

UMH PROPERTIES, INC.
Form 10-Q
August 08, 2008

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 June 30, 2008

()
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

(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 X
_ 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 X

Non-accelerated filer _____

Smaller reporting company

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

Yes _____

No X

The number of shares outstanding of issuer's common stock as of August 1, 2008 was 10,904,635 shares.

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UMH PROPERTIES, INC.

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FOR THE QUARTER ENDED JUNE 30, 2008

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UMH PROPERTIES, INC.

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

AS OF JUNE 30, 2008 AND DECEMBER 31, 2007

	June 30, 2008	December 31, 2007
- ASSETS -		
INVESTMENT PROPERTY AND EQUIPMENT		
Land	\$ 13,300,614	\$ 13,300,614
Site and Land Improvements	85,814,689	84,949,200
Buildings and Improvements	3,978,478	3,924,696
Rental Homes and Accessories	15,437,765	14,206,317
Total Investment Property	118,531,546	116,380,827
Equipment and Vehicles	7,393,158	7,320,666
Total Investment Property and Equipment	125,924,704	123,701,493
Accumulated Depreciation	(51,282,224)	(49,449,373)
Net Investment Property and Equipment	74,642,480	74,252,120
OTHER ASSETS		
Cash and Cash Equivalents	2,464,213	2,221,976
Securities Available for Sale	23,916,221	23,523,231
Inventory of Manufactured Homes	9,499,560	10,853,824
Notes and Other Receivables, net	21,439,816	20,756,996
Unamortized Financing Costs	666,459	541,360
Prepaid Expenses	490,130	574,759
Land Development Costs	5,298,499	3,779,197
Total Other Assets	63,774,898	62,251,343
TOTAL ASSETS	\$138,417,378	\$136,503,463
- LIABILITIES AND SHAREHOLDERS' EQUITY -		
LIABILITIES:		
MORTGAGES PAYABLE	\$ 64,981,571	\$ 61,749,700
OTHER LIABILITIES		

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Accounts Payable	982,845	613,339
Loans Payable	20,294,257	17,022,753
Accrued Liabilities and Deposits	2,533,238	2,590,338
Tenant Security Deposits	563,934	532,200
Total Other Liabilities	24,374,274	20,758,630
Total Liabilities	89,355,845	82,508,330

SHAREHOLDERS EQUITY:

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

authorized; 10,898,054 and 10,737,206 shares issued and

outstanding as of June 30, 2008 and December 31, 2007,

respectively

1,089,805

1,073,721

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

authorized; no shares issued or outstanding

-0-

-0-

Additional Paid-In Capital

56,189,673

54,631,309

Accumulated Other Comprehensive Loss

(4,108,381)

(1,042,104)

Cumulative Distributions in Excess of Net Income

(4,109,564)

(667,793)

Total Shareholders Equity

49,061,533

53,995,133

TOTAL LIABILITIES AND SHAREHOLDERS EQUITY

\$138,417,378

\$136,503,463

-UNAUDITED-

See Accompanying Notes to Consolidated Financial Statements

UMH PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

FOR THE THREE AND SIX MONTHS ENDED

JUNE 30, 2008 AND 2007

	THREE MONTHS		SIX MONTHS	
	2008	2007	2008	2007
REVENUES:				
Rental and Related Income	\$ 6,362,034	\$ 5,922,391	\$12,616,604	\$11,752,895
Sales of Manufactured Homes	2,881,014	3,966,284	4,665,057	6,244,048
Interest and Dividend Income	1,129,477	927,766	2,020,906	1,564,801
Gain (Loss) on Securities Transactions, net	55,023	463,929	(595,537)	496,779
Other Income	31,448	70,650	67,506	92,843
Total Revenues	10,458,996	11,351,020	18,774,536	20,151,366
EXPENSES:				
Community Operating Expenses	3,396,383	3,222,329	6,578,559	6,264,407
Cost of Sales of Manufactured Homes	2,419,512	3,275,077	3,904,477	5,078,455
Selling Expenses	302,732	388,673	711,177	918,091
General and Administrative Expenses	911,541	885,563	1,897,428	1,713,654
Interest Expense	886,201	750,545	2,386,859	1,605,045
Depreciation Expense	1,017,795	888,648	2,032,545	1,775,972
Amortization of Financing Costs	38,371	46,470	77,815	96,698
Total Expenses	8,972,535	9,457,305	17,588,860	17,452,322
	1,486,461	1,893,715	1,185,676	2,699,044

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Income before Gain on Sales
of

Investment Property and
Equipment
Gain on Sales of Investment

Property and Equipment	24,613	34,612	20,358	66,524
Net Income	\$ 1,511,074	\$1,928,327	\$ 1,206,034	\$2,765,568
Net Income per Share -				
Basic	\$0.14	\$0.18	\$0.11	\$0.27
Diluted	\$0.14	\$0.18	\$0.11	\$0.26
Weighted Average Shares Outstanding -				
Basic	10,855,788	10,491,261	10,811,604	10,428,493
Diluted	10,855,788	10,501,414	10,811,604	10,442,080

-UNAUDITED-

See Accompanying Notes to Consolidated Financial Statements

UMH PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

FOR THE SIX MONTHS ENDED

JUNE 30, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (Loss) Income	\$1,206,034	\$2,765,568
Non-Cash Adjustments:		
Depreciation	2,032,545	1,775,972
Amortization of Financing Costs	77,815	96,698
Stock Compensation Expense	51,834	63,940
Increase in Provision for Uncollectible Notes and Other Receivables	146,700	143,888
Loss (Gain) on Securities Transactions, net	595,537	(496,779)
Gain on Sales of Investment Property and Equipment	(20,358)	(66,524)
Changes in Operating Assets and Liabilities:		
Inventory of Manufactured Homes	1,354,264	(3,121,609)
Notes and Other Receivables	(829,520)	(2,632,451)
Prepaid Expenses	84,629	307,183
Accounts Payable	369,506	(580,596)
Accrued Liabilities and Deposits	(57,100)	659,527
Tenant Security Deposits	31,734	25,270
Net Cash Provided by (Used In) Operating Activities	5,043,620	(1,059,913)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Investment Property and Equipment	(2,735,405)	(1,951,558)
Proceeds from Sales of Assets	332,858	662,269
Additions to Land Development	(1,519,302)	(2,603,033)
Purchase of Securities Available for Sale	(3,961,484)	(258,151)
Settlement of Futures Transactions	(304,088)	-0-
Net Proceeds from Sales of Securities Available for Sale	210,768	2,339,910
Net Cash Used in Investing Activities	(7,976,653)	(1,810,563)

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from Mortgages and Loans	13,700,000	13,480,000
Principal Payments of Mortgages and Loans	(7,196,625)	(9,214,857)
Financing Costs on Debt	(202,914)	(173,147)
Proceeds from Issuance of Common Stock, net of amount reinvested	846,726	2,330,657
Proceeds from Exercise of Stock Options	-0-	243,521
Dividends Paid, net of amount reinvested	(3,971,917)	(4,335,485)
Net Cash Provided By Financing Activities	3,175,270	2,330,689

NET INCREASE (DECREASE) IN CASH

AND CASH EQUIVALENTS	242,237	(539,787)
CASH & CASH EQUIVALENTS-BEGINNING	2,221,976	2,005,027
CASH & CASH EQUIVALENTS-ENDING	\$2,464,213	\$1,465,240

-UNAUDITED-

See Accompanying Notes to Consolidated Financial Statements

UMH PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2008 (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 June 30, 2008 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, 2007 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). 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 \$25,917 and \$51,834 for the three and six months ended June 30, 2008, respectively, and \$31,970 and \$63,940 for the three and six months ended June 30, 2007, 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:

	2008	2007
Dividend yield	7.48%	6.42%
Expected volatility	18.66%	18.08%
Risk-free interest rate	3.47%	4.66%
Expected lives	8	8

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The weighted-average fair value of options granted during the six months ended June 30, 2008 and 2007 was \$.65 and \$1.36, respectively.

During the six months ended June 30, 2008, the following stock options were granted:

Date of Grant	Number of Employees	Number of Shares	Exercise Price	Expiration Date
1/8/08	1	42,300	\$12.97	1/8/16
1/8/08	1	7,700	11.79	1/8/16

As of June 30, 2008, there were options outstanding to purchase 476,000 shares and 1,050,188 shares were available for grant under the Company's 2003 Stock Option Plan. During the six months ended June 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 June 30, 2007, there were options outstanding to purchase 369,000 shares and 1,158,188 shares were available for grant under the Company's 2003 Stock Option Plan.

Recent Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities - including an amendment of FASB Statement No. 115 (SFAS No. 159). SFAS No. 159 permits entities to elect to measure many financial instruments and certain other items at fair value. Upon adoption of SFAS No. 159, an entity may elect the fair value option for eligible items that exist at the adoption date. Subsequent to the initial adoption, the election of the fair value option may only be made at initial recognition of the asset or liability or upon a remeasurement event that gives rise to new-basis accounting. The decision about whether to elect the fair value option is applied on an instrument-by-instrument basis, is irrevocable and is applied only to an entire instrument and not only to specified risks, cash flows or portions of that instrument. SFAS No. 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value nor does it eliminate disclosure requirements included in other accounting standards. The Company adopted SFAS No. 159 effective January 1, 2008, and did not elect the fair value option for any existing eligible items.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value

measurements. SFAS No. 157 does not impose fair value measurements on items not already accounted for at fair value; rather it applies, with certain exceptions, to other accounting pronouncements that either require or permit fair value measurements. Under SFAS No. 157, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market. The standard clarifies that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In February 2008, the FASB issued Staff Position No. 157-2, Effective Date of FASB Statement No. 157 (FSP FAS 157-2), which delays the effective date of SFAS No. 157 for all non-

financial assets and liabilities, except those that are recognized or disclosed at fair value in the Financial Statements on a recurring basis until fiscal years beginning after November 15, 2008. The Company adopted the provisions of SFAS No. 157 for assets and liabilities recognized at fair value on a recurring basis effective January 1, 2008. The partial adoption of SFAS No. 157 did not have a material impact on the Company's Financial Statements. See Note 7 for additional discussion.

In December 2007, the FASB issued SFAS No. 141R, Business Combinations (SFAS 141R) and SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements - An Amendment of ARB No. 51 (SFAS 160). SFAS 141R and SFAS 160 require most identifiable assets, liabilities, noncontrolling interests and goodwill acquired in a business combination to be recorded at full fair value and require noncontrolling interests (previously referred to as minority interests) to be reported as a component of equity, which changes the accounting for transactions with noncontrolling interest holders. The provisions of SFAS 141R and SFAS 160 are effective for our fiscal year beginning January 1, 2009. SFAS 141R will be applied to business combinations occurring after the effective date and SFAS 160 will be applied prospectively to all changes in noncontrolling interests, including any that existed at the effective date. The Company is currently evaluating the impact of SFAS 141R and SFAS 160 but does not believe that the adoption of these statements will have a material effect on our financial condition or results of operations.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 requires enhanced disclosures about (a) how and why derivative instruments are used, (b) how derivative instruments and related hedged items are accounted for and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company is evaluating the impact of SFAS 161 but does not believe that the adoption of this statement will have a material effect on our financial condition or results of operations.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS 162). The current hierarchy of generally accepted accounting principles is set forth in the American Institute of Certified Public Accountants (AICPA) Statement on Auditing Standards (SAS) No. 69, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. SFAS 162 is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles for nongovernmental entities. This Statement is effective 60 days following the Securities and Exchange Commission's approval of the Public Company Oversight Board Auditing amendments to SAS 69. The Company is evaluating the impact of SFAS 162 but does not believe that the adoption of this statement will have a material effect on our financial condition or results of operations, as the Statement does not directly impact the accounting principles applied in the preparation of the Company's financial statements.

NOTE 2 NET INCOME PER SHARE AND COMPREHENSIVE 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 10,153 and 13,587 shares for the three and six months ended June 30, 2007, respectively are included in the diluted weighted average shares outstanding. No options were included for the three and six months ended June 30, 2008, since they were antidilutive.

The following table sets forth the components of the Company's comprehensive income for the three and six months ended June 30, 2008 and 2007:

	Three Months		Six Months	
	2008	2007	2008	2007
Net Income	\$1,511,074	\$1,928,327	\$1,206,034	\$2,765,568
Change in unrealized				
loss on securities				
available for sale	(2,928,588)	(149,296)	(3,066,277)	(154,759)
Comprehensive Income				
(Loss)	(\$1,417,514)	\$1,779,031	(\$1,860,243)	\$2,610,809

NOTE 3 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. During the quarter ended June 30, 2008, we have settled our position and no longer invest in these contracts. The notional amount of these contracts amounted to \$9,000,000 at June 30, 2007. Changes in the market value of these derivatives have been recorded in gain (loss) on securities transactions, net with corresponding amounts recorded in other assets or other liabilities on the balance sheet. The fair value of the derivatives at December 31, 2007 was an asset of \$40,781. During the three and six months ended June 30, 2008, the Company recorded a realized gain (loss) of \$346,472 and (\$304,088), respectively, on settled and open futures contracts. During the three and six months ended June 30, 2007, the Company recorded a realized gain of

\$202,329 and \$140,987, respectively, on settled and open futures contracts. These gains (losses) are included in gain (loss) on securities transactions, net.

The Company had entered into three interest rate swap agreements to 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 six months ended June 30, 2008 amounted to \$214,199 and (\$134,341), respectively, and has been recorded as a deduction from (addition to) interest expense. The

change in the fair value of these agreements for the three and six months ended June 30, 2007 amounted to \$74,286 and \$47,974, respectively, and has been recorded as a deduction from interest expense. The fair value of these agreements at June 30, 2008 and December 31, 2007 amounted to liabilities of \$198,072 and \$63,731, respectively, which have been included in accrued liabilities and deposits.

NOTE 4 LOANS AND MORTGAGES PAYABLE

On February 27, 2008, the Company increased and refinanced its mortgage loans on D&R Village and Waterfalls Village with Bank of America. The new principal balance is \$8,700,000. This mortgage payable is due on February 27, 2013 with interest at a fixed rate of 5.614%. Proceeds were primarily used to pay off the existing mortgages on D&R Village and Waterfalls Village and to pay down our margin loans.

On April 28, 2008, the Company closed on a revolving line of credit with Sun National Bank with a maximum availability of \$10,000,000. This revolving line of credit has a maturity date of April 1, 2011 and is secured by the Company's eligible notes receivables. Interest under this new line is at the prime rate which is currently 5%. On April 29, 2008, the Company used \$5,000,000 of this line of credit to pay down our margin loans.

NOTE 5 - DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN

On June 30, 2008, the Company paid \$1,955,780, of which \$273,000 was reinvested, as a dividend of \$.18 per share to shareholders of record as of June 16, 2008. Total dividends paid for the six months ended June 30, 2008 amounted to \$4,647,805 of which \$675,888 was reinvested. On July 1, 2008, the Company declared a dividend of \$.18 per share to be paid on September 15, 2008 to shareholders of record August 15, 2008.

During the six months ended June 30, 2008, the Company received, including dividends reinvested, a total of \$1,522,614 from the Dividend Reinvestment and Stock Purchase Plan. There were 160,848 new shares issued under the Plan.

NOTE 6 SECURITIES AVAILABLE FOR SALE

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The following table summarizes the Company's gain (loss) on securities transactions, net for the three and six months ended June 30, 2008 and 2007:

	<u>Three Months</u>		<u>Six Months</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Gain on sale of securities, net	\$10,951	\$261,600	\$10,951	\$355,792
Impairment loss	(302,400)	-0-	(302,400)	-0-
Gain (loss) on settled futures contracts	346,472	309,908	(304,088)	188,097
Loss on open futures contracts	-0-	(107,579)	-0-	(47,110)
Gain (loss) on securities transactions, net	\$55,023	\$463,929	(\$595,537)	\$496,779

During the three and six months ended June 30, 2008, the Company recognized a loss of \$302,400 due to the write-down of the carrying value of a security which was considered other than temporarily impaired. The Company also recognized a total gain (loss) on settled and open futures contracts of \$346,472 and (\$304,088), respectively. The Company invested in futures contracts of ten-year treasury notes with the objective of reducing the risks of rolling over its fixed-rate mortgages at higher interest rates and reducing the exposure of the preferred equity and debt securities portfolio to interest rate fluctuations. As of May 15, 2008, we have settled our position and no longer invest in these contracts.

NOTE 7 - FAIR VALUE MEASUREMENTS

On January 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements (SFAS No. 157), for financial assets and liabilities recognized at fair value on a recurring basis. We measure certain financial assets and liabilities at fair value on a recurring basis, including securities available for sale and interest rate swap agreements. The fair value of these certain financial assets and liabilities was determined using the following inputs at June 30, 2008:

	Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available for sale	\$ 23,916,221	\$ 17,916,221	\$ 6,000,000	\$ -0-
Interest rate swaps (1)	(198,072)	-0-	(198,072)	-0-
	\$ 23,718,149	\$ 17,916,221	\$ 5,801,928	\$ -0-

(1) Included in accrued liabilities and deposits.

NOTE 8 - RELATED PARTY TRANSACTIONS AND OTHER MATTERS

On April 14, 2008, the Company executed a Second Amendment to the Employment Agreement with the Eugene W. Landy, Chairman of the Board (the second amendment). The amendment provides that in the event of a change in control, Eugene W. Landy shall receive a lump sum payment of \$1,200,000, provided the sale price of the Company is at least \$16 per share of common stock. A change of control shall be defined as the consummation of a reorganization, merger, share exchange, consolidation, or sale or disposition of all or substantially all of the assets of the Company. This change of control provision shall not apply to any combination between the Company and Monmouth Real Estate Investment Corporation. Payment shall be made simultaneously with the closing of the transaction, and only in the event that the transaction closes.

NOTE 9 - 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 10 - SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid during the six months ended June 30, 2008 and 2007 for interest was \$2,416,548 and \$1,816,580, respectively. Interest cost capitalized to Land Development was \$140,000 and \$137,200 for the six months ended June 30, 2008 and 2007, respectively. The change in fair value of the interest rate swap agreements amounted to (\$134,341) and \$47,974 for the six months ended June 30, 2008 and 2007, respectively.

During the six months ended June 30, 2008 and 2007, the Company had dividend reinvestments of \$675,888 and \$883,270, respectively, which required no cash transfers.

ITEM 2 - 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, 2007.

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 6,800 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 \$23,916,221 at June 30, 2008. 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 June 30, 2008, the Company's portfolio consisted of 19% preferred stocks, 56% common stocks and 25% debentures. The securities portfolio provides the Company with liquidity and additional income until suitable acquisitions of real property are found.

The Company's revenue primarily consists of rental and related income from the operation of its manufactured home communities. Revenues also include sales of manufactured homes, interest and dividend income and gain on securities transactions, net. Total revenues decreased by approximately 8% from \$11,351,020 for the quarter ended June 30, 2007 to \$10,458,996 for the quarter ended June 30, 2008. Total revenues decreased by approximately 7% from \$20,151,366 for the six months ended June 30, 2007 to \$18,774,536 for the six months ended June 30, 2008. These decreases were primarily due to a decrease in sales of manufactured homes and a decrease in the gain (loss) on securities transactions, partially offset by an increase in rental and related income and interest and dividend income. Gain (loss) on securities transactions decreased by \$408,906 and \$1,092,316, respectively, for the quarter and six months ended June 30, 2008 as compared to the quarter and six months ended June 30, 2007. This was primarily due to the write-down of a security which was considered other than temporarily impaired and the loss on settled futures contracts for the six months ended June 30, 2008. Sales of manufactured homes decreased by approximately 27% and 25%, respectively, for the quarter and six months ended June 30, 2008 as compared to the quarter and six months ended June 30, 2007. Over the past several years, the availability of liberal terms on loans on conventional housing created a difficult competitive market for sales of manufactured homes. This resulted in a loss of occupancy from

approximately 86% in 2005 to approximately 81% currently. Although the conventional home lending environment has returned to more disciplined lending practices, the return to affordability and the recovery of manufactured home communities have been slow.

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Total expenses decreased by approximately 5% and increased by approximately 1% for the quarter and six months, respectively, ended June 30, 2008 as compared to the quarter and six months ended June 30, 2007. This was primarily due to an increase in interest expense partially offset by a decrease in cost of sales of manufactured homes and selling expenses. The increase in interest expense was primarily due to an increase in the balance of mortgages and loans payable and the change in fair value of the Company's interest rate swaps.

Net income decreased by approximately 22% and 56%, respectively, for the quarter and six months ended June 30, 2008. This decrease was due primarily to the write-down of \$302,400 for the quarter and six months ended June 30, 2008 of a security which was considered other than temporarily impaired, the loss of \$304,088 for the six months ended June 30, 2008 on settled futures contracts, the increase in interest expense and the decrease in sales of manufactured homes.

See PART I, Item 1 Business in the Company's 2007 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 \$5,922,391 for the quarter ended June 30, 2007 to \$6,362,034 for the quarter ended June 30, 2008. Rental and related income increased from \$11,752,895 for the six months ended June 30, 2007 to \$12,616,604 for the six months ended June 30, 2008. This was primarily due to rental increases to residents and an increase in home rental income. The Company has been raising rental rates by approximately 3% to 6% annually. Occupancy remained relatively stable at approximately 81% at both December 31, 2007 and June 30, 2008. The Company has faced many challenges in filling vacant homesites. The relatively low interest rates and liberal lending practice in 2006 and 2007 made site-built housing more accessible.

Interest and dividend income increased from \$927,766 for the quarter ended June 30, 2007 to \$1,129,477 for the quarter ended June 30, 2008. Interest and dividend income increased from \$1,564,801 for the six months ended June 30, 2007 to \$2,020,906 for the six months ended June 30, 2008. This was primarily as a result of an increase in dividend income due to a higher average balance of securities available for sale during 2008 as a result of purchases made toward the end of 2007. The average balance of securities at June 30, 2008 and 2007 was \$23,719,726 and \$17,038,726, respectively.

Gain (loss) on securities available for sale transactions, net for the three and six months ended June 30, 2008 and 2007 consisted of the following:

	<u>Three Months</u>		<u>Six Months</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Gain on sale of securities, net	\$10,951	\$261,600	\$10,951	\$355,792
Impairment loss	(302,400)	-0-	(302,400)	-0-
Gain (loss) on settled futures contracts	346,472	309,908	(304,088)	188,097
Loss on open futures contracts	-0-	(107,579)	-0-	(47,110)
Gain (loss) on securities transactions, net	\$55,023	\$463,929	(\$595,537)	\$496,779

Gain (loss) on securities transactions, net decreased from \$463,929 for the quarter ended June 30, 2007 to \$55,023 for the quarter ended June 30, 2008 and from a gain of \$496,779 for the six months ended June 30, 2007 to a loss of (\$595,537) for the six months ended June 30, 2009. During the three and six months ended June 30, 2008, the Company recognized a loss of \$302,400 due to the write-down of the carrying value of a security which was considered other than temporarily impaired. The Company also recognized a total gain (loss) on settled and open futures contracts of \$346,472 and (\$304,088), respectively. The Company invested in futures contracts of ten-year treasury notes with the objective of reducing the risks of rolling over its fixed-rate mortgages at higher interest rates and reducing the exposure of the preferred equity and debt securities portfolio to interest rate fluctuations. We have settled our position and no longer invest in these contracts.

Community operating expenses increased from \$3,222,329 for the quarter ended June 30, 2007 to \$3,396,383 for the quarter ended June 30, 2008. Community operating expenses increased from \$6,264,407 for the six months ended June 30, 2007 to \$6,578,559 for the six months ended June 30, 2008. This was primarily due to an increase in salaries and health insurance costs. General and administrative expenses increased from \$885,563 for the quarter ended June 30, 2007 to \$911,541 for the quarter ended June 30, 2008. General and administrative expenses increased from \$1,713,654 for the six months ended June 30, 2007 to \$1,897,428 for the six months ended June 30, 2008. This was primarily due to an increase in professional fees and state franchise taxes. Interest expense increased from \$750,545 for the quarter ended June 30, 2007 to \$886,201 for the quarter ended June 30, 2008. Interest expense increased from \$1,605,045 for the six months ended June 30, 2007 to \$2,386,859 for the six months ended June 30, 2008. This was primarily due to an increase in the average balance of mortgages and loans payable and the change in fair value of the Company's interest rate swaps which decreased interest expense by \$47,974 for the six months ended June 30, 2007 but increased interest expense by \$134,341 for the six months ended June 30, 2008. Cash paid for interest during the three and six months ended June 30, 2008 amounted to \$1,175,400 and \$2,416,548, respectively. Cash paid for interest during the three and six months ended June 30, 2007 amounted to \$902,031 and \$1,816,580, respectively.

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Depreciation expense increased from \$888,648 for the quarter ended June 30, 2007 to \$1,017,795 for the quarter ended June 30, 2008. Depreciation expense increased from \$1,775,972 for the six months ended June 30, 2007 to \$2,032,545 for the six months ended June 30, 2008. This was primarily due to the expansions placed in service in 2007. Amortization of financing costs remained relatively stable for the quarter and six months ended June 30, 2008 as compared to the quarter ended June 30, 2007.

Sales of manufactured homes amounted to \$2,881,014 and \$3,966,284 for the quarters ended June 30, 2008 and 2007, respectively. Sales of manufactured homes amounted to \$4,665,057 and \$6,244,048 for the six months ended June 30, 2008 and 2007, respectively. Cost of sales of manufactured homes amounted to \$2,419,512 and \$3,275,077 for the quarters ended June 30, 2008 and 2007, respectively. Cost of sales of manufactured homes amounted to \$3,904,477 and \$5,078,455 for the six months ended June 30, 2008 and 2007, respectively. Selling expenses amounted to \$302,732 and \$388,673 for the quarters ended June 30, 2008 and 2007, respectively. Selling expenses amounted to \$711,177 and \$918,091 for the six months ended June 30, 2008 and 2007, respectively. These decreases are directly attributable to the decrease in sales. Income from sales operations (defined as sales of manufactured homes less cost of sales of manufactured homes less selling expenses) amounted to \$158,770, or 6% of total sales, for the quarter ended June 30, 2008 as compared to \$302,534, or 8% of total sales, for the quarter ended June 30, 2007. Income from sales operations amounted to \$49,403, or 1% of total sales, for the six months ended June 30, 2008 as compared to \$247,502, or 4% of total sales, for the six months ended June 30, 2007. The Company believes that sales of new homes produces new rental revenue and is an investment in the upgrading of 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 by operating activities increased from net cash used by operating activities of \$1,059,913 for the six months ended June 30, 2007 to net cash provided by operating activities of \$5,043,620 for the six months ended June 30, 2008. This increase was primarily due to a decrease in inventory of manufactured homes and a smaller increase in notes and other receivables. The Company received, including dividends reinvested of \$675,888, new capital of \$1,522,614 through its Dividend Reinvestment and Stock Purchase Plan (DRIP). The Company sold and wrote-down \$502,217, at cost, and purchased \$3,961,484 of securities of other real estate investment trusts. Mortgages payable increased by \$3,231,871 and loans payable increased by \$3,271,504. The Company refinanced its D&R Village and Waterfalls Village mortgages for \$8,700,000, took down \$5,000,000 of its new \$10,000,000 revolving line of credit and paid off the existing mortgages and paid down our margin loans. 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 six months ended June 30, 2008 and 2007 is calculated as follows:

	Three Months		Six Months	
	2008	2007	2008	2007
Net Income	\$1,511,074	\$1,928,327	\$1,206,034	\$2,765,568
Gain on Sales of				
Depreciable Assets	(24,613)	(34,612)	(20,358)	(66,524)
Depreciation Expense	1,017,795	888,648	2,032,545	1,775,972
FFO	\$2,504,256	\$2,782,363	\$3,218,221	\$4,475,016

The following are the cash flows provided (used) by operating, investing and financing activities for the six months ended June 30, 2008 and 2007:

	2008	2007
Operating Activities	\$5,043,620	(\$1,059,913)
Investing Activities	(7,976,653)	(1,810,563)
Financing Activities	3,175,270	2,330,689

Safe Harbor Statement

Statements contained in this Form 10-Q, including the documents that are incorporated by reference, that are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Also, when we use any of the words anticipate, assume, believe, estimate, expect, intend, or similar e we are making forward-looking statements. These forward-looking statements are not guaranteed. They reflect the Company s current views with respect to future events and finance performance, but are based upon current assumptions regarding the Company s

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operations, future results and prospects, and are subject to many uncertainties and factors, some of which are beyond our control, relating to the Company's operations and business environment which could 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: changes in the real estate market and general economic climate; increased competition in the geographic areas in which the Company owns and operates manufactured housing communities; changes in government laws and regulations affecting manufactured housing communities; 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 ability to maintain rental rates and occupancy levels; competitive market forces; changes in market rates of interest; our ability to repay debt financing obligations; our ability to comply with certain debt covenants; continued ability to access the debt or equity markets; the availability of other debt and equity financing alternatives; the loss of any member of our management team; our ability to maintain internal controls and processes to ensure all transactions are accounted for properly, all relevant disclosures and filings are timely made in accordance with all rules and regulations, and any potential fraud or embezzlement is thwarted or detected; changes in federal or state tax rules or regulations that could have adverse tax consequences; our ability to qualify as a real estate investment trust for federal income tax purposes; the ability of manufactured home buyers to obtain financing; the level of repossessions by manufactured home lenders; and those risks and uncertainties referenced under the heading "Risk Factors" contained in the Company's Form 10-K and other filings with the Securities and Exchange Commission. You should not place undue reliance on these forward-looking statements, as events described or implied in such statements may not occur. The forward-looking statements contained in this Form 10-Q speak only as of the date hereof and the Company expressly disclaims any obligation to publicly update or revise any forward-looking statements whether as a result of new information, future events, or otherwise.

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 Quarterly Report on Form 10-Q.

ITEM 4 - 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 June 30, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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 Quarterly Report on Form 10-Q. In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2007, which could materially affect the Company's business, financial condition or future results. The risks described in the Company's Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that the Company currently deems to be immaterial also may materially adversely affect the Company's business, financial condition and/or operating results.

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

The annual meeting of shareholders was held on June 18, 2008. The proposals submitted to the vote of the shareholders and the results of the votes were as follows:

Proposal One For the election of the following nominees for Director:

For

Against

Richard H. Molke

9,064,737.61 396,626.56

Eugene Rothenberg

9,026,417.97 434,946.20

Proposal Two For the approval of Reznick Group, P.C. as independent auditors for the Company for the fiscal year ending December 31, 2008:

For

Against

Abstain

9,329,222.97 99,451.00 32,691.19

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

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Second Amendment to Employment Contract of Eugene W. Landy, dated April 14, 2008. (incorporated by reference to the 8-K filed by the Registrant with the Securities and Exchange Commission on April 16, 2008. (Registration No. 001-12690)

31.1

Certification of Samuel A. Landy, President and Chief Executive Officer of the Company, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended (Filed herewith).

31.2

Certification of Anna T. Chew, Vice President and Chief Financial Officer of the Company, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended (Filed herewith).

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Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by Samuel A. Landy, President and Chief Executive Officer, and Anna T. Chew, Vice President and Chief Financial Officer (Furnished herewith).

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:

August 8, 2008

By /s/ Samuel A. Landy

Samuel A. Landy

President and

Chief Executive Officer

DATE:

August 8, 2008

By /s/ Anna T. Chew

Anna T. Chew

Vice President and

Chief Financial Officer