MGIC INVESTMENT CORP
Form 10-K
February 29, 2008

FORM 10-K
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

For the fiscal year ended December 31, 2007

OR

|_| 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 1-10816

MGIC INVESTMENT CORPORATION

(Exact name of registrant as specified in its charter)

WISCONSIN	**39-1486475**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
MGIC PLAZA, 250 EAST KILBOURN AVENUE, MILWAUKEE, WISCONSIN	**53202**
(Address of principal executive offices)	(Zip Code)

(414) 347-6480
(Registrant s telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class:	Common Stock, Par Value $1 Per Share Common Share Purchase Rights
Name of Each Exchange on Which Registered:	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act:

Title of Class:	None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in rule 405 of the Securities Act. Yes [ ] No |X|

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes |_| No |X|

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. |X|

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

Large accelerated filer |X| Accelerated filer |_|

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 |X| No

State the aggregate market value of the voting stock held by non-affiliates of the Registrant as of June 30, 2007: $4.6 billion*

* Solely for purposes of computing such value and without thereby admitting that such persons are affiliates of the Registrant, shares held by directors and executive officers of the Registrant are deemed to be held by affiliates of the Registrant. Shares held are those shares beneficially owned for purposes of Rule 13d-3 under the Securities Exchange Act of 1934 but excluding shares subject to stock options.

Indicate the number of shares outstanding of each of the Registrant's classes of common stock as of February 15, 2008: 81,655,366

The following documents have been incorporated by reference in this Form 10-K, as indicated:

Document	Part and Item Number of Form 10-K Into Which Incorporated*
Proxy Statement for the 2008 Annual Meeting of Shareholders	Items 10 through 14 of Part III

* In each case, to the extent provided in the Items listed

PART I

Item 1. Business.

A. General

Overview of the Private Mortgage Insurance Industry

Private mortgage insurance covers losses from homeowner defaults on residential first mortgage loans, reducing and, in some instances, eliminating the loss to the insured institution if the homeowner defaults. Private mortgage insurance expands home ownership opportunities by helping people purchase homes with less than 20% down payments. Private mortgage insurance also reduces the capital that financial institutions are required to hold against low down payment mortgages and facilitates the sale of low down payment mortgages in the secondary mortgage market, including to the Federal National Mortgage Association, commonly known as Fannie Mae, and the Federal Home Loan Mortgage Corporation, commonly known as Freddie Mac. In this annual report, we refer to Fannie Mae and Freddie Mac collectively as the GSEs. The GSEs purchase residential mortgages from mortgage lenders and investors as part of their governmental mandate to provide liquidity in the secondary mortgage market and we believe purchased over 50% of the mortgages underlying our flow new insurance written in 2007, 2006 and 2005. The GSEs also purchased approximately 53.6%, 37.4% and 37.3% of all the mortgage loans originated in the U.S. for the years ended December 31, 2007, 2006 and 2005, respectively, according to statistics reported by Inside Mortgage Finance, a mortgage industry publication. As a result, the private mortgage insurance industry in the U.S. is defined in part by the requirements and practices of the GSEs and other large mortgage investors, and these requirements and practices impact the operating results and financial performance of companies in the mortgage insurance industry.

The U.S. residential mortgage market has historically experienced long-term growth. Growth in U.S. residential mortgage debt was particularly strong between 2001 and mid-2006. This strength was driven primarily by record home sales, strong home price appreciation and historically low interest rates. The private mortgage insurance industry experienced profitable insurance underwriting results during this period, when the labor market was also strong except for pockets of weakness in areas affected by downsizings in the auto industry.

During the last several years of this period and continuing through 2007, the mortgage lending industry increasingly made home loans (1) at higher loan-to-value ratios and higher combined loan-to-value ratios, which take into account second mortgages as well as the loan-to-value ratios of first mortgages; (2) to individuals with higher risk credit profiles; and (3) based on less documentation and verification of information provided by the borrower.

Beginning in late 2006, job creation and the housing markets began slowing in certain parts of the country, with some areas experiencing home price declines. These and other conditions resulted in significant adverse developments for us and our industry that were manifested in the second half of 2007, including:

- increasing defaults by homeowners;
- increases across the country in the rate at which loans in default eventually resulted in a claim, with significant increases in large markets such as California and Florida; and

- increases in the average amount paid on a claim, driven by higher average insured loan sizes and the inability to mitigate losses through the sale of properties in some regions due to slowing home price appreciation or housing price declines.

As a result, mortgage lenders, financial institutions and we and other private mortgage insurers began incurring significant credit losses, particularly with respect to loans with multiple high-risk characteristics referred to above. In 2007, compared to 2006, our losses incurred increased to $2,365 million from $614 million, our earnings fell to a net loss of $1,670 million compared to net earnings of $565 million and our year-end default inventory increased to 107,120 loans from 78,628.

In early 2007, we changed our underwriting standards and ceased writing insurance on a limited set of loans even though these loans were approved under the GSEs automated underwriting guidelines. In the fourth quarter of 2007, we also decided to stop insuring loans included in home equity securitizations. Finally, in late 2007 and early 2008, we announced increases in our premium rates and further tightening of our underwriting standards, particularly as they apply to loans with low credit scores, with high loan-to-value ratios and with homes in regions that we view as being higher risk.

We believe that the recent losses experienced by mortgage lenders and financial institutions and concerns about residential mortgage credit quality that became evident in the second half of 2007 have led to increased interest in the credit protection that mortgage insurance affords. One measure of this increased interest is the increase in the private mortgage insurance penetration rate (the principal balance of loans insured by our industry during a period divided by the principal balance of all loans originated during that period) from approximately 8.5% in early 2006 to approximately 20% in the fourth quarter of 2007. In addition, our persistency rate, which is the percentage of insurance remaining in force from one year prior, increased to 76.4% at December 31, 2007, compared to 69.6% at December 31, 2006 and 61.3% at December 31, 2005. We believe that this increase was largely the result of the general upward trend in mortgage interest rates and the declining rate of home price appreciation in some markets and declines in housing values in other markets. We believe that these factors, along with the changes in our underwriting guidelines, will result in profitable books of new insurance written, beginning with our 2008 book.

Overview of Our Company

We are a holding company, and through our wholly owned subsidiary Mortgage Guaranty Insurance Corporation (MGIC) we are the leading provider of private mortgage insurance in the United States. In 2007, our net premiums written exceeded $1.3 billion, our new insurance written was $76.8 billion and our insurance in force as of December 31, 2007 was $211.7 billion. MGIC is licensed in all 50 states of the United States, the District of Columbia, Puerto Rico and Guam. One of MGIC s subsidiaries is licensed in Australia and another is in the process of becoming licensed in Canada.

In addition to mortgage insurance on first liens, we, through our subsidiaries, provide lenders with various underwriting and other services and products related to home mortgage lending.

We are a Wisconsin corporation. Our principal office is located at MGIC Plaza, 250 East Kilbourn Avenue, Milwaukee, Wisconsin 53202 (telephone number (414) 347-6480).

We have ownership interests in less than majority-owned joint ventures and investments, principally Sherman Financial Group LLC and Credit-Based Asset Servicing and Securitization LLC, which we refer to as C-BASS. Sherman is principally engaged in purchasing and collecting for its own account delinquent consumer receivables, which are primarily unsecured, and in originating and servicing subprime credit card receivables. Historically, C-BASS was principally engaged in the business of investing in the credit risk of subprime single-family residential mortgages. In 2007, C-BASS ceased its operations and is managing its portfolio pursuant to a consensual, non-bankruptcy restructuring, under which its assets are to be paid out over time to its secured and unsecured creditors.

As used in this annual report, we, us and our refer to MGIC Investment Corporation s consolidated operations. Sherman, C-BASS and our other less than majority-owned joint ventures and investments are not consolidated with us for financial reporting purposes, are not our subsidiaries and are not included in the terms we, us and our. The description of our business in this document generally does not apply to our international operations which began in 2007, are conducted only in Australia and are immaterial.

Our revenues and losses may be materially affected by the risk factors applicable to us that are included in Item 1A of this annual report. Sherman and its businesses may be materially affected by the risk factors applicable to them included in Item 1A. These risk factors are an integral part of this annual report. These factors may also cause actual results to differ materially from the results contemplated by forward looking statements that we may make. We are not undertaking any obligation to update any forward looking statements or other statements we may make even though these statements may be affected by events or circumstances occurring after the forward looking statements or other statements were made. No investor should rely on the fact that such statements are current at any time other than the time at which this annual report was filed with the Securities and Exchange Commission.

B. The MGIC Book

Types of Product

In general, there are two principal types of private mortgage insurance: primary and pool.

Primary Insurance. Primary insurance provides mortgage default protection on individual loans and covers unpaid loan principal, delinquent interest and certain expenses associated with the default and subsequent foreclosure (collectively, the claim amount). In addition to the loan principal, the claim amount is affected by the mortgage note rate and the time necessary to complete the foreclosure process. The insurer generally pays the coverage percentage of the claim amount specified in the primary policy, but has the option to pay 100% of the claim amount and acquire title to the property. Primary insurance is generally written on first mortgage loans secured by owner occupied single-family homes, which are one-to-four family homes and condominiums. Primary insurance is also written on first liens secured by non-owner occupied single-family homes, which are referred to in the home mortgage lending industry as investor loans, and on vacation or second homes. Primary coverage can be used on any type of residential mortgage loan instrument approved by the mortgage insurer.

References in this document to amounts of insurance written or in force, risk written or in force and other historical data related to our insurance refer only to direct (before giving effect to reinsurance) primary insurance, unless otherwise indicated. References in this document to primary insurance include insurance written in bulk transactions that is supplemental to mortgage insurance written in connection with the origination of the loan or that reduces a lender s credit risk to less than 51% of the value of the property. For more than the past five years, in reports by private mortgage insurers to the trade association for the private mortgage insurance industry have classified mortgage insurance that is supplemental to other mortgage insurance or that reduces a lender s credit risk to less than 51% of the value of the property is classified as pool insurance. The trade association classification is used by members of the private mortgage insurance industry in reports to Inside Mortgage Finance, a mortgage industry publication that computes and publishes primary market share information.

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Primary insurance may be written on a flow basis, in which loans are insured in individual, loan-by-loan transactions, or may be written on a bulk basis, in which each loan in a portfolio of loans is individually insured in a single, bulk transaction. New insurance written on a flow basis was $69.0 billion in 2007 compared to $39.3 billion in 2006 and $40.1 billion in 2005. New insurance written for bulk transactions was $7.8 billion in 2007 compared to $18.9 billion for 2006 and $21.4 billion for 2005. As noted in - Bulk Transactions below, in the fourth quarter of 2007, we decided to stop writing the portion of our bulk business that insures mortgage loans included in home equity (or private label) securitizations, which are the terms the market uses to refer to securitizations sponsored by firms besides the GSEs or Ginnie Mae, such as Wall Street investment banks. We refer to portfolios of loans we insured through the bulk channel that we knew would serve as collateral in a home equity securitization as Wall Street bulk transactions. We will, however, continue to insure loans on a bulk basis when we believe that the loans will be sold to a GSE or retained by the lender. The following table shows, on a direct basis, primary insurance in force (the unpaid principal balance of insured loans as reflected in our records) and primary risk in force (the coverage percentage applied to the unpaid principal balance), for insurance that has been written by MGIC (the MGIC Book) as of the dates indicated:

Primary Insurance and Risk In Force

	December 31,				
	2007	2006	2005	2004	2003

	December 31,				
	(In millions)				
Direct Primary Insurance In Force	$ 211,745	$ 176,531	$ 170,029	$ 177,091	$ 189,632
Direct Primary Risk In Force	$ 55,794	$ 47,079	$ 44,860	$ 45,981	$ 48,658

The lender determines the coverage percentage we provide. For loans sold by lenders to Fannie Mae or Freddie Mac, the coverage percentage must comply with the requirements established by the particular GSE to which the loan is delivered.

We charge higher premium rates for higher coverage percentages. Higher coverage percentages generally result in increased severity, which is the amount paid on a claim, and lower coverage percentages generally result in decreased severity. In accordance with GAAP for the mortgage insurance industry, reserves for losses are only established for loans in default. Because relatively few defaults typically occur in the early years of a book of business, the higher premium revenue from deeper coverage is generally recognized before any higher losses resulting from that deeper coverage may be incurred. See - Exposure to Catastrophic Loss; Defaults; Claims; Loss Mitigation Claims. Our premium pricing methodology generally targets substantially similar returns on capital regardless of the depth of coverage. However, there can be no assurance that changes in the level of premium rates adequately reflect the risks associated with changes in the depth of coverage.

In partnership with mortgage insurers, in recent years the GSEs have offered programs under which, on delivery of an insured loan to a GSE, the primary coverage was restructured to an initial shallow tier of coverage followed by a second tier that was subject to an overall loss limit, and compensation may have been paid to the GSE reflecting services or other benefits realized by the mortgage insurer from the coverage conversion. Lenders receive guaranty fee relief from the GSEs on mortgages delivered with these restructured coverage percentages.

Mortgage insurance coverage cannot be terminated by the insurer, except for non-payment of premium, and remains renewable at the option of the insured lender, generally at the renewal rate fixed when the loan was initially insured. Lenders may cancel insurance written on a flow basis at any time at their option or because of mortgage repayment, which may be accelerated because of the refinancing of mortgages. In the case of a loan purchased by Freddie Mac or Fannie Mae, a borrower meeting certain conditions may require the mortgage servicer to cancel insurance upon the borrower s request when the principal balance of the loan is 80% or less of the home s current value.

Under the federal Homeowners Protection Act, or HPA, a borrower has the right to stop paying premiums for private mortgage insurance on loans closed after July 28, 1999 secured by a property comprised of one dwelling unit that is the borrower s primary residence when certain loan-to-value ratio thresholds determined by the value of the home at loan origination and other requirements are met. Generally, the loan-to-value ratios used in this document represent the ratio, expressed as a percentage, of the dollar amount of the first mortgage loan to the value of the property at the time the loan became insured and do not reflect subsequent housing price appreciation or depreciation. In general, under the HPA a borrower may stop making mortgage insurance payments when the loan-to-value ratio is scheduled to reach 80% (based on the loan s amortization schedule) or actually reaches 80% if the borrower so requests and if certain requirements relating to the borrower s payment history, the absence of junior liens and a decline in the property s value since origination are satisfied. In addition, a borrower s obligation to make payments for private mortgage insurance generally terminates regardless of whether a borrower so requests when the loan-to-value ratio (based on the loan s amortization schedule) reaches 78% of the unpaid principal balance of the mortgage and the borrower is or later becomes current in his mortgage payments. A borrower s right to stop paying for private mortgage insurance applies only to borrower paid mortgage insurance. The HPA requires that lenders give borrowers certain notices with regard to the cancellation of private mortgage insurance.

In addition, some states require that mortgage servicers periodically notify borrowers of the circumstances in which they may request a mortgage servicer to cancel private mortgage insurance and some states allow the borrower to require the mortgage servicer to cancel private mortgage insurance under certain circumstances or require the mortgage servicer to cancel private mortgage insurance automatically in certain circumstances.

Coverage tends to continue in areas experiencing economic contraction and housing price depreciation. The persistency of coverage in these areas coupled with cancellation of coverage in areas experiencing economic expansion and housing price appreciation can increase the percentage of an insurer s portfolio comprised of loans in economically weak areas. This development can also occur during periods of heavy mortgage refinancing because refinanced loans in areas of economic expansion experiencing property value appreciation are less likely to require mortgage insurance at the time of refinancing, while refinanced loans in economically weak areas not experiencing property value appreciation are more likely to require mortgage insurance at the time of refinancing or not qualify for refinancing at all and, thus, remain subject to the mortgage insurance coverage.

The percentage of primary risk written with respect to loans representing refinances was 23.2% in 2007 compared to 32.0% in 2006 and 39.5% in 2005. When a borrower refinances a mortgage loan insured by us by paying it off in full with the proceeds of a new mortgage that is also insured by us, the insurance on that existing mortgage is cancelled, and insurance on the new mortgage is considered to be new primary insurance written. Therefore, continuation of our coverage from a refinanced loan to a new loan results in both a cancellation of insurance and new insurance written.

In addition to varying with the coverage percentage, our premium rates for insurance written through the flow channel vary depending upon the perceived risk of a claim on the insured loan and, thus, take into account, among other things, the loan-to-value ratio, whether the loan is a fixed payment loan or a non-fixed payment loan (a non-fixed payment loan is referred to in the home mortgage lending industry as an adjustable rate mortgage or ARM), the mortgage term, whether the property is the borrower s primary residence and, for A-, subprime loans and certain other loans, the location of the borrower s credit score within a range of credit scores. In general, we classify as A- loans that have FICO scores between 575 and 619 and we classify as subprime loans that have FICO credit scores of less than 575. A FICO score is a score based on a borrower s credit history generated by a model developed by Fair Isaac and Company.

Premium rates cannot be changed after the issuance of coverage. Because we believe that over the long term each region of the United States is subject to similar factors affecting risk of loss on insurance written, we generally utilize a nationally based, rather than a regional or local, premium rate policy for insurance written through the flow channel.

The borrower s mortgage loan instrument may require the borrower to pay the mortgage insurance premium. Our industry refers to loans having this requirement as borrower paid. If the borrower is not required to pay the premium, then the premium is paid by the lender, who may recover the premium through an increase in the note rate on the mortgage or higher origination fees. Our industry refers to loans in which the premium is paid by the lender as lender paid. Most of our primary insurance in force and new insurance written, other than through bulk transactions, is borrower paid mortgage insurance. New insurance written through bulk transactions is generally paid by the securitization vehicles or investors that hold the mortgages, and the mortgage note rate generally does not reflect the premium for the mortgage insurance. In February 2008, Freddie Mac and Fannie Mae informed us and the rest of our industry that they are reviewing the appropriateness of all mortgage insurers lender-paid insurance premium rates.

Under the monthly premium plan, the borrower or lender pays us a monthly premium payment to provide only one month of coverage, rather than one year of coverage provided by the annual premium plan. Under the annual premium plan, the initial premium is paid to us in advance, and we earn and recognize the premium over the next twelve months of coverage, with annual renewal premiums paid in advance thereafter and earned over the subsequent twelve months of coverage. The annual premiums can be paid with either a higher premium rate for the initial year of coverage and lower premium rates for the renewal years, or with premium rates which are equal for the initial year and subsequent renewal years. Under the single premium plan, the borrower or lender pays us a single payment covering a specified term exceeding twelve months.

During each of the last three years, the monthly premium plan represented more than 90% of our new insurance written. The annual and single premium plans represented the remaining new insurance written.

Pool Insurance**.** Pool insurance is generally used as an additional credit enhancement for certain secondary market mortgage transactions. Pool insurance generally covers the loss on a defaulted mortgage loan which exceeds the claim payment under the primary coverage, if primary insurance is required on that mortgage loan, as well as the total loss on a defaulted mortgage loan which did not require primary insurance. Pool insurance usually has a stated aggregate loss limit and may also have a deductible under which no losses are paid by the insurer until losses exceed the deductible.

New pool risk written was $211 million in 2007, $240 million in 2006 and $358 million in 2005. New pool risk written during these years was primarily comprised of risk associated with loans delivered to Freddie Mac and Fannie Mae (agency pool insurance), loans insured through the bulk channel, loans delivered to the Federal Home Loan Banks under their mortgage purchase programs and loans made under state housing finance programs. Direct pool risk in force at December 31, 2007 was $2.8 billion compared to $3.1 billion and $2.9 billion at December 31, 2006 and 2005, respectively. The risk amounts referred to above represent pools of loans with contractual aggregate loss limits and in some cases those without these limits. For pools of loans without these limits, risk is estimated based on the amount that would credit enhance these loans to a AA level based on a rating agency model. Under this model, at December 31, 2007, 2006 and 2005 for $4.1 billion, $4.4 billion, and $5.0 billion, respectively, of risk without these limits, risk in force is calculated at $475 million, $473 million, and $469 million, respectively. New risk written, under this model, for the years ended December 31, 2007, 2006 and 2005 was $2 million, $4 million and $51 million, respectively.

The settlement of a nationwide class action alleging that MGIC violated the Real Estate Settlement Procedures Act, or RESPA, by providing agency pool insurance and entering into other transactions with lenders that were not properly priced became final in October 2003. In a February 1, 1999 circular addressed to all mortgage guaranty insurers licensed in New York, the New York Department of Insurance advised that significantly underpriced agency pool insurance would violate the provisions of New York insurance law that prohibit mortgage guaranty insurers from providing lenders with inducements to obtain mortgage guaranty business. In a January 31, 2000 letter addressed to all mortgage guaranty insurers licensed in Illinois, the Illinois Department of Insurance advised that providing pool insurance at a discounted or below market premium in return for the referral of primary mortgage insurance would violate Illinois law.

In February 2008, Freddie Mac and Fannie Mae informed us and the rest of our industry that they are reviewing the appropriateness of all mortgage insurers criteria and underwriting requirements for pool insurance on mortgages to the extent that they do not meet such insurer s published underwriting guidelines.

Risk Sharing Arrangements. We participate in risk sharing arrangements with the GSEs and captive reinsurance arrangements with subsidiaries of certain mortgage lenders that reinsure a portion of the risk on loans originated or serviced by the lender which have MGIC primary insurance. During the nine months ended September 30, 2007 and the year ended December 31, 2006, about 47.8% and 47.5%, respectively, of our new insurance written on a flow basis was subject to risk sharing arrangements. The percentage of new insurance written for 2007 covered by these arrangements is shown only for the nine months ended September 30, 2007 because this percentage normally increases after the end of a quarter. Such increases can be caused by, among other things, the transfer of a loan in the secondary market, which can result in a mortgage insured during a quarter becoming part of a risk sharing arrangement in a subsequent quarter. New insurance written through the bulk channel is not subject to risk sharing arrangements.

In a February 1, 1999 circular addressed to all mortgage insurers licensed in New York, the New York Department of Insurance said that it was in the process of developing guidelines that would articulate the parameters under which captive mortgage reinsurance is permissible under New York insurance law. These guidelines, which were to ensure that the reinsurance constituted a legitimate transfer of risk and were fair and equitable to the parties, have not yet been issued. As discussed under We are subject to the risk of private litigation and regulatory proceedings in Item 1A, we provided information regarding captive mortgage reinsurance arrangements to the New York Department of Insurance and the Minnesota Department of Commerce. The complaint in the RESPA litigation described in - Pool Insurance alleged that MGIC pays inflated captive reinsurance premiums in violation of RESPA. Since December 2006, class action litigation was separately brought against a number of large lenders alleging that their captive mortgage reinsurance arrangements violated RESPA. We are not a defendant in any of these cases and we believe no other mortgage insurer is a defendant.

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During the three years ended December 31, 2007, 2006 and 2005, MGIC ceded $155.3 million, $117.4 million and $105.2 million of written premium in captive reinsurance arrangements. The majority of these reinsurance arrangements are aggregate excess of loss reinsurance agreements, and the remainder are quota share agreements. Under the aggregate excess of loss agreements, we are responsible for the first aggregate layer of loss, which is typically 4% or 5%, the captives are responsible for the second aggregate layer of loss, which is typically 5% or 10%, and we are responsible for any remaining loss. The layers are typically expressed as a percentage of the original risk on an annual book of business reinsured by the captive. The premium cessions on these agreements typically range from 25% to 40% of the direct premium. Under a quota share arrangement premiums and losses are shared on a pro-rata basis between us and the captives, with the captives portion of both premiums and losses typically ranging from 25% to 50%.

Under our captive agreements a captive is required to maintain a separate trust account, of which we are the sole beneficiary. Premiums ceded to a captive are deposited in the applicable trust account to support the captive s layer of insured risk. The deposited amounts are held in the trust account and are available to pay reinsured losses. The captive s ultimate liability is limited to the assets in the trust account. When specific time periods are met and the individual trust account balance has reached a required level, then the individual captive may make authorized withdrawals from its applicable trust account. The total fair value of the trust fund assets under these agreements at December 31, 2007 exceeded approximately $630 million.

In February 2008 Freddie Mac and Fannie Mae announced that, effective on and after June 1, 2008, Freddie Mac- and Fannie Mae-approved private mortgage insurers, which include MGIC, may not cede new risk if the gross risk or gross premium ceded to captive reinsurers is greater than 25%. Freddie Mac and Fannie Mae stated that they made this change to allow mortgage insurers to retain more insurance premiums to pay current claims and re-build their capital bases. We have begun discussions with our customers whose captive arrangements would be effected by these new requirements.

External Reinsurance. When we reinsure a portion of our risk, we make an upfront payment or cede a portion of our premiums in return for a reinsurer agreeing to indemnify us for its share of losses incurred. Although reinsuring against possible loan losses does not discharge us from liability to a policyholder, it can reduce the amount of capital we are required to retain against potential future losses for rating agency and insurance regulatory purposes. During 2006 and 2005, we entered into three separate reinsurance arrangements with separate unaffiliated special purpose reinsurance companies, under which we ceded approximately $130 million of risk in force, of which approximately $83.2 million remained in force at December 31, 2007. At December 31, 2007, disregarding reinsurance under captive structures, less than 2% of our insurance in force was externally reinsured. While for many years we have not ceded significant risk under reinsurance arrangements other than through captive structures, we may do so in the future.

Bulk Transactions. In bulk transactions, the individual loans in the insured portfolio are generally insured to specified levels of coverage. The premium in a bulk transaction, which is negotiated with the securitizer or other owner of the loans, is based on the mortgage insurer s evaluation of the overall risk of the insured loans included in the transaction and is often a composite rate applied to all of the loans in the transaction.

In general, the loans insured by us in bulk transactions consist of A- loans; subprime loans; cash out refinances that exceed the standard underwriting requirements of the GSEs; jumbo loans; and loans with reduced underwriting documentation. A jumbo loan has an unpaid principal balance that exceeds the conforming loan limit. The conforming loan limit is the maximum unpaid principal amount of a mortgage loan that can be purchased by the GSEs. The conforming loan limit is subject to annual adjustment, and for mortgages covering a home with one dwelling unit was $417,000 for 2006, 2007 and early 2008; this amount was temporarily increased to up to $729,500 in the most costly communities in early 2008, subject to the GSEs taking the steps necessary to implement this increase.

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Approximately 69% of our bulk loan risk in force at December 31, 2007 had FICO credit scores of at least 620, compared to 65% at December 31, 2006. Approximately 20% of our bulk loan risk in force at December 31, 2007 had A- FICO credit scores compared to 22% at December 31, 2006, and approximately 11% had subprime credit scores at December 31, 2007 compared to 13% at December 31, 2006. Most of the subprime loans insured by us in 2007 were insured in bulk transactions. More than 30% of our bulk loan risk in force at December 31, 2007 and 2006 had LTV ratios of 80% and below.

New insurance written for bulk transactions was $7.8 billion during 2007 compared to $18.9 billion for 2006 and $21.4 billion for 2005. In the fourth quarter of 2007, we made a decision to stop writing the portion of our bulk business insuring loans included in Wall Street bulk transactions. These securitizations represented approximately 41%, 66% and 89% of our new insurance written for bulk transactions during 2007, 2006 and 2005, respectively, and 14% of our risk in force, or 74% of our bulk risk in force, at December 31, 2007. This decision, along with a decline in the amount of securitizations done in 2007, contributed to the reduction in our new insurance written for bulk transactions in 2007. For a discussion of factors that affect new insurance written through the bulk channel, see Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Consolidated Operations Bulk Transactions in Item 7.

Customers

Originators of residential mortgage loans such as savings institutions, commercial banks, mortgage brokers, credit unions, mortgage bankers and other lenders have historically determined the placement of mortgage insurance written on flow basis and as a result are our customers. To obtain primary insurance from us written on flow basis, a mortgage lender must first apply for and receive a mortgage guaranty master policy from us. In 2007, we issued coverage on mortgage loans for more than 3,000 of our master policyholders. Our top 10 customers generated 43.0% of our new insurance written on a flow basis in 2007, compared to 34.2% in 2006 and 30.5% in 2005. Two of our top ten lenders in 2007, representing a total of substantially less than 10% of our 2007 new insurance written on a flow basis, have ceased originating loans and another, representing substantially less than 10% of our 2007 new insurance written on a flow basis, is in the process of being acquired. We believe that the business conducted by the lenders that have ceased originating loans has been largely absorbed by other customers with which we have significant market share.

In the bulk channel, we have historically dealt primarily with securitizers of the loans or other owners of the loans, who consider whether credit enhancement provided through the structure of the securitization may eliminate or reduce the need for mortgage insurance.

Sales and Marketing and Competition

Sales and Marketing. We sell our insurance products through our own employees, located throughout all regions of the United States, Puerto Rico, Guam and Australia.

Competition. For flow business, we and other private mortgage insurers compete directly with federal and state governmental and quasi-governmental agencies, principally the FHA and, to a lesser degree, the Veterans Administration. These agencies sponsor government-backed mortgage insurance programs, which during 2007 and 2006 accounted for approximately 20.3% and 22.7%, respectively, of the total low down payment residential mortgages which were subject to governmental or private mortgage insurance. Loans insured by the FHA cannot exceed maximum principal amounts which are determined by a percentage of the conforming loan limit. For 2007 and early 2008, the maximum FHA loan amount for homes with one dwelling unit in high cost areas is as high as $362,790; this amount was temporarily increased to up to $729,500 in the most costly communities in early 2008 subject to the FHA taking the steps necessary to implement this increase. Loans insured by the Veteran s Administration do not have mandated maximum principal amounts but have maximum limits on the amount of the guaranty provided by the Veteran s Administration to the lender. For loans closed on or after December 10, 2004, the maximum Veteran s Administration guarantee is $156,375 in Alaska and Hawaii and $104,250 in other states.

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In addition to competition from the FHA and the Veteran s Administration, we and other private mortgage insurers face competition from state-supported mortgage insurance funds in several states, including California and New York. From time to time, other state legislatures and agencies consider expanding the authority of their state governments to insure residential mortgages.

Private mortgage insurers are also subject to competition from Fannie Mae and Freddie Mac to the extent the GSEs are compensated for assuming default risk that would otherwise be insured by the private mortgage insurance industry. Fannie Mae and Freddie Mac each have programs under which an up-front delivery fee can be paid to the GSE and primary mortgage insurance coverage is substantially reduced compared to the coverage requirements that would apply in the absence of the program. In October 1998, Freddie Mac s charter was amended, but the amendment was immediately repealed. The amendment would have given Freddie Mac flexibility to use protection against default in addition to private mortgage insurance and the two other types of credit enhancement required by the charter for low down payment mortgages purchased by Freddie Mac. In addition, to the extent up-front delivery fees are not retained by the GSEs to compensate for their assumption of default risk, and are used instead to purchase supplemental coverage from mortgage insurers, the resulting concentration of purchasing power in the hands of the GSEs could increase competition among insurers to provide such coverage.

The capital markets and their participants also compete with mortgage insurers by offering alternative products and services and may further develop as competitors to private mortgage insurers in ways we cannot predict. For example, in 1998, a newly-organized off-shore company funded by the sale of notes to institutional investors provided reinsurance to Freddie Mac against default on a specified pool of mortgages owned by Freddie Mac. We have also engaged in similar reinsurance transactions. See - External Reinsurance above.

We and other mortgage insurers also compete with transactions structured to avoid mortgage insurance on low down payment mortgage loans. These transactions include self-insuring, and 80-10-10" and similar loans (generally referred to as piggyback loans), which are loans comprised of both a first and a second mortgage (for example, an 80% loan-to-value ratio first mortgage and a 10% loan-to-value ratio second mortgage), with the loan-to-value ratio of the first mortgage below what investors require for mortgage insurance, compared to a loan in which the first mortgage covers the entire borrowed amount (which in the preceding example would be a 90% loan-to-value ratio mortgage). Competition from piggyback structures was substantial prior to 2007 but declined materially throughout 2007. Captive mortgage reinsurance and similar transactions also result in mortgage originators receiving a portion of the premium and the risk.

The U.S. private mortgage insurance industry currently consists of eight active mortgage insurers and their affiliates; one of the eight is a joint venture in which another mortgage insurer participates. The names of these mortgage insurers are listed under Competition or changes in our relationships with our customers could reduce our revenues or increase our losses in Item 1A. According to Inside Mortgage Finance, a mortgage industry publication, which obtains its data from reports provided by us and other mortgage insurers that are to be prepared on the same basis as the reports by insurers to the trade association for the private mortgage insurance industry, for more than ten years, we have been the largest private mortgage insurer based on new primary insurance written, with a market share of 21.3% in 2007, 21.6% in 2006, 22.9% in 2005 and 23.5% in 2004, and at December 31, 2007, we also had the largest book of direct primary insurance in force. For more than five years, these reports do not include as primary mortgage insurance insurance on certain loans classified by us as primary insurance, such as loans insured through bulk transactions that already had mortgage insurance placed on the loans at origination.

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The private mortgage insurance industry is highly competitive. Historically, we have competed with other private mortgage insurers for business written through the flow channel principally on the basis of programs involving captive mortgage reinsurance, agency pool insurance, and other similar structures involving lenders; the provision of contract underwriting and related fee-based services to lenders; our financial strength as it is perceived by persons making or influencing the selection of a mortgage insurer; the provision of other products and services that meet lender needs for risk management, affordable housing, loss mitigation, capital markets and training support; and the effective use of technology and innovation in the delivery and servicing of insurance products. We believe our competitive strengths compared to other private insurers include our customer relationships, name recognition, reputation, the ancillary products and services that we provide to lenders, the strength of our management team and field organization and the depth of our database covering loans we have insured. We believe competition for bulk business is based principally on the premium rate and the portion of loans submitted for insurance that the insurers are willing to insure.

The complaint in the RESPA litigation described in - Pool Insurance alleged, among other things, that captive mortgage reinsurance, agency pool insurance, and contract underwriting we provided violated RESPA.

Certain private mortgage insurers compete for flow business by offering lower premium rates than other companies, including us, either in general or with respect to particular classes of business. On a case-by-case basis, we will adjust premium rates, generally depending on the risk characteristics, loss performance or class of business of the loans to be insured, or the costs associated with doing such business.

The mortgage insurance industry has historically viewed a financial strength rating of Aa3/AA- as critical to writing new business. In part this view has resulted from the mortgage insurer eligibility requirements of the GSEs, which each year purchase the majority of loans insured by us and the rest of the mortgage insurance industry. In addition, the Office of Federal Housing Enterprise Oversight, which is known as OFHEO, has a risk-based capital stress test for the GSEs. One of the elements of the stress test is that future claim payments made by a private mortgage insurer on GSE loans are reduced below the amount provided by the mortgage insurance policy to reflect the risk that the insurer will fail to pay. Claim payments from an insurer whose financial strength rating is AAA are subject to a 3.5% reduction over the 10-year period of the stress test; claim payments from a AA or AA- rated insurer are subject to a 8.75% reduction; and claim payments from an A or A- rated insurer are subject to a 14% reduction. The effect of the differentiation among insurers is to require the GSEs to have additional capital for coverage on loans provided by a private mortgage insurer whose financial strength rating is less than AAA. We believe the GSEs want to optimize utilization of their stress test capital. Because there are currently no AAA rated mortgage insurers, there is an incentive for the GSEs to use private mortgage insurance provided by an insurer that is rated not less than AA- . As a result of these considerations, a mortgage insurer that is rated less than Aa3/AA- may be competitively disadvantaged.

The financial strength of MGIC, our principal mortgage insurance subsidiary, is rated AA by Fitch Ratings. In late February 2008 Fitch announced that it was placing MGIC s rating on rating watch negative. Fitch said the present stressful mortgage environment has resulted in a modeled capital shortfall for [MGIC] at the AA rating threshold. If within the next several months, MGIC is able to obtain additional capital resources to address this shortfall, Fitch would expect to affirm MGIC s ratings, with a Negative Rating Outlook, reflecting the financial stress associated with the present mortgage environment. Assuming MGIC does not raise additional capital to support its franchise, Fitch will downgrade MGIC s rating to AA- .

The financial strength of MGIC is rated AA- by Standard & Poor s Rating Services and Aa2 by Moody s Investors Service. Both rating agencies have announced that they are reviewing MGIC s rating for possible downgrade. MGIC could be downgraded below Aa3/AA- when these reviews are concluded.

In February 2008 Freddie Mac and Fannie Mae announced that they were temporarily suspending the portion of their eligibility requirements that impose additional restrictions on a mortgage insurer that is downgraded below Aa3/AA- if the affected insurer commits to submitting a complete remediation plan for their approval. Such remediation plans must be submitted within 90 days of the downgrade to Freddie Mac and within 30 days of the downgrade to Fannie Mae.

For further information about the importance of our ratings, see the risk factor titled Our financial strength rating could be downgraded below Aa3/AA-, which could reduce the volume of our new business writings in Item 1A. In assigning financial strength ratings, in addition to considering the adequacy of the mortgage insurer s capital to withstand very high claim scenarios under assumptions determined by the rating agency, we believe rating agencies review a mortgage insurer s historical and projected operating performance, business outlook, competitive position, management, corporate strategy, and other factors. The rating agency issuing the financial strength rating can withdraw or change its rating at any time.

Contract Underwriting and Related Services

We perform contract underwriting services for lenders in which we judge whether the data relating to the borrower and the loan contained in the lender s mortgage loan application file comply with the lender s loan underwriting guidelines. We also provide an interface to submit data to the automated underwriting systems of the GSEs, which independently judge the data. These services are provided for loans that require private mortgage insurance as well as for loans that do not require private mortgage insurance. A material portion of our new insurance written through the flow channel in recent years involved loans for which we provided contract underwriting services. The complaint in the RESPA litigation described in - Pool Insurance alleged, among other things, that the pricing of contract underwriting provided by us violated RESPA.

Under our contract underwriting agreements, we may be required to provide certain remedies to our customers if certain standards relating to the quality of our underwriting work are not met. The cost of remedies provided by us to customers for failing to meet these standards has not been material to our financial position or results of operations for the years ended December 31, 2007, 2006 and 2005. However, a generally positive economic environment for residential real estate that continued until 2007 may have mitigated the effect of some of these costs, the claims for which may lag deterioration in the economic environment for residential real estate. There can be no assurance that contract underwriting remedies will not be material in the future.

In February 2008, Freddie Mac and Fannie Mae informed us and the rest of our industry that they are reviewing all mortgage insurers business justifications for activities, such as contract underwriting services, that have the potential for creating non-insurance related contingent liabilities.

Risk Management

We believe that mortgage credit risk is materially affected by:

- the borrower s credit strength, including the borrower s credit history, debt-to-income ratios, and cash reserves and the willingness of a borrower with sufficient resources to make mortgage payments to do so when the mortgage balance exceeds the value of the home;
- the loan product, which encompasses the loan-to-value ratio, the type of loan instrument, including whether the instrument provides for fixed or variable payments and the amortization schedule, the type of property and the purpose of the loan;
- origination practices of lenders; and
- the condition of the economy, including housing values and employment, in the area in which the property is located.

We believe that, excluding other factors, claim incidence increases:

- for loans with lower FICO credit scores compared to loans with higher FICO credit scores;
- for loans with less than full underwriting documentation compared to loans with full underwriting documentation;
- during periods of economic contraction and housing price depreciation, including when these conditions may not be nationwide, compared to periods of economic expansion and housing price appreciation;
- for loans with higher loan-to-value ratios compared to loans with lower loan-to-value ratios;
- for ARMs when the reset interest rate significantly exceeds the interest rate of loan origination;
- for loans that permit the deferral of principal amortization compared to loans that require principal amortization with each monthly payment;
- for loans in which the original loan amount exceeds the conforming loan limit compared to loans below that limit; and
- for cash out refinance loans compared to rate and term refinance loans.

Other types of loan characteristics relating to the individual loan or borrower may also affect the risk potential for a loan. The presence of a number of higher-risk characteristics in a loan materially increases the likelihood of a claim on such a loan unless there are other characteristics to lower the risk.

We charge higher premium rates to reflect the increased risk of claim incidence that we perceive is associated with a loan, although not all higher risk characteristics are reflected in the premium rate. There can be no assurance that our premium rates adequately reflect the increased risk, particularly in a period of economic recession, slowing home price appreciation or housing price declines.

Delegated Underwriting and GSE Automated Underwriting Approvals. Delegated underwriting is a program under which approved lenders are allowed to commit us to insure loans originated through the flow channel. During the last four years, a substantial majority of the loans insured by us through the flow channel were approved as a result of loan approvals by the automated underwriting services of the GSEs or through delegated underwriting programs, including those utilizing proprietary underwriting services. In the past, lenders were able to commit us to insure loans utilizing only their own underwriting guidelines and underwriting evaluation. In addition, from 2000 through January 2007, loans approved by the automated underwriting services of the GSEs were automatically approved for MGIC mortgage insurance. Beginning in 2007, certain loans that we perceive as having a high risk of claim may not be insured by us even though the loans were approved by these underwriting services. In 2008, we made additional underwriting changes that limited the types of loans that could be insured by lenders. As a result, our delegated underwriting program now allows lenders to commit us to insure only loans that meet our underwriting guidelines.

Our risk management approach to this flow business has been to monitor periodically the credit quality of the overall mix of the loans we have recently insured in this manner. If as a result of our review we conclude that certain loans insured in this manner have a high risk of claim, we can decline to continue to insure loans having these characteristics or take other action, although these courses entail competitive risk.

Bulk Transactions Risk Management. The premium for loans insured in a bulk transaction is determined by our evaluation of the credit risk of the loans included in the transaction based on information about the loans represented to us by the securitizer. We generally do not review individual loan files in advance of the issuance of an insurance commitment, but we do review an individual loan file at the time a claim is made to confirm that the loan involved in the claim generally conforms to the representations that were previously made. We have the right to rescind coverage for loans that do not conform to the representations.

Exposure to Catastrophic Loss; Defaults; Claims; Loss Mitigation

The private mortgage insurance industry is exposed to the risk of catastrophic loss. Private mortgage insurers experienced substantial losses in the mid-to-late 1980s. From the 1970s until 1981, rising home prices in the United States generally led to profitable insurance underwriting results for the industry and caused private mortgage insurers to emphasize market share. To maximize market share, until the mid-1980s, private mortgage insurers employed liberal underwriting practices, and charged premium rates which, in retrospect, generally did not adequately reflect the risk assumed, particularly on pool insurance. These industry practices compounded the losses which resulted from changing economic and market conditions which occurred during the early and mid-1980s, including (1) severe regional recessions and attendant declines in property values in the nation s energy producing states; (2) the lenders development of new mortgage products to defer the impact on home buyers of double digit mortgage interest rates; and (3) changes in federal income tax incentives which initially encouraged the growth of investment in non-owner occupied properties.

After the period described above, the private mortgage insurance industry experienced profitable insurance underwriting results through 2006. During the last several years of this period, the mortgage lending industry increasingly made home loans (1) at higher loan-to-value ratios and combined loan-to-value ratios, which take into account second mortgages as well as the loan-to-value ratios of first mortgages; (2) to individuals with higher risk credit profiles; and (3) based on less documentation and verification of information provided by the borrower. The premiums that private mortgage insurers charged during this period to insure loans with one or more of these characteristics resulted in profitable insurance underwriting results while housing markets were experiencing significant home price appreciation and the labor market was strong. However, when job creation and the housing markets began slowing in certain parts of the country in 2006 and, in some instances, experiencing home price depreciation, private mortgage insurers began suffering substantial losses, particularly with respect to loans with more than one of these characteristics.

Defaults. The claim cycle on private mortgage insurance begins with the insurer s receipt of notification of a default on an insured loan from the lender. We define a default as an insured loan with a mortgage payment that is 45 days or more past due. Lenders are required to notify us of defaults within 130 days after the initial default, although most lenders do so earlier. The incidence of default is affected by a variety of factors, including the level of borrower income growth, unemployment, divorce and illness, the level of interest rates, rates of housing price appreciation or depreciation and general borrower creditworthiness. Defaults that are not cured result in a claim to us. See - Claims. Defaults may be cured by the borrower bringing current the delinquent loan payments or by a sale of the property and the satisfaction of all amounts due under the mortgage.

The following table shows the number of primary and pool loans insured in the MGIC Book, including loans insured in bulk transactions and A- and subprime loans, the related number of loans in default and the percentage of loans in default, or default rate, as of December 31, 2003-2007:

Default Statistics for the MGIC Book

	December 31,				
	2007	2006	2005	2004	2003
PRIMARY INSURANCE					
Insured loans in force	1,437,432	1,283,174	1,303,084	1,413,678	1,551,331
Loans in default	107,120	78,628	85,788	85,487	86,372
Default rate - all loans	7.45%	6.13%	6.58%	6.05%	5.57%
Flow loans in default	61,352	42,438	47,051	44,925	45,259
Default rate - flow loans	4.99%	4.08%	4.52%	3.99%	3.76%
Bulk loans in force(2)	208,903	243,395	263,225	288,587	348,521

	December 31,				
Bulk loans in default[2]	45,768	36,190	38,737	40,562	41,113
Default rate - bulk loans	21.91%	14.87%	14.72%	14.06%	11.80%
Prime loans in default[1]	49,333	36,727	41,395	39,988	40,902
Default rate - prime loans	4.33%	3.71%	4.11%	3.66%	3.46%
A-minus loans in default[1]	22,863	18,182	20,358	20,734	20,116
Default rate - A-minus loans	19.20%	16.81%	17.21%	15.00%	12.32%
Subprime loans in default[1]	12,915	12,227	13,762	14,150	14,841
Default rate - subprime loans	34.08%	26.79%	25.20%	22.78%	19.45%
Reduced documentation loans delinquent	22,009	11,492	10,273	10,615	10,513
Default rate - reduced doc loans	15.48%	8.19%	8.39%	8.89%	8.06%
POOL INSURANCE					
Insured loans in force	757,114	766,453	767,920	790,935	1,035,696
Loans in default	25,224	20,458	23,772	25,500	28,135
Percentage of loans in default	3.33%	2.67%	3.10%	3.22%	2.72%

[1] We define prime loans as those having FICO credit scores of 620 or greater, A-minus loans as those having FICO credit scores of 575-619, and subprime credit loans as those having FICO credit scores of less than 575, all as reported to MGIC at the time a commitment to insure is issued. Most A-minus and subprime credit loans were written through the bulk channel.

[2] At December 31, 2007, 145,110 bulk loans in force and 39,704 bulk loans in default related to Wall Street bulk transactions.

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Cash and cash equivalents, end of period
$ 2,928 $ 6,290

Supplemental Information:

Interest paid during the period
$ 97,869 $ 90,332

Non-cash transactions:

Conversion of operating partnership minority interests to common stock
(915,600 shares in 2007 and 26,525 shares in 2006)
8,572 250

Issuance of restricted stock awards
2 3

Secured debt assumed with the acquisition of properties
72,680 14,236

Non-cash transactions associated with joint venture:

Real estate asset acquired
62,059

Secured debt assumed
33,628

Operating liabilities assumed
3,840

See accompanying notes to consolidated financial statements.

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UDR, Inc.

CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY
(In thousands, except share data)
(Unaudited)

	Preferred Stock		Common Stock		Paid-in	Distributions in Excess of Net	
	Shares	Amount	Shares	Amount	Capital	Income	Total
Balance, December 31, 2006	8,219,821	$ 181,971	135,029,126	$ 1,350	$ 1,682,809	$ (810,875)	$ 1,055,255
Net income						38,529	38,529
Issuance of common and restricted shares			199,543	2	4,193		4,195
Purchase of common shares			(1,131,000)	(11)	(32,137)		(32,148)
Redemption of 8.60% Series B Cumulative Redeemable shares	(5,416,009)	(135,400)			2,261	(2,261)	(135,400)
Issuance of 6.75% Series G Cumulative Redeemable shares	5,400,000	135,000			(4,252)		130,748
Adjustment for conversion of minority interests of unitholders in operating partnerships			915,600	9	8,563		8,572
Common stock distributions declared ($0.6600 per share)						(89,395)	(89,395)
Preferred stock distributions declared-Series B ($1.069 per share)						(4,819)	(4,819)
Preferred stock distributions						(1,863)	(1,863)

declared-Series E ($.6644 per share)							
Preferred stock distributions declared-Series G ($.2813 per share)						(785)	(785)
Balance, June 30, 2007	**8,203,812**	**$ 181,571**	**135,013,269**	**$ 1,350**	**$ 1,661,437**	**$ (871,469)**	**$ 972,889**

See accompanying notes to consolidated financial statements.

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UDR, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007
(UNAUDITED)

1. CONSOLIDATION AND BASIS OF PRESENTATION

UDR, Inc., formerly United Dominion Realty Trust, Inc., is a self-administered real estate investment trust, or REIT, that owns, acquires, renovates, develops, and manages apartment communities nationwide. The accompanying consolidated financial statements include the accounts of UDR and its subsidiaries, including United Dominion Realty, L.P. (the Operating Partnership), and Heritage Communities L.P. (the Heritage OP) (collectively, UDR). As of June 30, 2007, there were 166,163,187 units in the Operating Partnership outstanding, of which 157,409,361 units or 95% were owned by UDR and 8,753,826 units or 5% were owned by limited partners (of which 1,627,769 are owned by the holders of the Series A OPPS). As of June 30, 2007, there were 5,542,200 units in the Heritage OP outstanding, of which 5,212,041 units or 94% were owned by UDR and 330,159 units or 6% were owned by limited partners. The consolidated financial statements of UDR include the minority interests of the unitholders in the Operating Partnership and the Heritage OP. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying interim unaudited consolidated financial statements have been prepared according to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted according to such rules and regulations, although management believes that the disclosures are adequate to make the information presented not misleading. The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes appearing in UDR s Annual Report on Form 10-K for the year ended December 31, 2006, filed with the Securities and Exchange Commission as updated by the Current Report on Form 8-K dated and filed May 18, 2007.

In the opinion of management, the consolidated financial statements reflect all adjustments that are necessary for the fair presentation of financial position at June 30, 2007, and results of operations for the interim periods ended June 30, 2007 and 2006. Such adjustments are normal and recurring in nature. The interim results presented are not necessarily indicative of results that can be expected for a full year.

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the dates of the financial statements and the amounts of revenues and expenses during the reporting periods. Actual amounts realized or paid could differ from those estimates. Certain previously reported amounts have been reclassified to conform to the current financial statement presentation.

UDR adopted FASB Interpretation 48, Accounting for Uncertainty in Income Taxes (FIN 48), on January 1, 2007. As a result of the implementation of FIN 48, UDR recognized no material adjustments to liabilities related to unrecognized income tax benefits. At the adoption date of January 1, 2007, UDR s taxable REIT subsidiaries had $538,000 of net unrecognized tax benefits, which would favorably impact our effective tax rate if recognized. At June 30, 2007, UDR had $642,000 of net unrecognized tax benefits. UDR and its subsidiaries are subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. The tax years 2003 2006 remain open to examination by the major taxing jurisdictions to which we are subject. UDR recognizes interest and/or penalties related to uncertain tax positions in income tax expense. As of June 30, 2007, UDR had $49,000 accrued for interest and $0 accrued for penalties.

In September 2006, the FASB issued Statement No. 157, Fair Value Measurements, and in February 2007, Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. Statement 157 increases the consistency and comparability in fair value measurements and expands disclosures about fair value measurements. Statement 159 allows an entity to make a one-time election to measure many financial assets and financial liabilities at fair value (the fair value option). The election is made on an

UDR, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

instrument-by-instrument basis and is irrevocable. If the fair value option is elected for an instrument, this statement specifies that all subsequent changes in fair value for that instrument are reported in earnings. Both statements are effective for fiscal years beginning after November 15, 2007. UDR is currently assessing the impact that these statements may have on its consolidated financial statements.

2. REAL ESTATE HELD FOR INVESTMENT

At June 30, 2007, there are 234 communities with 66,824 apartment homes classified as real estate held for investment. The following table summarizes the components of real estate held for investment *(dollars in thousands):*

	June 30, 2007	December 31, 2006
Land and land improvements	**$ 1,361,158**	$ 1,301,812
Buildings and improvements	**3,815,792**	3,669,376
Furniture, fixtures, and equipment	**303,338**	285,544
Real estate held for investment	**5,480,288**	5,256,732
Accumulated depreciation	**(1,308,407)**	(1,183,710)
Real estate held for investment, net	**$ 4,171,881**	$ 4,073,022

3. INCOME FROM DISCONTINUED OPERATIONS

UDR adopted FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, (FAS 144) as of January 1, 2002. FAS 144 requires, among other things, that the primary assets and liabilities and the results of operations of UDR s real properties which have been sold or are held for disposition, be classified as discontinued operations and segregated in UDR s Consolidated Statements of Operations and Consolidated Balance Sheets. Properties classified as real estate held for disposition generally represent properties that are actively marketed or contracted for sale which are expected to close within the next twelve months.

For purposes of these financial statements, FAS 144 results in the presentation of the primary assets and liabilities and the net operating results of those properties sold or classified as held for disposition through June 30, 2007, as discontinued operations for all periods presented. The adoption of FAS 144 does not have an impact on net income available to common stockholders. FAS 144 only results in the reclassification of the operating results of all properties sold or classified as held for disposition through June 30, 2007, within the Consolidated Statements of Operations for the three and six months ended June 30, 2007 and 2006, and the reclassification of the assets and liabilities within the Consolidated Balance Sheets for June 30, 2007 and December 31, 2006.

For the six months ended June 30, 2007, UDR sold three communities, 22 condominiums from one community with a total of 320 condominiums, and one parcel of land. UDR recognized after-tax gains for financial reporting purposes of $50.5 million on these sales. At June 30, 2007, UDR had nine communities with a net book value of $192.4 million, one community with a total of 298 condominiums and a net book value of $20.7 million, and one commercial unit with a net book value of $0.4 million included in real estate held for disposition. For the six months ended June 30, 2006, UDR sold seven communities with a total of 1,903 apartment homes and 300 condominiums from four communities with a total of 612 condominiums. UDR recognized after-tax gains for financial reporting purposes of $48.8 million on these sales. In conjunction with the sale of ten properties in July 2005, UDR received short-term notes for $124.7 million that bear interest at 6.75% and had maturities ranging from September 2005 to July 2006. As of June 30, 2006, the balance on the notes receivable was $8.0 million. UDR recognized gains for financial reporting purposes on

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UDR, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

these notes of $10.6 million during the six months ended June 30, 2006. The results of operations for these properties are classified on the Consolidated Statements of Operations in the line item titled Income from discontinued operations, net of minority interests.

UDR has elected Taxable REIT Subsidiary (TRS) status for certain of its corporate subsidiaries, primarily those engaged in condominium conversion and development activities. UDR recognized a provision for income taxes of $0.06 million and $2.5 million for the three months ended June 30, 2007 and 2006, respectively. For the six months ended June 30, 2007, UDR recognized a $4.2 million income tax benefit and for the six months ended June 30, 2006, UDR recognized a provision for income taxes of $7.2 million. These amounts are included in the income from discontinued operations, net of minority interests in the accompanying consolidated statements of operations.

The following is a summary of income from discontinued operations for the periods presented, (*dollars in thousands*):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	**2006**	**2007**	**2006**
Rental income	**$ 7,293**	$ 20,004	**$ 15,864**	$ 39,618
Non-property income		5		5
Rental expenses	**3,249**	8,457	**6,958**	17,021
Real estate depreciation	**209**	4,302	**3,794**	10,446
Interest (income)/expense		(348)	**4**	(725)
Other expenses	**17**	27	**35**	65
	3,475	12,438	**10,791**	26,807
Income before net gain on the sale of depreciable property and minority interests	**3,818**	7,571	**5,073**	12,816
Net gain on the sale of depreciable property	**8,921**	33,482	**50,452**	48,828
Income before minority interests	**12,739**	41,053	**55,525**	61,644
Minority interests in income from discontinued operations	**(708)**	(2,508)	**(3,087)**	(3,766)
Income from discontinued operations, net of minority interests	**$ 12,031**	$ 38,545	**$ 52,438**	$ 57,878

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UDR, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. SECURED DEBT

Secured debt on continuing and discontinued operations, which encumbers $1.9 billion or 32% of UDR s real estate owned based upon book value ($4.1 billion or 68% of UDR s real estate owned is unencumbered), consists of the following as of June 30, 2007 (*dollars in thousands*):

	Principal Outstanding		Weighted Average Interest Rate	Weighted Average Years to Maturity	Number of Communities Encumbered
	June 30, 2007	**December 31, 2006**	**2007**	**2007**	**2007**
Fixed Rate Debt					
Mortgage notes payable	**$ 403,431**	$ 352,159	5.45%	3.4	19
Tax-exempt secured notes payable	**25,945**	26,070	5.84%	17.8	3
Fannie Mae credit facilities	**584,193**	399,362	5.94%	6.0	9
Total fixed rate secured debt	**1,013,569**	777,591	5.74%	5.2	31
Variable Rate Debt					
Mortgage notes payable	**99,534**	105,089	6.08%	3.7	3
Tax-exempt secured note payable	**7,770**	7,770	3.78%	21.0	1
Fannie Mae credit facilities	**133,739**	292,469	5.82%	7.2	38
Total variable rate secured debt	**241,043**	405,328	5.86%	6.2	42
Total secured debt	**$ 1,254,612**	$ 1,182,919	5.76%	5.4	73

Approximate principal payments due during each of the next five calendar years and thereafter, as of June 30, 2007, are as follows *(dollars in thousands):*

Year	**Fixed Rate Maturities**	**Variable Rate Maturities**	**Total Secured Maturities**
2007	$ 79,850	$	$ 79,850
2008	9,500		9,500
2009	34,193	62,119	96,312

2010		246,821			246,821
2011		109,448		15,783	125,231
Thereafter		533,757		163,141	696,898
	$	1,013,569	$	241,043	**$ 1,254,612**

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UDR, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. UNSECURED DEBT

A summary of unsecured debt as of June 30, 2007 and December 31, 2006 is as follows *(dollars in thousands):*

	June 30, 2007	December 31, 2006
Commercial Banks		
Borrowings outstanding under an unsecured credit facility due May 2008(a)	**$ 208,900**	$ 87,200
Senior Unsecured Notes Other		
7.25% Notes due January 2007		92,255
4.30% Medium-Term Notes due July 2007	**75,000**	75,000
4.50% Medium-Term Notes due March 2008	**200,000**	200,000
8.50% Monthly Income Notes due November 2008	**29,081**	29,081
4.25% Medium-Term Notes due January 2009	**50,000**	50,000
6.50% Notes due June 2009	**200,000**	200,000
3.90% Medium-Term Notes due March 2010	**50,000**	50,000
3.625% Convertible Senior Notes due September 2011(b)	**250,000**	250,000
5.00% Medium-Term Notes due January 2012	**100,000**	100,000
6.05% Medium-Term Notes due June 2013	**125,000**	121,345
5.13% Medium-Term Notes due January 2014	**200,000**	200,000
5.50% Medium-Term Notes due April 2014(c)	**150,000**	
5.25% Medium-Term Notes due January 2015	**250,000**	250,000
5.25% Medium-Term Notes due January 2016	**100,000**	100,000
8.50% Debentures due September 2024	**54,118**	54,118
4.00% Convertible Senior Notes due December 2035(d)	**250,000**	250,000
Other	**163**	167
	2,083,362	2,021,966
Unsecured Notes Other		
6.32% ABAG Tax-Exempt Bonds due August 2008	**46,700**	46,700
Unsecured Notes Premiums		
Premium on $75 million Medium-Term Notes due July 2007	**423**	
Premium on $250 million Medium-Term Notes due January 2015	**367**	-
	790	
Total Unsecured Debt	**$ 2,339,752**	$ 2,155,866

(a) On July 27, 2007, UDR amended and restated its existing three-year $500 million senior unsecured revolving credit facility with a maturity date of May 31, 2008 (which can be extended for an additional year at UDR s option) to increase the facility to $600 million and to extend its maturity to July 26, 2012. The terms of the $500 million credit facility provide that UDR has the right to increase the credit facility to $750 million under certain circumstances. Based on UDR s current credit ratings, the $500 million credit facility carries an interest rate equal to LIBOR plus a spread of 57.5 basis points. Under a competitive bid feature and for so long as UDR maintains an Investment Grade Rating, UDR has the right to bid out 50% of the commitment amount under the $500 million credit facility and can bid out 100% of the commitment amount once per quarter.

(b) At any time on or after July 15, 2011, prior to the close of business on the second business day prior to September 15, 2011, and also following the occurrence of certain events, the notes will be convertible at the option of the holder. Upon conversion of the notes, UDR will deliver cash and common stock, if any,

UDR, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

based on a daily conversion value calculated on a proportionate basis for each trading day of the relevant 30 trading day observation period. The initial conversion rate for each $1,000 principal amount of notes is 26.6326 shares of our common stock, subject to adjustment under certain circumstances. In connection with the issuance of the 3.625% convertible senior notes, UDR entered into a capped call transaction with respect to its common stock. The convertible note and capped call transaction, both of which expire September 2011, must be net share settled. The maximum number of shares to be issued under the convertible notes is 6.7 million shares, subject to certain adjustment provisions. The capped call transaction combines a purchased call option with a strike price of $37.548 with a written call option with a strike price of $43.806. These transactions have no effect on the terms of the 3.625% convertible senior notes by effectively increasing the initial conversion price to $43.806 per share, representing a 40% conversion premium. The net cost of $12.6 million of the capped call transaction was included in stockholders equity.

(c) In March 2007, UDR sold $150 million aggregate principal amount of 5.50% senior unsecured notes due April 2014 under its medium-term note program. The net proceeds of approximately $149 million were used for debt repayment.

(d) Prior to December 15, 2030, upon the occurrence of specified events, the notes will be convertible at the option of the holder into cash and, in certain circumstances, shares of UDR s common stock at an initial conversion price of approximately 35.2988 shares per $1,000 principal amount of notes. On or after December 15, 2030, the notes will be convertible at any time prior to the second business day prior to maturity at the option of the holder into cash, and, in certain circumstances, shares of UDR s common stock at the above initial conversion rate. The initial conversion rate is subject to adjustment in certain circumstances.

6. EARNINGS PER SHARE

Basic earnings per common share is computed based upon the weighted average number of common shares outstanding during the period. Diluted earnings per common share is computed based upon common shares outstanding plus the effect of dilutive stock options and other potentially dilutive common stock equivalents. The dilutive effect of stock options and other potentially dilutive common stock equivalents is determined using the treasury stock method based on UDR s average stock price.

The following table sets forth the computation of basic and diluted earnings per share for the periods presented, *(dollars in thousands, except per share data):*

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	**2006**	**2007**	**2006**
Numerator for basic and diluted earnings per share				
Net income available to common stockholders	**$ 811**	$ 28,342	**$ 28,801**	$ 36,508
Denominator:				
Denominator for basic earnings per share				

Weighted average common shares outstanding	**135,604**	134,443	**135,491**	134,330
Non-vested restricted stock awards	**(877)**	(767)	**(871)**	(696)
	134,727	133,676	**134,620**	133,634
Effect of dilutive securities:				
Employee stock options, non-vested restricted stock awards, and convertible debt				
Denominator for diluted earnings per share	**134,727**	133,676	**134,620**	133,634
Basic and diluted earnings per share	**$ 0.01**	$ 0.21	**$ 0.21**	$ 0.27

UDR, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The effect of the conversion of the operating partnership units, Series A Out-Performance Partnership Shares, convertible preferred stock, and convertible debt, is not dilutive and is therefore not included in the above calculations.

If the operating partnership units were converted to common stock, the additional shares of common stock outstanding for the three and six months ended June 30, 2007 would be 7,765,772 and 7,982,809 weighted average common shares, and 8,742,297 and 8,747,834 weighted average common shares for the three and six months ended June 30, 2006.

If the Series A Out-Performance Partnership Shares were converted to common stock, the additional shares of common stock outstanding for the three and six months ended June 30, 2007 would be 1,627,769 and 1,627,894 weighted average common shares, respectively, and 1,764,662 weighted average common shares for the three and six months ended June 30, 2006.

At June 30, 2007, if the measurement periods had ended on that date, the Series C, D and E Out-Performance Partnership Share program performance thresholds would not have been met. Accordingly, no additional operating partnership units would have been issued at that date.

At June 30, 2006, if the measurement periods had ended on that date, the Series C and D Out-Performance Partnership Share program performance thresholds would have been met. Accordingly, 381,990 and 400,264 operating partnership units would have been issued had the measurement periods ended at that date; however, those units have been excluded in the calculation of diluted earnings per share because their effect would be anti-dilutive.

If the convertible preferred stock were converted to common stock, the additional shares of common stock outstanding would be 2,803,812 weighted average common shares for the three and six months ended June 30, 2007 and 2006.

7. COMMITMENTS AND CONTINGENCIES

Commitments

UDR is committed to completing its wholly owned real estate under development, which has an estimated cost to complete of $436.0 million at June 30, 2007.

UDR is committed to completing its development joint venture projects, which have an estimated cost to complete of $204.4 million at June 30, 2007. The estimated cost to complete consists of $43.5 million related to a consolidated joint venture and $160.9 million related to unconsolidated joint ventures in which UDR owns 49%. These unconsolidated joint ventures are expected to be completed at various times between the second quarter of 2008 and the third quarter of 2010.

UDR has entered into four contracts to purchase apartment communities upon their development completion. Provided that the developer meets certain conditions, UDR will purchase these communities for approximately $154 million. These apartment communities are expected to be completed at various times between the fourth quarter of 2007 and the first quarter of 2009.

Contingencies

Series C Out-Performance Program

In May 2005, the stockholders of UDR approved a new Out-Performance Program and the first series of new Out-Performance Partnership Shares under the program are the Series C Out-Performance Units (the Series C Program) pursuant to which certain executive officers and other key employees of UDR (the Series C Participants) were given the opportunity to invest indirectly in UDR by purchasing interests in UDR Out-Performance III, LLC, a Delaware limited liability company (the Series C LLC), the only asset of

UDR, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

which is a special class of partnership units of the Operating Partnership (Series C Out-Performance Partnership Shares or Series C OPPSs). The purchase price for the Series C OPPSs was determined by the Compensation Committee of UDR s board of directors to be $750,000, assuming 100% participation, and was based upon the advice of an independent valuation expert. UDR s performance for the Series C Program will be measured over the 36-month period from June 1, 2005 to May 30, 2008.

The Series C Program is designed to provide participants with the possibility of substantial returns on their investment if the cumulative total return on UDR s common stock, as measured by the cumulative amount of dividends paid plus share price appreciation during the measurement period is at least the equivalent of a 36% total return, or 12% annualized (Minimum Return).

At the conclusion of the measurement period, if UDR s cumulative total return satisfies these criteria, the Series C LLC as holder of the Series C OPPSs will receive (for the indirect benefit of the Series C Participants as holders of interests in the Series C LLC) distributions and allocations of income and loss from the Operating Partnership equal to the distributions and allocations that would be received on the number of OP Units obtained by:

i. determining the amount by which the cumulative total return of UDR s common stock over the measurement period exceeds the Minimum Return (such excess being the Excess Return);

ii. multiplying 2% of the Excess Return by UDR s market capitalization (defined as the average number of shares outstanding over the 36-month period, including common stock, common stock equivalents and OP Units); and

iii. dividing the number obtained in clause (ii) by the market value of one share of UDR s common stock on the valuation date, computed as the volume-weighted average price per day of common stock for the 20 trading days immediately preceding the valuation date.

For the Series C OPPSs, the number determined pursuant to (ii) above is capped at 1% of market capitalization.

If, on the valuation date, the cumulative total return of UDR s common stock does not meet the Minimum Return, then the Series C Participants will forfeit their entire initial investment.

Based on the results through June 30, 2007, no Series C OPPSs would have been issued had the Program terminated on that date. However, since the ultimate determination of Series C OPPSs to be issued will not occur until May 30, 2008, and the number of Series C OPPSs is determinable only upon future events, the financial statements do not reflect any impact for these events. Accordingly, the contingently issuable Series C OPPSs will only be included in basic earnings per share after the measurement period has ended and the applicable hurdle has been met. Furthermore, the Series C OPPSs will only be included in common stock and common stock equivalents in the calculation of diluted earnings per share after the hurdle has been met at the end of the reporting period (if any), assuming the measurement period ended at the end of the reporting period.

Series D Out-Performance Program

In February 2006, the board of directors of UDR approved the Series D Out-Performance Program (the Series D Program) pursuant to which certain executive officers of UDR (the Series D Participants) were given the opportunity to invest indirectly in UDR by purchasing interests in UDR Out-Performance IV, LLC, a Delaware limited liability company (the Series D LLC), the only asset of which is a special class of partnership units of the Operating Partnership (Series D Out-Performance Partnership Shares or Series D OPPSs). The Series D Program is part of the New Out-Performance Program approved by UDR s stockholders in May 2005. The Series D LLC has agreed to sell 830,000 membership units to certain members of UDR s senior management at a price of $1.00 per unit. The aggregate purchase price of $830,000 for the

UDR, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Series D OPPSs, assuming 100% participation, is based upon the advice of an independent valuation expert. The Series D Program will measure the cumulative total return on our common stock over the 36-month period beginning January 1, 2006 and ending December 31, 2008.

The Series D Program is designed to provide participants with the possibility of substantial returns on their investment if the cumulative total return on UDR s common stock, as measured by the cumulative amount of dividends paid plus share price appreciation during the measurement period is at least the equivalent of a 36% total return, or 12% annualized (Minimum Return).

At the conclusion of the measurement period, if UDR s cumulative total return satisfies these criteria, the Series D LLC as holder of the Series D OPPSs will receive (for the indirect benefit of the Series D Participants as holders of interests in the Series D LLC) distributions and allocations of income and loss from the Operating Partnership equal to the distributions and allocations that would be received on the number of OP Units obtained by:

i. determining the amount by which the cumulative total return of UDR s common stock over the measurement period exceeds the Minimum Return (such excess being the Excess Return);

ii. multiplying 2% of the Excess Return by UDR s market capitalization (defined as the average number of shares outstanding over the 36-month period, including common stock, OP Units, common stock equivalents and OP Units); and

iii. dividing the number obtained in (ii) by the market value of one share of UDR s common stock on the valuation date, computed as the volume-weighted average price per day of the common stock for the 20 trading days immediately preceding the valuation date.

For the Series D OPPSs, the number determined pursuant to clause (ii) above is capped at 1% of market capitalization.

If, on the valuation date, the cumulative total return of UDR s common stock does not meet the Minimum Return, then the Series D Participants will forfeit their entire initial investment.

Based on the results through June 30, 2007, no Series D OPPSs would have been issued had the Program terminated on that date. However, since the ultimate determination of Series D OPPSs to be issued will not occur until December 31, 2008, and the number of Series D OPPSs is determinable only upon future events, the financial statements do not reflect any impact for these events. Accordingly, the contingently issuable Series D OPPSs will only be included in basic earnings per share after the measurement period has ended and the applicable hurdle has been met. Furthermore, the Series D OPPSs will only be included in common stock and common stock equivalents in the calculation of diluted earnings per share after the hurdle has been met at the end of the reporting period (if any), assuming the measurement period ended at the end of the reporting period.

Series E Out-Performance Program

In February 2007, the board of directors of UDR approved the Series E Out-Performance Program (the Series E Program) pursuant to which certain executive officers of UDR (the Series E Participants) were given the opportunity to invest indirectly in UDR by purchasing interests in UDR Out-Performance V, LLC, a Delaware limited liability company (the Series E LLC), the only asset of which is a special class of partnership units of the Operating

Partnership (Series E Out-Performance Partnership Shares or Series E OPPSs). The Series E Program is part of the New Out-Performance Program approved by UDR s stockholders in May 2005. The Series E LLC has agreed to sell 805,000 membership units to certain members of UDR s senior management at a price of $1.00 per unit. The aggregate purchase price of $805,000 for the Series E OPPSs, assuming 100% participation, is based upon the advice of an independent valuation expert.

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UDR, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Series E Program will measure the cumulative total return on our common stock over the 36-month period beginning January 1, 2007 and ending December 31, 2009.

The Series E Program is designed to provide participants with the possibility of substantial returns on their investment if the cumulative total return on UDR s common stock, as measured by the cumulative amount of dividends paid plus share price appreciation during the measurement period is at least the equivalent of a 36% total return, or 12% annualized (Minimum Return).

At the conclusion of the measurement period, if UDR s cumulative total return satisfies these criteria, the Series E LLC as holder of the Series E OPPSs will receive (for the indirect benefit of the Series E Participants as holders of interests in the Series E LLC) distributions and allocations of income and loss from the Operating Partnership equal to the distributions and allocations that would be received on the number of OP Units obtained by:

i. determining the amount by which the cumulative total return of UDR s common stock over the measurement period exceeds the Minimum Return (such excess being the Excess Return);

ii. multiplying 2% of the Excess Return by UDR s market capitalization (defined as the average number of shares outstanding over the 36-month period, including common stock, OP Units, common stock equivalents and OP Units); and

iii. dividing the number obtained in (ii) by the market value of one share of UDR s common stock on the valuation date, computed as the volume-weighted average price per day of the common stock for the 20 trading days immediately preceding the valuation date.

For the Series E OPPSs, the number determined pursuant to clause (ii) above is capped at 0.5% of market capitalization.

If, on the valuation date, the cumulative total return of UDR s common stock does not meet the Minimum Return, then the Series E Participants will forfeit their entire initial investment.

Based on the results through June 30, 2007, no Series E OPPSs would have been issued had the Program terminated on that date. However, since the ultimate determination of Series E OPPSs to be issued will not occur until December 31, 2009, and the number of Series E OPPSs is determinable only upon future events, the financial statements do not reflect any impact for these events. Accordingly, the contingently issuable Series E OPPSs will only be included in basic earnings per share after the measurement period has ended and the applicable hurdle has been met. Furthermore, the Series E OPPSs will only be included in common stock and common stock equivalents in the calculation of diluted earnings per share after the hurdle has been met at the end of the reporting period (if any), assuming the measurement period ended at the end of the reporting period.

Litigation and Legal Matters

UDR is subject to various legal proceedings and claims arising in the ordinary course of business. UDR cannot determine the ultimate liability with respect to such legal proceedings and claims at this time. UDR believes that such liability, to the extent not provided for through insurance or otherwise, will not have a material adverse effect on our financial condition, results of operations or cash flow.

8. SUBSEQUENT EVENT

On July 27, 2007, UDR amended its existing $500 million senior unsecured revolving credit facility to increase the facility to $600 million and extend its maturity to July 26, 2012. The credit facility was arranged by Wachovia Capital Markets, LLC and J.P. Morgan Securities, Inc. and was syndicated to 17 banks.

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UDR, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Under certain circumstances, UDR may increase the credit facility to $750 million. Based on UDR s current credit ratings, the credit facility carries an interest rate equal to LIBOR plus a spread of 47.5 basis points, which represents a 10 basis point reduction to the previous unsecured revolver, and the facility fee remained at 15 basis points. Under a competitive bid feature and for so long as UDR maintains an Investment Grade Rating, UDR has the right to bid out 50% of the commitment amount and can bid out 100% of the commitment amount once per quarter.

During July 2007, UDR repurchased 320,200 shares of its common stock at an average price of $27.12 per share.

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

Forward-Looking Statements

This Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements include, without limitation, statements concerning property acquisitions and dispositions, development activity and capital expenditures, capital raising activities, rent growth, occupancy, and rental expense growth. Words such as expects, anticipates, intends, plans, believes, seeks, estimates, and variations of such words and similar expressions are intended to identify such forward-looking statements. Such statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to be materially different from the results of operations or plans expressed or implied by such forward-looking statements. Such factors include, among other things, unanticipated adverse business developments affecting us, or our properties, adverse changes in the real estate markets and general and local economies and business conditions. Although we believe that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate, and therefore such statements included in this Report may not prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that the results or conditions described in such statements or our objectives and plans will be achieved.

The following factors, among others, could cause our future results to differ materially from those expressed in the forward-looking statements:

- unfavorable changes in apartment market and economic conditions that could adversely affect occupancy levels and rental rates,
- the failure of acquisitions to achieve anticipated results,
- possible difficulty in selling apartment communities,
- the timing and closing of planned dispositions under agreement,
- competitive factors that may limit our ability to lease apartment homes or increase or maintain rents,
- insufficient cash flow that could affect our debt financing and create refinancing risk,
- failure to generate sufficient revenue, which could impair our debt service payments and distributions to stockholders,
- development and construction risks that may impact our profitability,
- potential damage from natural disasters, including hurricanes and other weather-related events, which could result in substantial costs to us,
- risks from extraordinary losses for which we may not have insurance or adequate reserves,

uninsured losses due to insurance deductibles, self-insurance retention, uninsured claims or casualties, or losses in excess of applicable coverage,

delays in completing developments and lease-ups on schedule,

our failure to succeed in new markets,

changing interest rates, which could increase interest costs and affect the market price of our securities,

potential liability for environmental contamination, which could result in substantial costs to us,

the imposition of federal taxes if we fail to qualify as a REIT under the Internal Revenue Code in any taxable year,

our internal control over financial reporting may not be considered effective which could result in a loss of investor confidence in our financial reports, and in turn have an adverse effect on our stock price, and

changes in real estate tax laws, tax laws and other laws affecting our business.

A discussion of these and other factors affecting our business and prospects is set forth below in Part II, Item 1A. Risk Factors. We encourage investors to review these risks factors.

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Business Overview

We are a real estate investment trust, or REIT, that owns, acquires, renovates, develops, and manages apartment communities nationwide. We were formed in 1972 as a Virginia corporation. In June 2003, we changed our state of incorporation from Virginia to Maryland. Our subsidiaries include two operating partnerships, Heritage Communities L.P., a Delaware limited partnership, and United Dominion Realty, L.P., a Delaware limited partnership. Unless the context otherwise requires, all references in this Report to we, us, our, the company, or UDR refer collectively to UDR, Inc. and its subsidiaries.

At June 30, 2007, our portfolio included 249 communities with 71,290 apartment homes nationwide. The following table summarizes our market information by major geographic markets (includes real estate held for disposition, real estate under development, and land, but excludes commercial properties):

	As of June 30, 2007				Three Months Ended June 30, 2007		Six Months Ended June 30, 2007	
	Number of Apartment Communities	Number of Apartment Homes	Percentage of Carrying Value	Carrying Value (In thousands)	Average Physical Occupancy	Total Income per Occupied Home(a)	Average Physical Occupancy	Total Income per Occupied Home(a)
WESTERN REGION								
Orange Co., CA	13	4,067	11.5%	$ 689,523	94.8%	$ 1,515	94.8%	$ 1,506
San Francisco, CA	10	2,199	6.7%	403,827	96.5%	1,654	96.5%	1,640
Los Angeles, CA	6	1,210	3.3%	198,736	93.2%	1,467	93.6%	1,460
San Diego, CA	5	1,123	2.8%	164,895	95.0%	1,305	94.3%	1,298
Inland Empire, CA	3	1,074	2.5%	146,464	93.8%	1,129	91.0%	1,132
Seattle, WA	7	1,270	2.4%	146,097	96.0%	1,069	95.4%	1,019
Monterey Peninsula, CA	7	1,565	2.4%	145,312	94.8%	978	92.0%	966
Portland, OR	5	1,365	1.5%	89,381	95.8%	806	95.2%	801
Sacramento, CA	2	914	1.1%	65,023	94.8%	867	94.6%	873
MID-ATLANTIC REGION								
Metropolitan DC	9	2,640	5.3%	320,134	94.9%	1,315	94.8%	1,240
Raleigh, NC	11	3,663	3.9%	232,566	93.7%	732	93.2%	725
Richmond, VA	9	2,636	3.1%	184,044	90.6%	930	90.9%	923
Baltimore, MD	10	2,118	3.0%	179,546	93.8%	1,099	94.4%	1,085
Wilmington, NC	6	1,868	1.8%	105,950	94.7%	781	94.4%	775
Charlotte, NC	6	1,226	1.5%	90,564	93.4%	783	94.0%	782
Norfolk, VA	6	1,438	1.3%	75,369	95.6%	943	94.7%	939
Other Mid-Atlantic	13	2,817	2.5%	149,493	94.2%	887	93.4%	878
SOUTHEASTERN REGION								
Tampa, FL	12	4,138	4.8%	290,020	88.1%	969	88.3%	966
Orlando, FL	12	3,476	3.9%	233,677	89.3%	956	89.1%	952
Nashville, TN	10	2,966	3.2%	194,214	93.6%	781	94.0%	778
Jacksonville, FL.	4	1,557	1.9%	112,814	92.7%	861	92.3%	858

Other Southeastern	13	3,178	2.8%	167,909	94.4%	696	94.5%	697
Other Florida	8	2,400	2.8%	167,592	91.0%	953	91.3%	953
SOUTHWESTERN REGION								
Houston, TX	16	5,447	4.5%	269,863	94.4%	707	93.8%	701
Dallas, TX	9	2,685	3.6%	213,682	86.7%	681	87.3%	626
Arlington, TX	6	1,828	1.6%	97,020	95.6%	703	94.6%	700
Phoenix, AZ	4	1,212	1.6%	94,181	93.6%	936	94.4%	926
Austin, TX	5	1,425	1.5%	88,817	97.1%	761	97.0%	751
Other Southwestern	8	3,353	3.7%	223,389	94.8%	770	95.1%	764
MIDWESTERN REGION								
Columbus, OH	6	2,530	2.8%	167,469	95.0%	785	94.8%	771
Other Midwestern	3	444	0.4%	25,232	90.0%	804	90.2%	794
Real Estate Under Development	5	1,458	1.5%	89,807				
Land			2.8%	168,985				
Total	**249**	**71,290**	**100.0%**	**$ 5,991,595**	**93.2%**	**$ 934**	**93.0%**	**$ 922**

(a) Total Income per Occupied Home represents total revenues per weighted average number of apartment homes occupied.

Liquidity and Capital Resources

Liquidity is the ability to meet present and future financial obligations either through operating cash flows, the sale or maturity of existing assets, or by the acquisition of additional funds through capital management. Both the coordination of asset and liability maturities and effective capital management are important to the maintenance of liquidity. Our primary source of liquidity is our cash flow from operations as determined by rental rates, occupancy levels, and operating expenses related to our portfolio of apartment homes. We routinely use our unsecured bank credit facility to temporarily fund certain investing and financing activities prior to arranging for longer-term financing. During the past several years, proceeds from the sale of real estate have been used for both investing and financing activities.

We expect to meet our short-term liquidity requirements generally through net cash provided by operations and borrowings under credit arrangements. We expect to meet certain long-term liquidity requirements such as scheduled debt maturities, the repayment of financing on development activities, and potential property acquisitions, through long-term secured and unsecured borrowings, the disposition of properties, and the issuance of additional debt or equity securities. We believe that our net cash provided by operations will continue to be adequate to meet both operating requirements and the payment of dividends by the company in accordance with REIT requirements in both the short- and long-term. Likewise, the budgeted expenditures for improvements and renovations of certain properties are expected to be funded from property operations.

We have a shelf registration statement filed with the Securities and Exchange Commission which provides for the issuance of an indeterminate amount of common stock, preferred stock, debt securities, warrants, purchase contracts and units to facilitate future financing activities in the public capital markets. Access to capital markets is dependent on market conditions at the time of issuance.

Future Capital Needs

Future development expenditures are expected to be funded with proceeds from the sale of property, with construction loans, through joint ventures, the use of our unsecured revolving credit facility, and, to a lesser extent, with cash flows provided by operating activities. Acquisition activity in strategic markets is expected to be largely financed through the issuance of equity and debt securities, the issuance of operating partnership units, the assumption or placement of secured and/or unsecured debt, and by the reinvestment of proceeds from the sale of properties.

During the remainder of 2007, we have approximately $79.8 million of secured debt and $75.4 million of unsecured debt maturing and we anticipate repaying that debt with proceeds from borrowings under our secured or unsecured credit facilities, the issuance of new unsecured debt securities or equity, or from disposition proceeds.

Critical Accounting Policies and Estimates

Our critical accounting policies are those having the most impact on the reporting of our financial condition and results and those requiring significant judgments and estimates. These policies include those related to (1) capital expenditures, (2) impairment of long-lived assets, and (3) real estate investment properties. Our critical accounting policies are described in more detail in the section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2006. There have been no significant changes in our critical accounting policies from those reported in our 2006 Annual Report on Form 10-K. With respect to these critical accounting policies, we believe that the application of judgments and assessments is consistently applied and produces financial information that fairly depicts the results of operations for all periods presented.

Statements of Cash Flows

The following discussion explains the changes in net cash provided by operating and financing activities and net cash used in investing activities that are presented in our Consolidated Statements of Cash Flows.

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Operating Activities

For the six months ended June 30, 2007, our cash flow provided by operating activities was $117.9 million compared to $97.1 million for the same period in 2006. The increase in cash flow from operating activities resulted primarily from the increase in property operating income from our apartment community portfolio for the six months ended June 30, 2007 (see discussion under Apartment Community Operations).

Investing Activities

For the six months ended June 30, 2007, net cash used in investing activities was $176.0 million as compared to $194.0 million for the same period in 2006. Changes in the level of investing activities from period to period reflects our strategy as it relates to our acquisition, capital expenditure, development, and disposition programs, as well as the impact of the capital market environment on these activities, all of which are discussed in further detail below.

Acquisitions

During the six months ended June 30, 2007, we acquired nine apartment communities with 1,599 apartment homes, three parcels of land and one operating joint venture for an aggregate consideration of $200.7 million. Our long-term strategic plan is to achieve greater operating efficiencies by investing in fewer, more concentrated markets. As a result, we have been expanding our interests in the fast growing Southern California, Florida, Texas, and Metropolitan Washington DC markets over the past four years. During 2007, we plan to continue to channel new investments into those markets that we believe will provide the best investment returns. Markets will be targeted based upon defined criteria including past performance, expected job growth, current and anticipated housing supply and demand, the ability to attract and support household formation and opportunities to create value in real estate that exceeds our invested capital.

Capital Expenditures

In conformity with accounting principles generally accepted in the United States, we capitalize those expenditures related to acquiring new assets, materially enhancing the value of an existing asset, or substantially extending the useful life of an existing asset. Expenditures necessary to maintain an existing property in ordinary operating condition are expensed as incurred.

During the first six months of 2007, we spent $104.2 million or $1,503 per home on capital expenditures for all of our communities, excluding development and commercial properties. These capital improvements included turnover related expenditures for floor coverings and appliances, other recurring capital expenditures such as roofs, siding, parking lots, and other non-revenue enhancing capital expenditures, which aggregated $18.4 million or $266 per home. In addition, revenue enhancing capital expenditures, kitchen and bath upgrades, upgrades to HVAC equipment, and other extensive exterior/interior upgrades totaled $43.4 million or $625 per home and major renovations totaled $42.4 million or $612 per home for the six months ended June 30, 2007.

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The following table outlines capital expenditures and repair and maintenance costs for all of our communities, excluding real estate under development, condominium conversions and commercial properties, for the periods presented:

	Six Months Ended June 30, (dollars in thousands)			Six Months Ended June 30, (per home)		
	2007	**2006**	**% Change**	**2007**	**2006**	**% Change**
Turnover capital expenditures	**$ 6,920**	$ 6,442	7.4%	**$ 100**	$ 87	14.9%
Other recurring capital expenditures	**11,484**	5,358	114.3%	**166**	72	130.6%
Total recurring capital expenditures	**18,404**	11,800	56.0%	**266**	159	67.3%
Revenue enhancing improvements	**43,366**	71,082	(39.0)%	**625**	958	(34.8)%
Major renovations	**42,444**	17,601	141.1%	**612**	237	158.2%
Total capital improvements	**$ 104,214**	$ 100,483	3.7%	**$ 1,503**	$ 1,354	11.0%
Repair and maintenance	**20,902**	20,957	(0.3)%	**301**	282	6.7%
Total expenditures	**$ 125,116**	$ 121,440	3.0%	**$ 1,804**	$ 1,636	10.3%

Total capital improvements increased $3.7 million or $149 per home for the six months ended June 30, 2007, compared to the same period in 2006. This increase was partially attributable to an additional $24.8 million of major renovations at certain of our properties. These renovations may include the re-wiring and/or re-plumbing of an entire building as well as major structural changes and/or architectural revisions to existing buildings. The increase was also attributable to an additional $6.6 million being invested in recurring capital expenditures as compared to the same period in 2006. These increases were offset by $27.7 million less being invested in revenue enhancing improvements compared to the same period in 2006. We will continue to selectively add revenue enhancing improvements which we believe will provide a return on investment substantially in excess of our cost of capital. Recurring capital expenditures during 2007 are currently expected to be approximately $610 per home.

Development

Development activity is focused in core markets in which we have strong operations in place. For the six months ended June 30, 2007, we invested approximately $42.8 million on development projects, an increase of $21.9 million from $20.9 million for the same period in 2006.

Real Estate Under Development

The following wholly owned apartments were under development as of June 30, 2007:

	Completed	Cost to	Budgeted	Estimated	Expected

	Number of Apartment Homes	Apartment Homes	Date (In thousands)	Cost (In thousands)	Cost per Home	Completion Date
Villas at Ridgeview Townhomes						
Plano, TX	48	42	$ 10,105	$ 10,000	$ 208,333	3Q07
RIACHI at One21						
Plano, TX	202	60	15,277	18,000	89,109	4Q07
Northwest Houston Phase I						
Houston, TX	320		5,971	22,000	68,750	2Q08
Lincoln Towne Square Phase II						
Plano, TX	302		6,680	25,000	82,781	3Q08
Addison Assemblage						
Dallas, TX	2,750		57,935	457,000	166,182	4Q09
Total wholly owned apartments	**3,622**	**102**	**$ 95,968**	**$ 532,000**	**$ 146,880**	

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The Addison Assemblage has not received final zoning approval regarding the apartment home and retail mix.

In addition, we own nine parcels of land held for future development aggregating $68.3 million at June 30, 2007.

Consolidated Development Joint Ventures

In June 2006, we completed the formation of a development joint venture that will invest approximately $138 million to develop one apartment community with 298 apartment homes in Marina del Rey, California. UDR is the financial partner and is responsible for funding the costs of development and receives a preferred return from 7% to 8.5% before our partner receives a 50% participation. Our initial investment was $27.5 million. Under FASB Interpretation No. 46, Consolidation of Variable Interest Entities, this venture has been consolidated into UDR s financial statements. Our joint venture partner is the managing partner as well as the developer, general contractor, and property manager.

The following consolidated joint venture project was under development as of June 30, 2007:

	Number of Apartment Homes	Completed Apartment Homes	Cost to Date (In thousands)	Budgeted Cost (In thousands)	Estimated Cost per Home	Expected Completion Date
Jefferson at Marina del Rey						
Marina del Rey, CA	298		$ 94,523	$ 138,000	$ 463,087	1Q08

Unconsolidated Development Joint Ventures

In July 2006, we closed on a joint venture to develop a site in Bellevue, Washington. At closing, we owned 49% of the $135 million project that involves building a 400 home high rise apartment building with ground floor retail. Our initial investment was $5.7 million.

In November 2006, we closed on a joint venture site adjacent to our Bellevue Plaza development in the central business district of Bellevue, Washington. This project will include the development of 271 apartment homes. Construction began in the fourth quarter of 2006 and is scheduled for completion in 2008. At closing, we owned 49% of the $97 million project. Our initial investment was $10.0 million.

The following unconsolidated joint venture projects were under development as of June 30, 2007 (budgeted cost amounts include retail units):

	Number of Apartment Homes	Completed Apartment Homes	Cost to Date (In thousands)	Budgeted Cost (In thousands)	Estimated Cost per Home	Expected Completion Date
Bellevue Plaza						
Bellevue, WA	400		$ 35,789	$ 135,000	$ 337,500	3Q10
	271		35,306	97,000	357,900	4Q08

Ashwood Commons Bellevue, WA				
Total unconsolidated development joint ventures	**671**	**$ 71,095**	**$ 232,000**	**$ 345,800**

Unconsolidated Operating Joint Venture

In January 2007, we closed on a joint venture for a recently completed 23-story, 166 apartment home high rise community in the central business district of Bellevue, Washington. At closing, UDR owned 49% of the $58 million project (subject to a $34 million mortgage). Our initial investment was $11.8 million.

Disposition of Investments

For the six months ended June 30, 2007, UDR sold three communities with a total of 725 apartment homes for a gross consideration of $121.3 million, 22 condominiums from one community with a total of 320 condominiums for a gross consideration of $4.2 million, and one parcel of land for $4.5 million. We recognized after-tax gains for financial reporting purposes of $50.5 million on these sales. Proceeds from the sales were used primarily to reduce debt.

During 2007, we plan to continue to pursue our strategy of exiting markets where long-term growth prospects are limited and redeploying capital into markets we believe will provide the best investment returns. We intend to use the proceeds from 2007 dispositions to reduce debt, acquire communities, and fund development activity.

Financing Activities

Net cash provided by financing activities during the six months ended June 30, 2007, was $58.8 million as compared to $87.6 million for the same period in 2006. As part of the plan to improve our balance sheet, we utilized proceeds from dispositions to pay down existing debt and purchase new properties.

The following is a summary of our financing activities for the six months ended June 30, 2007:

Repaid $45.7 million of secured debt and $92.3 million of unsecured debt.

Sold $150 million aggregate principal amount of 5.50% senior unsecured notes due April 2014 in March 2007 under our medium-term note program. The net proceeds of approximately $149 million were used for debt repayment.

Redeemed 5,416,006 shares of our 8.60% Series B Cumulative Redeemable Preferred Stock on May 29, 2007, the redemption date, for a cash redemption price of $25 per share plus accrued and unpaid dividends to the redemption date.

Sold $135 million, or 5,400,000 shares, of our 6.75% Series G Cumulative Redeemable Preferred Stock in May 2007. The shares have a liquidation preference of $25.00 per share and will be redeemable at par at the option of UDR on or after May 31, 2012. The net proceeds from the offering were used to fund the redemption of all of the outstanding shares of our 8.60% Series B Cumulative Redeemable Preferred Stock.

Repurchased 1,131,000 shares of UDR common stock at an average price per share of $28.42 under our 10 million share repurchase program during the second quarter of 2007.

Credit Facilities

We have four secured revolving credit facilities with Fannie Mae with an aggregate commitment of $860 million. As of June 30, 2007, $717.9 million was outstanding under the Fannie Mae credit facilities leaving $142.1 million of unused capacity. The Fannie Mae credit facilities are for an initial term of ten years, bear interest at floating and fixed rates, and can be extended for an additional five years at our option. We have $584.2 million of the funded balance fixed at a weighted average interest rate of 5.9% and the remaining balance is currently at a weighted average variable rate of 5.8%.

On July 27, 2007, we amended and restated our existing three-year $500 million senior unsecured revolving credit facility with a maturity date of May 31, 2008 (which could be extended for an additional year at our option) to increase the facility to $600 million and to extend its maturity to July 26, 2012. Under the terms of the $500 million credit facility, we had the right to increase the credit facility to $750 million under certain circumstances. Based on our current credit ratings, the $500 million credit facility carried an interest rate equal to LIBOR plus a spread of 57.5 basis points. Under a competitive bid feature and for so long as we maintain an Investment Grade Rating, we had the right to bid out 50% of the commitment amount under the $500 million credit facility and to bid out 100% of the commitment amount once per quarter. As of June 30, 2007, $208.9 million was outstanding under the credit facility leaving $291.1 million of unused capacity.

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Under certain circumstances, we may increase the new $600 million credit facility to $750 million. Based on our current credit ratings, the new $600 million credit facility carries an interest rate equal to LIBOR plus a spread of 47.5 basis points, which represents a 10 basis point reduction to the previous $500 million credit facility. Under a competitive bid feature and for so long as we maintain an Investment Grade Rating, we have the right under the new $600 million credit facility to bid out 50% of the commitment amount and we can bid out 100% of the commitment amount once per quarter.

The Fannie Mae credit facility and the bank revolving credit facility are subject to customary financial covenants and limitations.

Information concerning short-term bank borrowings under our bank credit facility is summarized in the table that follows *(dollars in thousands)*:

	Three Months Ended June 30, 2007	Twelve Months Ended December 31, 2006
Total revolving credit facility	**$ 500,000**	$ 500,000
Borrowings outstanding at end of period	**208,900**	87,200
Weighted average daily borrowings during the period	**155,454**	264,102
Maximum daily borrowings during the period	**300,400**	415,800
Weighted average interest rate during the period	**5.7%**	5.3%
Weighted average interest rate at end of period	**5.7%**	5.6%

Funds from Operations

Funds from operations, or FFO, is defined as net income (computed in accordance with generally accepted accounting principles), excluding gains (or losses) from sales of depreciable property, premiums or original issuance costs associated with preferred stock redemptions, plus real estate depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. We compute FFO for all periods presented in accordance with the recommendations set forth by the National Association of Real Estate Investment Trust s (NAREIT) April 1, 2002 White Paper. We consider FFO in evaluating property acquisitions and our operating performance, and believe that FFO should be considered along with, but not as an alternative to, net income and cash flow as a measure of our activities in accordance with generally accepted accounting principles. FFO does not represent cash generated from operating activities in accordance with generally accepted accounting principles and is not necessarily indicative of cash available to fund cash needs.

Historical cost accounting for real estate assets in accordance with generally accepted accounting principles implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, many industry investors and analysts have considered the presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. Thus, NAREIT created FFO as a supplemental measure of REIT operating performance and defines FFO as net income (computed in accordance with accounting principles generally accepted in the United States), excluding gains (or losses) from sales of depreciable property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. The use of FFO, combined with the required presentations, has been fundamentally beneficial, improving the understanding of operating results of REITs among the investing public and making comparisons of REIT operating results more meaningful. We generally consider FFO to be a useful measure for reviewing our comparative operating and financial performance (although FFO should be reviewed in conjunction with net income which remains the primary measure of performance) because by excluding gains or losses related to sales of previously depreciated operating real estate assets and excluding real estate asset depreciation and amortization, FFO can help one compare the operating performance of a company s real estate between periods or as compared to different companies. We believe that FFO is the best measure of economic profitability for real estate investment trusts.

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The following table outlines our FFO calculation and reconciliation to generally accepted accounting principles for the three and six months ended June 30, *(dollars and shares in thousands)*:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	**2006**	**2007**	**2006**
Net income	**$ 6,696**	$ 32,184	**$ 38,529**	$ 44,193
Adjustments:				
Distributions to preferred stockholders	**(3,624)**	(3,842)	**(7,467)**	(7,685)
Real estate depreciation and amortization	**64,108**	54,687	**124,682**	107,268
Minority interests of unitholders in operating partnership	**(707)**	(663)	**(1,390)**	(1,389)
Contribution of unconsolidated joint ventures	**49**		**303**	
Discontinued Operations:				
Real estate depreciation	**209**	4,302	**3,794**	10,446
Minority interests of unitholders in operating partnership	**708**	2,508	**3,087**	3,766
Net gains on the sale of land and depreciable property	**(8,921)**	(33,482)	**(50,452)**	(48,828)
RE^3 gain on sales, net of tax	**6,803**	6,478	**11,166**	15,004
Funds from operations basic	**$ 65,321**	$ 62,172	**$ 122,252**	$ 122,775
Distributions to preferred stockholders Series E (Convertible)	**931**	931	**1,863**	1,863
Funds from operations diluted	**$ 66,252**	$ 63,103	**$ 124,115**	$ 124,638
Weighted average number of common shares and OP Units outstanding basic	**142,493**	142,418	**142,603**	142,382
Weighted average number of common shares, OP Units, and common stock equivalents outstanding diluted	**148,114**	147,940	**148,623**	147,874

In the computation of diluted FFO, OP Units, out-performance partnership shares, convertible debt, and the shares of Series E Cumulative Convertible Preferred Stock are dilutive; therefore, they are included in the diluted share count.

RE^3 gain on sales, net of taxes, is defined as net sales proceeds less a tax provision and the gross investment basis of the asset before accumulated depreciation. We consider FFO with RE^3 gain on sales, net of taxes, to be a meaningful supplemental measure of performance because the short-term use of funds produce a profit that differs from the traditional long-term investment in real estate for REITs.

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The following table is our reconciliation of FFO share information to weighted average common shares outstanding, basic and diluted, reflected on the Consolidated Statements of Operations for the three and six months ended June 30, *(shares in thousands)*:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Weighted average number of common shares and OP units outstanding basic	**142,493**	142,418	**142,603**	142,382
Weighted average number of OP units outstanding	**(7,766)**	(8,742)	**(7,983)**	(8,748)
Weighted average number of common shares outstanding basic per the Consolidated Statements of Operations	**134,727**	133,676	**134,620**	133,634
Weighted average number of common shares, OP units, and common stock equivalents outstanding diluted	**148,114**	147,940	**148,623**	147,874
Weighted average number of OP units outstanding	**(7,766)**	(8,742)	**(7,983)**	(8,748)
Weighted average incremental shares from assumed conversion of stock options	**(767)**	(793)	**(789)**	(771)
Weighted average incremental shares from unvested restricted stock	**(150)**	(160)	**(134)**	(152)
Weighted average incremental shares from assumed conversion of $250 million convertible debt	**(272)**		**(665)**	
Weighted average number of Series A OPPSs outstanding	**(1,628)**	(1,765)	**(1,628)**	(1,765)
Weighted average number of Series E preferred shares outstanding	**(2,804)**	(2,804)	**(2,804)**	(2,804)
Weighted average number of common shares outstanding diluted per the Consolidated Statements of Operations	**134,727**	133,676	**134,620**	133,634

FFO also does not represent cash generated from operating activities in accordance with generally accepted accounting principles, and therefore should not be considered an alternative to net cash flows from operating activities, as determined by generally accepted accounting principles, as a measure of liquidity. Additionally, it is not necessarily indicative of cash availability to fund cash needs.

A presentation of cash flow metrics based on generally accepted accounting principles is as follows for the three and six months ended June 30, *(dollars in thousands)*:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Net cash provided by operating activities	**$ 81,594**	$ 64,865	**$ 117,939**	$ 97,082
Net cash used in investing activities	**(77,411)**	(172,986)	**(175,956)**	(193,970)
Net cash (used in) provided by financing activities	**(2,931)**	78,075	**58,802**	87,635

Results of Operations

The following discussion includes the results of both continuing and discontinued operations for the periods presented.

Net Income Available to Common Stockholders

Net income available to common stockholders was $0.8 million ($0.01 per diluted share) for the three months ended June 30, 2007, compared to $28.3 million ($0.21 per diluted share) for the same period in the prior year. The decrease for the three months ended June 30, 2007, when compared to the same period in

2006, resulted primarily from the following items, all of which are discussed in further detail elsewhere within this Report:

a $24.6 million decrease in gains recognized from the sale of depreciable property,

a $5.3 million increase in real estate depreciation and amortization expense,

a $2.8 million increase in general and administrative expense, and

a $1.0 million increase in real estate taxes and insurance expense.

These decreases in income were partially offset by a $3.3 million decrease in interest expense, a $1.4 million decrease in personnel costs, a $1.0 million decrease in utilities expense, and a $0.5 million increase in apartment community operating results during the three months ended June 30, 2007 when compared to the same period in 2006.

Net income available to common stockholders was $28.8 million ($0.21 per diluted share) for the six months ended June 30, 2007, compared to $36.5 million ($0.27 per diluted share) for the same period in the prior year. The decrease for the six months ended June 30, 2007, when compared to the same period in 2006, resulted primarily from the following items, all of which are discussed in further detail elsewhere within this Report:

a $10.8 million increase in real estate depreciation and amortization expense, and

a $5.8 million increase in general and administrative expense.

These decreases in income were partially offset by a $3.8 million increase in apartment community operating results, a $3.2 million decrease in interest expense, and a $1.6 million increase in gains recognized from the sale of depreciable property during the first six months of 2007 when compared to the same period in 2006.

Apartment Community Operations

Our net income is primarily generated from the operation of our apartment communities. The following table summarizes the operating performance of our total apartment portfolio for each of the periods presented *(dollars in thousands)*:

	Three Months Ended June 30,			**Six Months Ended June 30,**		
	2007	**2006**	**% Change**	**2007**	**2006**	**% Change**
Property rental income	**$ 183,769**	$ 185,333	(0.8)%	**$ 366,453**	$ 366,668	(0.1)%
Property operating expense*	**(65,207)**	(67,248)	(3.0)%	**(132,505)**	(136,494)	(2.9)%
Property operating income	**$ 118,562**	$ 118,085	0.4%	**$ 233,948**	$ 230,174	1.6%
Weighted average number of homes	**70,931**	75,758	(6.4)%	**70,590**	75,436	(6.4)%
Physical occupancy**	**93.2%**	94.2%	(1.0)%	**93.0%**	94.2%	(1.2)%

* Excludes depreciation, amortization, and property management expenses.

** Based upon weighted average stabilized homes.

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The following table is our reconciliation of property operating income to net income as reflected on the Consolidated Statements of Operations for the periods presented, *(dollars in thousands)*:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	**2006**	**2007**	**2006**
Property operating income	**$ 118,562**	$ 118,085	**$ 233,948**	$ 230,174
Commercial operating income/(loss)	**1,584**	(189)	**2,136**	(661)
Non-property income	**697**	729	**1,175**	1,907
Real estate depreciation and amortization	**(65,252)**	(59,727)	**(130,264)**	(119,165)
Interest	**(42,758)**	(46,082)	**(86,952)**	(90,175)
General and administrative and property management	**(14,706)**	(11,930)	**(29,577)**	(23,685)
Other operating expenses	**(314)**	(301)	**(625)**	(599)
Net gain on sale of depreciable property	**8,921**	33,482	**50,452**	48,828
Minority interests	**(38)**	(1,883)	**(1,764)**	(2,431)
Net income per the Consolidated Statement of Operations	**$ 6,696**	$ 32,184	**$ 38,529**	$ 44,193

Same Communities

For the three months ended June 30, 2007, our same communities (those communities acquired, developed, and stabilized prior to June 30, 2006, and held on June 30, 2007, which consisted of 59,531 apartment homes) provided 88% of our property operating income.

For the second quarter of 2007, same community property operating income increased 6.5% or $6.3 million compared to the same period in 2006. The increase in property operating income was primarily attributable to a 5.3% or $8.1 million increase in revenues from rental and other income and a 3.3% or $1.8 million increase in operating expenses. The increase in revenues from rental and other income was primarily driven by a 4.6% or $7.0 million increase in rental rates and a 16.2% or $1.8 million increase in reimbursement income and fee income. These increases were partially offset by a 6.9% or $0.5 million increase in vacancy loss and a 16.1% or $0.1 million increase in bad debt expense. Physical occupancy decreased 0.2% to 94.7%.

The increase in property operating expenses was primarily driven by a 90.6% or $1.8 million increase in insurance costs and a 7.1% or $0.6 million increase in repair and maintenance expense that was partially offset by a 2.4% or $0.4 million decrease in real estate taxes and a 5.6% or $0.3 million decrease in administrative and marketing costs.

As a result of the percentage changes in property rental income and property operating expenses, the operating margin (property operating income divided by property rental income) increased 0.7% to 65.2%.

For the six months ended June 30, 2007, our same communities provided 88% of our property operating income. Same community property operating income increased 6.7% or $12.8 million compared to the same period in 2006. The increase in property operating income was primarily attributable to a 4.9% or $15.0 million increase in revenues from rental and other income and a 2.0% or $2.2 million increase in operating expenses. The increase in revenues from rental and other income was primarily driven by a 4.8% or $14.7 million increase in rental rates and a 14.2% or

$3.1 million increase in reimbursement income and fee income. These increases were partially offset by a 12.9% or $2.0 million increase in vacancy loss, a 44.3% or $0.5 million increase in bad debt expense, and a 5.7% or $0.3 million increase in concession expense. Physical occupancy decreased 0.5% to 94.4%.

The increase in property operating expenses was primarily driven by a 4.4% or $1.2 million increase in personnel expense, a 23.6% or $1.2 million increase in insurance expense, and a 4.2% or $0.7 million increase in repair and maintenance expense. These increases were partially offset by a 6.5% or $0.6 million decrease in administrative and marketing costs and a 1.0% or $0.3 million decrease in real estate taxes.

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As a result of the percentage changes in property rental income and property operating expenses, the operating margin increased 1.0% to 64.7%.

Non-Mature Communities

The remaining 12% or $28.5 million of our property operating income during the six months ended June 30, 2007, was generated from communities that we classify as non-mature communities. UDR s non-mature communities consist primarily of communities acquired or developed in 2006 and 2007, sold properties, redevelopment properties, properties classified as real estate held for disposition and condominium properties.

Real Estate Depreciation and Amortization

For the three and six months ended June 30, 2007, real estate depreciation and amortization on both continuing and discontinued operations increased 9.0% or $5.3 million and 9.1% or $10.8 million compared to the same period in 2006, primarily due to the significant increase in per home acquisition cost compared to the existing portfolio and other capital expenditures.

Interest Expense

For the three months ended June 30, 2007, interest expense on both continuing and discontinued operations decreased 7.2% or $3.3 million compared to the same period in 2006. For the three months ended June 30, 2007, the weighted average amount of debt outstanding increased 6.7% or $220.5 million compared to the same period in 2006 and the weighted average interest decreased from 5.5% in 2006 to 5.3% in 2007. The weighted average amount of debt outstanding during 2007 is slightly higher than 2006 as acquisition costs in 2007 have been funded, in most part, by the issuance of debt. The decrease in weighted average interest rate during 2007 reflects short-term bank borrowings and variable rate debt that had lower interest rates in 2007 when compared to the same period in 2006.

For the six months ended June 30, 2007, interest expense on both continuing and discontinued operations decreased 3.6% or $3.2 million compared to the same period in 2006. For the six months ended June 30, 2007, the weighted average amount of debt outstanding increased 6.8% or $222.2 million compared to the same period in 2006 and the weighted average interest rate decreased from 5.5% in 2006 to 5.3% in 2007. The weighted average amount of debt outstanding during 2007 is slightly higher than 2006 as acquisition costs in 2007 have been funded, in most part, by the issuance of debt. The decrease in the weighted average interest rate during 2007 reflects short-term bank borrowings and variable rate debt that had lower interest rates in 2007 when compared to the same period in 2006.

General and Administrative

For the three months ended June 30, 2007, general and administrative expenses increased $2.8 million or 40.5% compared to the same period in 2006. For the six months ended June 30, 2007, general and administrative expenses increased $5.8 million or 42.9% compared to the same period in 2006. These increases were due to a number of factors, including increases in personnel costs, incentive compensation and legal and professional fees.

Gains on the Sales of Land and Depreciable Property

For the three and six months ended June 30, 2007, we recognized after-tax gains for financial reporting purposes of $8.9 million and $50.5 million compared to $33.5 million and $48.8 million for the comparable period in 2006. Changes in the level of gains recognized from period to period reflect the changing level of our divestiture activity from period to period, as well as the extent of gains related to specific properties sold.

Inflation

We believe that the direct effects of inflation on our operations have been immaterial. While inflation primarily impacts our results through wage pressures, utilities and material costs, substantially all of our leases are for a term of one year or less, which generally enables us to compensate for inflationary effects by increasing rents. Although extreme growth in energy prices could have a negative impact on our residents and their ability to absorb rent increases, this has not had a material impact on our results.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on our financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources that are material.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to interest rate changes associated with our unsecured credit facility and other variable rate debt as well as refinancing risk on our fixed rate debt. UDR s involvement with derivative financial instruments is limited and we do not expect to use them for trading or other speculative purposes. In prior periods, UDR had used derivative instruments solely to manage its exposure to interest rates.

See our Annual Report on Form 10-K for the year ended December 31, 2006 Item 7A. Quantitative and Qualitative Disclosures About Market Risk for a more complete discussion of our interest rate sensitive assets and liabilities. As of June 30, 2007, our market risk has not changed materially from the amounts reported on our Annual Report on Form 10-K for the year ended December 31, 2006.

Item 4. CONTROLS AND PROCEDURES

As of June 30, 2007, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Our disclosure controls and procedures are designed with the objective of ensuring that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic SEC reports. In addition, our Chief Executive Officer and our Chief Financial Officer concluded that during the quarter ended June 30, 2007, there has been no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Our internal control over financial reporting is designed with the objective of providing reasonable assurance regarding the reliability of our financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. However, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective under circumstances where our disclosure controls and procedures should reasonably be expected to operate effectively.

PART II OTHER INFORMATION

Item 1A. RISK FACTORS

There are many factors that affect our business and our results of operations, some of which are beyond our control. The following is a description of important factors that may cause our actual results of operations in future periods to differ materially from those currently expected or discussed in forward-looking statements set forth in this Report relating to our financial results, operations and business prospects. Except as required by law, we undertake no obligation to update any such forward-looking statements to reflect events or circumstances after the date on which it is made.

Unfavorable Changes in Apartment Market and Economic Conditions Could Adversely Affect Occupancy Levels and Rental Rates. Market and economic conditions in the metropolitan areas in which we operate may significantly affect our occupancy levels and rental rates and, therefore, our profitability. Factors that may adversely affect these conditions include the following:

- a reduction in jobs and other local economic downturns,
- declines in mortgage interest rates, making alternative housing more affordable,
- government or builder incentives which enable first time homebuyers to put little or no money down, making alternative housing decisions easier to make,
- oversupply of, or reduced demand for, apartment homes,
- declines in household formation, and
- rent control or stabilization laws, or other laws regulating rental housing, which could prevent us from raising rents to offset increases in operating costs.

The strength of the United States economy has become increasingly susceptible to global events and threats of terrorism. At the same time, productivity enhancements and the increased exportation of labor have resulted in limited job growth despite an improving economy. Continued weakness in job creation, or any worsening of current economic conditions, generally and in our principal market areas, could have a material adverse effect on our occupancy levels, our rental rates and our ability to strategically acquire and dispose of apartment communities. This may impair our ability to satisfy our financial obligations and pay distributions to our stockholders.

New Acquisitions, Developments and Condominium Projects May Not Achieve Anticipated Results. We intend to continue to selectively acquire apartment communities that meet our investment criteria and to develop apartment communities for rental operations, to convert properties into condominiums and to develop condominium projects. Our acquisition, development and condominium activities and their success are subject to the following risks:

- an acquired apartment community may fail to perform as we expected in analyzing our investment, or a significant exposure related to the acquired property may go undetected during our due diligence procedures,
- when we acquire an apartment community, we often invest additional amounts in it with the intention of increasing profitability. These additional investments may not produce the anticipated improvements in

profitability,

new developments may not achieve pro forma rents or occupancy levels, or problems with construction or local building codes may delay initial occupancy dates for all or a portion of a development community, and

an over supply of condominiums in a given market may cause a decrease in the prices at which we expect to sell condominium properties.

Possible Difficulty of Selling Apartment Communities Could Limit Operational and Financial Flexibility. We periodically dispose of apartment communities that no longer meet our strategic objectives, but market conditions could change and purchasers may not be willing to pay prices acceptable to us. A weak market may limit our ability to change our portfolio promptly in response to changing economic conditions. Furthermore, a significant portion of the proceeds from our overall property sales may be held by intermediaries in order for some sales to qualify as like-kind exchanges under Section 1031 of the Internal Revenue Code, so that any related capital gain can be deferred for federal income tax purposes. As a result, we may not have immediate access to all of the cash flow generated from our property sales. In addition, federal tax laws limit our ability to profit on the sale of communities that we have owned for fewer than four years, and this limitation may prevent us from selling communities when market conditions are favorable.

Increased Competition Could Limit Our Ability to Lease Apartment Homes or Increase or Maintain Rents. Our apartment communities compete with numerous housing alternatives in attracting residents, including other apartment communities and single-family rental homes, as well as owner occupied single- and multi-family homes. Competitive housing in a particular area could adversely affect our ability to lease apartment homes and increase or maintain rents.

Insufficient Cash Flow Could Affect Our Debt Financing and Create Refinancing Risk. We are subject to the risks normally associated with debt financing, including the risk that our operating income and cash flow will be insufficient to make required payments of principal and interest, or could restrict our borrowing capacity under our line of credit due to debt covenant restraints. Sufficient cash flow may not be available to make all required principal payments and still satisfy our distribution requirements to maintain our status as a REIT for federal income tax purposes, and the full limits of our line of credit may not be available to us if our operating performance falls outside the constraints of our debt covenants. Additionally, we are likely to need to refinance substantially all of our outstanding debt as it matures. We may not be able to refinance existing debt, or the terms of any refinancing may not be as favorable as the terms of the existing debt, which could create pressures to sell assets or to issue additional equity when we would otherwise not choose to do so. In addition, our failure to comply with our debt covenants could result in a requirement to repay our indebtedness prior to its maturity, which could have an adverse effect on our cash flow and increase our financing costs.

Failure to Generate Sufficient Revenue Could Impair Debt Service Payments and Distributions to Stockholders. If our apartment communities do not generate sufficient net rental income to meet rental expenses, our ability to make required payments of interest and principal on our debt securities and to pay distributions to our stockholders will be adversely affected. The following factors, among others, may affect the net rental income generated by our apartment communities:

- the national and local economies,
- local real estate market conditions, such as an oversupply of apartment homes,
- tenants perceptions of the safety, convenience, and attractiveness of our communities and the neighborhoods where they are located,
- our ability to provide adequate management, maintenance and insurance, and
- rental expenses, including real estate taxes and utilities.

Expenses associated with our investment in a community, such as debt service, real estate taxes, insurance and maintenance costs, are generally not reduced when circumstances cause a reduction in rental income from that community. If a community is mortgaged to secure payment of debt and we are unable to make the mortgage payments, we could sustain a loss as a result of foreclosure on the community or the exercise of other remedies by the mortgage holder.

Debt Level May Be Increased. Our current debt policy does not contain any limitations on the level of debt that we may incur, although our ability to incur debt is limited by covenants in our senior indenture and our bank and other credit agreements. We manage our debt to be in compliance with these debt covenants, but subject to compliance with these covenants, we may increase the amount of our debt at any time without a concurrent improvement in our ability to service the additional debt.

Financing May Not Be Available and Could Be Dilutive. Our ability to execute our business strategy depends on our access to an appropriate blend of debt financing, including unsecured lines of credit and other forms of secured and unsecured debt, and equity financing, including common and preferred equity. Debt or equity financing may not be available in sufficient amounts, or on favorable terms or at all. If we issue additional equity securities to finance developments and acquisitions instead of incurring debt, the interests of our existing stockholders could be diluted.

Development and Construction Risks Could Impact Our Profitability. We intend to continue to develop and construct apartment communities. Development activities may be conducted through wholly owned affiliated companies or through joint ventures with unaffiliated parties. Our development and construction activities may be exposed to the following risks:

- we may be unable to obtain, or face delays in obtaining, necessary zoning, land-use, building, occupancy and other required governmental permits and authorizations, which could result in increased development costs and could require us to abandon our activities entirely with respect to a project for which we are unable to obtain permits or authorizations,

- if we are unable to find joint venture partners to help fund the development of a community or otherwise obtain acceptable financing for the developments, our development capacity may be limited,

- we may abandon development opportunities that we have already begun to explore, and we may fail to recover expenses already incurred in connection with exploring such opportunities,

- we may be unable to complete construction and lease-up of a community on schedule, or incur development or construction costs that exceed our original estimates, and we may be unable to charge rents that would compensate for any increase in such costs,

- occupancy rates and rents at a newly developed community may fluctuate depending on a number of factors, including market and economic conditions, preventing us from meeting our profitability goals for that community, and

- when we sell to third parties homes or properties that we developed or renovated, we may be subject to warranty or construction defect claims that are uninsured or exceed the limits of our insurance.

Construction costs have been increasing in our existing markets, and the costs of upgrading acquired communities have, in some cases, exceeded our original estimates. We may experience similar cost increases in the future. Our inability to charge rents that will be sufficient to offset the effects of any increases in these costs may impair our profitability.

Some Potential Losses Are Not Covered by Insurance. We have a comprehensive insurance program covering our property and operating activities. We believe the policy specifications and insured limits of these policies are adequate and appropriate. There are, however, certain types of extraordinary losses for which we may not have insurance. Accordingly, we may sustain uninsured losses due to insurance deductibles, self-insured retention, uninsured claims or casualties, or losses in excess of applicable coverage.

We may not be able to renew insurance coverage in an adequate amount or at reasonable prices. In addition, insurance companies may no longer offer coverage against certain types of losses, such as losses due to terrorist acts and mold, or, if offered, these types of insurance may be prohibitively expensive. If an uninsured loss or a loss in excess of insured limits occur, we could lose all or a portion of the capital we have invested in a property, as well as the anticipated future revenue from the property. In such an event, we might nevertheless remain obligated for any mortgage debt or other financial obligations related to the property. Material losses in excess of insurance proceeds may occur in the future. If one or more of our significant properties were to experience a catastrophic loss, it could seriously disrupt our operations, delay revenue and result in large expenses to repair or rebuild the property. Such events could adversely affect our cash flow and ability to make distributions to stockholders.

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Failure to Succeed in New Markets May Limit Our Growth. We may from time to time make acquisitions outside of our existing market areas if appropriate opportunities arise. We may be exposed to a variety of risks if we choose to enter new markets, and we may not be able to operate successfully in new markets. These risks include, among others:

inability to accurately evaluate local apartment market conditions and local economies,

inability to obtain land for development or to identify appropriate acquisition opportunities,

inability to hire and retain key personnel, and

lack of familiarity with local governmental and permitting procedures.

Changing Interest Rates Could Increase Interest Costs and Adversely Affect Our Cash Flow and the Market Price of Our Securities. We currently have, and expect to incur in the future, interest-bearing debt at rates that vary with market interest rates. As of June 30, 2007, we had approximately $449.9 million of variable rate indebtedness outstanding, which constitutes approximately 13% of our total outstanding indebtedness as of such date. An increase in interest rates would increase our interest expenses to the extent our variable rate debt is not hedged effectively, and it would increase the costs of refinancing existing indebtedness and of issuing new debt. Accordingly, higher interest rates could adversely affect cash flow and our ability to service our debt and to make distributions to security holders. In addition, an increase in market interest rates may lead our security holders to demand a higher annual yield, which could adversely affect the market price of our common and preferred stock and debt securities.

Risk of Inflation/Deflation. Substantial inflationary or deflationary pressures could have a negative effect on rental rates and property operating expenses.

Limited Investment Opportunities Could Adversely Affect Our Growth. We expect that other real estate investors will compete with us to acquire existing properties and to develop new properties. These competitors include insurance companies, pension and investment funds, developer partnerships, investment companies and other apartment REITs. This competition could increase prices for properties of the type that we would likely pursue, and our competitors may have greater resources than we do. As a result, we may not be able to make attractive investments on favorable terms, which could adversely affect our growth.

Failure to Integrate Acquired Communities and New Personnel Could Create Inefficiencies. To grow successfully, we must be able to apply our experience in managing our existing portfolio of apartment communities to a larger number of properties. In addition, we must be able to integrate new management and operations personnel as our organization grows in size and complexity. Failures in either area will result in inefficiencies that could adversely affect our expected return on our investments and our overall profitability.

Interest Rate Hedging Contracts May Be Ineffective and May Result in Material Charges. From time to time when we anticipate issuing debt securities, we may seek to limit our exposure to fluctuations in interest rates during the period prior to the pricing of the securities by entering into interest rate hedging contracts. We may do this to increase the predictability of our financing costs. Also, from time to time we may rely on interest rate hedging contracts to limit our exposure under variable rate debt to unfavorable changes in market interest rates. If the terms of new debt securities are not within the parameters of, or market interest rates fall below that which we incur under a particular interest rate hedging contract, the contract is ineffective. Furthermore, the settlement of interest rate hedging contracts has involved and may in the future involve material charges.

Potential Liability for Environmental Contamination Could Result in Substantial Costs. Under various federal, state and local environmental laws, as a current or former owner or operator of real estate, we could be required to investigate and remediate the effects of contamination of currently or formerly owned real estate by hazardous or toxic substances, often regardless of our knowledge of or responsibility for the contamination and solely by virtue of our current or former ownership or operation of the real estate. In addition, we could be held liable to a governmental authority or to third parties for property damage and for investigation and clean-up costs incurred in connection with the contamination. These costs could be substantial, and in many cases environmental laws create liens in favor of governmental authorities to secure their payment. The presence of such substances or a failure to properly remediate any resulting contamination could materially and adversely affect our ability to borrow against, sell or rent an affected property.

We Would Incur Adverse Tax Consequences if We Fail to Qualify as a REIT. We have elected to be taxed as a REIT under the Internal Revenue Code. Our qualification as a REIT requires us to satisfy numerous requirements, some on an annual and quarterly basis, established under highly technical and complex Internal Revenue Code provisions for which there are only limited judicial or administrative interpretations, and involves the determination of various factual matters and circumstances not entirely within our control. We intend that our current organization and method of operation enable us to continue to qualify as a REIT, but we may not so qualify or we may not be able to remain so qualified in the future. In addition, U.S. federal income tax laws governing REITs and other corporations and the administrative interpretations of those laws may be amended at any time, potentially with retroactive effect. Future legislation, new regulations, administrative interpretations or court decisions could adversely affect our ability to qualify as a REIT or adversely affect our stockholders.

If we fail to qualify as a REIT in any taxable year, we would be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates, and would not be allowed to deduct dividends paid to our stockholders in computing our taxable income. Also, unless the Internal Revenue Service granted us relief under certain statutory provisions, we would be disqualified from treatment as a REIT for the four taxable years following the year in which we first failed to qualify. The additional tax liability from the failure to qualify as a REIT would reduce or eliminate the amount of cash available for investment or distribution to our stockholders. This would likely have a significant adverse effect on the value of our securities and our ability to raise additional capital. In addition, we would no longer be required to make distributions to our stockholders. Even if we continue to qualify as a REIT, we will continue to be subject to certain federal, state and local taxes on our income and property.

We May Conduct a Portion of Our Business Through Taxable REIT Subsidiaries, Which are Subject to Certain Tax Risks. We have established several taxable REIT subsidiaries. Despite our qualification as a REIT, our taxable REIT subsidiaries must pay income tax on their taxable income. In addition, we must comply with various tests to continue to qualify as a REIT for federal income tax purposes, and our income from and investments in our taxable REIT subsidiaries generally do not constitute permissible income and investments for these tests. While we will attempt to ensure that our dealings with our taxable REIT subsidiaries will not adversely affect our REIT qualification, we cannot provide assurance that we will successfully achieve that result. Furthermore, we may be subject to a 100% penalty tax, we may jeopardize our ability to retain future gains on real property sales, or our taxable REIT subsidiaries may be denied deductions, to the extent our dealings with our taxable REIT subsidiaries are not deemed to be arm s length in nature or are otherwise not respected.

Certain Property Transfers May Generate Prohibited Transaction Income, Resulting in a Penalty Tax on Gain Attributable to the Transaction. From time to time, we may transfer or otherwise dispose of some of our properties. Under the Internal Revenue Code, any gain resulting from transfers of properties that we hold as inventory or primarily for sale to customers in the ordinary course of business would be treated as income from a prohibited transaction subject to a 100% penalty tax. Since we acquire properties for investment purposes, we do not believe that our occasional transfers or disposals of property are prohibited transactions. However, whether property is held for investment purposes is a question of fact that depends on all the facts and circumstances surrounding the particular transaction. The Internal Revenue Service may contend that certain transfers or disposals of properties by us are prohibited transactions. If the Internal Revenue Service were to argue successfully that a transfer or disposition of property constituted a prohibited transaction, then we would be required to pay a 100% penalty tax on any gain allocable to us from the prohibited transaction and we may jeopardize our ability to retain future gains on real property sales. In addition, income from a prohibited transaction might adversely affect our ability to satisfy the income tests for qualification as a REIT for federal income tax purposes.

Changes in Market Conditions and Volatility of Stock Prices Could Adversely Affect the Market Price of Our Common Stock. The stock markets, including the New York Stock Exchange, on which we list our common shares, have experienced significant price and volume fluctuations. As a result, the market price of our common stock could be similarly volatile, and investors in our common stock may experience a decrease in the value of their shares, including decreases unrelated to our operating performance or prospects.

Property Ownership Through Joint Ventures May Limit Our Ability to Act Exclusively in Our Interest. We have in the past and may in the future develop and acquire properties in joint ventures with other persons or entities when we believe circumstances warrant the use of such structures. If we use such a structure, we could become engaged in a dispute with one or more of our joint venture partners that might affect our ability to operate a jointly-owned property. Moreover, joint venture partners may have business, economic or other objectives that are inconsistent with our objectives, including objectives that relate to the appropriate timing and terms of any sale or refinancing of a property. In some instances, joint venture partners may have competing interests in our markets that could create conflicts of interest.

Real Estate Tax and Other Laws. Generally we do not directly pass through costs resulting from compliance with or changes in real estate tax laws to residential property tenants. We also do not generally pass through increases in income, service or other taxes, to tenants under leases. These costs may adversely affect funds from operations and the ability to make distributions to stockholders. Similarly, compliance with or changes in (i) laws increasing the potential liability for environmental conditions existing on properties or the restrictions on discharges or other conditions or (ii) rent control or rent stabilization laws or other laws regulating housing, such as the Americans with Disabilities Act of 1990 and the Fair Housing Amendments Act of 1988, may result in significant unanticipated expenditures, which would adversely affect funds from operations and the ability to make distributions to stockholders.

Risk of Earthquake Damage. Certain of our West Coast communities are located in the general vicinity of active earthquake faults. An earthquake could cause damage or losses greater than insured levels. In the event of a loss in excess of insured limits, we could lose our capital invested in the affected community, as well as anticipated future revenue from that community. We would also continue to be obligated to repay any mortgage indebtedness or other obligations related to the community. Any such loss could materially and adversely affect our business and our financial condition and results of operations.

Insurance coverage for earthquakes is expensive due to limited industry capacity. As a result, we may experience shortages in desired coverage levels if market conditions are such that insurance is not available.

Terrorist Attacks May Have an Adverse Effect on Our Business and Operating Results and Could Decrease the Value of Our Assets. Terrorist attacks and other acts of violence or war could have a material adverse effect on our business and operating results. Attacks that directly impact one or more of our apartment communities could significantly affect our ability to operate those communities and thereby impair our ability to achieve our expected results. Further, our insurance coverage may not cover any losses caused by a terrorist attack. In addition, the adverse effects that such violent acts and threats of future attacks could have on the U.S. economy could similarly have a material adverse effect on our business and results of operations.

Any Weaknesses Identified in Our Internal Control Over Financial Reporting Could Have an Adverse Effect on Our Stock Price. Section 404 of the Sarbanes-Oxley Act of 2002 requires us to evaluate and report on our internal report over financial reporting. If we identify one or more material weaknesses in our internal control over financial reporting, we could lose investor confidence in the accuracy and completeness of our financial reports, which in turn could have an adverse effect on our stock price.

Maryland Law May Limit the Ability of a Third Party to Acquire Control of Us, Which May Not be in Our Stockholders Best Interests. Maryland business statutes may limit the ability of a third party to acquire control of us. As a Maryland corporation, we are subject to various Maryland laws which may have the effect of discouraging offers to acquire our company and of increasing the difficulty of consummating any such offers, even if our acquisition would be in our stockholders best interests. The Maryland General Corporation Law restricts mergers and other business combination transactions between us and any person who acquires beneficial ownership of shares of our stock representing 10% or more of the voting power without our board of directors prior approval. Any such business combination transaction could not be completed until five years after the person acquired such voting power, and generally only with the approval of stockholders representing 80% of all votes entitled to be cast and 662/3% of the votes entitled to be cast, excluding the interested stockholder, or upon payment of a fair price. Maryland law also provides generally that a person who acquires shares of our equity stock that represents 10% (and certain higher levels) of the voting power in electing directors will have no voting rights unless approved by a vote of two-thirds of the shares eligible to vote.

Limitations on Share Ownership and Limitations on the Ability of Our Stockholders to Effect a Change in Control of Our Company May Prevent Takeovers That are Beneficial to Our Stockholders. One of the requirements for maintenance of our qualification as a REIT for U.S. federal income tax purposes is that no more than 50% in value of our outstanding capital stock may be owned by five or fewer individuals, including entities specified in the Internal Revenue Code, during the last half of any taxable year. Our charter contains ownership and transfer restrictions relating to our stock primarily to assist us in complying with this and other REIT ownership requirements; however, the restrictions may have the effect of preventing a change of control, which does not threaten REIT status. These restrictions include a provision that generally limits ownership by any person of more than 9.9% of the value of our outstanding equity stock, unless our board of directors exempts the person from such ownership limitation, provided that any such exemption shall not allow the person to exceed 13% of the value of our outstanding equity stock. These provisions may have the effect of delaying, deferring or preventing someone from taking control of us, even though a change of control might involve a premium price for our stockholders or might otherwise be in our stockholders best interests.

Under the terms of our shareholder rights plan, our board of directors can, in effect, prevent a person or group from acquiring more than 15% of the outstanding shares of our common stock. Unless our board of directors approves the person s purchase, after that person acquires more than 15% of our outstanding common stock, all other stockholders will have the right to purchase securities from us at a price that is less than their then fair market value. Purchases by other stockholders would substantially reduce the value and influence of the shares of our common stock owned by the acquiring person. Our board of directors, however, can prevent the shareholder rights plan from operating in this manner. This gives our board of directors significant discretion to approve or disapprove a person s efforts to acquire a large interest in us.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

In February 2006, our Board of Directors authorized a 10 million share repurchase program. This program authorizes the repurchase of our common stock in open market purchases, in block purchases, privately negotiated transactions, or otherwise. As reflected in the table below, 1,131,000 shares of common stock were repurchased under this program during the quarter ended June 30, 2007.

	Total Number	Average	Total Number of Shares Purchased as Part of Publicly	Maximum Number of Shares that May Yet be Purchased

Period	of Shares Purchased		Price per Share	Announced Plans or Programs	Under the Plans or Programs
Beginning Balance					10,000,000
April 1, 2007 through April 30, 2007	0		N/A	0	10,000,000
May 1, 2007 through May 31, 2007	295,000	$	28.87	295,000	9,705,000
June 1, 2007 through June 30, 2007	836,000		28.27	836,000	8,869,000
Balance as of June 30, 2007	1,131,000	$	28.42	1,131,000	8,869,000

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Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On May 8, 2007, UDR held its Annual Meeting of Stockholders. At the meeting, our stockholders voted on the election of directors and a proposal to ratify the appointment of Ernst & Young LLP to serve as our independent auditors for the year ending December 31, 2007.

The following persons were elected directors of UDR, to serve as such for the term indicated and until the respective successors are duly elected and qualified or until their earlier resignation or removal, by the indicated vote:

Name	Votes For	Votes Withheld
Katherine A. Cattanach	121,603,897	462,883
Eric J. Foss	121,617,560	449,219
Robert P. Freeman	121,621,225	445,554
Jon A. Grove	121,449,825	616,954
James D. Klingbeil	121,390,643	676,136
Robert C. Larson	121,296,730	770,050
Thomas R. Oliver	121,604,064	462,716
Lynne B. Sagalyn	121,346,458	720,321
Mark J. Sandler	121,358,443	708,337
Thomas W. Toomey	121,607,203	459,577
Thomas C. Wajnert	121,416,175	650,604

The stockholders approved the proposal to ratify the appointment of Ernst & Young LLP to serve as independent auditors for the year ending December 31, 2007, by the indicated vote:

Votes For	Votes Against	Votes Abstained	Broker Non-Votes
121,103,079	761,547	202,154	

Item 6. EXHIBITS

The exhibits filed or furnished with this Report are set forth in the Exhibit Index.

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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.

UDR, INC.
(registrant)

Date: August 9, 2007	/s/ Michael A. Ernst Michael A. Ernst Executive Vice President and Chief Financial Officer
Date: August 9, 2007	/s/ David L. Messenger David L. Messenger Senior Vice President and Chief Accounting Officer

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EXHIBIT INDEX

Exhibit No.	Description
3.1	Articles of Restatement (incorporated by reference to Exhibit 3.09 to the Company s Current Report on Form 8-K dated July 27, 2005 and filed with the SEC on August 1, 2005, Commission File No. 1-10524).
3.2	Articles of Amendment to the Articles of Restatement dated and filed with the State Department of Assessments and Taxation of the State of Maryland on March 14, 2007 (incorporated by reference to Exhibit 3.2 to the Company s Current Report on Form 8-K dated March 14, 2007 and filed with the SEC on March 15, 2007, Commission File No. 1-10524).
3.3	Articles Supplementary relating to the Company s 6.75% Series G Cumulative Redeemable Preferred Stock, dated and filed with the State Department of Assessments and Taxation of the State of Maryland on May 30, 2007 (incorporated by reference to Exhibit 3.4 to the Company s Form 8-A Registration Statement dated and filed with the SEC on May 30, 2007).
4.1	Form of Certificate for Shares of the Company s 6.75% Series G Cumulative Redeemable Preferred Stock (incorporated by reference to Exhibit 4.1 to the Company s Form 8-A Registration Statement dated and filed with the SEC on May 30, 2007).
4.2	Articles Supplementary relating to the Company s 6.75% Series G Cumulative Redeemable Preferred Stock (see Exhibit 3.3 above).
10.1	Second Amended and Restated Credit Agreement dated as of July 27, 2007 (incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K dated July 27, 2007 and filed with the SEC on August 2, 2007, Commission File No. 1-10524).
10.2	Amended and Restated Credit Agreement dated as of May 25, 2005 (incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K dated May 25, 2005 and filed with the SEC on May 27, 2005, Commission File No. 1-10524).
10.3	Letter Agreement dated May 31, 2007 between the Company and Lester C. Boeckel (incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K dated May 31, 2007 and filed with the SEC on June 4, 2007, Commission File No. 1-10524).
12	Computation of Ratio of Earnings to Fixed Charges.
31.1	Rule 13a-14(a) Certification of the Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of the Chief Financial Officer.
32.1	Section 1350 Certification of the Chief Executive Officer.
32.2	Section 1350 Certification of the Chief Financial Officer.