UDR, Inc.
Form 10-Q
May 11, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q

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

For the quarterly period ended March 31, 2009

OR

o **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 1-10524
UDR, Inc.
(Exact name of registrant as specified in its charter)

Maryland	**54-0857512**
(State or other jurisdiction of incorporation of organization)	**(I.R.S. Employer Identification No.)**

1745 Shea Center Drive, Suite 200, Highlands Ranch, Colorado 80129
(Address of principal executive offices) (zip code)
(720) 283-6120
(Registrant s telephone number, including area code)

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

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

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 definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller Reporting Company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

The number of shares of the issuer s common stock, $0.01 par value, outstanding as of May 1, 2009, was 150,460,532.

UDR, Inc.
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UDR, Inc.
CONSOLIDATED BALANCE SHEETS
(In thousands, except for share data)
(Unaudited)

	March 31, 2009	December 31, 2008
ASSETS		
Real estate owned:		
Real estate held for investment	**$ 5,693,789**	$ 5,644,930
Less: accumulated depreciation	**(1,146,487)**	(1,078,637)
	4,547,302	4,566,293
Real estate under development (net of accumulated depreciation of $544 and $52)	**209,040**	186,771
Total real estate owned, net of accumulated depreciation	**4,756,342**	4,753,064
Cash and cash equivalents	**37,132**	12,740
Marketable securities	**32,133**	
Restricted cash	**8,617**	7,726
Deferred financing costs, net	**29,262**	29,168
Notes receivable	**207,300**	207,450
Investment in unconsolidated joint ventures	**47,415**	47,048
Other assets	**66,562**	85,842
Other assets real estate held for disposition	**767**	767
Total assets	**$ 5,185,530**	$ 5,143,805
LIABILITIES AND STOCKHOLDERS EQUITY		
Secured debt	**$ 1,717,244**	$ 1,462,471
Unsecured debt	**1,643,177**	1,798,662
Real estate taxes payable	**19,141**	14,035
Accrued interest payable	**21,574**	20,744
Security deposits and prepaid rent	**30,165**	28,829
Distributions payable	**49,817**	57,144
Deferred gains on the sale of depreciable property	**28,840**	28,845
Accounts payable, accrued expenses, and other liabilities	**67,044**	71,395
Other liabilities real estate held for disposition	**1,274**	1,204
Total liabilities	**3,578,276**	3,483,329
Redeemable non-controlling interests in operating partnership	**69,290**	108,092
Stockholders equity		
	46,571	46,571

Preferred stock, no par value; 50,000,000 shares authorized 2,803,812 shares of 8.00% Series E Cumulative Convertible issued and outstanding (2,803,812 shares at December 31, 2008)		
4,430,700 shares of 6.75% Series G Cumulative Redeemable issued and outstanding (4,430,700 shares at December 31, 2008)	**110,768**	110,768
Common stock, $0.01 par value; 250,000,000 shares authorized 149,096,743 shares issued and outstanding (148,781,115 shares at December 31, 2008)	**1,491**	1,488
Additional paid-in capital	**1,857,320**	1,850,871
Distributions in excess of net income	**(470,520)**	(448,737)
Accumulated other comprehensive loss, net	**(11,055)**	(11,927)
Total UDR, Inc. stockholders equity	**1,534,575**	1,549,034
Non-controlling interest	**3,389**	3,350
Total equity	**1,537,964**	1,552,384
Total liabilities and stockholders equity	**$ 5,185,530**	$ 5,143,805

See accompanying notes to consolidated financial statements.

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UDR, Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
REVENUES		
Rental income	**$ 150,615**	$ 126,586
Non-property income:		
Other income	**5,024**	4,627
Total Revenues	**155,639**	131,213
EXPENSES		
Rental expenses:		
Real estate taxes and insurance	**20,020**	12,494
Personnel	**12,633**	11,797
Utilities	**8,367**	7,083
Repair and maintenance	**7,209**	6,790
Administrative and marketing	**3,333**	3,286
Property management	**4,142**	3,481
Other operating expenses	**1,496**	1,004
Real estate depreciation and amortization	**68,985**	52,435
Interest		
Expense incurred	**36,509**	40,506
Gain on debt extinguishment	**(7,113)**	(4,739)
Amortization of convertible debt premium	**1,296**	1,670
General and administrative	**9,855**	9,769
Other depreciation and amortization	**1,394**	929
Total Expenses	**168,126**	146,505
Loss from continuing operations	**(12,487)**	(15,292)
Loss from unconsolidated entities	**(717)**	(374)
Tax (expense)/benefit for the TRS	**(51)**	1,265
Loss before discontinued operations	**(13,255)**	(14,401)
(Loss)/income from discontinued operations	**(168)**	786,856
Consolidated net (loss)/income	**(13,423)**	772,455
Net loss/(income) attributable to non-controlling interests	**794**	(48,736)
Net (loss)/income attributable to UDR, Inc.	**(12,629)**	723,719
Distributions to preferred stockholders Series E (Convertible)	**(931)**	(931)

Distributions to preferred stockholders Series G		**(1,869)**		(2,278)
Net (loss)/income available to common stockholders	**$**	**(15,429)**	$	720, 510
(Loss)/Earnings per weighted average common share basic and diluted:				
Loss from continuing operations available to common stockholders	**$**	**(0.10)**	$	(0.12)
Income from discontinued operations	**$**	**(0.00)**	$	5.17
Net (loss)/income available to common stockholders	**$**	**(0.10)**	$	5.05
Common distributions declared per share	**$**	**0.3050**	$	0.3050
Weighted average number of common shares outstanding basic		**147,614**		142,547
Weighted average number of common shares outstanding diluted		**147,614**		142,547

See accompanying notes to consolidated financial statements.

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UDR, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands, except for share data)
(Unaudited)

Three Months Ended March 31,	2009	2008
Operating Activities		
Consolidated net (loss)/income	**$ (13,423)**	$ 772,455
Adjustments to reconcile consolidated net (loss)/income to net cash provided by operating activities:		
Depreciation and amortization	**70,379**	53,364
Net loss/(gains) on the sale of depreciable property	**168**	(767,146)
Net gains on the sale of land		(175)
Gains on debt extinguishment	**(7,113)**	(4,739)
Write off of bad debt	**915**	498
Write off of notes receivable and other assets	**439**	
Loss from unconsolidated entities	**717**	374
Amortization of deferred financing costs and other	**1,243**	2,551
Amortization of deferred compensation	**2,339**	1,744
Amortization of convertible debt premium	**1,296**	1,670
Prepayments/(refunds) on income taxes	**414**	(932)
Changes in operating assets and liabilities:		
Decrease in operating assets	**11,051**	111
Increase/(decrease) in operating liabilities	**3,132**	(37,341)
Net cash provided by operating activities	**71,557**	22,434
Investing Activities		
Proceeds from sales of real estate investments, net		1,451,047
Disbursements related to notes receivable		(7,152)
Purchase of marketable securities	**(30,936)**	
Acquisition of real estate assets (net of liabilities assumed) and initial capital expenditures		(513,134)
Development of real estate assets	**(53,583)**	(23,978)
Capital expenditures and other major improvements real estate assets, net of escrow reimbursement	**(10,269)**	(31,859)
Capital expenditures non-real estate assets	**(3,343)**	(4,794)
Investment in unconsolidated joint venture	**(1,084)**	89
Purchase deposits on pending real estate acquisitions		(1,021)
Change in funds held in escrow from IRC Section 1031 exchanges		(292,080)
Net cash (used in)/provided by investing activities	**(99,215)**	577,118
Financing Activities		
Payments on secured debt	**(15,196)**	(67,625)
Proceeds from the issuance of secured debt	**269,969**	12,408
Proceeds from the issuance of unsecured debt		240,000
Payments on unsecured debt	**(200,031)**	(262,701)

Net (repayment)/proceeds of revolving bank debt	**51,100**	(309,500)
Payment of financing costs	**(3,330)**	(2,977)
(Payments on)/proceeds from the issuance of common stock	**(335)**	617
Repayment of the investment of performance based programs		(326)
Distributions paid to non-controlling interests	**(4,404)**	(2,962)
Distributions paid to preferred stockholders	**(2,800)**	(3,209)
Distributions paid to common stockholders	**(42,125)**	(43,987)
Repurchase of common stock	**(798)**	(102,322)
Net cash provided by/(used in) financing activities	**52,050**	(542,584)
Net increase in cash and cash equivalents	**24,392**	56,968
Cash and cash equivalents, beginning of period	**12,740**	3,219
Cash and cash equivalents, end of period	**$ 37,132**	$ 60,187
Supplemental Information:		
Interest paid during the period	**$ 39,376**	$ 42,041
Non-cash transactions:		
Conversion of operating partnership minority interests to common stock (110,631 shares in 2009 and 7,150 shares in 2008)	**4,225**	53
Issuance of restricted stock awards	**3**	4
Issuance of note receivable upon the disposition of real estate		200,000
Secured debt assumed with the acquisition of properties, net of fair value adjustment		68,728

See accompanying notes to consolidated financial statements.

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UDR, Inc.
CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME
(In thousands, except share data)
(unaudited)

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Paid-in Capital	Distributions in Excess of Net Income	Accumulated Other Comprehensive Income/(Loss)	Noncontrolling interest	Total
Balance, December 31, 2007	8,203,812	$ 181,571	144,336,438	$ 1,443	$ 1,753,472	$ (916,280)	$ (814)	$	$ 1,019,392
Cumulative effect of change in accounting principles					32,602	(110,834)	44	$ 3,148	(75,040)
Balance January 1, 2008	**8,203,812**	**$ 181,571**	**144,336,438**	**$ 1,443**	**$ 1,786,074**	**$ (1,027,114)**	**$ (770)**	**$ 3,148**	**944,352**
Comprehensive Income									
Net income						697,589		202	697,791
Other comprehensive income									
Unrealized loss on derivative financial instruments							(11,901)		(11,901)
Allocation to redeemable non-controllable interests							744		744
Comprehensive income						**697,589**	**(11,157)**	**202**	**686,634**
Issuance of common and restricted shares			682,650	7	9,191				9,198
Issuance of common shares through public offering			8,661,201	87	183,085				183,172
Purchase of common shares			(6,495,576)	(65)	(140,468)				(140,533)
Redemption of 969,300 shares of	(969,300)	(24,232)			829	3,056			(20,347)

6.75% Series G Cumulative Redeemable Shares									
Adjustment for conversion of non-controlling interests of unitholders in operating partnerships			1,596,402	16	12,160				12,176
Common stock distributions declared ($2.2900 per share)						(175,271)			(175,271)
Preferred stock distributions declared-Series E ($1.3288 per share)						(3,724)			(3,724)
Preferred stock distributions declared-Series G ($1.6875 per share)						(8,414)			(8,414)
Adjustment to reflect redeemable non-controlling OP units at redemption value						65,141			65,141
Balance, December 31, 2008	**7,234,512**	**$ 157,339**	**148,781,115**	**$ 1,488**	**$ 1,850,871**	**$ (448,737)**	**$ (11,927)**	**$ 3,350**	**$ 1,552,384**
Comprehensive Income									
Net loss						(12,629)		39	(12,590)
Other comprehensive income									
Change in fair value of marketable securities							765		765
Unrealized gain on derivative financial instruments							154		154
Allocation to redeemable							(47)		(47)

non-controllable interests									
Comprehensive income						**(12,629)**	**872**	**39**	**(11,718)**
Issuance of common and restricted shares			110,631	1	2,082				2,083
Purchase of common shares			(100,000)	(1)	(797)				(798)
Adjustment for conversion of non-controlling interest in Series B and C LLC					938				938
Adjustment for conversion of non-controlling interests of unitholders in operating partnerships			304,997	3	4,226				4,229
Common stock distributions declared ($0.305 per share)						(44,061)			(44,061)
Preferred stock distributions declared-Series E ($0.3322 per share)						(931)			(931)
Preferred stock distributions declared-Series G ($0.421875 per share)						(1,869)			(1,869)
Adjustment to reflect redeemable non-controlling OP units at redemption value						37,707			37,707
Balance, March 31, 2009	**7,234,512**	**$ 157,339**	**149,096,743**	**$ 1,491**	**$ 1,857,320**	**$ (470,520)**	**$ (11,055)**	**$ 3,389**	**$ 1,537,964**

See accompanying notes to consolidated financial statements.

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UDR, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2009
(UNAUDITED)

1. CONSOLIDATION, BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Consolidation and Basis of Presentation

UDR, Inc., collectively with our consolidated subsidiaries (we , our , us , the Company or UDR) is a self-administ 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). As of March 31, 2009, there were 179,863,065 units in the Operating Partnership outstanding, of which 172,224,444 units or 96% were owned by UDR and 7,638,621 units or 4% were owned by limited partners. As of March 31, 2009, there were 6,264,460 units in the Heritage OP outstanding, of which 6,070,476 units or 97% were owned by UDR and 193,984 units or 3% were owned by limited partners. The consolidated financial statements of UDR include the non-controlling interests of the unitholders in the Operating Partnership and the Heritage OP.

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. In the opinion of management, all adjustments and eliminations necessary for the fair presentation of our financial position as of March 31, 2009, and results of operations for the three months ended March 31, 2009 and 2008 have been included. 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 accompanying interim unaudited 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, 2008, filed with the Securities and Exchange Commission on February 26, 2009.

The accompanying interim unaudited consolidated financial statements are presented in accordance with U.S. generally accepted accounting principles (GAAP). GAAP 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 interim unaudited consolidated financial statements and the amounts of revenues and expenses during the reporting periods. Actual amounts realized or paid could differ from those estimates. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain previously reported amounts have been reclassified to conform to the current financial statement presentation.

Accounting Policies

Income Taxes

Due to the structure of the Company as a REIT and the nature of the operations for the operating properties, no provision for federal income taxes has been provided for at UDR. Historically, the Company has generally incurred only state and local income, excise and franchise taxes. UDR elected for certain consolidated subsidiaries to be treated as Taxable REIT Subsidiaries (TRS) relating to the Company s developer, RE3 and condominium conversion activities.

UDR, Inc.
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(UNAUDITED)

Income taxes for our TRS are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rate is recognized in earnings in the period of the enactment date. The Company s deferred tax assets are generally the result of differing depreciable lives on capitalized assets and timing of expense recognition for certain accrued liabilities. As of March 31, 2009, UDR has recorded a net current and deferred tax asset of approximately $8.3 million and recorded income tax expense, which is reflected in other income on the Company s interim unaudited Consolidated Statements of Operations of $51,000 for the three months ended March 31, 2009.

UDR adopted the Financial Accounting Standards Board (FASB) Interpretation 48, Accounting for Uncertainty in Income Taxes-An Interpretation of FASB Statement No. 109 (FIN 48), on January 1, 2007. FIN 48 defines a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting for interim periods, disclosure and transition.

The Company recognizes our tax positions and evaluates them using a two-step process. First, we determine whether a tax position is more likely than not (greater than 50 percent probability) to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Then the Company will determine the amount of benefit to recognize and record the amount of the benefit that is more likely than not to be realized upon ultimate settlement.

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, UDR s TRS had $538,000 of net unrecognized tax benefits, which would favorably impact our effective tax rate if recognized. UDR had no unrecognized tax benefits, accrued interest or penalties at March 31, 2009. UDR and its subsidiaries are subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. The tax years 2004 2008 remain open to examination by the major taxing jurisdictions to which we are subject. When applicable, UDR recognizes interest and/or penalties related to uncertain tax positions in income tax expense.

Real Estate Sales

The Company accounts for sales of real estate in accordance with FASB Statement of Financial Accounting Standards (SFAS) No. 66, Accounting for Sales of Real Estate (SFAS 66). For sales transactions meeting the requirements for full accrual profit recognition, such as the Company no longer having continuing involvement in the property, we remove the related assets and liabilities from our consolidated balance sheet and record the gain or loss in the period the transaction closes. For sale transactions that do not meet the full accrual sale criteria due to our continuing involvement, we evaluate the nature of the continuing involvement and account for the transaction under an alternate method of accounting.

Sales of real estate to entities in which we retain or otherwise own an interest are accounted for as partial sales. If all other requirements for recognizing profit under the full accrual method have been satisfied and no other forms of continuing involvement are present, we recognize profit proportionate to the outside interest in the buyer and will defer the gain on the interest we retain. The Company will recognize any deferred gain when the property is then sold to a third party. In transactions accounted by us as partial sales, we determine if the buyer of the majority equity interest in the venture was provided a preference as to cash flows in either an operating or a capital waterfall. If a cash flow preference has been provided, we recognize profit only to the extent that proceeds from the sale of the majority equity interest exceed costs related to the entire property.

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UDR, Inc.
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Marketable Securities

Marketable securities represent publicly traded debt securities and are classified as available for sale and carried at fair value, with unrealized gains and losses reported as a separate component of stockholders equity. Declines in the value of public and private investments that management determines are other than temporary are recorded as a provision for loss on investments. The amortization of any discount and interest income are recorded in Other Income on the Consolidated Statement of Operations.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157), that became effective for our fiscal year beginning January 1, 2008. SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with GAAP and expands disclosures about fair value measurement. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements but does not require any new fair value measurements. In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, Effective Date of FASB Statement No. 157 (FSP 157-2), that delays the effective date of SFAS 157 s fair value measurement requirements for nonfinancial assets and liabilities that are not required or permitted to be measured at fair value on a recurring basis. The adoption of SFAS 157 for financial assets and liabilities, as of January 1, 2008, did not have a material impact on our financial position or operations. Fair value measurements identified in FSP 157-2 was effective for our fiscal year beginning January 1, 2009 and did not have a material impact on in the first quarter of 2009.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159), that became effective for our fiscal year beginning January 1, 2008. SFAS 159 allows an entity to elect to measure certain financial instruments at fair value. If this irrevocable election is made, an entity may apply SFAS 159 on an instrument by instrument basis with a few exceptions and report any change in the fair value of the instrument in earnings. The Company opted to not adopt SFAS 159.

In December 2007, the FASB issued SFAS No. 141R, Business Combinations, (SFAS 141R). SFAS 141R establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination, recognizing assets acquired and liabilities assumed arising from contingencies, and determining what information to disclose to enable users of the financial statement to evaluate the nature and financial effects of the business combination. SFAS 141R is effective for fiscal years beginning after December 15, 2008. We believe that the adoption of SFAS 141R could materially impact our future consolidated financial position and results of operations depending on the Company s acquisition activity as certain acquisition costs that have historically been capitalized as part of the basis of the real estate and amortized over the real estate s useful life will now be expensed as incurred. SFAS 141R did not have a material impact on our financial statements in the first quarter of 2009.

In December 2007, the FASB issued SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements (SFAS 160). SFAS 160 amends Accounting Research Bulletin 51, Consolidated Financial Statements to establish accounting and reporting standards for the non-controlling (minority) interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a non-controlling interest in a subsidiary should be reported as equity in the consolidated financial statements. Consolidated net income should include the net income for both the parent and the non-controlling interest with disclosure of both amounts on the consolidated statement of operations. The calculation of earnings per share will continue to be based on income amounts attributable to the parent. SFAS 160 is effective for us on January 1, 2009. As part of our adoption of SFAS 160, we have retroactively adopted the measurement provisions of EITF Topic D-98,

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(UNAUDITED)

Classification and Measurement of Redeemable Securities. Upon adoption, we adjusted the carrying amount of the operating partnership units by recognizing a $101.0 million increase to Redeemable non-controlling interest in operating partnership on the balance sheet and a corresponding decrease in Distributions in Excess of Net Income, which was accounted for as a cumulative effect adjustment on January 1, 2008. In addition, the Company allocated a pro-rated share of Accumulated Other Comprehensive Loss to the redeemable non-controlling interests in operating partnership of $44,000 on January 1, 2008.

Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 (SFAS 161), amends and expands the disclosure requirements of FASB Statement No. 133 (SFAS 133) with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. SFAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about the fair value of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative instruments.

In May 2008, the FASB issued FASB Staff Position APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (APB 14-1). APB 14-1 requires entities that issued certain convertible debt instruments that may be settled or partially settled in cash on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the entity s nonconvertible debt borrowing rate. APB 14-1 requires that an entity determine the estimated fair value of a similar debt instrument as of the date of the issuance without the conversion feature but inclusive of any other embedded features such as puts and calls and assign that value to the debt component of the instrument, which would result in a discount being recorded. The debt would subsequently be accreted to its par value over its expected life using the market rate at the date of issuance. The residual value between the initial proceeds and the value allocated to the debt would be reflected in equity as additional paid in capital. APB 14-1 is effective for fiscal years beginning after December 15, 2008 and would be applied retrospectively to both new and existing convertible instruments. Due to the adoption of APB 14-1, the Company recognized a decrease in Distributions in Excess of Net Income of $9.8 million on January 1, 2008 for the cumulative change in interest expense. We also recorded a $32.6 million increase to Additional Paid in Capital for the allocation of the equity component. The Company recognized an additional $3.0 million and $1.7 million of interest expense in the quarter ended March 31, 2009 and 2008, respectively due to the adoption of APB 14-1.

We adopted the provisions of FASB FSP EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities , or the FSP, effective January 1, 2009. The FSP clarifies that unvested share-based payment awards that participate in dividends similar to shares of common stock or operating partnership units should be treated as participating securities. The FSP affects the computation of basic and diluted earnings per share for unvested restricted stock awards which entitle the holders to dividends. The FSP did not affect earnings per share amounts for the three months ended March 31, 2009 because we reported a net loss for the period and accordingly had no undistributed earnings. The FSP had an immaterial affect on the earnings per share amount for the three months ended March 31, 2008. We do not expect the FSP to have a material effect on future earnings per share amounts.

In May 2008, the FASB issued SFAS 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS 162). SFAS 162 provides the framework for selecting the principles to be used in the preparation of financial statement in conformity with generally accepted accounting principles. SFAS 162 will become effective 60 days following the Securities and Exchange Commission s approval. We believe that the adoption of SFAS 162 will not have a material impact on our consolidated financial statements.

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2. REAL ESTATE

Real estate assets owned by the Company consist of income producing operating properties, properties under development, land held for future development and properties deemed as held for sale. As of March 31, 2009 the Company owned and consolidated 161 communities in 10 states plus the District of Columbia totaling 44,571 apartment homes. The following table summarizes the carrying amounts for our real estate owned (at cost) as of March 31, 2009 and December 31, 2008 *(dollar amounts in thousands):*

	March 31, 2009	December 31, 2008
Land	$ 1,564,905	$ 1,567,737
Depreciable property held for investment:		
Building and improvements	3,903,980	3,859,245
Furniture, fixtures and equipment	224,904	217,948
Under development:		
Land	52,360	52,294
Construction in progress	157,224	134,529
Real estate owned	$ 5,903,373	$ 5,831,753
Accumulated depreciation	(1,147,031)	(1,078,689)
Real estate owned, net	$ 4,756,342	$ 4,753,064

3. DISCONTINUED OPERATIONS

Discontinued operations represent properties that UDR has either sold or which management believes meet the criteria to be classified as held for sale. In order to be classified as held for sale and reported as discontinued operations, a property s operations and cash flows have or will be divested to a third party by the Company whereby UDR will not have any significant continuing involvement in the ownership or operation of the property after the sale or disposition. The results of operations of the property are presented as discontinued operations for all periods presented and do not impact the net earnings reported by the Company. Once a property is deemed as held for sale, depreciation is no longer recorded. However, if the Company determines that the property no longer meets the criteria of held for sale the Company will recapture any unrecorded depreciation for the property. The assets and liabilities of properties deemed as held for sale are presented separately on the Consolidated Balance Sheets. Properties deemed as held for sale are reported at the lower of their carrying amount or their estimated fair value less the costs to sell the assets.

UDR did not dispose of any communities during the three months ended March 31, 2009, nor did we have any classified as held for disposition at March 31, 2009. For the three months ended March 31, 2008, UDR sold 84 communities with a total of 25,140 apartment homes, 22 condominiums from two communities with a total of 640 condominiums, and one parcel of land. The results of operations for these properties are classified on the Consolidated Statements of Operations in the line item titled Income from discontinued operations , for the three months ended March 31, 2009 and 2008.

In conjunction with the sale of the 84 communities during the first quarter of 2008, the Company received a note in the amount of $200 million. The note which is secured by a pledge, security agreement and a guarantee from the buyer s parent entity bears a fixed rate of interest of 7.5% per annum. On May 4, 2009, the Company received from the buyer payment in full of the $200 million note, plus accrued and unpaid interest thereon in the amount of $123,287.

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UDR has elected TRS status for certain of its corporate subsidiaries, primarily those engaged in condominium conversion and development activities. For the three months ended March 31, 2009 and 2008, UDR recognized an income tax expense of $51,000 and an income tax benefit of $1.3 million, respectively. For the three months ended March 31, 2009 and 2008, the tax provision included in discontinued operations was $0 and $126,000, respectively. The income attributable to discontinued operations is summarized as follows *(dollars in thousands):*

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Rental income	**$**	$ 38,985
Non-property income		183
		39,168
Rental expenses		15,807
Property management fee		1,072
Real estate depreciation		
Interest		2,579
Other expenses		
		19,458
Income before net gain on the sale of depreciable property		19,710
Net (loss) gain on the sale of depreciable property, excluding RE3	**(168)**	767,962
RE3 gain/(loss) on sale of real estate, net of tax		(816)
(Loss)/income from discontinued operations	**$ (168)**	$ 786,856

4. JOINT VENTURES

UDR has entered into joint ventures with unrelated third parties for real estate assets that are either consolidated and included in real estate owned on our Consolidated Balance Sheets or are accounted for under the equity method of accounting, which are not consolidated and are included in investment in unconsolidated joint ventures on our Consolidated Balance Sheets. The Company consolidates an entity in which we own less than 100% but control the joint venture as well as any variable interest entity where we are the primary beneficiary. In addition, the Company consolidates any joint venture in which we are the general partner or managing member and the third party does not have the ability to substantively participate in the decision-making process nor do they have the ability to remove us as general partner or managing member, without cause.

UDR s joint ventures, some of which are variable interest entities, are funded with a combination of debt and capital. The allocation between debt and capital will vary by joint venture with our investments having a weighted average of 11% of the initial total assets as contributed capital.

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Unconsolidated Joint Ventures

The Company recognizes earnings or losses from our investments in unconsolidated joint ventures consisting of our proportionate share of the net earnings or loss of the joint venture. In addition, we may earn fees for providing management and development services to the unconsolidated joint ventures. As of March 31, 2009, UDR had investments in the following unconsolidated development joint ventures which are accounted for under the equity method of accounting:

UDR is a partner in a joint venture to develop a site in Bellevue, Washington. At closing, we owned 49% of the joint venture which the Company proposes to develop that involves building a 430 home high rise apartment building with ground floor retail. Our initial investment was $5.7 million. Our investment at March 31, 2009 and December 31, 2008 was $10.4 million and $10.2 million, respectively. The joint venture has no current plans to continue with the development.

UDR is a partner in a joint venture which will develop 274 apartment homes in the central business district of Bellevue, Washington. Construction began in the fourth quarter of 2006 and is scheduled for completion in the third quarter of 2009. At closing, we owned 49% of the joint venture. Our initial investment was $10.0 million. Our investment at March 31, 2009 and December 31, 2008 was $10.5 million and $9.9 million, respectively.

UDR is a partner with an unaffiliated third party in a joint venture which owns and operates a 23-story, 166 home high-rise apartment community in the central business district of Bellevue, Washington. At closing, UDR owned 49% of the joint venture. Our initial investment was $11.8 million. Our investment at March 31, 2009 and December 31, 2008 was $10.4 million.

UDR and an unaffiliated third party in November 2007 formed a joint venture which owns and operates various properties located in Texas. In November 2007, UDR sold nine operating properties, consisting of 3,690 units, and contributed one property under development to the joint venture. The property under development has 302 units and was completed in 2008 and commenced lease up at that time. UDR contributed cash and property equal to 20% of the fair value of the properties. The unaffiliated member contributed cash equal to 80% of the fair value of the properties comprising the joint venture, which was then used to purchase the nine operating properties from UDR. Our initial investment was $20.4 million. Our investment at March 31, 2009 and December 31, 2008 was $16.2 million and $16.5 million, respectively.

The operating results of the properties sold to the Texas joint venture are included as a component of continuing operations on the Consolidated Statement of Operations as UDR will continue to recognize significant cash flows from management fees over the term of the joint venture.

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Summarized financial information relating to 100% of all the unconsolidated joint ventures operations (not just our proportionate share) is presented below for the three months ended March 31, (*dollars in thousands):*

	Three Months Ended March 31, 2009	2008
Revenues	**$ 11,520**	$ 10,632
Real estate depreciation and amortization	**5,155**	5,630
Net loss	**(2,886)**	(3,798)

Combined summary balance sheets relating to 100% of all the unconsolidated joint ventures (not just our proportionate share) is presented below as of March 31, 2009 and December 31, 2008, (*dollars in thousands*):

	March 31, 2009	December 31, 2008
Real estate	**$ 555,257**	$ 544,541
Total assets	**534,422**	534,751
Amount due to UDR	**1,594**	3,898
Third party debt	**380,380**	373,353
Total liabilities	**397,055**	397,135
Equity	**137,367**	137,620

As of March 31, 2009, the Company had deferred profit from the sale of properties of $28.8 million, which the Company will not recognize until the underlying property is sold to a third party. The Company recognized $474,000 and $565,000 of management fees for our involvement in the joint ventures for the three months ended March 31, 2009 and 2008, respectively.

The Company may be required to make additional capital contributions to certain of our joint ventures should additional capital contributions be necessary to fund development costs or operating shortfalls.

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5. SECURED DEBT

Our secured debt instruments generally feature either monthly interest and principal or monthly interest-only payments with balloon payments due at maturity. For purposes of classification of the following table, variable rate debt with a derivative financial instrument designated as a cash flow hedge is deemed as fixed rate debt due to the Company having effectively established the interest rate for the underlying debt instrument. Secured debt on continuing and discontinued operations, which encumbers $2.7 billion or 45% of UDR s real estate owned based upon book value ($3.2 billion or 55% of UDR s real estate owned is unencumbered) consists of the following as of March 31, 2009 (*dollars in thousands*):

	Principal Outstanding		Weighted Average Interest Rate	Weighted Average Years to Maturity	Number of Communities Encumbered
	March 31, 2009	**December 31, 2008**	**2009**	**2009**	**2009**
Fixed Rate Debt					
Mortgage notes payable	**$ 501,928**	$ 476,810	4.85%	2.7	18
Tax-exempt secured notes payable	**13,325**	13,325	5.30%	21.9	1
Fannie Mae credit facilities	**665,994**	666,642	5.52%	6.7	20
Total fixed rate secured debt	**1,181,247**	1,156,777	5.23%	5.2	39
Variable Rate Debt					
Mortgage notes payable	**158,075**	114,181	2.88%	5.1	11
Tax-exempt secured note payable	**27,000**	27,000	1.53%	21.0	1
Fannie Mae credit facilities	**350,922**	164,513	2.32%	7.7	20
Total variable rate secured debt	**535,997**	305,694	2.44%	7.6	32
Total secured debt	**$ 1,717,244**	$ 1,462,471	4.36%	5.9	71

UDR entered into secured revolving credit facilities with Fannie Mae with an aggregate commitment of $1.1 billion at March 31, 2009. The Fannie Mae credit facilities are for an initial term of 10 years, bear interest at floating and fixed rates, and certain variable rate facilities can be extended for an additional five years at our option. We have $666.0 million of the funded balance fixed at a weighted average interest rate of 5.5% and the remaining balance on these facilities is currently at a weighted average variable rate of 2.3%.

	March 31, 2009	**December 31, 2008**
Borrowings outstanding	**$ 1,016,916**	$ 831,155
Weighted average borrowings during the period ended	**892,888**	702,620
Maximum daily borrowings during the period ended	**1,016,916**	831,370

Weighted average interest rate during the period ended	**4.8%**	5.5%
Weighted average interest rate at the end of the period	**4.4%**	5.0%

The Company will from time to time acquire properties subject to fixed rate debt instruments. In those situations, management will record the secured debt at its estimated fair value and amortize any difference between the fair value and par to interest expense over the life of the underlying debt instrument. The unamortized fair market adjustment was an asset of $769,000 and $763,000 at March 31, 2009 and December 31, 2008, respectively.

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Fixed Rate Debt

Mortgage notes payable. Fixed rate mortgage notes payable are generally due in monthly installments of principal and interest and mature at various dates from July 2009 through June 2016 and carry interest rates ranging from 2.50% to 8.18%. Mortgage notes payable includes debt associated with development activities.

Tax-exempt secured notes payable. Fixed rate mortgage notes payable that secure tax-exempt housing bond issues mature in March 2031 and carry an interest rate of 5.30%. Interest on these notes is payable in semi-annual installments.

Secured credit facilities. At March 31, 2009, UDR s fixed rate secured credit facilities consisted of $666.0 million on a $1.1 billion aggregate commitment under four revolving secured credit facilities with Fannie Mae (the Company also owes $350.9 million under the variable rate component of this credit facility). The Fannie Mae credit facilities are for an initial term of 10 years, bear interest at floating and fixed rates, and certain variable rate facilities can be extended for an additional five years at our option. As of March 31, 2009, the fixed rate Fannie Mae credit facilities had a weighted average fixed rate of interest of 5.52%.

Variable Rate Debt

Mortgage notes payable. Variable rate mortgage notes payable are generally due in monthly installments of principal and interest and mature at various dates from October 2009 through April 2016. The mortgage notes payable is based on LIBOR plus some basis points, which translate into interest rates ranging from 1.13% to 4.13% at March 31, 2009. The Company has the ability under the debt instrument maturing in October 2009 to exercise contractually provided extensions (two one-year extensions) on the outstanding balance of $110.3 million.

Tax-exempt secured note payable. The variable rate mortgage note payable that secures tax-exempt housing bond issues matures in March 2030. Interest on this note is payable in monthly installments. The variable mortgage note has an interest rate of 1.53% as of March 31, 2009.

Secured credit facilities. The variable rate secured credit facilities consisted of $350.9 million outstanding on the Fannie Mae credit facilities. As of March 31, 2009, the variable rate Fannie Mae credit facilities had a weighted average floating rate of interest of 2.32%.

The aggregate maturities, including amortizing principal payments, of our secured debt due during each of the next five calendar years and thereafter are as follows *(dollars in thousands):*

	Fixed			Variable			
	Mortgage Notes	Tax-Exempt Notes	Credit Facilities	Mortgage Notes	Tax-Exempt Notes	Credit Facilities	Total
2009	$ 123,686	$	$ 1,859	$ 5,318	$	$	$ 130,863
2010	109,144		2,654	538			112,336
2011	80,577		52,808	27,322		39,513	200,220
2012	56,791		177,944	8,552		60,000	303,287
2013	61,395		38,631	38,403			138,429
Thereafter	70,335	13,325	392,098	77,942	27,000	251,409	832,109
	$ 501,928	$ 13,325	$ 665,994	$ 158,075	$ 27,000	$ 350,922	$ 1,717,244

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6. UNSECURED DEBT

A summary of unsecured debt as of March 31, 2009 and December 31, 2008 is as follows *(dollars in thousands):*

	March 31, 2009	December 31, 2008
Commercial Banks		
Borrowings outstanding under an unsecured credit facility due July 2012 (a)	**$ 51,100**	$
Borrowings outstanding under an unsecured term loan due February 2010 (b)	**240,000**	240,000
Senior Unsecured Notes Other		
4.25% Medium-Term Notes due January 2009		50,000
6.50% Notes due June 2009	**91,899**	200,000
3.90% Medium-Term Notes due March 2010	**50,000**	50,000
3.625% Convertible Senior Notes due September 2011(c)	**127,356**	164,255
5.00% Medium-Term Notes due January 2012	**100,000**	100,000
6.05% Medium-Term Notes due June 2013	**122,500**	125,000
5.13% Medium-Term Notes due January 2014(d)	**184,000**	184,000
5.50% Medium-Term Notes due April 2014(d)	**128,500**	128,500
5.25% Medium-Term Notes due January 2015(d)	**175,175**	175,175
5.25% Medium-Term Notes due January 2016(d)	**83,260**	83,260
8.50% Debentures due September 2024	**54,118**	54,118
4.00% Convertible Senior Notes due December 2035(e)	**235,114**	244,166
Other	**147**	149
	1,643,169	1,798,623
Unsecured Notes Premiums & Discount		
Premium on $50 million Medium-Term Notes due March 2010	**151**	190
Premium on $250 million Medium-Term Notes due January 2015(d)	**203**	212
Discount on $150 million Medium-Term Notes due April 2014(d)	**(346)**	(363)
	8	39
Total Unsecured Debt	**$ 1,643,177**	$ 1,798,662

(a) Our unsecured credit facility provides us with an aggregate borrowing capacity of $600 million, which at our election we can increase to $750 million under certain circumstances. Our unsecured credit facility with a consortium of financial institutions carries an interest rate equal to LIBOR plus a spread of 47.5 basis points and matures on July 26, 2012. In addition, the unsecured credit facility contains a provision that allows us to bid up to 50% of the commitment and we can bid out the entire unsecured credit facility once per quarter so long as we maintain an investment grade rating.

(b) During the year ended December 31, 2008, UDR borrowed $240 million in the form of a two-year unsecured term loan from a consortium of banks. UDR entered into one interest rate swap agreement associated with the borrowings under the term loan with an aggregate notional value of $200 million in which the Company pays a fixed rate of interest and receives a variable rate of interest on the notional amount. The interest rate swap effectively changes UDR s interest rate exposure on $200 million of these borrowings from a variable rate to a weighted average fixed rate of approximately 3.61%. The remaining $40 million has a variable interest rate, which was 1.36% at March 31, 2009.

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(c) 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, 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. The Company s Special Dividend met the criteria to adjust the conversion rate and will result in an adjusted conversion rate of 29.0207 shares of our common stock for each $1,000 of principal. 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.

(d) During the three months ended March 31, 2009, the Company repurchased several different traunches of its unsecured debt in open market purchases. As a result of these transactions, we retired debt with a notional value of $159.6 million for $150 million of cash. The gain of $7.1 million is presented as a separate component of interest expense on our Consolidated Statement of Operations. Consistent with our accounting policy, the Company expensed $737,000 of unamortized financing costs and $1.8 million unamortized premium on convertible debt as a result of these debt retirements.

(e) The convertible notes are convertible at the option of the holder on January 15, 2011, December 15, 2015, December 15, 2020, December 15, 2025 and December 15, 2030 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, subject to adjustment in certain circumstances. The Company s Special Dividend met the criteria to adjust the conversion rate and the conversion rate was adjusted to 38.7123 shares of our common stock for each $1,000 of principal. The Company has at our discretion after providing adequate notification, the ability to redeem the instrument subsequent to January 15, 2011 for cash, and in certain instances shares of UDR s common stock.

In May 2008, the Financial Accounting Standards Board (FASB) affirmed the consensus of FASB Staff Position APB 14-1 (FSP APB 14-1), Accounting for Convertible Debt instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement), which applies to all convertible debt instruments that have a net settlement feature , which means that such convertible debt instruments, by their terms, may be settled either wholly or partially in cash upon conversion. FSP APB 14-1 requires issuers of convertible debt instruments that may be settled wholly or partially in cash upon conversion to separately account for the liability and equity components in a manner reflective of the issuers nonconvertible debt borrowing rate. The Company adopted FSP APB 14-1 as of January 1, 2009, and the adoption impacted the historical accounting for the 3.625% convertible senior notes due September 2011 and the 4.00% convertible senior notes due December 2035, and resulted in increased interest expense of $3.0 million and $1.7 million for the three months ended March 31, 2009 and 2008, respectively.

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The following is a summary of short-term bank borrowings under UDR s bank credit facility at March 31, 2009 and December 31, 2008 *(dollars in thousands):*

	March 31, 2009	December 31, 2008
Total revolving credit facility	**$ 600,000**	$ 600,000
Borrowings outstanding at end of period	**51,100**	
Weighted average daily borrowings during the period ended	**161,597**	84,566
Maximum daily borrowings during the period ended	**279,400**	587,400
Weighted average interest rate during the period ended	**1.0%**	4.1%
Weighted average interest rate at the end of the period	**0.9%**	N/A

The convertible notes are convertible at the option of the holder, and as such are presented as if the holder will convert the debt instrument at the earliest available date. The aggregate maturities of unsecured debt for the five years subsequent to March 31, 2009 are