

UMH PROPERTIES, INC.  
Form 10-Q  
November 08, 2007

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

**FORM 10-Q**

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

For the quarterly period ended September 30, 2007

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-12690

UMH PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

Maryland      22-1890929

(State or other jurisdiction of

(I.R.S. Employer

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incorporation or organization)

identification number)

Juniper Business Plaza, 3499 Route 9 North, Suite 3-C, Freehold, NJ 07728

(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code (732) 577-9997

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(Former name, former address and former fiscal year, if changed since last report.)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer

Accelerated filer  Non-accelerated filer

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

Yes

No

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The number of shares outstanding of issuer's common stock as of November 1, 2007 was 10,672,877 shares.



**UMH PROPERTIES, INC.**

**for the QUARTER ENDED**

**SEPTEMBER 30, 2007**

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**Item 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no material changes to information required regarding quantitative and qualitative disclosures about market risk from the end of the preceding year to the date of this Form 10-Q.

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**UMH PROPERTIES, INC.**

**CONSOLIDATED BALANCE SHEETS**

**AS OF SEPTEMBER 30, 2007 AND DECEMBER 31, 2006**

	September 30, 2007 (Unaudited)	December 31, 2006
- ASSETS -		
<b>INVESTMENT PROPERTY AND EQUIPMENT</b>		
Land	\$ 13,300,614	\$ 13,300,614
Site and Land Improvements	78,180,356	77,302,816
Buildings and Improvements	3,773,335	3,747,108
Rental Homes and Accessories	12,589,424	10,788,686
Total Investment Property	107,843,729	105,139,224
Equipment and Vehicles	7,330,050	7,017,268
Total Investment Property and Equipment	115,173,779	112,156,492
Accumulated Depreciation	(48,598,303)	(46,430,040)
Net Investment Property and Equipment	66,575,476	65,726,452
<b>OTHER ASSETS</b>		
Cash and Cash Equivalents	1,169,960	2,005,027
Securities Available for Sale	22,861,855	17,908,595
Inventory of Manufactured Homes	12,583,664	8,970,367
Notes and Other Receivables, net	19,945,381	16,836,228
Unamortized Financing Costs	584,605	390,792
Prepaid Expenses	632,854	688,941
Land Development Costs	8,077,780	3,214,042
Total Other Assets	65,856,099	50,013,992
<b>TOTAL ASSETS</b>	<b>\$132,431,575</b>	<b>\$115,740,444</b>
- LIABILITIES AND SHAREHOLDERS' EQUITY -		
<b>LIABILITIES:</b>		
<b>MORTGAGES PAYABLE</b>	<b>\$ 62,263,807</b>	<b>\$ 46,817,633</b>
<b>OTHER LIABILITIES</b>		

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Accounts Payable	1,456,910	927,734
Loans Payable	8,978,958	8,103,106
Accrued Liabilities and Deposits	2,115,063	1,769,774
Tenant Security Deposits	527,549	481,778
Total Other Liabilities	13,078,480	11,282,392
Total Liabilities	75,342,287	58,100,025

SHAREHOLDERS EQUITY:

Common Stock - \$.10 par value per share, 20,000,000 shares

authorized; 10,659,888 and 10,318,940 shares issued and

outstanding as of September 30, 2007 and December 31, 2006,

respectively

1,065,989

1,031,894

Excess Stock - \$.10 par value per share, 3,000,000 shares

authorized; no shares issued or outstanding

-0-

-0-

Additional Paid-In Capital

61,652,004

56,891,428

Accumulated Other Comprehensive Income

35,619

384,890

Undistributed Income

(5,664,324)

(667,793)

Total Shareholders Equity

57,089,288

57,640,419

TOTAL LIABILITIES AND SHAREHOLDERS EQUITY

\$132,431,575

\$115,740,444

-UNAUDITED-

See Accompanying Notes to Consolidated Financial Statements

**UMH PROPERTIES, INC.**

**CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

**FOR THE THREE AND NINE MONTHS ENDED**

**SEPTEMBER 30, 2007 AND 2006**

	THREE MONTHS		NINE MONTHS	
	2007	2006	2007	2006
<b>REVENUES:</b>				
Rental and Related Income	\$ 6,055,129	\$ 5,795,685	\$17,808,024	\$17,321,774
Sales of Manufactured Homes	3,565,742	3,741,867	9,809,790	10,479,863
Interest and Dividend Income	724,811	644,229	2,289,612	2,245,155
(Loss) Gain on Securities Available for Sale				
Transactions, net	(458,614)	(324,984)	38,165	(430,087)
Other Income	84,206	37,209	177,049	133,354
<b>Total Revenues</b>	<b>9,971,274</b>	<b>9,894,006</b>	<b>30,122,640</b>	<b>29,750,059</b>
<b>EXPENSES:</b>				
Community Operating Expenses	3,309,579	3,291,018	9,573,986	8,974,775
Cost of Sales of Manufactured Homes	3,026,775	2,947,594	8,105,230	8,087,309
Selling Expenses	417,809	540,821	1,335,900	1,547,339
General and Administrative Expenses	904,927	838,652	2,618,581	2,493,169
Interest Expense	1,266,835	1,117,060	2,871,880	2,381,665
Depreciation Expense	919,751	861,183	2,695,723	2,544,541
Amortization of Financing Costs	38,595	62,370	135,293	187,110



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Total Expenses	9,884,271	9,658,698	27,336,593	26,215,908
Income before Gain on Sales of				
Investment Property and Equipment	87,003	235,308	2,786,047	3,534,151
Gain on Sales of Investment				
Property and Equipment	23,236	40,767	89,760	100,398
Net Income	\$ 110,239	\$ 276,075	2,875,807	\$ 3,634,549
Net Income per Share -				
Basic	\$ 0.01	\$ 0.03	\$ 0.27	\$ 0.36
Diluted	\$ 0.01	\$ 0.03	\$ 0.27	\$ 0.36
Weighted Average Shares Outstanding -				
Basic	10,606,346	10,167,118	10,486,197	10,039,111
Diluted	10,607,730	10,184,760	10,492,867	10,055,559

-UNAUDITED-

See Accompanying Notes to Consolidated Financial Statements

**UMH PROPERTIES, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

**FOR THE NINE MONTHS ENDED**

**SEPTEMBER 30, 2007 AND 2006**

	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income		\$
	\$ 2,875,807	3,634,549
Non-Cash Adjustments:		
Depreciation	2,695,723	2,544,541
Amortization of Financing Costs	135,293	187,110
Stock Compensation Expense	97,570	97,957
Increase in Provision for Uncollectible Notes and Other Receivables	176,128	168,636
(Gain) Loss on Securities Available for Sale Transactions, net	(38,165)	430,087
Gain on Sales of Investment Property and Equipment	(89,760)	(100,398)
Changes in Operating Assets and Liabilities:		
Inventory of Manufactured Homes	(3,613,297)	(1,106,004)
Notes and Other Receivables	(3,285,281)	(1,704,184)
Prepaid Expenses	56,087	(536,806)
Accounts Payable	529,176	(782,111)
Accrued Liabilities and Deposits	345,289	388,146
Tenant Security Deposits	45,771	17,182
Net Cash (Used in) Provided by Operating Activities	(69,659)	3,238,705
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of Manufactured Home Community	-0-	(5,218,480)
Purchase of Investment Property and Equipment	(4,247,264)	(1,829,002)
Proceeds from Sales of Assets	792,277	668,081
Additions to Land Development	(4,863,738)	(2,643,499)
Purchase of Securities Available for Sale	(9,959,797)	(1,510,377)
Proceeds from Sales of Securities Available for Sale	4,695,431	6,482,775

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Net Cash Used in Investing Activities	(13,583,091)	(4,050,502)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from Mortgages and Loans	23,919,000	4,609,372
Principal Payments of Mortgages and Loans	(7,596,974)	(6,158,765)
Financing Costs on Debt	(329,106)	(46,991)
Proceeds from Issuance of Common Stock	3,162,969	4,087,781
Proceeds from Exercise of Stock Options	243,521	386,413
Dividends Paid, net of amount reinvested	(6,581,727)	(6,046,086)
Net Cash Provided By (Used In) Financing Activities	12,817,683	(3,168,276)
<b>NET DECREASE IN CASH</b>		
<b>AND CASH EQUIVALENTS</b>	(835,067)	(3,980,073)
<b>CASH &amp; CASH EQUIVALENTS-BEGINNING</b>	2,005,027	4,555,356
<b>CASH &amp; CASH EQUIVALENTS-ENDING</b>	\$ 1,169,960	\$ 575,283

-UNAUDITED-

See Accompanying Notes to Consolidated Financial Statements

**UMH PROPERTIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2007 (UNAUDITED)**

**NOTE 1 ORGANIZATION AND ACCOUNTING POLICY**

The interim consolidated financial statements furnished herein reflect all adjustments which were, in the opinion of management, necessary to present fairly the financial position, results of operations, and cash flows at September 30, 2007 and for all periods presented. All adjustments made in the interim period were of a normal recurring nature. Certain footnote disclosures which would substantially duplicate the disclosures contained in the audited consolidated financial statements and notes thereto included in the annual report of the Company for the year ended December 31, 2006 have been omitted.

The Company, through its wholly-owned taxable subsidiary, UMH Sales and Finance, Inc. (S&F), conducts manufactured home sales in its communities. This company was established to enhance the occupancy of the communities. The consolidated financial statements of the Company include S&F and all of its other wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

**Employee Stock Options**

The Company accounts for its stock option plan under the provisions of SFAS No. 123 (revised 2004), Share-Based Payment (SFAS No. 123R). The Company has selected the prospective method of adoption under the provisions of SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. SFAS 123R requires that compensation cost for all stock awards be calculated and recognized over the service period (generally equal to the vesting period). This compensation cost is determined using option pricing models, intended to estimate the fair value of the awards at the grant date.

Compensation cost which has been determined consistent with SFAS No. 123R, amounted to \$33,630 and \$97,570 for the three and nine months ended September 30, 2007, respectively, and \$32,330 and \$97,957 for the three and nine months ended September 30, 2006, respectively.

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The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighed-average assumptions used for grants in the following years:

	2007	2006
Dividend yield	6.54%	6.33%
Expected volatility	18.09%	18.50%
Risk-free interest rate	4.79%	4.63%
Expected lives	8	8

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The weighted-average fair value of options granted during the nine months ended September 30, 2007 and 2006 was \$1.29 and \$1.44, respectively.

During the nine months ended September 30, 2007, the following stock options were granted:

Date of Grant	Number of Employees	Number of Shares	Option Price	Expiration Date
1/3/07	1	44,200	\$15.51	1/3/15
1/3/07	1	5,800	17.06	1/3/15
7/16/07	12	51,000	14.21	7/16/15
9/20/07	2	7,000	13.19	9/20/15

During the nine months ended September 30, 2007, one employee exercised his stock option and purchased 17,812 shares for a total of \$243,521. Additionally, stock options totaling 11,188 shares expired without being exercised. As of September 30, 2007, there were options outstanding to purchase 427,000 shares and 1,100,188 shares were available for grant under the Company's 2003 Stock Option Plan. During the nine months ended September 30, 2006, four employees exercised their stock options and purchased 36,000 shares for a total of \$386,413. As of September 30, 2006, there were options outstanding to purchase 350,000 shares and 1,197,000 shares were available for grant under the Company's 2003 Stock Option Plan.

#### NOTE 2 NET INCOME PER SHARE AND COMPREHENSIVE (LOSS) INCOME

Basic net income per share is calculated by dividing net income by the weighted average shares outstanding for the period. Diluted net income per share is calculated by dividing net income by the weighted average number of common shares outstanding plus the weighted average number of net shares that would be issued upon exercise of stock options pursuant to the treasury stock method. Options in the amount of 1,384 and 6,670 shares for the three and nine months ended September 30, 2007, respectively, and 17,642 and 16,448 shares for the three and nine months ended September 30, 2006, respectively, are included in the diluted weighted average shares outstanding.



The following table sets forth the components of the Company's comprehensive income for the three and nine months ended September 30, 2007 and 2006:

	Three Months		Nine months	
	2007	2006	2007	2006
Net Income	\$110,239	\$276,075	\$2,875,807	\$3,634,549
Increase (Decrease) in unrealized gain on securities available for sale	(194,512)	(97,957)	(349,271)	(383,127)
Comprehensive Income	(\$84,273)	\$178,118	\$2,526,536	\$3,251,422

### NOTE 3 SECURITIES AVAILABLE FOR SALE

During the nine months ended September 30, 2007, the Company purchased \$9,959,797 of securities available for sale. During the nine months ended September 30, 2007, the Company sold or redeemed securities with an original basis of \$4,657,266, recognizing a gain of \$263,675.

On July 31, 2007, Monmouth Real Estate Investment Corporation (MREIC) and Monmouth Capital Corporation (MCC), both related entities to the Company, completed a strategic combination whereby a wholly-owned subsidiary of MREIC merged with and into MCC, and MCC survived as a wholly-owned subsidiary of MREIC. Each outstanding share of MCC's common stock was converted into and exchanged for 0.655 shares of MREIC's common stock. At the time of the merger, the Company had 107,403 shares of MCC common stock which was converted and exchanged for 70,349 shares of MREIC's common stock. Additionally, the Company's \$1,000,000 investment in MCC's outstanding 8% Convertible Subordinated Debentures due 2013 is now convertible into MREIC common stock at an adjusted conversion price of \$9.16 per share. The Company's \$5,000,000 investment in MCC's outstanding 8% Convertible Subordinated Debentures due 2015 is now convertible into MREIC common stock at an adjusted conversion price of \$11.45 per share.

On September 13, 2007, the Company purchased 1,000,000 shares of MREIC common stock from Palisade Concentrated Equity Partnership, L.P., an unrelated entity. The total consideration for the purchase was \$8,500,000. In addition to the convertible debentures, the Company now owns a total of 1,160,130 shares of MREIC common stock, representing 4.8% of the total shares outstanding at September 30, 2007.



NOTE 4 DERIVATIVE INSTRUMENTS

The Company invested in futures contracts on ten-year Treasury notes with the objective of reducing the exposure of the debt securities portfolio to market rate fluctuations. The notional amount of these contracts amounted to \$9,000,000 at September 30, 2007 and 2006. Changes in the market value of these derivatives have been recorded in gain on securities available for sale transactions. The fair value of the derivatives at September 30, 2007 and December 31, 2006

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was an asset of \$102,657 and \$163,828, respectively, which have been included in notes and other receivables, net.

During the three and nine months ended September 30, 2007, the Company recorded a realized loss of \$516,264 and \$328,167, respectively, on settled futures contracts, which is included in gain (loss) on securities available for sale transactions, net. During the three and nine months ended September 30, 2006, the Company recorded a realized loss of \$137,261 and a realized gain of \$165,484, respectively, on settled futures contracts.

The Company has three interest rate swap agreements which effectively convert a portion of its variable rate debt to fixed rate debt. Changes in the fair value of these agreements have been recorded as an increase or deduction from interest expense with corresponding amounts in other assets or other liabilities. The change in the fair value of these agreements for the three and nine months ended September 30, 2007 amounted to (\$264,856) and (\$216,882), respectively, and has been recorded as an increase to interest expense. The change in the fair value of these agreements for the three and nine months ended September 30, 2006 amounted to (\$324,609) and \$28,841, respectively. The fair value of these agreements at September 30, 2007 and December 31, 2006 amounted to assets of \$186,548 and \$403,430, respectively, which have been included in notes and other receivables, net.

#### NOTE 5 LOANS AND MORTGAGES PAYABLE

In January 2007, the Company borrowed \$2,000,000 on its line of credit to pay off the Laurel Woods mortgage.

On January 30, 2007, the Company obtained an \$11,480,000 mortgage loan on Fairview Manor from Column Guaranteed LLC, a Credit Suisse company. This mortgage payable is due on February 1, 2017 with interest at a fixed rate of 5.785%. Proceeds from this mortgage were primarily used to pay off the existing mortgage on Fairview Manor and to pay down our margin loans and our lines of credit.

On April 15, 2007, the Company's \$15,000,000 line of credit with PNC Bank matured.

On August 2, 2007, the Company obtained a \$10,439,000 mortgage loan on Highland Estates from Column Guaranteed LLC, a Credit Suisse company. This mortgage payable is due on September 1, 2017 with interest at a fixed rate of 6.175%. Proceeds from this mortgage were primarily used to pay down our margin loans and for other corporate purposes.

NOTE 6 - DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN

On September 17, 2007, the Company paid \$2,653,583 of which \$407,341 was reinvested, as a dividend of \$.25 per share to shareholders of record as of August 15, 2007. Total dividends paid for the nine months ended September 30, 2007 amounted to \$7,872,338, of which \$1,290,611 was reinvested. On October 2, 2007, the Company declared a dividend of \$.25 per share to be paid on December 17, 2007 to shareholders of record November 15, 2007.

During the nine months ended September 30, 2007, the Company received, including dividends reinvested, a total of \$4,453,580 from the Dividend Reinvestment and Stock Purchase Plan. There were 323,136 new shares issued under the Plan.

NOTE 7 - CONTINGENCIES

The Company is subject to claims and litigation in the ordinary course of business. Management does not believe that any such claim or litigation will have a material adverse effect on the consolidated balance sheet or results of operations.

NOTE 8 - SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid during the nine months ended September 30, 2007 and 2006 for interest was \$2,643,885 and \$2,552,406, respectively. Interest cost capitalized to Land Development was \$243,940 and \$141,900 for the nine months ended September 30, 2007 and 2006, respectively. The change in fair value of the interest rate swap agreements amounted to (\$216,882) and \$28,841 for the nine months ended September 30, 2007 and 2006, respectively.

During the nine months ended September 30, 2007 and 2006, the Company had dividend reinvestments of \$1,290,611 and \$1,345,167, respectively, which required no cash transfers.

NOTE 9 - RECENT ACCOUNTING PRONOUNCEMENTS

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48 Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 prescribes how we should recognize, measure and present in our financial statements uncertain tax positions that have been taken or are expected to be taken in a tax return. Pursuant to FIN 48, we can recognize a tax benefit only if it is more likely than not that a particular tax position will be sustained upon examination or audit. To the extent the more likely than not standard has been satisfied, the benefit associated with a tax position is measured as the largest amount that is greater than 50% likely of being realized upon settlement.

We are subject to U.S. federal income tax as well as income tax in multiple state and local jurisdictions but, as a REIT, we generally do not pay tax on our net income distributed as dividends to our shareholders. Our taxable subsidiary does not join in our consolidated REIT tax filings and as such is itself subject to federal income tax as well

as income tax in multiple state and local jurisdictions. As required, we adopted FIN 48 effective January 1, 2007 and have concluded that the effect is not material to our consolidated financial statements. Accordingly, we did not record a cumulative effect adjustment related to the adoption of FIN 48.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements ( SFAS 157 ). SFAS 157 defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. This Statement applies to other accounting pronouncements that require or permit fair value measurements. Accordingly, this Statement does not require any new fair value measurements. SFAS 157 is effective for fiscal years beginning after December 15, 2007. The Company plans to adopt SFAS 157 beginning

January 1, 2008. The Company is currently assessing what impact, if any, the adoption of SFAS 157 will have on our financial position and results of operations.

In February 2007, the FASB issued Statement of Financial Accounting Standards Statement No. 159 The Fair Value Option for Financial Assets and Financial Liabilities, Including an amendment of FASB Statement No. 115 (SFAS 159). SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value. Furthermore, SFAS 159 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of SFAS 159 on our consolidated financial statements.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **OVERVIEW**

The following discussion and analysis of the consolidated financial condition and results of operations should be read in conjunction with the Consolidated Financial Statements and notes thereto included elsewhere herein and in our annual report on Form 10-K for the year ended December 31, 2006.

The Company is a real estate investment trust (REIT). The Company's primary business is the ownership and operation of manufactured home communities leasing manufactured home spaces on a month-to-month basis to private manufactured home owners. The Company also leases homes to residents and, through, its taxable REIT subsidiary, UMH Sales and Finance, Inc. (S&F), sells and finances homes to residents and prospective residents of our communities. The Company owns twenty-eight communities containing approximately 6,700 sites. These communities are located in New Jersey, New York, Ohio, Pennsylvania and Tennessee.

The Company also holds a portfolio of securities of other REITs and home manufacturers with a balance of \$22,861,855 at September 30, 2007. The Company invests in these securities on margin from time to time when the Company can achieve an adequate yield spread and when suitable acquisitions of real property cannot be found. At September 30, 2007, the Company's portfolio consisted of 13% preferred stocks, 61% common stocks and 26% debentures. The securities portfolio provides the Company with liquidity and additional income until suitable acquisitions of real property are found.

Total revenues increased by approximately 1% for the quarter and nine months ended September 30, 2007 as compared to the quarter and nine months ended September 30, 2006. This was primarily due to an increase in rental and related income, partially offset by a decrease in sales of manufactured homes. There was also a 41% increase in the loss on securities available for sale transactions for the quarter, primarily due to the loss on settled and open futures contracts. Sales of manufactured homes decreased by approximately 5% for the quarter ended September 30, 2007 and by approximately 6% for the nine months as compared to the quarter

and nine months ended September 30, 2006. Sales in 2006 included sales into our expansions at Fairview Manor and Highland Estates, which sold out during 2006.

Total expenses increased by approximately 2% for the quarter ended September 30, 2007 as compared to the quarter ended September 30, 2006. This was primarily due to an increase in interest expense, partially offset by a decrease in selling expenses. Total expenses increased by approximately 4% for the nine months ended September 30, 2007 as compared to the nine months ended September 30, 2006. This was primarily due to an increase in community operating expenses and interest expense, partially offset by a decrease in selling expenses. The fluctuations in interest expense were primarily due to the change in fair value of the Company's interest rate swaps.

Net income decreased by approximately 60% and 21% for the quarter and nine months, respectively, ended September 30, 2007 as compared to the quarter and nine months ended September 30, 2006. Over the past five years, occupancy at our communities has declined from approximately 90% in 2000 to approximately 82% in 2006. Management believes that the availability of liberal terms on loans on conventional housing created a difficult competitive market for land leased manufactured home communities. During 2007, we have experienced a slight increase in occupancy of 69 sites or approximately 1%.

See PART I, Item 1 Business in the Company's 2006 annual report on Form 10-K for a more complete discussion of the economic and industry-wide factors relevant to the Company and the opportunities and challenges, and risks on which the Company is focused.

### **CHANGES IN RESULTS OF OPERATIONS**

Rental and related income increased from \$5,795,685 for the quarter ended September 30, 2006 to \$6,055,129 for the quarter ended September 30, 2007. Rental and related income increased from \$17,321,774 for the nine months ended September 30, 2006 to \$17,808,024 for the nine months ended September 30, 2007. This was primarily due to the expansion of existing communities in 2006, the acquisition of a new community during 2006 and rental increases to residents. The Company has been raising rental rates by approximately 3% to 4% annually.

Interest and dividend income increased from \$644,229 for the quarter ended September 30, 2006 to \$724,811 for the quarter ended September 30, 2007. Interest and dividend income increased from \$2,245,155 for the nine months ended September 30, 2006 to \$2,289,612 for the nine months ended September 30, 2007. This was primarily due to an increase in interest income from notes and other receivables.





(Loss) gain on securities available for sale transactions, net for the three and nine months ended September 30, 2007 and 2006 consisted of the following:

	<u>Three Months</u>		<u>Nine months</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
(Loss) gain on sale of securities, net	(\$92,117)	(\$24,599)	\$263,675	\$314,865
Impairment loss	-0-	-0-	-0-	(823,249)
(Loss) gain on settled futures contracts	(516,264)	(137,261)	(328,167)	165,484
Gain (loss) on open futures contracts	149,767	(163,124)	102,657	(87,187)
(Loss) gain on securities available for sales transactions, net	(\$458,614)	(\$324,984)	\$38,165	(\$430,087)

Loss on sale of securities, net increased by \$67,518 for the three months ended September 30, 2007 as compared to the three months ended September 30, 2006. Gain on sale of securities, net decreased by \$51,190 for the nine months ended September 30, 2007 as compared to the nine months ended September 30, 2006. This was due primarily to the Company's decision to realize a portion of the unrealized gain in the securities portfolio existing during 2006. During 2006, the Company also recognized a loss of \$823,249 due to a write-down to the carrying value of securities available for sale which were considered other than temporarily impaired. Loss on settled futures contracts increased by \$379,003 for the three months ended September 30, 2007 as compared to the three months ended September 30, 2006. Loss on settled futures contracts increased by \$493,651 from a gain of \$165,484 for the nine months ended September 30, 2006 to a loss of \$328,167 for the nine months ended September 30, 2007. These changes were partially offset by the gain on open futures contracts for the three and nine months ended September 30, 2007 as compared to the loss on open futures contracts for the three and nine months ended September 30, 2006. The Company invests in futures contracts of ten-year treasury notes to mitigate the exposure of interest rate fluctuations on the Company's preferred equity and debt securities portfolio.

Community operating expenses remained relatively stable for the quarter ended September 30, 2007 as compared to the quarter ended September 30, 2006. Community operating expenses increased from \$8,974,775 for the nine months ended September 30, 2006 to \$9,573,986 for the nine months ended September 30, 2007. This was primarily due to the new community purchased in 2006 and an increase in real estate taxes. General and administrative expenses increased from \$838,652 for the quarter ended September 30, 2006 to \$904,927 for the quarter ended September 30, 2007. General and administrative expenses increased from \$2,493,169 for the nine months ended September 30, 2006 to \$2,618,581 for the nine months ended September 30, 2007. This was primarily due to an increase in personnel costs. Interest expense increased from \$1,117,060 for the quarter ended September 30, 2006 to

\$1,266,835 for the quarter ended September 30, 2007. Interest expense increased from \$2,381,665 for the nine months ended September 30, 2006 to \$2,871,880 for the nine months ended September 30, 2007. This was primarily due to an increase in mortgages payable, interest rates and the change in fair value of the Company's interest rate swaps. The change in fair value of the interest rate swaps increased interest expense by approximately \$265,000 and \$217,000 for the quarter and nine months ended September 30, 2007, respectively. The change in fair value of the interest rate swaps increased interest expense by approximately \$325,000 for the quarter ended September 30,

2006 and decreased interest expense by approximately \$29,000 for the nine months ended September 30, 2006. Cash paid for interest during the quarter ended September 30, 2007 and 2006 amounted to \$1,108,719 and \$853,350, respectively. Cash paid for interest during the nine months ended September 30, 2007 and 2006 amounted to \$2,643,885 and \$2,552,406, respectively. Depreciation expense remained relatively stable for the quarter and nine months ended September 30, 2007 as compared to the quarter and nine months ended September 30, 2006. Amortization of financing costs decreased from \$62,370 for the quarter ended September 30, 2006 to \$38,595 for the quarter ended September 30, 2007. Amortization of financing costs decreased from \$187,110 for the nine months ended September 30, 2006 to \$135,293 for the nine months ended September 30, 2007. This was primarily due to the expiration of our line of credit with PNC Bank.

Sales of manufactured homes amounted to \$3,565,742 and \$3,741,867 for the quarters ended September 30, 2007 and 2006, respectively. Sales of manufactured homes amounted to \$9,809,790 and \$10,479,863 for the nine months ended September 30, 2007 and 2006, respectively. Cost of sales of manufactured homes amounted to \$3,026,775 and \$2,947,594 for the quarters ended September 30, 2007 and 2006, respectively. Cost of sales of manufactured homes amounted to \$8,105,230 and \$8,087,309 for the nine months ended September 30, 2007 and 2006, respectively. Selling expenses amounted to \$417,809 and \$540,821 for the quarters ended September 30, 2007 and 2006, respectively. Selling expenses amounted to \$1,335,900 and \$1,547,339 for the nine months ended September 30, 2007 and 2006, respectively. Income from sales operations (defined as sales of manufactured homes less cost of sales of manufactured homes less selling expenses) amounted to \$121,158, or 3% of total sales, for the quarter ended September 30, 2007, as compared to \$253,452, or 7% of total sales, for the quarter ended September 30, 2006. Income from sales operations amounted to \$368,660, or 4% of total sales, for the nine months ended September 30, 2007 as compared to \$845,215, or 8% of total sales, for the nine months ended September 30, 2006. This decrease was primarily due to a decrease in sales. Sales in 2006 included sales into our expansions at Fairview Manor and Highland Estates, which sold out during 2006. These sales had also generated a higher gross profit. The Company believes that sales of new homes into the Company's communities produce new rental revenue and upgrade the communities.

## **LIQUIDITY AND CAPITAL RESOURCES**

The Company's principal liquidity demands have historically been, and are expected to continue to be, distributions to the Company's stockholders, acquisitions, capital improvements, development and expansions of properties, debt service, purchases of manufactured home inventory, investment in debt and equity securities of other REITs and payments of expenses relating to real estate operations. The Company's ability to generate cash adequate to meet these demands is dependent primarily on income from its real estate investments and securities portfolio, the sale of real estate investments and securities, refinancing of mortgage debt, leveraging of real estate investments, availability of bank borrowings, proceeds from the DRIP, and access to the capital markets.

Net cash provided (used) by operating activities decreased from \$3,238,705 for the nine months ended September 30, 2006 to (\$69,659) for the nine months ended September 30,



2007. This decrease was primarily due to an increase in inventory and notes and other receivables. The Company received, including dividends reinvested of \$1,290,611, new capital of \$4,453,580 through its Dividend Reinvestment and Stock Purchase Plan (DRIP). The Company sold \$4,657,266, at cost, and purchased \$9,959,797 of securities of other real estate investment trusts. Mortgages payable increased by \$15,446,174 and loans payable increased by \$875,852. The Company obtained an \$11,480,000 mortgage on Fairview Manor and a \$10,439,000 mortgage loan on Highland Estates. Proceeds from these mortgages were used to pay off the existing Fairview Manor and Laurel Woods mortgages, pay down our margin loans and lines of credit, and for other investing activities. The Company believes that funds generated from operations together with the financing and refinancing of its properties will be sufficient to meet its needs over the next several years.

### **FUNDS FROM OPERATIONS**

Funds from Operations (FFO) is defined as net income excluding gains (or losses) from sales of depreciable assets, plus depreciation. FFO should be considered as a supplemental measure of operating performance used by real estate investment trust (REITs). FFO excludes historical cost depreciation as an expense and may facilitate the comparison of REITs which have different cost bases. The items excluded from FFO are significant components in understanding and assessing the Company's financial performance. FFO (1) does not represent cash flow from operations as defined by generally accepted accounting principles; (2) should not be considered as an alternative to net income as a measure of operating performance or to cash flows from operating, investing and financing activities; and (3) is not an alternative to cash flow as a measure of liquidity. FFO, as calculated by the Company, may not be comparable to similarly entitled measures reported by other REITs.

The Company's FFO for the three and nine months ended September 30, 2007 and 2006 is calculated as follows:

	Three Months		Nine months	
	2007	2006	2007	2006
Net Income	\$110,239	\$276,075	\$2,875,807	\$3,634,549
Gain on Sales of				
Depreciable Assets	(23,236)	(40,767)	(89,760)	(100,398)
Depreciation Expense	919,751	861,183	2,695,723	2,544,541
FFO	\$1,006,754	\$1,096,491	\$5,481,770	\$6,078,692



The following are the cash flows provided by (used in) operating, investing and financing activities for the nine months ended September 30, 2007 and 2006:

	2007	2006
Operating Activities	(\$69,659)	\$3,238,705
Investing Activities	(13,583,091)	(4,050,502)
Financing Activities	12,817,683	(3,168,276)

### **CONTROLS AND PROCEDURES**

The Company's Chief Executive Officer and Chief Financial Officer, with the assistance of other members of the Company's management, have evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective.

### **Changes In Internal Control Over Financial Reporting**

There were no changes in the Company's internal control over financial reporting during the quarterly period ended September 30, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### **SAFE HARBOR STATEMENT**

This Form 10-Q contains various forward-looking statements within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934, and the Company intends that such forward-looking statements be subject to the safe harbors created thereby. The words may, will, expect, believe, anticipate, should, estimate, and other similar expressions identify forward-looking statements. These forward-looking statements reflect the Company's current views with respect to future events and finance performance, but are based upon current assumptions regarding the Company's operations, future results and prospects, and are subject to many uncertainties and factors



relating to the Company's operations and business environment which may cause the actual results of the Company to be materially different from any future results expressed or implied by such forward-looking statements.

Such factors include, but are not limited to, the following: (i) changes in the general economic climate; (ii) increased competition in the geographic areas in which the Company owns and operates manufactured housing communities; (iii) changes in government laws and regulations affecting manufactured housing communities; and (iv) the ability of the Company to continue to identify, negotiate and acquire manufactured housing communities and/or vacant land which may be developed into manufactured housing communities on terms favorable to the Company. The Company undertakes no obligation to publicly update or revise any forward-looking statements whether as a result of new information, future events, or otherwise.

**PART II**

**OTHER INFORMATION**

Item 1 - Legal Proceedings none

Item 1A - Risk Factors

There have been no material changes to information required regarding risk factors from the end of the preceding year to the date of this Form 10-Q.

Item 2 - Unregistered Sale of Equity Securities and Use of Proceeds none

Item 3 - Defaults Upon Senior Securities none

Item 4 - Submission of Matters to a Vote of Security Holders none

Item 5 - Other Information

(a) Information Required to be Disclosed in a Report on Form 8-K, but  
not Reported none

(b) Material Changes to the Procedures by which Security Holders may  
Recommend Nominees to the Board of Directors none

Item 6 - Exhibits

31.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 302 OF THE SARBANES-OXLEY ACT 2002

31.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 302 OF THE SARBANES-OXLEY ACT 2002

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CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT 2002

**SIGNATURES**

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UMH PROPERTIES, INC.

DATE:

November 2, 2007

By /s/ Samuel A. Landy

Samuel A. Landy

President

DATE:

November 2, 2007

By /s/ Anna T. Chew

Anna T. Chew

Vice President and

Chief Financial Officer