

HOME PROPERTIES INC
Form 10-Q
August 08, 2008

UNITED STATES

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

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY
PERIOD ENDED JUNE 30, 2008

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

COMMISSION FILE NUMBER: 1-13136

HOME PROPERTIES, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

MARYLAND
(State of incorporation)

16-1455126
(I.R.S. Employer
Identification No.)

850 Clinton Square, Rochester, New York 14604
(Address of principal executive offices) (Zip Code)

(585) 546-4900
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for at least the past 90 days.

Yes No

Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer, 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):

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Large accelerated filer 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 Exchange Act).

Yes No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes " No "

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Common Stock	Outstanding at July 31, 2008
\$.01 par value	31,920,426

HOME PROPERTIES, INC.

TABLE OF CONTENTS

	PAGE
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
<u>Consolidated Balance Sheets –</u> <u>June 30, 2008 (Unaudited) and December 31, 2007</u>	4
<u>Consolidated Statements of Operations (Unaudited) –</u> <u>Three months ended June 30, 2008 and 2007</u>	5
<u>Consolidated Statements of Operations (Unaudited) –</u> <u>Six months ended June 30, 2008 and 2007</u>	6
<u>Consolidated Statement of Stockholders' Equity (Unaudited) –</u> <u>Six months ended June 30, 2008</u>	7
<u>Consolidated Statements of Cash Flow (Unaudited) –</u> <u>Six months ended June 30, 2008 and 2007</u>	8
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	9-16
Item 2. <u>Management's Discussion and Analysis of Financial Condition and</u> <u>Results of Operations</u>	17-29
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	30
Item 4. <u>Controls and Procedures</u>	31
PART II. OTHER INFORMATION	
Item 1A. <u>Risk Factors</u>	32
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	32
Item 4. <u>Submission of Matter to a Vote of Security Holders</u>	33
Item 6. <u>Exhibits</u>	34
<u>Signatures</u>	35

PART I – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

HOME PROPERTIES, INC.

CONSOLIDATED BALANCE SHEETS
JUNE 30, 2008 AND DECEMBER 31, 2007
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	2008 (Unaudited)	2007 (Note 1)
ASSETS		
Real estate:		
Land	\$ 506,088	\$ 510,120
Construction in progress	83,688	54,069
Buildings, improvements and equipment	3,127,033	3,115,966
	3,716,809	3,680,155
Less: accumulated depreciation	(589,905)	(543,917)
Real estate, net	3,126,904	3,136,238
Cash and cash equivalents	4,827	6,109
Cash in escrows	29,225	31,005
Accounts receivable, net	10,826	11,109
Prepaid expenses	10,063	15,560
Deferred charges	11,468	12,371
Other assets	3,963	4,031
Total assets	\$ 3,197,276	\$ 3,216,423
LIABILITIES AND STOCKHOLDERS' EQUITY		
Mortgage notes payable	\$ 1,944,469	\$ 1,986,789
Exchangeable senior notes	200,000	200,000
Line of credit	75,500	2,500
Accounts payable	19,978	18,616
Accrued interest payable	10,723	10,984
Accrued expenses and other liabilities	27,766	27,586
Security deposits	21,878	22,826
Total liabilities	2,300,314	2,269,301
Commitments and contingencies		
Minority interest	266,202	279,061
Stockholders' equity:		
Common stock, \$.01 par value; 80,000,000 shares authorized; 31,844,414 and 32,600,614 shares issued and outstanding at June 30, 2008 and December 31, 2007, respectively	318	326
Excess stock, \$.01 par value; 10,000,000 shares authorized; no shares issued or outstanding	-	-
Additional paid-in capital	823,579	853,358
Distributions in excess of accumulated earnings	(193,137)	(185,623)
Total stockholders' equity	630,760	668,061
Total liabilities and stockholders' equity	\$ 3,197,276	\$ 3,216,423

The accompanying notes are an integral part of these consolidated financial statements.

[Table of Contents](#)

Page 4

HOME PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED JUNE 30, 2008 AND 2007
(UNAUDITED, IN THOUSANDS, EXCEPT PER SHARE DATA)

	2008	2007
Revenues:		
Rental income	\$ 118,208	\$ 114,720
Property other income	10,350	9,561
Interest income	20	83
Other income	86	58
Total revenues	128,664	124,422
Expenses:		
Operating and maintenance	51,717	50,486
General and administrative	6,620	5,953
Interest	28,838	30,239
Depreciation and amortization	28,826	27,071
Total expenses	116,001	113,749
Income from operations	12,663	10,673
Minority interest in operating partnerships	(3,747)	(3,065)
Income from continuing operations	8,916	7,608
Discontinued operations:		
Income (loss) from operations, net of (\$4) and \$487 in 2008 and 2007, respectively, allocated to minority interest	(9)	1,209
Gain (loss) on disposition of property, net of (\$46) in 2007, allocated to minority interest	(1)	(115)
Discontinued operations	(10)	1,094
Net income	8,906	8,702
Preferred dividends	-	-
Net income available to common shareholders	\$ 8,906	\$ 8,702
Basic earnings per share data:		
Income from continuing operations	\$ 0.28	\$ 0.23
Discontinued operations	-	0.03
Net income available to common shareholders	\$ 0.28	\$ 0.26
Diluted earnings per share data:		
Income from continuing operations	\$ 0.28	\$ 0.23
Discontinued operations	-	0.03
Net income available to common shareholders	\$ 0.28	\$ 0.26
Weighted average number of shares outstanding:		
Basic	31,641,975	33,255,898
Diluted	32,111,791	33,985,283
Dividends declared per share	\$ 0.66	\$ 0.65

The accompanying notes are an integral part of these consolidated financial statements.

HOME PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007
(UNAUDITED, IN THOUSANDS, EXCEPT PER SHARE DATA)

	2008	2007
Revenues:		
Rental income	\$ 235,263	\$ 225,406
Property other income	22,521	19,974
Interest income	140	1,290
Other income	278	833
Total revenues	258,202	247,503
Expenses:		
Operating and maintenance	108,115	103,737
General and administrative	12,840	11,471
Interest	58,914	59,114
Depreciation and amortization	57,265	53,406
Total expenses	237,134	227,728
Income from operations	21,068	19,775
Minority interest in operating partnerships	(6,218)	(4,763)
Income from continuing operations	14,850	15,012
Discontinued operations:		
Income (loss) from operations, net of (\$381) and \$889 in 2008 and 2007, respectively, allocated to minority interest	(915)	2,208
Gain (loss) on disposition of property, net of \$8,778 and (\$100) in 2008 and 2007, respectively, allocated to minority interest	21,070	(248)
Discontinued operations	20,155	1,960
Net income	35,005	16,972
Preferred dividends	-	(1,290)
Preferred stock issuance costs write-off	-	(1,902)
Net income available to common shareholders	\$ 35,005	\$ 13,780
Basic earnings per share data:		
Income from continuing operations	\$ 0.47	\$ 0.36
Discontinued operations	0.63	0.06
Net income available to common shareholders	\$ 1.10	\$ 0.42
Diluted earnings per share data:		
Income from continuing operations	\$ 0.46	\$ 0.35
Discontinued operations	0.62	0.06
Net income available to common shareholders	\$ 1.08	\$ 0.41
Weighted average number of shares outstanding:		
Basic	31,927,868	33,161,446
Diluted	32,342,054	33,958,962
Dividends declared per share	\$ 1.32	\$ 1.30

The accompanying notes are an integral part of these consolidated financial statements.

HOME PROPERTIES, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
 FOR THE SIX MONTHS ENDED JUNE 30, 2008
 (UNAUDITED, IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	Common Stock		Additional	Distributions	
	Shares	Amount	Paid-In	in Excess of	Totals
			Capital	Earnings	
Balance, December 31, 2007	32,600,614	\$ 326	\$ 853,358	\$ (185,623)	\$ 668,061
Net income	-	-	-	35,005	35,005
Issuance of common stock, net	181,353	1	7,224	-	7,225
Repurchase of common stock	(1,123,279)	(11)	(52,485)	-	(52,496)
Conversion of UPREIT Units for stock	185,726	2	9,334	-	9,336
Adjustment of minority interest	-	-	6,148	-	6,148
Dividends paid (\$1.32 per share)	-	-	-	(42,519)	(42,519)
Balance, June 30, 2008	31,844,414	\$ 318	\$ 823,579	\$ (193,137)	\$ 630,760

The accompanying notes are an integral part of these consolidated financial statements.

[Table of Contents](#)

HOME PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007
(UNAUDITED, IN THOUSANDS)

	2008	2007
Cash flows from operating activities:		
Net income	\$ 35,005	\$ 16,972
Adjustments to reconcile net income to net cash provided by operating activities:		
Income allocated to minority interest	14,615	5,552
Depreciation and amortization	54,510	55,877
(Gain) loss on disposition of property and business	(29,848)	348
Issuance of restricted stock, compensation cost of stock options and deferred compensation	2,954	2,456
Changes in assets and liabilities:		
Cash held in escrows	1,395	380
Other assets	5,352	4,996
Accounts payable and accrued liabilities	(1,093)	(6,058)
Total adjustments	47,885	63,551
Net cash provided by operating activities	82,890	80,523
Cash flows from investing activities:		
Purchase of properties and other assets, net	(15,951)	(144,163)
Additions to properties	(57,748)	(39,356)
Proceeds (costs) from sale of properties	63,044	(348)
Withdrawals from funds held in escrow, net	415	40,636
Net cash used in investing activities	(10,240)	(143,231)
Cash flows from financing activities:		
Proceeds from sale of common stock, net	4,271	5,200
Repurchase of Series F preferred stock	-	(60,000)
Repurchase of common stock	(52,496)	(7,579)
Proceeds from mortgage notes payable	43,145	100,515
Payments of mortgage notes payable	(81,033)	(65,051)
Proceeds from line of credit	209,500	166,500
Payments on line of credit	(136,500)	(127,500)
Payments of deferred loan costs	(680)	(878)
Withdrawals from (additions to) cash escrows, net	(30)	366
Dividends and distributions paid	(60,109)	(61,727)
Net cash used in financing activities	(73,932)	(50,154)
Net decrease in cash and cash equivalents	(1,282)	(112,862)
Cash and cash equivalents:		
Beginning of year	6,109	118,212
End of period	\$ 4,827	\$ 5,350
Supplemental disclosure of non-cash operating, investing and financing activities:		
Mortgage loans assumed associated with property acquisitions	\$ -	\$ 3,742
Issuance of UPREIT Units associated with property and other acquisitions	-	27,475
Increase in real estate associated with the purchase of UPREIT Units	5,600	13,611
Exchange of UPREIT Units for common shares	3,736	8,003
Additions to properties included in accounts payable	5,156	4,058
Fair value of hedge instruments	-	(206)
Preferred stock issuance costs write-off	-	1,902

Mortgage note premium write-off	4,433	-
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The accompanying notes are an integral part of these consolidated financial statements.

[Table of Contents](#)

Page 8

HOME PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED, DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

1. Unaudited Interim Financial Statements

The interim consolidated financial statements of Home Properties, Inc. (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the applicable rules and regulations of the Securities and Exchange Commission. Accordingly, certain disclosures that would accompany annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America are omitted. The year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments, consisting solely of normal recurring adjustments, necessary for the fair statement of the consolidated financial statements for the interim periods have been included. The current period's results of operations are not necessarily indicative of results which ultimately may be achieved for the year. The interim consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-K for the year ended December 31, 2007.

2. Organization and Basis of Presentation

Organization

The Company was formed in November 1993 as a Maryland corporation and is engaged primarily in the ownership, management, acquisition, rehabilitation and development of residential apartment communities primarily in select Northeast, Mid-Atlantic and Southeast Florida regions of the United States. The Company conducts its business through Home Properties, L.P. (the "Operating Partnership"), a New York limited partnership. As of June 30, 2008, the Company operated 118 apartment communities with 38,071 apartments. Of this total, the Company owned 116 communities, consisting of 36,921 apartments, managed as general partner one partnership that owned 868 apartments, and fee managed one community, consisting of 282 apartments, for a third party.

The Company elected to be taxed as a Real Estate Investment Trust ("REIT") under the Internal Revenue Code, as amended, for all periods presented. A corporate REIT is a legal entity which holds real estate interests and must meet a number of organizational and operational requirements, including a requirement that it currently distribute at least 90% of its adjusted taxable income to stockholders. As a REIT, the Company generally will not be subject to corporate level tax on taxable income it distributes currently to its stockholders. Management believes that all such conditions for the avoidance of income taxes have been met for the periods presented.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company and its ownership of 70.6% of the limited partnership units in the Operating Partnership ("UPREIT Units") at June 30, 2008 (70.8% at December 31, 2007). The remaining 29.4% is reflected as Minority Interest in these consolidated financial statements at June 30, 2008 (29.2% at December 31, 2007). The Company owns a 1.0% general partner interest in the Operating Partnership and the remainder indirectly as a limited partner through its wholly owned subsidiary, Home Properties I, LLC, which owns 100% of Home Properties Trust, which is the limited partner. Home Properties Trust was formed in September 1997, as a Maryland real estate trust and as a qualified REIT subsidiary ("QRS") and owns the Company's share of the limited partner interests in the Operating Partnership. For financing purposes, the Company has formed a limited liability company (the "LLC") and a partnership (the "Financing Partnership"), which beneficially own certain

apartment communities encumbered by mortgage indebtedness. The LLC is wholly owned by the Operating Partnership. The Financing Partnership is owned 99.9% by the Operating Partnership and 0.1% by the QRS.

[Table of Contents](#)

HOME PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED, DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

2. Organization and Basis of Presentation (continued)

The accompanying consolidated financial statements include the accounts of Home Properties Resident Services, Inc. (the "Management Company"). The Management Company is a wholly owned subsidiary of the Company. In addition, the Company consolidates one affordable housing limited partnership in accordance with FASB Interpretation No. 46R, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51 – Consolidated Financial Statements ("FIN 46R"). All significant inter-company balances and transactions have been eliminated in these consolidated financial statements.

3. Recent Accounting Pronouncements

On January 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements; the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, SFAS 157 does not require any new fair value measurements for the Company. In February 2008, the FASB deferred the effective date of SFAS 157 until January 1, 2009 for all non-financial assets and non-financial liabilities except for those that are recognized or disclosed at fair value in the financial statements on a recurring basis. The adoption of SFAS 157 did not have a material impact on the Company's financial position and results of operations.

On January 1, 2008, the Company adopted SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 ("SFAS 159"). Under SFAS 159, entities are now permitted to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis. Excluded from the scope of SFAS 159 are real estate assets and interests in VIE's. The Company has not opted to fair value any assets or liabilities, therefore, the adoption of SFAS 159 did not have a material impact on the Company's financial position and results of operations.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations ("SFAS 141R"), which establishes principles and requirements for how the acquirer shall recognize and measure in its financial statements the identifiable assets acquired, liabilities assumed, any non-controlling interest in the acquiree and goodwill acquired in a business combination. This statement is effective for business combinations for which the acquisition date is on or after January 1, 2009. The Company is currently assessing the potential impact that the adoption of SFAS 141R will have on its financial position and results of operations.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51 ("SFAS 160"), which establishes and expands accounting and reporting standards for minority interests, which will be re-characterized as non-controlling interests, in a subsidiary and the deconsolidation of a subsidiary. This statement is effective for the Company beginning January 1, 2009. The Company is currently assessing the potential impact that the adoption of SFAS 160 will have on its financial position and results of operations.

[Table of Contents](#)

HOME PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED, DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

3. Recent Accounting Pronouncements (continued)

In May 2008, the FASB issued FSP No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement), (“FSP APB 14-1”), that requires the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) to be separately accounted for in a manner that reflects the issuer’s nonconvertible debt borrowing rate. FSP APB 14-1 requires that the initial debt proceeds from the sale of the Company’s \$200 million of 4.125% exchangeable senior notes due 2026 be allocated between a liability component and an equity component in a manner that reflects interest expense at the interest rate of similar nonconvertible debt. The resulting debt discount will be amortized over the period during which the debt is expected to be outstanding (through the first optional redemption date of November 1, 2011) as additional non-cash interest expense and will increase in subsequent reporting periods, as the debt accretes to its par value through November 1, 2011. Based on the Company’s initial assessment of the application of FSP APB 14-1, this will result in approximately \$3.2, \$3.4 and \$2.9 million additional non-cash interest expense (including the impact of additional capitalized interest of \$0.1 million per year) for fiscal years 2009, 2010 and 2011, respectively. FSP APB 14-1 is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is not permitted. Upon adoption, FSP APB 14-1 requires companies to retrospectively apply the requirements of the pronouncement to all periods presented.

In June 2008, the FASB issued FSP No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities (“FSP EITF 03-6-1”) which clarifies that share-based payment awards that entitle their holders to receive nonforfeitable dividends before vesting should be considered participating securities. As participating securities, these instruments should be included in the calculation of basic EPS. This statement is effective for the Company beginning January 1, 2009. The Company is currently evaluating the impact and believes that the adoption of FSP EITF 03-6-1 will not have a material effect on its financial position and results of operations.

[Table of Contents](#)

HOME PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED, DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

4. Earnings Per Common Share

Basic earnings per share (“EPS”) is computed as net income available to common shareholders divided by the weighted average number of common shares outstanding for the period, including phantom shares under the Company’s incentive compensation plan. Diluted EPS reflects the potential dilution that could occur from common shares issuable through stock-based compensation including stock options (using the treasury stock method), and restricted stock under the Company’s incentive compensation plan. The exchange of an UPREIT Unit for common stock will have no effect on diluted EPS as unitholders and stockholders effectively share equally in the net income of the Operating Partnership. Income from continuing operations is the same for both the basic and diluted calculation.

The reconciliation of the basic and diluted earnings per share for the three and six months ended June 30, 2008 and 2007 follows:

	Three Months		Six Months	
	2008	2007	2008	2007
Income from continuing operations	\$ 8,916	\$ 7,608	\$ 14,850	\$ 15,012
Less: Preferred dividends	-	-	-	(1,290)
Less: Preferred stock issuance costs write-off	-	-	-	(1,902)
Basic and Diluted – Income from continuing operations				
applicable to common shareholders	8,916	7,608	14,850	11,820
Discontinued operations	(10)	1,094	20,155	1,960
Net income available to common shareholders	\$ 8,906	\$ 8,702	\$ 35,005	\$ 13,780
Basic weighted average number of shares outstanding	31,641,975	33,255,898	31,927,868	33,161,446
Effect of dilutive stock options	423,617	586,098	375,915	650,830
Effect of restricted stock	46,199	143,287	38,271	146,686
Diluted weighted average number of shares outstanding	32,111,791	33,985,283	32,342,054	33,958,962
Basic earnings per share data:				
Income from continuing operations	\$ 0.28	\$ 0.23	\$ 0.47	\$ 0.36
Discontinued operations	-	0.03	0.63	0.06
Net income available to common shareholders	\$ 0.28	\$ 0.26	\$ 1.10	\$ 0.42
Diluted earnings per share data:				
Income from continuing operations	\$ 0.28	\$ 0.23	\$ 0.46	\$ 0.35
Discontinued operations	-	0.03	0.62	0.06
Net income available to common shareholders	\$ 0.28	\$ 0.26	\$ 1.08	\$ 0.41

Unexercised stock options to purchase 1,491,421, 547,515, 1,500,059 and 12,000 shares of the Company’s common stock were not included in the computations of diluted EPS because the options’ exercise prices were greater than the average market price of the Company’s stock during the three and six months ended June 30, 2008 and 2007, respectively. In conjunction with the issuance of the Exchangeable Senior Notes, there are 490,880 potential shares issuable under certain circumstances, of which none were considered dilutive as of June 30, 2008 and 2007.

[Table of Contents](#)

HOME PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED, DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

5. Variable Interest Entities

The Company is the general partner in one variable interest entity ("VIE") syndicated using low income housing tax credits under Section 42 of the Internal Revenue Code. As general partner, the Company manages the day-to-day operations of the partnership for a management fee. In addition, the Company has an operating deficit guarantee and tax credit guarantee to the limited partners of that partnership (as discussed in Note 13). The Company is responsible to fund operating deficits to the extent there are any and can receive operating incentive awards when cash flows reach certain levels. The effect on the consolidated balance sheet as of June 30, 2008 is an increase in total assets of \$18,353, an increase in total liabilities of \$17,243, and an increase in minority interest of \$1,110. Of the \$17,243 increase in total liabilities, \$16,399 represents non-recourse mortgage debt.

6. Interest Capitalized

Capitalized interest associated with communities under development or rehabilitation totaled \$1,301 and \$895 for the three months ended June 30, 2008 and 2007; and \$2,362 and \$1,499 for the six months ended June 30, 2008 and 2007, respectively.

7. Line of Credit

As of June 30, 2008, the Company had an unsecured line of credit agreement with M&T Bank for \$140,000 which expires September 1, 2009. On May 27, 2008, the Company executed a one-year extension to the credit agreement under the same terms and conditions as the agreement which was set to expire on September 1, 2008. The Company's outstanding balance as of June 30, 2008, was \$75,500. The Company has had no occurrences of default as of June 30, 2008. Borrowings under the line of credit bear interest at 0.75% over the one-month LIBOR rate. The one-month LIBOR rate was 2.463% at June 30, 2008. Accordingly, increases in interest rates will increase the Company's interest expense and as a result will affect the Company's results of operations and financial condition.

8. Preferred Stock

In March 2002, the Company issued 2,400,000 shares of its 9.00% Series F Cumulative Redeemable Preferred Stock ("Series F Preferred Shares"), with a \$25.00 liquidation preference per share. This offering generated net proceeds of approximately \$58,098. Each Series F Preferred share received an annual dividend equal to 9.00% of the liquidation preference per share (equivalent to a fixed annual amount of \$2.25 per share). The Series F Preferred Shares were redeemed by the Company on March 26, 2007 at a redemption price of \$25.00 per share, plus accrued and unpaid dividends of \$390. In accordance with the SEC's clarification of EITF Abstracts, Topic No. D-42, The Effect on the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock, the initial offering costs of \$1,902 associated with the issuance of the Series F Preferred Shares were written-off in the first quarter of 2007, and are reflected as a reduction of net income available to common stockholders in determining earnings per share for the six months ended June 30, 2007.

[Table of Contents](#)

HOME PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED, DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

9. Segment Reporting

The Company is engaged in the ownership and management of market rate apartment communities. Each apartment community is considered a separate operating segment. Each segment on a stand alone basis is less than 10% of the revenues, net operating income, and assets of the combined reported operating segments and meets all of the aggregation criteria under Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information (“SFAS 131”). The operating segments are aggregated as Core and Non-core properties.

Non-segment revenue to reconcile to total revenue consists of interest income and other income. Non-segment assets to reconcile to total assets include cash and cash equivalents, cash in escrows, accounts receivable, prepaid expenses, deferred charges and other assets.

Core properties consist of all apartment communities which have been owned more than one full calendar year. Therefore, the Core properties represent communities owned as of January 1, 2007. Non-core properties consist of apartment communities acquired or developed during 2007 and 2008, such that full year comparable operating results are not available.

The Company assesses and measures segment operating results based on a performance measure referred to as net operating income. Net operating income is defined as total revenues less operating and maintenance expenses. The accounting policies of the segments are the same as those described in Notes 1 and 2 of the Company’s Form 10-K for the year ended December 31, 2007.

The revenues and net operating income for each of the reportable segments are summarized for the three and six months ended June 30, 2008 and 2007 as follows:

	Three Months		Six Months	
	2008	2007	2008	2007
Revenues				
Apartments owned				
Core properties	\$ 122,013	\$ 118,700	\$ 244,561	\$ 237,062
Non-core properties	6,545	5,581	13,223	8,318
Reconciling items	106	141	418	2,123
Total revenues	\$ 128,664	\$ 124,422	\$ 258,202	\$ 247,503
Net operating income				
Apartments owned				
Core properties	\$ 73,553	\$ 70,539	\$ 142,823	\$ 137,167
Non-core properties	3,288	3,256	6,846	4,476
Reconciling items	106	141	418	2,123
Net operating income, including reconciling items	76,947	73,936	150,087	143,766
General and administrative expenses	(6,620)	(5,953)	(12,840)	(11,471)
Interest expense	(28,838)	(30,239)	(58,914)	(59,114)
Depreciation and amortization	(28,826)	(27,071)	(57,265)	(53,406)
Minority interest in operating partnership	(3,747)	(3,065)	(6,218)	(4,763)

Income from continuing operations	\$	8,916	\$	7,608	\$	14,850	\$	15,012
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HOME PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED, DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

9. Segment Reporting (continued)

The assets for each of the reportable segments are summarized as follows as of June 30, 2008 and December 31, 2007:

Assets	2008	2007
Apartments owned		
Core properties	\$ 2,830,666	\$ 2,839,669
Non-core properties	296,238	296,569
Reconciling items	70,372	80,185
Total assets	\$ 3,197,276	\$ 3,216,423

10. Derivative Financial Instruments

The Company enters into financial derivative instruments only for the purpose of minimizing risk and, thereby, protecting income. Derivative instruments utilized as part of the Company's risk management strategy may include interest rate swaps and caps. All derivatives are recognized on the balance sheet at fair value. The Company does not employ leveraged derivative instruments, nor does it enter into derivative instruments for trading or speculative purposes.

The Company had four interest rate swaps that effectively converted variable rate debt to fixed rate debt. On May 29, 2007, these interest rate swaps were terminated and the Company received a termination fee of \$27. The accumulated other comprehensive income of \$84 was reclassified into earnings. The related variable rate debt was repaid on June 13, 2007. For the entire term of these interest rate swap agreements, as the critical terms of the interest rate swaps and the hedged items were the same, no ineffectiveness was recorded in the consolidated statements of operations. All components of the interest rate swaps were included in the assessment of hedge effectiveness.

11. Acquisitions

On March 4, 2008, the Company acquired a land parcel located in Silver Spring, MD for total consideration of \$15,932. The transaction was funded in cash. The Company is proceeding with the approval of a final site plan developed by the prior owner which contemplates the development of up to 314 apartments.

12. Disposition of Property and Discontinued Operations

The Company reports its property dispositions as discontinued operations as prescribed by the provisions of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ("SFAS 144"). Pursuant to the definition of a component of an entity in SFAS 144, assuming no significant continuing involvement by the former owner after the sale, the sale of an apartment community is considered a discontinued operation. In addition, apartment communities classified as held for sale are also considered discontinued operations. The Company generally considers assets to be held for sale when all significant contingencies surrounding the closing have been resolved, which often corresponds with the actual closing date.

Included in discontinued operations for the three and six months ended June 30, 2008 are the operating results, net of minority interest, of seven apartment communities sold in three separate transactions during the six months ended June 30, 2008 (the "2008 Disposed Communities"). Included in discontinued operations for the three and six months

ended June 30, 2007 are the operating results, net of minority interest, of five apartment communities sold in five separate transactions during the year ended December 31, 2007 (“2007 Disposed Communities”) and the 2008 Disposed Communities. For purposes of the discontinued operations presentation, the Company only includes interest expense and losses from early extinguishment of debt associated with specific mortgage indebtedness of the properties that are sold or held for sale.

[Table of Contents](#)

Page 15

HOME PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED, DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

12. Disposition of Property and Discontinued Operations (continued)

The operating results of discontinued operations are summarized for the three and six months ended June 30, 2008 and 2007 as follows:

	Three Months		Six Months	
	2008	2007	2008	2007
Revenues:				
Rental income	\$ 11	\$ 5,213	\$ 755	\$ 10,304
Property other income	5	238	29	652
Total revenues	16	5,451	784	10,956
Expenses:				
Operating and maintenance	29	1,984	531	4,572
Interest expense, including prepayment penalties	-	477	1,443	731
Depreciation and amortization	-	1,294	106	2,556
Total expenses	29	3,755	2,080	7,859
Income (loss) from discontinued operations before minority interest	(13)	1,696	(1,296)	3,097
Minority interest in operating partnerships	4	(487)	381	(889)
Income (loss) from discontinued operations	\$ (9)	\$ 1,209	\$ (915)	\$ 2,208

13. Commitments and Contingencies

Contingencies

The Company is not a party to any legal proceedings which are expected to have a material adverse effect on the Company's liquidity, financial position or results of operations. The Company is subject to a variety of legal actions for personal injury or property damage arising in the ordinary course of its business, most of which are covered by liability insurance. Various claims of employment and resident discrimination are also periodically brought. While the resolution of these matters cannot be predicted with certainty, management believes that the final outcome of such legal proceedings and claims will not have a material adverse effect on the Company's liquidity, financial position or results of operations.

In connection with various UPREIT transactions, the Company has agreed to maintain certain levels of nonrecourse debt for a period of 5 to 10 years associated with the contributed properties acquired. In addition, the Company is restricted in its ability to sell certain contributed properties (49% by number of apartment communities of the owned portfolio) for a period of 7 to 15 years except through a tax deferred like-kind exchange. The remaining terms on the sale restrictions range from 1 to 7.5 years.

Guarantees

As of June 30, 2008, the Company, through its general partnership interest in an affordable property limited partnership, has guaranteed low income housing tax credits to limited partners for a remaining period of 6.5 years totaling approximately \$3,000. As of June 30, 2008, there were no known conditions that would make such payments necessary relating to these guarantees. In addition, the Company, acting as general partner in this partnership, is

obligated to advance funds to meet partnership operating deficits.

14. Subsequent Event

On July 30, 2008, the Board of Directors approved a dividend of \$0.66 per share on the Company's common stock for the quarter ended June 30, 2008. This is the equivalent of an annual distribution of \$2.64 per share. The dividend is payable August 22, 2008 to shareholders of record on August 13, 2008.

[Table of Contents](#)

Page 16

HOME PROPERTIES, INC.

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

The following discussion should be read in conjunction with the accompanying consolidated financial statements and notes thereto.

Forward-Looking Statements

This discussion contains forward-looking statements. Historical results and percentage relationships set forth in the consolidated financial statements, including trends which might appear, should not be taken as indicative of future operations. The Company considers portions of the information to be "forward-looking statements" within the meaning of Section 27A of the Securities Exchange Act of 1933 and Section 21E of the Securities Exchange Act of 1934, both as amended, with respect to the Company's expectations for future periods. Some examples of forward-looking statements include statements related to acquisitions (including any related pro forma financial information), future capital expenditures, financing sources and availability, and the effects of environmental and other regulations. Although the Company believes that the expectations reflected in those forward-looking statements are based upon reasonable assumptions, it can give no assurance that its expectations will be achieved. Factors that may cause actual results to differ include general economic and local real estate conditions, the weather and other conditions that might affect operating expenses, the timely completion of repositioning activities and development within anticipated budgets, the actual pace of future development, acquisitions and sales, and continued access to capital to fund growth. For this purpose, any statements contained in this report that are not statements of historical fact should be considered to be forward-looking statements. Some of the words used to identify forward-looking statements include "believes", "anticipates", "plans", "expects", "seeks", "estimates", and similar expressions. Readers should exercise caution in interpreting and relying on forward-looking statements since they involve known and unknown risks, uncertainties and other factors which are, in some cases, beyond the Company's control and could materially affect the Company's actual results, performance or achievements.

Liquidity and Capital Resources

The Company's principal liquidity demands are expected to be distributions to the common stockholders and holders of UPREIT Units, capital improvements and repairs and maintenance for the properties, acquisition and development of additional properties, stock repurchases and debt repayments. The Company may also acquire equity ownership in other public or private companies that own and manage portfolios of apartment communities. Management anticipates the acquisition of communities of approximately \$50 million in 2008, although there can be no assurance that additional acquisitions will actually occur.

The Company intends to meet its short-term liquidity requirements through net cash flows provided by operating activities and its existing bank line of credit, described below. The Company considers its ability to generate cash to be adequate to meet all operating requirements, including availability to pay dividends to its stockholders and make distributions to its stockholders in accordance with the provisions of the Internal Revenue Code, as amended, applicable to REITs.

As of June 30, 2008, the Company had an unsecured line of credit agreement with M&T Bank for \$140 million which expires September 1, 2009. During the second quarter of 2008, the Company executed a one-year extension to the credit agreement under the same terms and conditions as the agreement which was set to expire on September 1, 2008. The Company's outstanding balance as of June 30, 2008, was \$75.5 million. The Company has had no occurrences of default as of June 30, 2008. Borrowings under the line of credit bear interest at 0.75% over the

one-month LIBOR rate. The one-month LIBOR rate was 2.463% at June 30, 2008. Accordingly, increases in interest rates will increase the Company's interest expense and as a result will affect the Company's results of operations and financial condition.

[Table of Contents](#)

To the extent that the Company does not satisfy its long-term liquidity requirements through net cash flows provided by operating activities and its unsecured credit facility, it intends to satisfy such requirements through property debt financing, proceeds from the sale of properties, the issuance of UPREIT Units, proceeds from its Dividend Reinvestment and Direct Stock Purchase Plan ("DRIP"), or the issuance of additional debt and equity securities. As of June 30, 2008, the Company owned 26 properties with 7,095 apartment units which were unencumbered by debt.

During the three months ended March 31, 2008, the Company repaid debt on two mortgages in the amount of \$14.5 million. The retired debt included a \$5.9 million mortgage which bore an interest rate of 7.13% and an \$8.6 million mortgage with a rate of 6.91%. These properties were added to the unencumbered pool. In addition, the Company paid off a \$4.0 million mortgage which bore interest at 1.65% over the one-month LIBOR rate and replaced it with an \$11.5 million mortgage at a fixed interest rate of 4.96%. During the second quarter of 2008, the Company repaid debt on three mortgages in the amount of \$38.3 million. The retired debt included a \$19.4 million mortgage which bore an interest rate of 8.35%, a \$16.2 million mortgage which bore an interest rate of 6.99%, and a \$2.7 million mortgage with a rate of 6.98%. These properties were added to the unencumbered pool. The Company entered into a new mortgage for a previously unencumbered property for \$31.7 million with an interest rate that adjusts monthly at 1.99% over the 30 day Freddie Mac Reference Bill and matures July 31, 2015.

During the first quarter of 2008, the Company closed on three separate sale transactions, with a total of 598 units, for \$64.5 million. A gain on sale of approximately \$30 million, before the allocation of minority interest, was recorded in the first quarter related to these sales. The weighted average first year capitalization rate projected on these dispositions was 6.25%.

Management has included in its operating plan that the Company will strategically dispose of assets totaling approximately \$140 million in 2008, \$65 million of which were closed during the first six months of 2008, although there can be no assurance that additional dispositions will actually occur.

The issuance of UPREIT Units for property acquisitions continues to be a source of capital for the Company. During 2007, the Company issued \$36.3 million in 634,863 UPREIT Units as partial consideration for three acquired properties. There were no UPREIT Units issued by the Company during the first six months of 2008.

The Company's DRIP provides the stockholders of the Company an opportunity to automatically invest their cash dividends in additional shares of common stock. In addition, eligible participants may make monthly payments or other voluntary cash investments in shares of common stock. The maximum monthly investment permitted without prior Company approval is currently \$10,000. The Company meets share demand under the DRIP through share repurchases by the transfer agent in the open market on the Company's behalf or new share issuance. From January 1, 2007 through September 25, 2007, the Company met demand by issuing new shares. As of September 26, 2007, the Company switched to meeting demand through share repurchases by the transfer agent in the open market on the Company's behalf.

Management monitors the relationship between the Company's stock price and its estimated net asset value ("NAV"). During times when the difference between these two values is small, resulting in little dilution of NAV by common stock issuances, the Company can choose to issue new shares. At times when the gap between NAV and stock price is greater, the Company has the flexibility to satisfy the demand for DRIP shares with stock repurchased in the open market. In addition, the Company can issue waivers to DRIP participants to provide for investments in excess of the \$10,000 maximum monthly investment. No such waivers were granted during the six months ended June 30, 2008 or the year ended December 31, 2007.

In October 2006, the Company issued \$200 million of exchangeable senior notes with a coupon rate of 4.125%, which generated net proceeds of \$195.8 million. The net proceeds were used to repurchase 933,000 shares of common stock for a total of \$58 million, pay down \$70 million on the line of credit, with the balance used for redemption of the

Series F Preferred Shares and property acquisitions. The exchange terms and conditions are more fully described under Contractual Obligations and Other Commitments, below.

On April 4, 2007, the Company filed a Form S-3 universal shelf registration statement with the SEC that registers the issuance, from time to time, of common stock, preferred stock or debt securities. The Company may offer and sell securities issued pursuant to the universal shelf registration statement after a prospectus supplement, describing the type of security and amount being offered, is filed with the SEC.

[Table of Contents](#)

Page 18

In March 2002, the Company issued 2,400,000 shares of its 9.00% Series F Cumulative Redeemable Preferred Stock ("Series F Preferred Shares"), with a \$25.00 liquidation preference per share. This offering generated net proceeds of approximately \$58 million. Each Series F Preferred share received an annual dividend equal to 9.00% of the liquidation preference per share (equivalent to a fixed annual amount of \$2.25 per share). The Series F Preferred Shares were redeemed by the Company on March 26, 2007 at a redemption price of \$25.00 per share, plus accrued and unpaid dividends totaling \$0.39 million. In accordance with the SEC's clarification of EITF Abstracts, Topic No. D-42, The Effect on the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock, the initial offering costs of \$1.9 million associated with the issuance of the Series F Preferred Shares were written-off in the first quarter of 2007, and are reflected as a reduction of net income available to common stockholders in determining earnings per share for the six months ended June 30, 2007.

In 1997, the Company's Board of Directors (the "Board") approved a stock repurchase program under which the Company may repurchase shares of its common stock or UPREIT Units ("Company Program"). The shares/units may be repurchased through open market or privately negotiated transactions at the discretion of Company management. The Board's action did not establish a target stock price or a specific timetable for repurchase. During the six months ended June 30, 2008, the Company repurchased 1,071,588 of its common shares for \$50 million, or a weighted average price of \$46.66 per share. On May 1, 2008, the Board granted authorization to repurchase up to an additional two million shares/units. At June 30, 2008, the Company had authorization to repurchase an additional 2,291,160 shares. The Company will continue to monitor stock prices, the NAV, and acquisition/development alternatives to determine the current best use of capital between the two major uses of capital – stock buybacks and acquisitions/development.

As of June 30, 2008, the weighted average rate of interest on the Company's total indebtedness of \$2.2 billion was 5.4% with staggered maturities averaging approximately seven years. Approximately 94% of total indebtedness was at fixed rates. This limits the exposure to changes in interest rates, minimizing the effect of interest rate fluctuations on the Company's results of operations and cash flows.

The Company's cash provided by operating activities was \$83 million for the six months ended June 30, 2008 compared to \$81 million for the same period in 2007. The change is primarily due to timing differences in cash disbursements between periods.

Cash used in investing activities was \$10 million for the six months ended June 30, 2008 compared to \$143 million for the same period in 2007. The change is primarily due to a change in the mix of property dispositions and acquisitions, as described below in Acquisitions and Dispositions. During the six months ended June 30, 2008, the proceeds from disposed properties were redeployed for stock repurchases and mortgage pay down as compared to the six months ended June 30, 2007 where investing activities consisted of mainly property acquisitions.

Cash used in financing activities was \$74 million for the six months ended June 30, 2008 compared to \$50 million for the same period in 2007. The \$24 million increase in cash used between periods is primarily due to \$45 million more cash used for stock buybacks, \$73 million more cash used for mortgage pay down (net of proceeds), partially offset by \$34 million more cash provided by the line of credit and \$60 million less cash used for preferred stock repurchases in the 2008 period as compared to the 2007 period.

Variable Interest Entities

The Company is the general partner in one variable interest entity ("VIE") syndicated using low income housing tax credits under Section 42 of the Internal Revenue Code. As general partner, the Company manages the day-to-day operations of the partnership for a management fee. In addition, the Company has an operating deficit guarantee and tax credit guarantee to the limited partner of that partnership. The Company is responsible to fund operating deficits to the extent there are any and can receive operating incentive awards if cash flows reach certain levels. The effect on

the consolidated balance sheet of including this VIE as of June 30, 2008 includes total assets of \$18.3 million, total liabilities of \$17.2 million and minority interest of \$1.1 million. Of the \$17.2 million increase in total liabilities, \$16.4 million represents non-recourse mortgage debt. The VIE is included in the Consolidated Statement of Operations for the six months ended June 30, 2008 and 2007.

The Company, through its general partnership interest in the VIE, has guaranteed the low income housing tax credits to the limited partners for a remaining period of 6.5 years totaling approximately \$3 million. Such guarantee

[Table of Contents](#)

requires the Company to operate the property in compliance with Internal Revenue Code Section 42 for 15 years. The Company believes the property's operations conform to the applicable requirements as set forth above. In addition, acting as the general partner in this partnership, the Company is obligated to advance funds to meet partnership operating deficits.

Acquisitions and Dispositions

On March 4, 2008, the Company acquired a land parcel located in Silver Spring, MD for total consideration of \$15.9 million. The transaction was funded in cash. The Company is proceeding with the approval of a final site plan developed by the prior owner which contemplates the development of up to 314 apartments.

On January 31, 2008, the Company sold Carriage Hill Apartments (140 units) in the Hudson Valley region of NY for \$15.1 million. A gain on sale of approximately \$8.8 million, before the allocation of minority interest, was recorded in the first quarter related to this sale. The weighted average first year capitalization rate projected on this disposition was 6.7%.

On February 1, 2008, the Company sold a five-property portfolio (363 units) in the Long Island region of NY in one transaction for \$42.0 million. A gain on sale of approximately \$16.6 million, before the allocation of minority interest, was recorded in the first quarter related to this sale. The weighted average first year capitalization rate projected on this disposition was 6.1%.

On February 21, 2008, the Company sold Mill Company Gardens (95 units) in Portland, Maine for \$7.4 million. A gain on sale of approximately \$4.6 million, before the allocation of minority interest, was recorded in the first quarter related to this sale. The weighted average first year capitalization rate projected on this disposition was 6.3%.

Contractual Obligations and Other Commitments

The primary obligations of the Company relate to its borrowings under the line of credit, exchangeable senior notes and mortgage notes payable. The Company's line of credit matures in September 2009 and had \$75.5 million outstanding at June 30, 2008. The \$1.9 billion in mortgage notes payable have varying maturities ranging from 1 to 26 years. The weighted average interest rate of the Company's secured fixed rate notes was 5.74% at June 30, 2008. The weighted average interest rate of the Company's variable rate notes and credit facility was 3.32% at June 30, 2008.

In October 2006, the Company issued \$200 million of exchangeable senior notes with a coupon rate of 4.125%. The notes are exchangeable into cash equal to the principal amount of the notes and, at the Company's option, cash or common stock for the exchange value, to the extent that the market price of common stock exceeds the initial exchange price of \$73.34 per share, subject to adjustment. The exchange price is adjusted for payments of dividends in excess of the reference dividend per the indenture of \$0.64 per share. The adjusted exchange price at June 30, 2008 was \$73.19 per share. Upon an exchange of the notes, the Company will settle any amounts up to the principal amount of the notes in cash and the remaining exchange value, if any, will be settled, at the Company's option, in cash, common stock or a combination of both. The notes are not redeemable at the option of the Company for five years, except to preserve the status of the Company as a REIT. Holders of the notes may require the Company to repurchase the notes upon the occurrence of certain designated events. In addition, prior to November 1, 2026, the holders may require the Company to repurchase the notes on November 1, 2011, 2016 and 2021. The notes will mature on November 1, 2026, unless previously redeemed, repurchased or exchanged in accordance with their terms prior to that date.

The Company leases its corporate office space from an affiliate and the office space for its regional offices from non-affiliated third parties. The corporate office space requires an annual base rent plus a pro-rata portion of property

improvements, real estate taxes, and common area maintenance. The regional office leases require an annual base rent plus a pro-rata portion of real estate taxes.

As discussed in the section entitled Variable Interest Entities, the Company, through its general partnership interest in an affordable property limited partnership, has guaranteed low income housing tax credits to limited partners totaling approximately \$3 million. With respect to the guarantee of the low income housing tax credits, the Company believes the property's operations conform to the applicable requirements and does not anticipate any payment on the guarantees. In addition, the Company, acting as general partner in this partnership, is obligated to advance funds to meet partnership operating deficits.

[Table of Contents](#)

Page 20

Capital Improvements (dollars in thousands, except unit and per unit data)

Effective January 1, 2007, the Company updated its estimate of the amount of recurring, non-revenue enhancing capital expenditures incurred on an annual basis for a standard garden style apartment. For 2007, the Company estimated that the proper amount was \$760 per apartment unit. For 2008, the Company increased this amount, using a 3% inflation factor, to \$780 per apartment unit.

The Company's policy is to capitalize costs related to the acquisition, development, rehabilitation, construction and improvement of properties. Capital improvements are costs that increase the value and extend the useful life of an asset. Ordinary repair and maintenance costs that do not extend the useful life of the asset are expensed as incurred. Costs incurred on a lease turnover due to normal wear and tear by the resident are expensed on the turn. Recurring capital improvements typically include: appliances, carpeting and flooring, HVAC equipment, kitchen/bath cabinets, new roofs, site improvements and various exterior building improvements. Non-recurring, revenue generating capital improvements include, among other items: community centers, new windows, and kitchen/bath apartment upgrades. Revenue generating capital improvements will directly result in rental earnings or expense savings. The Company capitalizes interest and certain internal personnel costs related to the communities under rehabilitation and construction.

The Company estimates that on an annual basis \$780 and \$760 per unit is spent on recurring capital expenditures in 2008 and 2007, respectively. During the three months ended June 30, 2008 and 2007, approximately \$195 and \$190 per unit, respectively, was estimated to be spent on recurring capital expenditures. For the six months ended June 30, 2008 and 2007, approximately \$390 per unit and \$380 per unit, respectively, was estimated to be spent on recurring capital expenditures. The table below summarizes the actual total capital improvements incurred by major categories for the three and six months ended June 30, 2008 and 2007 and an estimate of the breakdown of total capital improvements by major categories between recurring and non-recurring, revenue generating capital improvements for the three and six months ended June 30, 2008 as follows:

	For the three months ended June 30, 2008				2007			
	Recurring Cap Ex	Per Unit(a)	Non- Recurring Cap Ex	Per Unit(a)	Total Capital Improvements	Per Unit(a)	Total Capital Improvements	Per Unit(a)
New buildings	\$ -	\$ -	\$ 569	\$ 16	\$ 569	\$ 16	\$ 701	\$ 19
Major building improvements	1,093	30	3,503	95	4,596	125	5,130	141
Roof replacements	303	8	1,319	36	1,622	44	1,453	40
Site improvements	395	11	1,531	42	1,926	53	1,727	47
Apartment upgrades	677	18	7,289	199	7,966	217	4,563	125
Appliances	1,398	38	-	-	1,398	38	839	23
Carpeting/flooring	2,259	62	557	15	2,816	77	2,614	72
HVAC/mechanicals	634	17	2,315	63	2,949	80	2,759	76
Miscellaneous	404	11	525	14	929	25	856	24
Totals	\$ 7,163	\$ 195	\$ 17,608	\$ 480	\$ 24,771	\$ 675	\$ 20,642	\$ 567

(a) Calculated using the weighted average number of units owned, including 35,188 core units, and 2007 acquisition units of 1,541 for the three months ended June 30, 2008; and 35,188 core units and 2007 acquisition units of 1,218 for the three months ended June 30, 2007.

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	For the six months ended June 30, 2008				2007			
	Recurring Cap Ex	Per Unit(b)	Non- Recurring Cap Ex	Per Unit(b)	Total Capital Improvements	Per Unit(b)	Total Capital Improvements	Per Unit(b)
New buildings	\$ -	\$ -	\$ 1,226	\$ 33	\$ 1,226	\$ 33	\$ 1,113	\$ 31
Major building improvements	2,185	59	5,131	140	7,316	199	7,687	214
Roof replacements	606	16	1,719	47	2,325	63	1,675	47
Site improvements	790	22	1,936	53	2,726	75	2,767	77
Apartment upgrades	1,691	46	11,215	305	12,906	351	8,000	222
Appliances	2,459	68	4	-	2,463	68	1,680	47
Carpeting/flooring	4,518	123	694	19	5,212	142	4,778	133
HVAC/mechanicals	1,267	34	4,147	113	5,414	147	4,638	129
Miscellaneous	808	22	805	22	1,613	44	1,729	48
Totals	\$ 14,324	\$ 390	\$ 26,877	\$ 732	\$ 41,201	\$ 1,122	\$ 34,067	\$ 948

(b) Calculated using the weighted average number of units owned, including 35,188 core units, and 2007 acquisition units of 1,541 for the six months ended June 30, 2008; and 35,188 core units and 2007 acquisition units of 746 for the six months ended June 30, 2007.

The schedule below summarizes the breakdown of total capital improvements between core and non-core as follows:

	For the three months ended June 30, 2008				2007			
	Recurring Cap Ex	Per Unit(b)	Non- Recurring Cap Ex	Per Unit(b)	Total Capital Improvements	Per Unit(b)	Total Capital Improvements	Per Unit(b)
Core Communities	\$ 6,863	\$ 195	\$ 15,847	\$ 450	\$ 22,710	\$ 645	\$ 20,392	\$ 580
2008 Acquisition Communities	-	-	-	-	-	-	-	-
2007 Acquisition Communities	300	195	1,761	1,143	2,061	1,338	250	205
Sub-total	7,163	195	17,608	479	24,771	674	20,642	567
2008 Disposed Communities	-	-	-	-	-	-	163	273
2007 Disposed Communities	-	-	-	-	-	-	630	581
Corporate office expenditures(1)	-	-	-	-	1,118	-	677	-
Totals	\$ 7,163	\$ 195	\$ 17,608	\$ 479	\$ 25,889	\$ 674	\$ 22,112	\$ 563

(1) No distinction is made between recurring and non-recurring expenditures for corporate office. Corporate office expenditures includes principally computer hardware, software and office furniture, fixtures and leasehold improvements.

(b) Calculated using the weighted average number of units owned, including 35,188 core units, and 2007 acquisition units of 1,541 for the three months ended June 30, 2008; and 35,188 core units, 2007 acquisition units of 1,218, 2008 disposed units of 598 and 2007 disposed units of 1,084 for the three months ended June 30, 2007.

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	For the six months ended June 30, 2008				2007			
	Recurring Cap Ex	Per Unit(d)	Non- Recurring Cap Ex	Per Unit(d)	Total Capital Improvements	Per Unit(d)	Total Capital Improvements	Per Unit(d)
Core Communities	\$ 13,723	\$ 390	\$ 24,096	\$ 685	\$ 37,819	\$ 1,075	\$ 33,785	\$ 960
2008 Acquisition Communities	-	-	-	-	-	-	-	-
2007 Acquisition Communities	601	390	2,781	1,805	3,382	2,195	282	378
Sub-total	14,324	390	26,877	732	41,201	1,122	34,067	948
2008 Disposed Communities	14	122	-	-	14	122	321	537
2007 Disposed Communities	-	-	-	-	-	-	1,114	1,028
Corporate office expenditures(1)	-	-	-	-	2,189	-	1,712	-
Totals	\$ 14,338	\$ 389	\$ 26,877	\$ 729	\$ 43,404	\$ 1,119	\$ 37,214	\$ 944

(1) No distinction is made between recurring and non-recurring expenditures for corporate office. Corporate office expenditures includes principally computer hardware, software and office furniture, fixtures and leasehold improvements.

(d) Calculated using the weighted average number of units owned, including 35,188 core units, 2007 acquisition units of 1,541 and 2008 disposed units of 115 for the six months ended June 30, 2008; and 35,188 core units, 2007 acquisition units of 746, 2008 disposed units of 598 and 2007 disposed units of 1,084 for the six months ended June 30, 2007.

Results of Operations (dollars in thousands, except unit and per unit data)

Summary of Core Properties

The Company had 110 apartment communities with 35,188 units which were owned during the three and six months being presented (the "Core Properties"). The Company has acquired/developed an additional six apartment communities with 1,733 units during 2008 and 2007 (the "Acquisition Communities"). During 2008, the Company disposed of seven apartment communities with a total of 598 units, which had partial results for 2008 and full year results for 2007 (the "2008 Disposed Communities"). During 2007, the Company disposed of five apartment communities with a total of 1,084 units, which had partial results for 2007 (the "2007 Disposed Communities"). The results of these disposed properties have been classified as discontinued operations and are not included in the table below.

The inclusion of the Acquisition Communities generally accounted for the significant changes in operating results for the three and six months ended June 30, 2008. In addition, the reported income from operations include the results of one investment where the Company is the managing general partner that has been determined to be a VIE and consolidated with the Company.

A summary of the net operating income for Core Properties is as follows:

	Three Months		Six Months
2008	2007	2008	2007

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			\$	%			\$	%
			Change	Change			Change	Change
Rent	\$ 112,125	\$ 109,412	\$ 2,713	2.5%	\$ 223,134	\$ 217,408	\$ 5,726	2.6%
Utility recovery revenue	4,670	4,522	148	3.3%	11,407	10,266	1,141	11.1%
Rent including recoveries	116,795	113,934	2,861	2.5%	234,541	227,674	6,867	3.0%
Property other income	5,218	4,766	452	9.5%	10,020	9,388	632	6.7%
Total revenue	122,013	118,700	3,313	2.8%	244,561	237,062	7,499	3.2%
Operating and maintenance	(48,460)	(48,161)	(299)	(0.6%)	(101,738)	(99,895)	(1,843)	(1.8%)
Net operating income	\$ 73,553	\$ 70,539	\$ 3,014	4.3%	\$ 142,823	\$ 137,167	\$ 5,656	4.1%

[Table of Contents](#)

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A summary of the net operating income for the Company as a whole is as follows:

	Three Months				Six Months			
	2008	2007	\$ Change	% Change	2008	2007	\$ Change	% Change
Rent	\$ 118,208	\$ 114,720	\$ 3,488	3.0%	\$ 235,263	\$ 225,406	\$ 9,857	4.4%
Utility recovery revenue	4,761	4,578	183	4.0%	11,568	10,334	1,234	11.9%
Rent including recoveries	122,969	119,298	3,671	3.1%	246,831	235,740	11,091	4.7%
Property other income	5,589	4,983	606	12.2%	10,953	9,640	1,313	13.6%
Total revenue	128,558	124,281	4,277	3.4%	257,784	245,380	12,404	5.1%
Operating and maintenance	(51,717)	(50,486)	(1,231)	(2.4%)	(108,115)	(103,737)	(4,378)	(4.2%)
Net operating income	\$ 76,841	\$ 73,795	\$ 3,046	4.1%	\$ 149,669	\$ 141,643	\$ 8,026	5.7%

Net operating income ("NOI") may fall within the definition of "non-GAAP financial measure" set forth in Item 10(e) of Regulation S-K and, as a result, the Company may be required to include in this report a statement disclosing the reasons why management believes that presentation of this measure provides useful information to investors. The Company believes that NOI is helpful to investors as a supplemental measure of the operating performance of a real estate company because it is a direct measure of the actual operating results of the Company's apartment properties. In addition, the apartment communities are valued and sold in the market by using a multiple of NOI. The Company also uses this measure to compare its performance to that of its peer group.

Comparison of three months ended June 30, 2008 to the same period in 2007

Of the \$3,671 increase in rental income including recoveries, \$810 is attributable to the Acquired Communities; and \$2,861 is from the Core Properties, as the result of an increase of 2.5% in weighted average rental rates (including utility reimbursements) partially offset by a 0.5% decrease in economic occupancy from 94.4% to 93.9%. Economic occupancy is defined as total possible rental income, net of vacancy and bad debt expense as a percentage of total possible rental income. Total possible rental income is determined by valuing occupied units at contract rates and vacant units at market rents. Included in the Core increase is \$148 which represents increased utility recovery charges compared to 2007 attributable to the Company's water & sewer and heat & electric recovery programs, which were initiated in the second quarter of 2005 and phased in through the second quarter of 2007.

The remaining property other income, which consists primarily of income from operation of laundry facilities, late charges, administrative fees, garage and carport charges, revenue from corporate apartments, cable revenue, pet charges, and miscellaneous charges to residents increased by \$606. Of this increase, \$154 is attributable to the Acquired Communities and a \$452 increase in Core Properties resulting from increased emphasis on charging early termination fees and late charges as compared to 2007.

Interest income decreased \$63 due to a lower level of invested excess cash on hand. The 2007 period realized higher income from sale proceeds of the significant fourth quarter 2006 property dispositions and proceeds from exchangeable senior notes awaiting reinvestment into replacement property.

Other income, which primarily reflects management and other real estate service fees recognized by the Company, increased by \$28. This is primarily due to a \$58 increase in post closing consultation fees recognized between periods. The second quarter of 2008 realized higher fees as a result of the first quarter 2008 property dispositions

compared to no property dispositions in the 2007 first quarter.

[Table of Contents](#)

Page 24

Of the \$1,231 increase in operating and maintenance expenses, \$661 is attributable to the Acquired Communities and \$271 is attributable to the consolidation of the VIE reflecting an increase in repairs and maintenance that occurred in the 2008 quarter. The balance, a \$299 increase, is attributable to the Core Properties and is primarily due to increases in real estate taxes, water & sewer, and trash removal costs, partially offset by a decrease in repairs & maintenance and lower snow removal expenses. Real estate taxes were up \$626, or 5.9% due to the 2007 period including refunds of \$203, which did not recur in 2008. After removing the effect of refunds, real estate taxes increased \$423, or 4.0%. Water & sewer expense is up \$237, or 7.7% from a year ago due to two properties realizing refunds of \$223 during the second quarter of 2007 relating to the correction of metering issues that did not recur in 2008. Trash removal costs were up \$142, or 19.0%, driven by higher costs being passed through to the Company by trash haulers. Repairs & maintenance is down \$650, or 8.1%, over the prior year period due primarily to recoveries from insurance claims which were \$685 higher in the current period. Snow removal costs were down \$70, or 72.2%. The second quarter 2007 produced above normal snowfalls compared to below normal snowfalls in 2008.

General and administrative expense increased in 2008 by \$667. General and administrative expenses as a percentage of total revenues were 5.1% for 2008 as compared to 4.6% for 2007. Stock-based compensation expenses were up \$423 in 2008 as compared to 2007. The recently approved stock plan contains vesting conditions that triggered a \$388 increase in director restricted stock compensation recognized in the second quarter of 2008 as compared to the terms in the prior plans. It is important to note that this is a timing difference only and that the total value of the stock awards was similar between years. The continued ramp up of the development department staff resulted in a \$135 increase over the 2007 level. The rollout, training and support of the new property management systems accounted for staff and consulting increases of \$64 within the information systems department. This is partially offset by \$115 lower stock option compensation expense recorded for director grants in 2008 due to the changes in the recently approved stock plan which resulted in the expense for director grants being recognized over a one-year period as compared to the prior plans where the grants were expensed on grant date. There was also a \$29, or 11.2%, reduction in external costs for auditing, tax and consultation expense, including costs to comply with Section 404 of Sarbanes-Oxley.

Interest expense decreased by \$1,401 in 2008 primarily as a result of the payoff of approximately \$100 million of mortgages on existing properties. In addition, lower interest rates contributed to a \$433 decrease in interest expense on line of credit borrowings and capitalized interest was \$406 higher due to increased development levels in the second quarter of 2008 as compared to 2007. This was partially offset by the interest expense on the new debt of the Acquisition Communities. Also included in interest expense for the current quarter is the benefit from a mortgage premium write off of \$4,433 partially offset by prepayment penalties of \$3,480 incurred as a result of mortgage pay-offs.

Depreciation and amortization expense increased \$1,755 due to the depreciation on the Acquisition Communities and the capital additions to the Core Properties.

Included in discontinued operations for the three months ended June 30, 2008 are the residual operating results, net of minority interest, of the 2008 Disposed Communities. Included in discontinued operations for the three months ended June 30, 2007 are the operating results, net of minority interest, of the 2008 and 2007 Disposed Communities. For purposes of the discontinued operations presentation, the Company only includes interest expense and losses from early extinguishment of debt associated with specific mortgage indebtedness of the properties that are sold or held for sale.

Comparison of six months ended June 30, 2008 to the same period in 2007

Of the \$11,091 increase in rental income including utility recoveries, \$4,224 is attributable to the Acquired Communities; and \$6,867 is from the Core Properties, as the result of an increase of 3.0% in weighted average rental rates (including utility reimbursements), partially offset by a decrease in economic occupancy from 94.0% to

93.8%. Included in the Core increase is \$1,141 which represents increased utility recovery charges compared to 2007 attributable to the Company's water & sewer and heat & electric recovery programs, which were initiated in the second quarter of 2005 and phased in through the second quarter of 2007.

The remaining property other income, which consists primarily of income from operation of laundry facilities, late charges, administrative fees, garage and carport charges, revenue from corporate apartments, cable revenue, pet charges, and miscellaneous charges to residents increased by \$1,313. Of this increase, \$681 is attributable to the Acquired Communities and a \$632 increase in Core Properties resulting from increased emphasis on charging early termination fees and late charges as compared to 2007.

[Table of Contents](#)

Interest income decreased \$1,150 due to a lower level of invested excess cash on hand. The 2007 period realized higher interest income from proceeds of the 2006 property dispositions and proceeds from exchangeable senior notes awaiting reinvestment into replacement property.

Other income, which is comprised of management and other real estate service fees recognized by the Company, decreased by \$555, primarily due to a \$443 reduction in post closing consultation fees recognized between periods. The first half of 2007 realized higher fees as a result of the significant fourth quarter 2006 property dispositions.

Of the \$4,378 increase in operating and maintenance expenses, \$2,654 is attributable to the Acquired Communities and \$1,843 is attributable to the Core Properties; partially offset by a \$119 decrease attributable to the consolidation of the VIE reflecting a one-time property tax adjustment that occurred in 2008. The Core Properties increase is driven by increases in real estate taxes, property insurance, water & sewer, and trash removal costs, partially offset by decreases in natural gas heating costs, repairs & maintenance and lower snow removal expenses. Real estate taxes were up \$1,500, or 7.1%, reflecting \$590 in refunds received in the first half of 2007 from successful tax assessment appeals which did not recur in the 2008 period. After removing the effect of refunds, real estate taxes increased \$910, or 4.3%. Property insurance had a negative variance of \$912, or 19.4%, due to the 2007 period including reserve increases of \$119, compared to no reserve adjustments in 2008, making the normal increase before reserve adjustments \$1,031, or 21.9%, which primarily reflects increases in the general liability insurance premiums resulting from the decrease in deductible from \$250 to \$50. Water & sewer expense is up \$323, or 5.1% from a year ago due to two properties realizing refunds of \$223 during the second quarter of 2007 relating to the correction of metering issues that did not recur in 2008. Trash removal costs were up \$327, or 22.7%, driven by higher costs being passed through to the Company by trash haulers. Natural gas heating costs were down \$1,281, or 9.9%, from a year ago, due mostly from decreases in natural gas pricing as a direct result of the Company's natural gas purchasing program. For the first half of 2008 our natural gas weighted average cost was \$8.49 per decatherm compared to \$9.27 for the 2007 period, an 8.4% decrease. Repairs & maintenance is down \$206, or 1.6%, over the prior year period due primarily to recoveries from insurance claims which were \$685 higher in the current period. Snow removal costs were down \$174, or 22.8%. The first six months of 2007 produced normal to above normal snowfalls compared to below normal snowfalls in 2008.

General and administrative expense increased in 2008 by \$1,369, or 11.9%. General and administrative expenses as a percentage of total revenues were 5.0% for 2008, compared to 4.5% for 2007. Stock-based compensation expenses were up \$525 in 2008 as compared to 2007. The recently approved stock plan contains vesting conditions that triggered a \$388 increase in director restricted stock compensation recognized in the second quarter of 2008 as compared to the terms in the prior plans. It is important to note that this is a timing difference only and that the total value of the stock awards was similar between years. The rollout, training and support of the new property management systems accounted for staff and consulting increases of \$352 within the information systems department. Incentive bonus expense was up \$214 in 2008 as compared to 2007, which was driven by the increases in the Company's operating performance as compared to prior year. Additionally, the ramp-up of the development department accounted for a \$169 increase. A decrease of \$149, or 23.0%, was realized in the external costs incurred for auditing, tax and consultation expense, including costs to comply with Section 404 of Sarbanes-Oxley.

Interest expense decreased by \$200 in 2008 primarily as a result of the payoff of approximately \$100 million of mortgages on existing properties as part of a concerted effort to increase the unencumbered property pool. In addition, lower interest rates contributed to a \$356 decrease in interest expense on line of credit borrowings and capitalized interest was \$863 higher due to increased development levels in 2008 as compared to 2007. This was partially offset by the interest expense on the new debt of the Acquisition Communities.

Depreciation and amortization expense increased \$3,859 due to the depreciation on the Acquisition Communities and the capital additions to the Core Properties.

Included in discontinued operations for the six months ended June 30, 2008 are the residual operating results, net of minority interest, of the 2008 Disposed Communities. Included in discontinued operations for the six months ended June 30, 2007 are the operating results, net of minority interest, of the 2008 and 2007 Disposed Communities. For purposes of the discontinued operations presentation, the Company only includes interest expense and losses from early extinguishment of debt associated with specific mortgage indebtedness of the properties that are sold or held for sale.

[Table of Contents](#)

Page 26

Funds From Operations

Pursuant to the revised definition of Funds From Operations ("FFO") adopted by the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT"), FFO is defined as net income (computed in accordance with accounting principles generally accepted in the United States of America ("GAAP")) excluding gains or losses from sales of property, minority interest, extraordinary items and cumulative effect of change in accounting principle plus depreciation from real property including adjustments for unconsolidated partnerships and joint ventures less dividends from non-convertible preferred shares. Because of the limitations of the FFO definition as published by NAREIT as set forth above, the Company has made certain interpretations in applying the definition. The Company believes all adjustments not specifically provided for are consistent with the definition.

In addition to presenting FFO in accordance with the NAREIT definition, Management also discloses FFO, as adjusted by the Company, for the six months ended June 30, 2008 which excludes the effects of the losses from early extinguishments of debt associated with the sales of real estate.

The adjustment to exclude losses from early extinguishments of debt results when the sale of real estate encumbered by debt requires the Company to pay the extinguishment costs prior to the debt's stated maturity and to write-off unamortized loan costs at the date of the extinguishment. Such costs are excluded from the gains on sales of real estate reported in accordance with GAAP. However, Management views the losses from early extinguishments of debt associated with the sales of real estate as an incremental cost of the sale transactions because the Company extinguished the debt in connection with the consummation of the sale transactions and the Company had no intent to extinguish the debt absent such transactions. Management believes that this supplemental adjustment more appropriately reflects the results of the Company's operations exclusive of the impact of these sale transactions.

Management believes that in order to facilitate a clear understanding of the combined historical operating results of the Company, FFO should be considered in conjunction with net income as presented in the consolidated financial statements included elsewhere herein. Management believes that by excluding gains or losses related to dispositions of property and excluding real estate depreciation (which can vary among owners of similar assets in similar condition based on historical cost accounting and useful life estimates), FFO can help one compare the operating performance of a company's real estate between periods or as compared to different companies. FFO does not represent cash generated from operating activities in accordance with GAAP and is not necessarily indicative of cash available to fund cash needs. FFO does not include the cost incurred for capital improvements (including capitalized interest) reflected as an increase to real estate assets. The Company's total capital improvements include an annual reserve for anticipated recurring, non-revenue generating capitalized costs of \$780 and \$760 per apartment unit for 2008 and 2007, respectively. Please refer to the Capital Improvements section above. FFO should not be considered as an alternative to net income as an indication of the Company's performance or to cash flow as a measure of liquidity.

[Table of Contents](#)

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The calculation of FFO and reconciliation to GAAP net income available to common shareholders for the three and six months ended June 30, 2008 and 2007 are presented below (in thousands):

	Three Months		Six Months	
	2008	2007	2008	2007
Net income available to common shareholders	\$ 8,906	\$ 8,702	\$ 35,005	\$ 13,780
Real property depreciation and amortization	28,207	28,094	56,158	55,170
Minority interest	3,747	3,065	6,218	4,763
Minority interest – income (loss) from discontinued operations	(4)	487	(381)	889
Loss (gain) on disposition of discontinued operations	1	115	(21,070)	248
FFO – Basic as defined above	40,857	40,463	75,930	74,850
Loss from early extinguishment of debt in connection with sale of real estate	-	-	1,384	-
FFO – Basic as adjusted by the Company	40,857	40,463	77,314	74,850
Convertible preferred dividends (2)	-	-	-	-
FFO – Diluted as adjusted by the Company	\$ 40,857	\$ 40,463	\$ 77,314	\$ 74,850
Weighted average common shares/units outstanding (1):				
Basic	44,960.3	46,713.0	45,306.7	46,581.8
Diluted (2)	45,430.2	47,442.4	45,720.8	47,379.3

(1) Basic includes common stock outstanding and the conversion of all UPREIT Units to common shares. Diluted includes additional common stock equivalents, including convertible preferred stock.

(2) There was no convertible preferred stock outstanding during the periods presented.

All REITs may not be using the same definition for FFO. Accordingly, the above presentation may not be comparable to other similarly titled measures of FFO of other REITs.

Covenants

The credit agreement relating to the Company's line of credit provides for the Company to maintain certain financial ratios and measurements. The Company was in compliance with these financial covenants for all periods presented. The line of credit has not been used for long-term financing but adds a certain amount of flexibility, especially in meeting the Company's acquisition goals. Many times it is easier to temporarily finance an acquisition or stock repurchases by short-term use of the line of credit, with long-term secured financing or other sources of capital replenishing the line of credit availability.

Economic Conditions

Substantially all of the leases at the Company's apartment communities are for a term of one year or less, which enables the Company to seek increased rents upon renewal of existing leases or commencement of new leases. These short-term leases minimize the potential adverse effect of inflation on rental income, although residents may leave without penalty at the end of their lease terms and may do so if rents are increased significantly.

Historically, real estate has been subject to a wide range of cyclical economic conditions, which affect various real estate sectors and geographic regions with differing intensities and at different times. Starting in 2001 and continuing into 2004 many regions of the United States had experienced varying degrees of economic recession and certain recessionary trends, such as a temporary reduction in occupancy and reduced pricing power limiting the ability to aggressively raise rents. Starting in the second half on 2004 and continuing into 2007, we saw a reversal of these

recessionary trends. However, in the fourth quarter of 2007 and into 2008, the sub-prime issue has put significant pressure on the mortgage lending industry. The Company has not had any unfavorable outcomes from this issue and has continued to receive favorable financing at market rates of interest. In light of this, the Company will continue to review its business strategy; however, we believe that given our property type and the geographic regions in which it is located, the Company does not anticipate any changes in our strategy or material effects on financial performance.

[Table of Contents](#)

Page 28

Declaration of Dividend

On July 30, 2008, the Board of Directors approved a dividend of \$0.66 per share on the Company's common stock for the quarter ended June 30, 2008. This is the equivalent of an annual distribution of \$2.64 per share. The dividend is payable August 22, 2008 to shareholders of record on August 13, 2008.

Contingency

The Company is not a party to any legal proceedings which are expected to have a material adverse effect on the Company's liquidity, financial position or results of operations. The Company is subject to a variety of legal actions for personal injury or property damage arising in the ordinary course of its business, most of which are covered by liability insurance. Various claims of employment and resident discrimination are also periodically brought. While the resolution of these matters cannot be predicted with certainty, management believes that the final outcome of such legal proceedings and claims will not have a material adverse effect on the Company's liquidity, financial position or results of operations.

Recent Accounting Pronouncements

Refer to footnote 3 of the accompanying consolidated financial statements for discussion of recent accounting pronouncements.

[Table of Contents](#)

HOME PROPERTIES, INC.

ITEM 3. QUANTITATIVE AND QUALITATIVE
DISCLOSURES ABOUT MARKET RISK

The Company's primary market risk exposure is interest rate risk. At June 30, 2008 and December 31, 2007, approximately 94% and 99%, respectively, of the Company's debt bore interest at fixed rates. At June 30, 2008 and December 31, 2007, approximately 85% and 89%, respectively, of the Company's debt was secured and bore interest at fixed rates with a weighted average maturity of approximately 6 years, for both periods, and a weighted average interest rate of approximately 5.74% and 5.76%, respectively. The remainder of the Company's secured debt bears interest at variable rates with a weighted average maturity of approximately 14 and 20 years, respectively, and a weighted average interest rate of 3.46% and 4.63%, respectively, at June 30, 2008 and December 31, 2007. The Company does not intend to utilize a significant amount of permanent variable rate debt to acquire properties in the future. On occasion, the Company may use its line of credit in connection with a property acquisition, development activity or stock repurchase with the intention to refinance at a later date. The Company believes, however, that in no event would increases in interest expense as a result of inflation significantly impact the Company's distributable cash flow.

At June 30, 2008 and December 31, 2007, the fair value of the Company's fixed and variable rate secured debt amounted to a liability of \$1.93 and \$2.02 billion, respectively, compared to its carrying amount of \$1.94 billion and \$1.99 billion, respectively. The Company estimates that a 100 basis point increase in market interest rates at June 30, 2008 would have changed the fair value of the Company's fixed and variable rate secured debt to a liability of \$1.85 billion.

The Company intends to continuously monitor and actively manage interest costs on its variable rate debt portfolio and may enter into swap positions based upon market fluctuations. In addition, the Company believes that it has the ability to obtain funds through additional debt and/or equity offerings and/or the issuance of UPREIT Units. Accordingly, the cost of obtaining such interest rate protection agreements in relation to the Company's access to capital markets will continue to be evaluated. The Company has not, and does not plan to, enter into any derivative financial instruments for trading or speculative purposes. As of June 30, 2008, the Company had no other material exposure to market risk.

[Table of Contents](#)

HOME PROPERTIES, INC.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports filed or submitted by the Company under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the officers who certify the Company's financial reports and to the other members of senior management and the Board of Directors.

The principal executive officer and principal financial officer evaluated, as of June 30, 2008, the effectiveness of the disclosure controls and procedures (as defined in Rules 13a-15(e) and 15-d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) and have determined that such disclosure controls and procedures are effective.

There have been no changes in the internal controls over financial reporting identified in connection with that evaluation, or that occurred during the second quarter of the year ended December 31, 2008 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

[Table of Contents](#)

HOME PROPERTIES, INC.

PART II - OTHER INFORMATION

ITEM 1A. RISK FACTORS

Refer to the Risk Factors disclosure in the Company's Form 10-K for the year ended December 31, 2007. There have been no material changes in these risk factors during the six months ended June 30, 2008 and through the date of this report.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES; USE OF PROCEEDS FROM REGISTERED SECURITIES

In 1997, the Company's Board of Directors approved a stock repurchase program under which the Company may repurchase shares of its outstanding common stock and UPREIT Units ("Company Program"). The shares/units may be repurchased through open market or privately negotiated transactions at the discretion of Company management. The Board's action does not establish a specific target stock price or a specific timetable for share repurchase. In addition, participants in the Company's Stock Benefit Plan can use common stock of the Company that they already own to pay all or a portion of the exercise price payable to the Company upon the exercise of an option and applicable withholding tax. In such event, the common stock used to pay the exercise price and tax withholding is returned to authorized but unissued status, and for purposes of this table is deemed to have been repurchased by the Company. At December 31, 2007, the Company had authorization to repurchase 1,362,748 shares of common stock and UPREIT Units under the Company Program. During the first quarter of 2008, the Company repurchased 1,071,588 shares at a cost of \$49,998,040 under the Company Program. On May 1, 2008, the Board granted authorization to repurchase up to an additional two million shares/units. The following table summarizes the total number of shares/units repurchased by the Company during the three months ended June 30, 2008:

Period	Total shares/units purchased (1)	Average price per share/unit	Total shares/units purchased under Company program	Board approved increase under Company program	Maximum shares/units available under the Company program
Balance April 1, 2008:					291,160
April, 2008	382	\$ 51.04	-	-	291,160
May, 2008	10,104	50.62	-	2,000,000	2,291,160
June, 2008	561	51.60	-	-	2,291,160
Total Second Quarter 2008	11,047	\$ 50.69	-	2,000,000	2,291,160

(1) During the three months ended June 30, 2008, the Company repurchased 11,047 shares of common stock through share repurchase by the transfer agent in the open market in connection with the Company's Dividend Reinvestment and Direct Stock Purchase Plan, which are included in this table.

[Table of Contents](#)

ITEM 4. SUBMISSION OF MATTER TO A VOTE OF SECURITY HOLDERS

The annual meeting of the Company's stockholders was held on May 1, 2008. The following is a brief description of each matter voted upon at the meeting and the number of votes cast for, withheld or against, abstentions and the number of broker non-votes, as applicable, with respect to each matter.

The ten directors proposed by the Company for re-election were elected to one year terms by the following vote:

DIRECTOR NAME	SHARES FOR	SHARES WITHHELD
Josh E. Fidler	28,009,087	298,389
Alan L. Gosule	27,959,520	347,956
Leonard F. Helbig, III	27,858,366	449,110
Roger W. Kober	27,845,757	461,719
Norman P. Leenhouts	27,898,909	408,567
Nelson B. Leenhouts	27,924,664	382,812
Edward J. Pettinella	27,946,311	361,165
Clifford W. Smith, Jr.	27,881,172	426,304
Paul L. Smith	27,852,486	454,990
Amy L. Tait	27,659,145	648,331

The stockholders approved the 2008 Stock Benefit Plan.

Shares	19,028,374
Voted For:	
Shares	6,045,657
Voted	
Against:	
Shares	87,829
Abstaining:	

The stockholders approved one amendment to the Company's Deferred Bonus Plan.

Shares	24,322,574
Voted For:	
Shares	745,099
Voted	
Against:	
Shares	94,187
Abstaining:	

The stockholders ratified the appointment of PricewaterhouseCoopers, LLP as the Company's independent registered public accounting firm for 2008.

Shares	28,099,672
Voted For:	
Shares	174,952
Voted	
Against:	
	32,853

Shares
Abstaining:

[Table of Contents](#)

Page 33

ITEM 6. EXHIBITS

Exhibit 4.1	Amendment Number One to Home Properties, Inc. Deferred Bonus Plan*
Exhibit 10.1	Amendment No. Ninety-Six to the Second Amended and Restated Agreement of Limited Partnership of Home Properties, L.P.*
Exhibit 31.1	Section 302 Certification of Chief Executive Officer*
Exhibit 31.2	Section 302 Certification of Chief Financial Officer*
Exhibit 32.1	Section 906 Certification of Chief Executive Officer**
Exhibit 32.2	Section 906 Certification of Chief Financial Officer**

*Filed
herewith
**Furnished
herewith

[Table of Contents](#)

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.

HOME PROPERTIES, INC.
(Registrant)

Date: August 8, 2008

By: /s/ Edward J. Pettinella
Edward J. Pettinella
President and Chief Executive Officer

Date: August 8, 2008

By: /s/ David P. Gardner
David P. Gardner
Executive Vice President and
Chief Financial Officer

[Table of Contents](#)