaries of the Company, which we closed on October 17, 2003 (the "Recap"). Of this Mortgage Debt, \$177.9 million bears interest at 5.35% per annum and matures November 1, 2008; \$71.1 million bears interest at 5.72% per annum and matures November 1, 2010; \$79.1 million bears interest at 6.02% per annum and matures November 1, 2013; and \$173.3 million bears interest at 6.33% per annum and matures November 1, 2015. The Mortgage Debt amortizes over 30 years.
- - A \$265.0 million mortgage note (the "\$265 Million Mortgage") collateralized by 28 Properties beneficially owned by MHC Financing Limited Partnership. The \$265 Million Mortgage has a maturity date of January 2, 2028 and bears interest at 7.015% per annum. There is no principal amortization until February 1, 2008, after which principal and interest are to be paid from available cash flow and the interest rate will be reset at a rate equal to the then 10-year U.S. Treasury obligations plus 2.0%. The \$265 Million Mortgage is presented net of a settled hedge of \$3.0 million (net of accumulated amortization of \$411,907) which is being amortized into interest expense over the life of the loan.
- - A \$90.9 million mortgage note (the "DeAnza Mortgage") collateralized by 6 Properties beneficially owned by MHC-DeAnza Financing Limited Partnership. The DeAnza Mortgage bears interest at a rate of 7.82% per annum, amortizes beginning August 1, 2000 over 30 years and matures July 1, 2010.
- - A \$48.6 million mortgage note (the "Stagecoach Mortgage") collateralized by 7 Properties beneficially owned by MHC Stagecoach L.L.C. The Stagecoach Mortgage bears interest at a rate of 6.98% per annum, amortizes beginning September 1, 2001 over 10 years and matures September 1, 2011.
- - A \$44.1 million mortgage note (the "Bay Indies Mortgage") collateralized by one Property beneficially owned by MHC Bay Indies, L.L.C. The Bay Indies Mortgage bears interest at a rate of 5.69% per annum, amortizes beginning April 17, 2003 over 25 years and matures May 1, 2013.
- - A \$15.3 million mortgage note (the "Date Palm Mortgage") collateralized by one Property beneficially owned by MHC Date Palm, L.L.C. The Date Palm Mortgage bears interest at a rate of 7.96% per annum, amortizes beginning August 1, 2000 over 30 years and matures July 1, 2010.
- - Approximately \$455.5 million of mortgage debt on 70 other Properties, which was recorded at fair market value with the related discount or premium being amortized over the life of the loan using the effective interest rate method. Scheduled maturities for the outstanding indebtedness are at various dates through November 1, 2027, and fixed interest rates range from 5.14% to 8.36% per annum. Included in this debt, the Company has a \$2.4 million loan recorded to account for a direct financing lease entered into in May 1997. Approximately \$157 million of this debt was assumed in the acquisition of 28 Properties during the six months ended June 30, 2004 (see Note 4).

NOTE 7 - LONG-TERM BORROWINGS (CONTINUED)

We have unsecured lines of credit consisting of the following:

- - A \$110 million facility with a group of banks, bearing interest at the London Interbank Offered Rate ("LIBOR") plus 1.65% per annum that matures on August 9, 2006, for which we pay a quarterly fee on the average unused amount of the total facility equal to 0.15% of such amount. As of June 30, 2004, \$47 million was available under this facility.
- - A \$50 million facility with Wells Fargo Bank, bearing interest at LIBOR plus 1.65% per annum that matures on August 4, 2006 for which we pay a quarterly fee on the average unused amount of the total facility equal to 0.15% of such amount. This facility remained undrawn at June 30, 2004.

NOTE 8 - STOCK-BASED COMPENSATION

We account for our stock-based compensation in accordance with SFAS No. 123 and its amendment (SFAS No. 148), "Accounting for Stock Based Compensation", which results in compensation expense being recorded based on the fair value of the stock compensation issued. SFAS No. 148 provided three possible transition methods for changing to the fair value method. Effective January 1, 2003, we elected to use the modified-prospective method, which requires that we recognize stock-based employee compensation cost from the beginning of the fiscal year in which the recognition provisions are first applied as if the fair value method had been used to account for all employee awards granted or settled in fiscal years beginning after December 15, 1994. Stock-based compensation expense was approximately \$1.3 million and \$1.0 million for the six months ended June 30, 2004 and 2003, respectively.

Pursuant to the Stock Option Plan as discussed in Note 14 to the 2003 Form 10-K, certain officers, directors, employees and consultants have been offered the opportunity to acquire shares of common stock of the Company through stock options ("Options"). During the six months ended June 30, 2004, Options for 120,457 shares of common stock were exercised.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

DEANZA SANTA CRUZ

The residents of DeAnza Santa Cruz Mobile Estates, a Property located in Santa Cruz, California, brought several actions opposing fees and charges in connection with water service at the Property. As a result of one action, the Company rebated approximately \$36,000 to the residents. The DeAnza Santa Cruz Homeowners Association ("HOA") then proceeded to a jury trial alleging these "overcharges" entitled them to an award of punitive damages. In January 1999, a jury awarded the HOA \$6.0 million in punitive damages. On December 21, 2001 the California Court of Appeal for the Sixth District reversed the \$6.0 million punitive damage award, the related award of attorneys' fees, and, as a result, all post-judgment interest thereon, on the basis that punitive damages are not available as a remedy for a statutory violation of the California Mobilehome Residency Law ("MRL"). The decision of the appellate court left the HOA, the plaintiff in this matter, with the right to seek a new trial in which it must prove its entitlement to either the statutory penalty and attorneys' fees available under the MRL or punitive damages based on causes of action for fraud, misrepresentation or other tort. In order to resolve this matter, the Company accrued for and agreed to pay \$201,000 to the HOA. This payment resolved the punitive damage claim. The HOA's attorney has made a motion asking for an award of attorneys' fees and costs in the amount of approximately \$1.5 million as a result of this resolution of the litigation. On April 2, 2003 the court awarded attorney's fees to the HOA's attorney in the amount of \$593,000 and court costs of approximately \$20,000. The Company appealed this award. On July 13, 2004, the California Court of Appeal affirmed the award of the attorney's fees in favor of the HOA's attorney. As of June 30, 2004 the Company has accrued for these amounts and will pay the award without any material impact on earnings.

NOTE 9 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

OTHER CALIFORNIA RENT CONTROL LITIGATION

As part of the Company's effort to realize the value of its Properties subject to rent control, the Company has initiated lawsuits against several municipalities in California. The Company's goal is to achieve a level of regulatory fairness in California's rent control jurisdictions, and in particular those jurisdictions that prohibit increasing rents to market upon turnover. This regulatory feature, called vacancy control, allows tenants to sell their homes for a premium representing the value of the future discounted rent-controlled rents. In the Company's view, such regulation results in a transfer of the value of the Company's shareholders' land, which would otherwise be reflected in market rents, to tenants upon the sales of their homes in the form of an inflated purchase price that cannot be attributed to the value of the home being sold. As a result, in the Company's view, the Company loses the value of its asset and the selling tenant leaves the Community with a windfall premium. The Company has discovered through the litigation process that certain municipalities considered condemning the Company's Communities at values well below the value of the underlying land. In the Company's view, a failure to articulate market rents for sites governed by restrictive rent control would put the Company at risk for condemnation or eminent domain proceedings based on artificially reduced rents. Such a physical taking, should it occur, could represent substantial lost value to shareholders. The Company is cognizant of the need for affordable housing in the jurisdictions, but asserts that restrictive rent regulation with vacancy control does not promote this purpose because the benefits of such regulation are fully capitalized into the prices of the homes sold. The Company estimates that the annual rent subsidy to tenants in these jurisdictions is approximately \$15 million. In a more well balanced regulatory environment, the Company would receive market rents that would eliminate the subsidy and homes would trade at or near their intrinsic value.

In connection with such efforts, the Company recently announced it has entered into a settlement agreement with the City of Santa Cruz, California and that, pursuant to the settlement agreement, the City amended its rent control ordinance to exempt the Company's property from rent control as long as the Company offers a long term lease which gives the Company the ability to increase rents to market upon turnover and bases annual rent increases on the Consumer Price Index ("CPI"). The settlement agreement benefits the Company's stockholders by allowing them to receive the value of their investment in this Community through vacancy decontrol while preserving annual CPI based rent increases in this age restricted Property.

The Company's efforts to achieve a balanced regulatory environment incentivize tenant groups to file lawsuits against the Company seeking large damage awards. The homeowners association at Contempo Marin ("CMHOA"), a 396 site Property in San Rafael, California, sued the Company in December 2000 over a prior settlement agreement on a capital pass-through after the Company sued the City of San Rafael in October 2000 alleging its rent control ordinance is unconstitutional. In the Contempo Marin case, the CMHOA prevailed on a motion for summary judgment on an issue that permits the Company to collect only \$3.72 out of a monthly pass-through amount of \$7.50 that the Company believes had been agreed to by the CMHOA in a settlement agreement. The Company intends to vigorously defend this matter, which has been stayed pending a related state court appeal by the Company of an order dismissing its claims against the City of San Rafael. On May 23, 2004, the California Court of Appeal affirmed the trial court's order dismissing the Company's claims against the City of San Rafael. Accordingly, the CMHOA is expected to request a trial on its remaining claims for damages. The Company believes that such lawsuits will be a consequence of the Company's efforts to change rent control since tenant groups actively desire to preserve the premium value of their homes in addition to the discounted rents provided by rent control. The Company has determined that its efforts to rebalance the regulatory environment despite the risk of litigation from tenant groups are necessary not only because of the \$15 million annual subsidy to tenants, but also because of the condemnation risk.

NOTE 9 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

ELLENBURG COMMUNITIES

The Company and certain other parties entered into a settlement agreement (the "Settlement"), which was approved by the Los Angeles County Superior Court in April 2000. The Settlement resolved substantially all of the litigation and appeals involving the Ellenburg Properties, and transactions arising out of the Settlement closed on May 22, 2000. Only the appeal of one entity remained, the outcome of which was not expected to materially affect the Company.

In connection with the Ellenburg Acquisition, on September 8, 1999, Ellenburg Fund 20 ("Fund 20") filed a cross complaint in the Ellenburg dissolution proceeding against the Company and certain of its affiliates alleging causes of action for fraud and other claims in connection with the Ellenburg Acquisition. The Company subsequently successfully had the cross complaint against the Company and its affiliates dismissed with prejudice by the California Superior Court. However, Fund 20 appealed. Although this appeal was one not resolved by the Settlement, the California Court of Appeal dismissed Fund 20's substantive appeals on March 13, 2003 as moot. Fund 20 petitioned the California Supreme Court to review this decision which review was denied.

In October 2001, Fund 20 sued the Company and certain of its affiliates again, this time in Alameda County, California making substantially the same allegations. The Company obtained an injunction preventing the case from proceeding until the Fund 20 appeal is decided and other related proceedings in Arizona (from which the Company has already been dismissed with prejudice) were concluded. The Company obtained a court order enjoining Fund 20 from proceeding with its Alameda County action.

In February 2004, the Company entered into a settlement agreement with Fund 20 resolving all remaining matters at no cost to the Company and with mutual releases.

COUNTRYSIDE AT VERO BEACH

The Company has received letters dated June 17, 2002 and August 26, 2002 from Indian River County ("County"), claiming that the Company currently owes sewer impact fees in the amount of approximately \$518,000 with respect to the Property known as Countryside at Vero Beach, located in Vero Beach, Florida, purportedly under the terms of an agreement between the County and a prior owner of the Property. In response, the Company has advised the County that these fees are no longer due and owing as a result of a 1996 settlement agreement between the County and the prior owner of the Property, providing for the payment of \$150,000 to the County to discharge any further obligation for the payment of impact or connection fees for sewer service at the Property. The Company paid this settlement amount (with interest) to the County in connection with the Company's acquisition of the Property. Accordingly, the Company believes that the County's claims are without merit.

DELAWARE DECLARATORY JUDGMENT ACTION

In April 2002, the Company entered into a Stipulation and Consent Order to Cease and Desist (the "Consent Order") with the State of Delaware (the "State"). The Consent Order resolved various issues raised by the State concerning the terms of a new lease form used or proposed for use by the Company at certain of its Properties in Delaware. Among other provisions, the Consent Order contemplated that the Company would work with the State to develop and implement a new lease form for use in Delaware. The Consent Order expressly provided that nothing contained therein would preclude the Company from seeking declaratory relief from a court as to the legality or enforceability of any provisions which the Company might wish to incorporate in future leases.

NOTE 9 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

DELAWARE DECLARATORY JUDGMENT ACTION (CONTINUED)

Throughout the summer of 2002, the Company's Delaware legal counsel engaged in dialogue with representatives of the State concerning various matters, including the lease provisions to which the State had objected but which the Company wished to incorporate in future leases. Through this process, it became apparent that the parties could not reach agreement as to the legality or enforceability of the proposed lease provisions, and that the Company would need to seek declaratory relief from a court in order to resolve the matter, as contemplated by the Consent Order. Accordingly, on August 29, 2002, the Company filed a Petition for Declaratory Judgment and Other Relief (as amended, the "Petition") in Sussex County, Delaware Superior Court (the "Court").

In response to the filing of the Petition, on October 1, 2002, the State filed its Answer to Petition for Declaratory and Other Relief, and Counterclaims for Civil Enforcement and Contempt (as amended, "Answer and Counterclaim") with the Court. In the Answer and Counterclaim, the State sought, inter alia, restitution, statutory penalties, investigative costs and attorneys' fees under the Delaware Mobile Home Lots and Leases Act, the Consumer Fraud Act, the Uniform Deceptive Trade Practices Act and the Delaware Consumer Contracts law, and separately sought a finding of contempt and related contempt penalties for alleged violations of the Consent Order.

The Company filed a Motion to Dismiss Respondents' Counterclaims with the Court on October 29, 2002, and the State filed a Motion for Summary Judgment with the Court on November 15, 2002. On December 30, 2002, the Company filed a First Amended Petition for Declaratory Judgment and Other Relief with the Court, and on January 31, 2003, the State filed an Amended Answer and Counterclaim with the Court.

On August 29, 2003, the Court issued its decision disposing of all pending claims in the litigation except one. Specifically, the Court held, inter alia, that (i) the Company may eliminate the rent cap formula from existing leases at certain of its Delaware Properties as the leases come up for renewal, (ii) certain lease provisions proposed by the Company may not be implemented or enforced under applicable state law, (iii) the change in water supplier at one of the Properties did not violate the leases at such Property, (iv) the Company did not violate the Consent Order by filing the Petition, and (v) the Company did not violate any state statutes as alleged by the State.

The August 29, 2003 decision left open the issue of whether the Company had violated the Consent Order by continuing to use the disputed lease form (but not enforce the provisions at issue) at one of its Properties following entry of the Consent Order (the Company believed that it had no choice but to continue to use this lease form until the State had approved a new form for use at the Property as contemplated by the Consent Order). On October 3, 2003, the Court issued its final order, finding that continued use of the disputed lease form, as to new tenants but not as to renewal tenants, following entry of the Consent Order constituted a violation thereof, and assessing a civil penalty in the amount of \$5,000.

On November 3, 2003, the State filed a Notice of Appeal with the Supreme Court of the State of Delaware (the "Supreme Court"), appealing a portion of the Court's order denying the State's Motion for Summary Judgment. The State's appeal was limited to the single issue of whether the Company has the right to eliminate "rent cap" provisions contained in certain existing leases upon automatic renewal of the leases in accordance with Delaware law. Following oral argument in the matter before a three-justice panel of the Supreme Court, on March 17, 2004, the Supreme Court issued an order affirming the Company's right to eliminate these "rent cap" provisions. The State subsequently filed a motion for rehearing en banc, and on April 21, 2004, the Supreme Court granted the State's motion. The Supreme Court designated the appeal for decision upon the briefs. On June 8, 2004, the Supreme Court issued its order, again affirming the Court's order.

NOTE 9 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

OTHER

The Company is involved in various other legal proceedings arising in the ordinary course of business. Management believes that all proceedings herein described or referred to, taken together, are not expected to have a material adverse impact on the Company.

NOTE 10 - SUBSEQUENT EVENTS

On August 3, 2004, the Company announced that it has entered into an agreement to purchase from the parent of Thousand Trails, Inc. ("Thousand Trails") 57 properties and approximately 3,000 acres of vacant land. Under the agreement the Company will lease the real estate (excluding the vacant land) to Thousand Trails on a triple net basis and subject to annual escalations at a rate of \$16 million per annum. The term of the lease is 15 years, with two five year renewals at the option of the lessee. In addition, Thousand Trails will continue to operate the properties. The transaction is subject to certain conditions and financing arrangements and is expected to close in the fourth quarter of 2004.

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

OVERVIEW

The following is a discussion of the interim results of operations, financial condition and liquidity and capital resources of the Company for the quarter and six months ended June 30, 2004 compared to the corresponding period in 2003. It should be read in conjunction with the Consolidated Financial Statements and Notes thereto included herein and the 2003 Form 10-K. The following discussion may contain certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, which reflect management's current views with respect to future events and financial performance. Such forward-looking statements are subject to certain risks and uncertainties, including, but not limited to, the effects of future events on the Company's financial performance, the adverse impact of external factors such as inflation and consumer confidence, and the risks associated with real estate ownership.

RESULTS OF OPERATIONS

PROPERTY ACQUISITIONS, JOINT VENTURES AND DISPOSITIONS

The following chart lists the Properties acquired, invested in, or sold since January 1, 2003. The Company defines its core manufactured home community portfolio ("Core Portfolio") as manufactured home Properties owned throughout both periods of comparison. Excluded from the Core Portfolio are any Properties acquired or sold during the period and also any recreational vehicle resorts ("Resorts") which, together, are referred to as the "Non-Core" Properties.

PROPERTY -----	TRANSACTION DATE -----	SITES -----
TOTAL SITES AS OF JANUARY 1, 2003.....		51,582
ACQUISITIONS:		
Toby's.....	December 3, 2003	379
Araby Acres.....	December 15, 2003	337
Foothill .....	December 15, 2003	180
O'Connell's .....	January 15, 2004	668
Spring Gulch.....	January 30, 2004	420
Paradise.....	February 3, 2004	950
Twin Lakes.....	February 18, 2004	400
Lakeside.....	February 19, 2004	95

(table continued on next page)

MANUFACTURED HOME COMMUNITIES, INC.

(table continued from previous page)

Shangri La.....	February 5, 2004	160
Terra Ceia.....	February 5, 2004	203
Southernaire.....	February 5, 2004	134
Sixth Avenue.....	February 5, 2004	140
Suni Sands.....	February 5, 2004	336
Topic's.....	February 5, 2004	230
Coachwood Colony.....	February 5, 2004	200
Waterway.....	February 5, 2004	336
Desert Paradise.....	February 5, 2004	260
Goose Creek.....	February 5, 2004	598
NHC.....	February 17, 2004	11,357
Viewpoint.....	May 3, 2004	1,928
Cactus Gardens.....	May 12, 2004	430
Monte Vista.....	May 13, 2004	832
Carefree Cove.....	May 14, 2004	164
Sunshine Holiday.....	May 14, 2004	399
Las Palmas.....	May 14, 2004	135
Parque la Quinta.....	May 14, 2004	166
Village of the Four Seasons.....	May 14, 2004	271
JOINT VENTURES:		
Lake Myers.....	December 18, 2003	425
Pine Haven.....	January 21, 2004	625
Twin Mills.....	January 27, 2004	501
Plymouth Rock.....	February 10, 2004	609
Mesa Verde.....	May 18, 2004	345
Winter Garden.....	May 18, 2004	350
MEZZANINE INVESTMENT:		
Fiesta Grande I & II .....	February 3, 2004	767
Tropical Palms.....	February 3, 2004	297
Island Vista Estates.....	February 3, 2004	617
Foothills West.....	February 3, 2004	188
Capri.....	February 3, 2004	300
Casita Verde.....	February 3, 2004	192
Rambler's Rest.....	February 3, 2004	647
Venture Inn.....	February 3, 2004	389
Scenic.....	February 3, 2004	224
Clerbrook.....	February 3, 2004	1,255
Inlet Oaks.....	February 3, 2004	178
DISPOSITIONS:		
Independence Hill.....	June 6, 2003	(203)
Brook Gardens.....	June 6, 2003	(424)
Pheasant Ridge.....	June 30, 2003	(101)
Lake Placid.....	May 28, 2004	(408)
EXPANSION SITE DEVELOPMENT AND OTHER:		
Sites added or reconfigured in 2003		(35)
TOTAL SITES AS OF JUNE 30, 2004.....		----- 80,028 =====

## TRENDS

Occupancy in our Properties as well as our ability to increase rental rates directly affects revenues. Average occupancy in our Core Portfolio decreased 1.8% from the prior year. Average monthly base rental rates for the Core Portfolio increased approximately 4.8% from the prior year. We project continued growth during 2004 in our Core Portfolio performance. Core Portfolio base rental rate growth is expected to be approximately 3%. These projections would result in growth of approximately 2% to 2.5% in Core Portfolio income from operations (also referred to as net operating income or "NOI").

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosures. We believe that the following critical accounting policies, among others, affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

We periodically evaluate our long-lived assets, including our investments in real estate, for impairment indicators. Our judgments regarding the existence of impairment indicators are based on factors such as operational performance, market conditions and legal factors. Future events could occur which would cause us to conclude that impairment indicators exist and an impairment loss is warranted.

Real estate is recorded at cost less accumulated depreciation. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. We use a 30-year estimated life for buildings acquired and structural and land improvements, a ten-to-fifteen-year estimated life for building upgrades and a three-to-seven-year estimated life for furniture, fixtures and equipment. Expenditures for ordinary maintenance and repairs are expensed to operations as incurred and significant renovations and improvements that improve the asset and extend the useful life of the asset are capitalized over their estimated useful life. However, the useful lives, salvage value, and customary depreciation method used for land improvements and other significant assets may significantly and materially overstate the depreciation of the underlying assets and therefore understate the net income of the Company.

The valuation of financial instruments under Statement of Financial Accounting Standards No. 107, "Disclosures About Fair Value of Financial Instruments" ("SFAS No. 107") and Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133") requires us to make estimates and judgments that affect the fair value of the instruments. Where possible, we base the fair values of our financial instruments, including our derivative instruments, on listed market prices and third party quotes. Where these are not available, we base our estimates on other factors relevant to the financial instrument.

Certain costs, primarily legal costs, relative to our efforts to effectively change the use and operations of several Properties subject to rent control (see Note 9) are currently classified in other assets. These costs, to the extent these efforts are successful, are capitalized to the extent of the established value of the revised project and included in the net investment in real estate for the appropriate Properties. To the extent these efforts are not successful, these costs will be expensed. In addition, we capitalize certain costs, primarily legal costs, related to entering into agreements which govern the terms under which we may enter into leases with individual tenants and which are expensed over the term of the agreement.

In December 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 46R, Consolidation of Variable Interest Entities ("FIN 46R"). The objective of FIN 46R is to provide guidance on how to identify a variable interest entity ("VIE") and determine when the assets, liabilities, non-controlling interests, and results of operations of a VIE need to be included in the Company's consolidated financial statements. A company that holds variable interests in an entity will need to consolidate such entity if the Company absorbs a majority of the VIE's expected losses or receives a majority of the entity's expected residual returns if they occur, or both. The adoption of FIN 46R had no effect on the Company in 2003 and 2004.

MANUFACTURED HOME COMMUNITIES, INC.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

We account for our stock-based compensation in accordance with SFAS No. 123 and its amendment (SFAS No. 148), "Accounting for Stock Based Compensation", which results in compensation expense being recorded based on the fair value of the stock compensation issued. SFAS No. 148 provided three possible transition methods for changing to the fair value method. Effective January 1, 2003, we elected to use the modified-prospective method, which requires that we recognize stock-based employee compensation cost from the beginning of the fiscal year in which the recognition provisions are first applied as if the fair value method had been used to account for all employee awards granted or settled in fiscal years beginning after December 15, 1994.

COMPARISON OF THE QUARTER ENDED JUNE 30, 2004 TO THE QUARTER ENDED JUNE 30, 2003

Since December 31, 2002, the gross investment in real estate has increased from \$1,296 million to \$1,856 million. The total number of sites owned or controlled, or in which the Company holds an investment, has increased from 51,582 as of December 31, 2002 to 80,028 as of June 30, 2004.

PROPERTY OPERATIONS:

The following table summarizes certain financial and statistical data for the Property Operations for our Core Portfolio and the Total Portfolio for the quarters ended June 30, 2004 and 2003.

(DOLLARS IN THOUSANDS)	CORE PORTFOLIO				TOTAL PORTFOLIO			
	2004	2003	INCREASE / (DECREASE)	% CHANGE	2004	2003	INCREASE / (DECREASE)	% CHANGE
Community base rental income.....	\$ 50,562	\$ 49,110	\$ 1,452	3.0%	\$ 52,854	\$ 49,111	3,743	7.6%
Resort base rental income.....	61	69	(8)	(11.6)%	12,952	1,854	11,098	598.6%
Utility and other income.....	5,024	4,940	84	1.7%	6,440	5,091	1,349	26.5%
Property operating revenues...	55,647	54,119	1,528	2.8%	72,246	56,056	16,190	28.9%
Property operating and maintenance.....	14,580	14,180	400	2.8%	23,769	15,818	7,951	50.3%
Real estate taxes.....	4,833	4,505	328	7.3%	6,055	4,745	1,310	27.6%
Property management.....	2,226	2,189	37	1.7%	3,423	2,276	1,147	50.4%
Property operating expenses	21,639	20,874	765	3.7%	33,247	22,839	10,408	45.6%
Income from property operations	\$ 34,008	\$ 33,245	\$ 763	2.3%	\$ 38,999	\$ 33,217	5,782	17.4%
Site and Occupancy Information (1):								
Average total sites.....	43,143	43,131	12	.03%	44,601	43,131	1,470	3.4%
Average occupied sites.....	38,727	39,420	(693)	(1.8)%	40,162	39,420	742	1.9%
Occupancy %.....	89.8%	91.4%	(1.6%)	(1.6)%	90.0%	91.4%	(1.4%)	(1.4)%
Monthly base rent per site.....	\$ 435.21	\$ 415.28	\$ 19.93	4.8%	\$ 438.92	\$ 415.28	\$ 23.64	5.7%
Total sites								
As of June 30, 2004.....	43,143	43,131	12	3.8%	44,796	43,131	1,665	3.9%
Total occupied sites								
As of June 30, 2004.....	38,694	39,321	(627)	(1.6)%	40,618	39,321	1,297	3.3%

(1) Site and occupancy information excludes Resort sites and Properties owned through joint ventures.

MANUFACTURED HOME COMMUNITIES, INC.

RESULTS OF OPERATIONS (CONTINUED)

PROPERTY OPERATING REVENUES

The 3.0% increase in Community base rental income for the Core Portfolio reflects a 4.8% increase in monthly base rent per site coupled with a 1.8% decrease in average occupied sites. The increase in utility and other income for the Core Portfolio is due primarily to increases in utility income, which resulted from higher expenses for these items. Total portfolio revenues reflect the increase of resort base rental income as a result of our current year acquisitions.

PROPERTY OPERATING EXPENSES

The increase in property operating and maintenance expense for the Core Portfolio is due primarily to increases in property payroll, repair and maintenance and utility expense which was partially offset by an increase in utility income. The increase in Core Portfolio real estate taxes is generally due to higher property assessments on certain Properties. Property management expense for the Core Portfolio, which reflects costs of managing the Properties and is estimated based on a percentage of Property revenues, remained stable. Total portfolio expenses increased primarily due to the 2004 acquisitions.

HOME SALES OPERATIONS:

The following table summarizes certain financial and statistical data for the Home Sales Operations for the quarters ended June 30, 2004 and 2003.

(DOLLARS IN THOUSANDS)	HOME SALES OPERATIONS			
	2004	2003	VARIANCE	% CHANGE
Gross revenues from new home sales.....	\$ 9,212	\$ 8,651	\$ 561	6.5%
Cost of new home sales.....	(8,199)	(7,302)	(897)	(12.3%)
Gross profit from new home sales.....	1,013	1,349	(336)	(24.9%)
Gross revenues from used home sales.....	1,571	916	655	71.5%
Cost of used home sales.....	(1,147)	(864)	(283)	(32.8%)
Gross profit from used home sales.....	424	52	372	715.4%
Brokered resale revenues, net.....	596	454	142	31.3%
Home selling expenses.....	(2,204)	(1,808)	(396)	(21.9%)
Ancillary services revenues, net.....	735	(111)	846	762.2%
Income (loss) from home sales and other.....	\$ 564	\$ ( 64)	\$ 628	981.3%
	=====	=====	=====	=====
HOME SALES VOLUMES:				
New home sales.....	120	118	2	1.7%
Used home sales.....	127	57	70	122.8%
Brokered home resales.....	408	282	126	44.7%

The average selling price of new homes increased approximately \$3,500 or 4.7% compared to the same period in 2003. Used home gross profit reflects an increase in sales volume combined with increased gross margin on used home sales. Brokered resale revenues reflects increased sales volume. The 22.0% increase in home selling expenses primarily reflects increased insurance costs and other expenses. The increase in ancillary service revenue relates primarily to 2004 acquisitions.

MANUFACTURED HOME COMMUNITIES, INC.

RESULTS OF OPERATIONS (CONTINUED)

OTHER INCOME AND EXPENSES:

The increase in other expenses reflects an increase in interest expense resulting from the Recap borrowing in October 2003 and additional debt assumed in the 2004 acquisitions, an increase in depreciation on real estate assets related to the 2004 acquisitions, and increased general and administrative expense due to increased payroll. This is partially offset by an increase in interest income on short-term investments, and increased equity in income from joint ventures resulting from the Mezzanine Investment and six 2004 joint venture investments and a preferred return of capital as a result of a refinancing in one of the joint ventures.

COMPARISON OF THE SIX MONTHS ENDED JUNE 30, 2004 TO THE SIX MONTHS ENDED JUNE 30, 2003

The following table summarizes certain financial and statistical data for the Property Operations for the Core Portfolio and the Total Portfolio for the six months ended June 30, 2004 and 2003.

(DOLLARS IN THOUSANDS)	CORE PORTFOLIO				TOTAL PORTFOLIO			
	2004	2003	INCREASE/ (DECREASE)	% CHANGE	2004	2003	INCREASE/ (DECREASE)	% CHANGE
Community base rental income.....	\$ 101,085	\$ 98,471	2,614	2.7%	\$103,665	\$ 98,472	\$ 5,193	5.3%
Resort base rental income.....	157	150	7	4.7%	25,294	5,931	19,363	326.5%
Utility and other income.....	10,442	9,875	567	5.7%	12,954	10,422	2,532	24.3%
Property operating revenues...	111,684	108,496	3,188	2.9%	141,913	114,825	27,088	23.6%
Property operating and maintenance.....	29,877	28,864	1,013	3.5%	44,728	32,545	12,183	37.4%
Real estate taxes.....	9,635	8,910	725	8.1%	11,555	9,383	2,172	23.1%
Property management.....	4,267	4,372	(105)	(2.4%)	6,269	4,628	1,641	35.5%
Property operating expenses	43,779	42,146	1,633	3.9%	62,552	46,556	15,996	34.4%
Income from property operations....	\$ 67,905	\$ 66,350	\$ 1,555	2.3%	\$ 79,361	\$ 68,269	\$ 11,092	16.2%

Site and Occupancy Information (1):

Average total sites.....	43,143	43,132	11	(0.0%)	44,164	43,132	1,032	2.4%
Average occupied sites.....	38,826	39,611	(785)	(2.0%)	39,740	39,611	129	0.3%
Occupancy %.....	90.0%	91.8%	(1.8%)	(1.8%)	90.0%	91.8%	(1.8%)	(1.8%)
Monthly base rent per site.....	\$ 433.92	\$ 414.33	\$ 19.59	4.7%	\$ 434.94	\$ 414.33	\$ 20.61	5.0%

(1) Site and occupancy information excludes Resort sites and Properties owned through joint ventures.

PROPERTY OPERATING REVENUES

The 2.7% increase in Community base rental income for the Core Portfolio reflects a 4.7% increase in monthly base rent per site coupled with a 2.0% decrease in average occupied sites. The increase in utility and other income for the Core Portfolio is due primarily to increases in utility income, which resulted from higher expenses for these items. The increase in Total Portfolio revenue is primarily a result of the 2004 acquisitions.

MANUFACTURED HOME COMMUNITIES, INC.

RESULTS OF OPERATIONS (CONTINUED)

PROPERTY OPERATING EXPENSES (CONTINUED)

The increase in property operating and maintenance expense for the Core Portfolio is due primarily to increases in property payroll, repair and maintenance, administrative, and insurance and other expenses. Utility expense also increased, but was offset by an increase in utility income. The increase in Core Portfolio real estate taxes is generally due to higher property assessments on certain Properties. Property management expense for the Core Portfolio, which reflects costs of managing the Properties and is estimated based on a percentage of Property revenues, remained stable. Total Portfolio expenses increased due to 2004 acquisitions.

HOME SALES OPERATIONS:

The following table summarizes certain financial and statistical data for the Home Sales Operations for the six months ended June 30, 2004 and 2003.

(DOLLARS IN THOUSANDS)	HOME SALES OPERATIONS			
	2004	2003	VARIANCE	% CHANGE
Gross revenues from new home sales.....	\$ 16,010	\$ 12,260	3,750	30.6%
Cost of new home sales.....	(14,492)	(10,277)	(4,215)	(41.0%)
Gross profit from new home sales.....	1,518	1,983	(465)	(23.4%)
Gross revenues from used home sales.....	2,311	1,399	912	65.2%
Cost of used home sales.....	(1,870)	(1,349)	(521)	(38.6%)
Gross profit from used home sales.....	441	50	391	782.0%
Brokered resale revenues, net.....	1,088	830	258	31.1%
Home selling expenses.....	(4,277)	(3,702)	(575)	(15.5%)
Ancillary services revenues, net.....	1,647	371	1,276	343.9%
Income (loss) from home sales and other.....	\$ 417	\$ (468)	885	189.1%
HOME SALES VOLUMES:				
New home sales.....	214	170	44	25.9%
Used home sales.....	203	89	114	128.1%
Brokered home resales.....	737	542	195	36.0%

New home sales gross profit reflects a 25.9% increase in sales volume coupled with a 23.4% decrease in the gross margin. Used home gross profit reflects an increase in gross margin on used home sales, along with increased sales volume. Brokered resale revenues reflect an increase in volume. The 15.5% increase in home selling expenses primarily reflects an increase in sales volumes and insurance expense.

RESULTS OF OPERATIONS (CONTINUED)

OTHER INCOME AND EXPENSES:

The decrease from the six months ended June 30, 2004 versus the same period a year earlier in other income and expenses reflects an increase in income from joint ventures offset by an increase in general and administrative expense, interest expense and depreciation mainly due to the 2004 acquisitions and the Recap in October 2003.

LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY

As of June 30, 2004, the Company had \$9.4 million in cash and cash equivalents and \$97 million available on its line of credit. The Company expects to meet its short-term liquidity requirements, including its distributions, generally through its working capital, net cash provided by operating activities and availability under the existing line of credit. The Company expects to meet certain long-term liquidity requirements such as scheduled debt maturities, property acquisitions and capital improvements by long-term collateralized and uncollateralized borrowings including borrowings under its existing line of credit and the issuance of debt securities or additional equity securities in the Company, in addition to net cash provided by operating activities.

INVESTMENT IN AND ADVANCES TO JOINT VENTURES

On February 3, 2004, the Company invested approximately \$29.7 million in preferred equity interests (the "Mezzanine Investment") in six entities controlled by Diversified Investments, Inc. ("Diversified"). These entities own in the aggregate 11 properties, containing 5,054 sites. Approximately \$11.7 million of the Mezzanine Investment accrues at a per annum average rate of 10%, with a minimum pay rate of 6.5%, payable quarterly, and approximately \$17.9 million of the Mezzanine Investment accrues at a per annum average rate of 11%, with a minimum pay rate of 7%, payable quarterly. To the extent the minimum pay rates on the respective Mezzanine Investments are not achieved, the accrual rates increase to 12% and 13%, respectively. The Company can acquire these properties in the future at capitalization rates of between 8% and 8.5%, beginning in 2006. In addition, the Company has invested approximately \$1.4 million in the Diversified entities managing these 11 properties, which is included in prepaid expenses and other assets on the Company's Consolidated Balance Sheet as of June 30, 2004.

During the six months ended June 30, 2004, the Company invested approximately \$2.1 million with Diversified in six separate property-owning entities. The Company can acquire these properties in the future at capitalization rates of between 8% and 8.5%, beginning in 2006.

In addition, the Company recorded approximately \$1.9 million and \$1.1 million of net income from joint ventures in the six months ended June 30, 2004 and 2003, respectively, and received approximately \$2.4 million and \$0.7 million in distributions from these joint ventures for the six months ended June 30, 2004 and 2003, respectively. Included in these distributions for the six months ended June 2004 is a \$1.5 million return of capital, of which \$531,000 exceeded the Company's basis and thus was recorded in income from joint ventures. Due to the Company's inability to control the joint ventures, the Company accounts for its investment in the joint ventures using the equity method of accounting.

ACQUISITIONS

During the six months ended June 30, 2004, we acquired 51 Properties (See footnote 4 of the unaudited interim financial statements). The combined real estate investment in these 51 properties was approximately \$530 million and was funded with monies held in short-term investments and additional debt.

MANUFACTURED HOME COMMUNITIES, INC.

LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

ACQUISITIONS (CONTINUED)

We assumed inventory of approximately \$1.2 million, other assets of \$4.9 million, rents received in advance of approximately \$13.6 million and other liabilities of approximately \$5.8 million in connection with the 2004 acquisitions.

On February 17, 2004, the Company paid \$69 million to acquire 93% of PAMI entities' interests and as such included the acquisition and its results from operations in its consolidated financial statements at that time. The acquisition was funded with monies held in short-term investments and \$50 million drawn from the Company's line of credit. PAMI filed a lawsuit disputing the authority of NHC to enter into the transaction with the Company and a trial was held in mid-April 2004. On June 21, 2004, the Court of Chancery for the State of Delaware in Civil Action No. 259-N issued a Memorandum Opinion affirming NHC had the authority to enter into the transaction with the Company.

On May 28, 2004, a property located in Lake Placid, Florida was sold for a selling price of \$3.4 million, with net proceeds of \$0.8 million received mid-July, and no gain or loss on disposition was recognized. The operating results have been reflected in discontinued operations.

MORTGAGES AND CREDIT FACILITIES

Throughout the six months ended June 30, 2004 the Company borrowed \$81 million on its line of credit and paid down \$18 million on the line of credit. The line of credit bears interest at a per annum rate of LIBOR plus 1.65% per annum.

During the six months ended June 30, 2004, the company assumed Mortgage and other debt of approximately \$157 million, which was recorded at fair market value with the related premium being amortized over the life of the loan using the effective interest rate. The company borrowed an additional \$190 million of mortgage debt for other acquisitions. The Mortgages bear interest rates ranging from 5.14% to 5.81% per annum, and mature at various dates through November 1, 2027.

Certain of the Company's mortgage and credit agreements contain covenants and restrictions including restrictions as to the ratio of secured or unsecured debt versus encumbered or unencumbered assets, the ratio of fixed charges-to-earnings before interest, taxes, depreciation and amortization ("EBITDA"), limitations on certain holdings and other restrictions.

As of June 30, 2004, we were subject to certain contractual payment obligations as described in the table below (dollars in thousands).

CONTRACTUAL OBLIGATIONS -----	TOTAL -----	2005 ----	2006 ----	2007 ----	2008 ----	2009 ----	THEREAFTER -----
Long Term Borrowings (1)	\$1,469,380	\$66,831	\$94,762	\$291,475	\$197,535	\$45,882	\$772,895
Weighted average interest rates.....	6.36%	6.60%	4.11%	7.33%	5.70%	6.44%	6.48%

(1) Balance excludes net premiums and discounts of \$10.8 million.

Included in the above table are certain capital lease obligations totaling approximately \$7.0 million. These agreements expire June 2009 and are paid semi-annually.

LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

MORTGAGES AND CREDIT FACILITIES (CONTINUED)

In addition, the Company leases land under non-cancelable operating leases at certain of the Properties expiring in various years from 2022 to 2032 with terms which include minimum rent to be paid throughout the year plus additional rents calculated as a percentage of gross revenues. For the six months ended June 30, 2004 and 2003, ground lease expense was approximately \$450,000. Minimum future rental payments under the ground leases are approximately \$1.7 million for each of the next five years and approximately \$30.1 million thereafter.

CAPITAL IMPROVEMENTS

Capital expenditures for improvements are identified by the Company as recurring capital expenditures ("Recurring CapEx"), site development costs and corporate costs. Recurring CapEx was approximately \$6.5 million for the six months ended June 30, 2004. Site development costs were approximately \$5.7 million for the six months ended June 30, 2004, and represent costs to develop expansion sites at certain of the Company's Properties and costs for improvements to sites when a smaller used home is replaced with a larger new home. Corporate costs were approximately \$200,000 for the six months ended June 30, 2004.

EQUITY TRANSACTIONS

In connection with the \$501 million borrowing and subsequent special distribution, on February 27, 2004, the Company contributed all of its assets to MHC Trust, a newly formed Maryland real estate investment trust, including the Company's entire partnership interest in MHC Operating Limited Partnership. In exchange for its contribution, the Company was issued all of the outstanding shares of MHC Trust. As a result of the restructuring, MHC will continue to qualify as a real estate investment trust under the Code, with its assets consisting of interests in MHC Trust. MHC Trust, in turn, will also qualify as a real estate investment trust under the Code and will be the general partner of the Operating Partnership. On May 1, 2004, in connection with the restructuring, MHC sold cumulative preferred stock ("Series A & B preferred stock") to certain unaffiliated investors.

On May 13, 2004, the Company issued 1.1 million OP units valued at \$32.2 million in connection with the acquisition of the Monte Vista property.

On April 9, 2004, the Company paid a \$0.0125 per share distribution for the quarter ended March 31, 2004 to stockholders of record on March 26, 2004. On July 9, 2004 the Company paid a \$0.0125 per share distribution for the quarter ended June 30, 2004 to stockholders of record on June 25, 2004. The Operating Partnership paid distributions of 9.0% per annum on the \$125 million of Series D Cumulative Redeemable Perpetual Preferred Units ("Preferred Units"). Distributions on the Preferred Units were paid on March 31, 2004 and June 30, 2004. On June 30, 2004 approximately \$8,000 of the \$11,915 cumulative distribution has been paid on the Series A & B preferred stock.

INFLATION

Substantially all of the leases at the Properties allow for monthly or annual rent increases which provide the Company with the opportunity to achieve increases, where justified by the market, as each lease matures. Such types of leases generally minimize the risk of inflation to the Company.

MANUFACTURED HOME COMMUNITIES, INC.

LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

FUNDS FROM OPERATIONS

Funds From Operations ("FFO"), a non-GAAP financial performance measure, was redefined by the National Association of Real Estate Investment Trusts ("NAREIT") in April 2002, as net income (computed in accordance with GAAP), before allocation to minority interests, excluding gains (or losses) from sales of property, plus real estate depreciation and after adjustments for unconsolidated partnerships and joint ventures. The Company computes FFO in accordance with the NAREIT definition, which may differ from the methodology for calculating FFO utilized by other equity REITs and, accordingly, may not be comparable to such other REITs' computations. The Company believes that FFO is useful to investors as a measure of the performance of an equity REIT because, along with cash flows from operating activities, financing activities and investing activities, FFO provides investors an understanding of the ability of the Company to incur and service debt and to make capital expenditures. FFO does not represent cash generated from operating activities in accordance with GAAP and therefore should not be considered an alternative to net income as an indication of the Company's performance or to net cash flows from operating activities as determined by GAAP as a measure of liquidity and is not necessarily indicative of cash available to fund cash needs.

The following table presents a calculation of FFO for the quarters and six months ended June 30, 2004 and 2003 (amounts in thousands):

	QUARTERS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2004	2003	2004	2003
COMPUTATION OF FUNDS FROM OPERATIONS:				
Net income available for common shares.....	\$ 658	\$ 14,400	\$ 5,634	\$ 22,072
Income allocated to common OP Units.....	181	3,444	1,337	5,291
Depreciation on real estate assets.....	12,305	9,687	22,974	18,591
Depreciation on discontinued real estate assets.....	18	---	32	129
Gain on the sale of Properties and other.....	---	(10,826)	(638)	(10,826)
Funds from operations available for common shares....	\$ 13,162	\$ 16,705	\$ 29,339	\$ 35,257
Weighted average Common Shares outstanding - diluted	29,142	27,965	28,840	27,853

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE OF MARKET RISK

Our earnings are affected by changes in interest rates, since a portion of our outstanding indebtedness is at variable rates based on LIBOR. Our Line of Credit (\$63 million outstanding at June 30, 2004) bears interest at LIBOR plus 1.65%, per annum. If LIBOR increased/decreased by 1.0% during the six months ended June 30, 2004, interest expense would have increased/decreased by approximately \$133,000 based on the average balance outstanding under the Company's Line of Credit during the period.

ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of June 30, 2004. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of June 30, 2004. There were no material changes in the Company's internal control over financial reporting during the six months ended June 30, 2004.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

(see Note 9 of the Consolidated Financial Statements contained herein)

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits:

31.1 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Chief Financial Officer Pursuant to 19 U.S.C. Section 1350

32.2 Certification of Chief Executive Officer Pursuant to 19 U.S.C. Section 1350

(b) Reports on Form 8-K:

Form 8-K dated and filed April 20, 2004, relating to Item 7 - "Financial Statements and Exhibits" and Item 9 - "Regulation FD Disclosure" regarding release of Earnings Results for the quarter ended March 31, 2004.

Form 8-K/A dated and filed April 30, 2004, relating to Item 2 - "Acquisition of Assets" and Item 7 - "Financial Statements and Exhibits" regarding the acquisition and investment in 58 properties.

Form 8-K dated and filed May 6, 2004, relating to Item 5 - "Other Events and Regulation FD Disclosure" announcing the declaration of the second quarter 2004 dividend.

MANUFACTURED HOME COMMUNITIES, INC.

Form 8-K dated and filed May 18, 2004, relating to Item 5 - "Other Events and Regulation FD Disclosure" announcing the acquisition of eight properties.

Form 8-K dated and filed June 23, 2004, relating to Item 5 - "Other Events and Regulation FD Disclosure" announcing the settlement of litigation related to the acquisition of the NHC Portfolio.

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.

MANUFACTURED HOME COMMUNITIES, INC.

BY: /s/ Thomas P. Heneghan

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Thomas P. Heneghan  
President and Chief Executive Officer  
(Principal Executive Officer)

BY: /s/ Michael B. Berman

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Michael B. Berman  
Vice President, Treasurer and  
Chief Financial Officer  
(Principal Financial Officer  
and Principal Accounting Officer)

DATE: August 9, 2004

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002

I, Michael B. Berman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Manufactured Home Communities, Inc;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officers 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)) 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 quarterly report is being prepared;
  - b) [Paragraph reserved pursuant to SEC Release No. 34-47986];
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
  - d) Disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers 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 the 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.

Date: August 9, 2004

BY: /s/ Michael B. Berman

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

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002

I, Thomas P. Heneghan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Manufactured Home Communities, Inc;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officers 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)) 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 quarterly report is being prepared;
  - b) [Paragraph reserved pursuant to SEC Release No. 34-47986];
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
  - d) Disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers 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 the 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.

Date: August 9, 2004

BY: /s/ Thomas P. Heneghan

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Thomas P. Heneghan  
President and Chief Executive Officer

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the accompanying Quarterly Report on Form 10-Q of Manufactured Home Communities, Inc. for the quarter and six months ended June 30, 2004 (the "Form 10-Q"), I, Michael B. Berman, Vice President, Treasurer and Chief Financial Officer of Manufactured Home Communities, Inc., hereby certify pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. the Form 10-Q fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Manufactured Home Communities, Inc.

Date: August 9, 2004

BY: /s/ Michael B. Berman

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

A SIGNED ORIGINAL OF THIS WRITTEN STATEMENT REQUIRED BY SECTION 906 HAS BEEN PROVIDED TO MANUFACTURED HOME COMMUNITIES, INC. AND WILL BE RETAINED BY MANUFACTURED HOME COMMUNITIES, INC. AND FURNISHED TO THE SECURITIES AND EXCHANGE COMMISSION OR ITS STAFF UPON REQUEST.

CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the accompanying Quarterly Report on Form 10-Q of Manufactured Home Communities, Inc. for the quarter and six months ended June 30, 2004 (the "Form 10-Q"), I, Thomas P. Heneghan, President and Chief Executive Officer of Manufactured Home Communities, Inc., hereby certify pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. the Form 10-Q fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Manufactured Home Communities, Inc.

Date: August 9, 2004

BY: /s/ Thomas P. Heneghan

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Thomas P. Heneghan  
President and Chief Executive Officer

A SIGNED ORIGINAL OF THIS WRITTEN STATEMENT REQUIRED BY SECTION 906 HAS BEEN PROVIDED TO MANUFACTURED HOME COMMUNITIES, INC. AND WILL BE RETAINED BY MANUFACTURED HOME COMMUNITIES, INC. AND FURNISHED TO THE SECURITIES AND EXCHANGE COMMISSION OR ITS STAFF UPON REQUEST.