ONE LIBERTY PROPERTIES INC
Form 10-Q
November 06, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended September 30, 2014

OR

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission File Number 001-09279

ONE LIBERTY PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

MARYLAND	**13-3147497**
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)

60 Cutter Mill Road, Great Neck, New York	**11021**
(Address of principal executive offices)	(Zip code)

(516) 466-3100

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o	Smaller reporting company o

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

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

As of November 3, 2014, the registrant had 16,209,356 shares of common stock outstanding.

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One Liberty Properties, Inc. and Subsidiaries

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Part I FINANCIAL INFORMATION

Item 1. Financial Statements

ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands, Except Par Value)

	September 30, 2014 (Unaudited)	December 31, 2013
Assets		
Real estate investments, at cost		
Land	$ 162,976	$ 153,529
Buildings and improvements	406,841	413,829
Total real estate investments, at cost	569,817	567,358
Less accumulated depreciation	74,655	71,171
Real estate investments, net	495,162	496,187
Properties held-for-sale	25,589	5,177
Assets related to property held-for-sale	2,836	
Investment in unconsolidated joint ventures	4,874	4,906
Cash and cash equivalents	14,259	16,631
Restricted cash	1,845	
Unbilled rent receivable	12,442	13,743
Unamortized intangible lease assets, net	25,372	26,035
Escrow, deposits and other assets and receivables	5,074	5,690
Investment in BRT Realty Trust at market (related party)		262
Unamortized deferred financing costs, net	3,284	3,267
Total assets	$ 590,737	$ 571,898
Liabilities and Equity		
Liabilities:		
Mortgages payable	$ 293,752	$ 278,045
Line of credit	21,250	23,250
Dividends payable	5,976	5,806
Accrued expenses and other liabilities	10,641	7,790
Unamortized intangible lease liabilities, net	9,170	6,917
Total liabilities	340,789	321,808
Commitments and contingencies		
Equity:		
One Liberty Properties, Inc. stockholders equity:		
Preferred stock, $1 par value; 12,500 shares authorized; none issued		
Common stock, $1 par value; 25,000 shares authorized; 15,669 and 15,221 shares issued and outstanding	15,669	15,221
Paid-in capital	218,382	210,324
Accumulated other comprehensive loss	(2,041)	(490)
Accumulated undistributed net income	16,614	23,877

Total One Liberty Properties, Inc. stockholders equity		248,624		248,932
Non-controlling interests in joint ventures		1,324		1,158
Total equity		249,948		250,090
Total liabilities and equity	$	590,737	$	571,898

See accompanying notes to consolidated financial statements.

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ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Per Share Data)

(Unaudited)

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Revenues:				
Rental income, net	$ 14,552	$ 12,487	$ 42,308	$ 35,588
Tenant reimbursements	635	483	1,677	1,225
Lease termination fee			1,269	
Total revenues	15,187	12,970	45,254	36,813
Operating expenses:				
Depreciation and amortization	3,685	2,983	10,985	8,298
General and administrative (including $387, $572 $1,606 and $1,716, respectively, to related party)	2,153	1,938	6,497	5,841
Real estate expenses (including $213, $150, $638 and $450, respectively, to related party)	1,085	851	3,061	2,375
Leasehold rent	77	77	231	231
Federal excise and state taxes	6	(7)	175	218
Real estate acquisition costs	83	544	211	821
Impairment loss	1,093		1,093	
Total operating expenses	8,182	6,386	22,253	17,784
Operating income	7,005	6,584	23,001	19,029
Other income and expenses:				
Equity in earnings of unconsolidated joint ventures	134	122	397	513
Gain on disposition of real estate - unconsolidated joint venture				2,807
Gain on sale - unconsolidated joint venture interest				1,898
Gain on sale - investment in BRT Realty Trust (related party)			134	
Other income	10	10	20	89
Interest:				
Expense	(4,227)	(3,409)	(12,215)	(9,670)
Amortization of deferred financing costs	(275)	(223)	(741)	(662)
Income from continuing operations	2,647	3,084	10,596	14,004
Income from discontinued operations		144	13	425
Net income	2,647	3,228	10,609	14,429
Less net income attributable to non-controlling interests	(27)	(17)	(76)	(32)
Net income attributable to One Liberty Properties, Inc.	$ 2,620	$ 3,211	$ 10,533	$ 14,397

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ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Per Share Data)

(Unaudited) (Continued)

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Weighted average number of common shares outstanding:				
Basic	15,650	15,093	15,508	14,871
Diluted	15,750	15,193	15,608	14,971
Per common share attributable to common stockholders basic:				
Income from continuing operations	$ .16	$ .19	$ .64	$ .90
Income from discontinued operations		.01		.03
	$ .16	$ .20	$ .64	$ .93
Per common share attributable to common stockholders diluted:				
Income from continuing operations	$ .16	$ .19	$ .64	$ .90
Income from discontinued operations		.01		.03
	$ .16	$ .20	$ .64	$ .93
Cash distributions declared per share of common stock	$ .37	$ .35	$ 1.11	$ 1.05

See accompanying notes to consolidated financial statements.

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ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Thousands)

(Unaudited)

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Net income	$ 2,647	$ 3,228	$ 10,609	$ 14,429
Other comprehensive gain (loss)				
Net unrealized (loss) gain on available- for-sale securities	(1)	7	(126)	52
Net unrealized gain (loss) on derivative instruments	120	(688)	(1,465)	220
One Liberty Property s share of joint venture net unrealized gain (loss) on derivative instruments	19	(1)	23	60
Other comprehensive gain (loss)	138	(682)	(1,568)	332
Comprehensive income	2,785	2,546	9,041	14,761
Comprehensive income attributable to non-controlling interests	(27)	(17)	(76)	(32)
Unrealized (gain) loss on derivative instruments attributable to non-controlling interests	(7)		17	
Comprehensive income attributable to One Liberty Properties, Inc.	$ 2,751	$ 2,529	$ 8,982	$ 14,729

See accompanying notes to consolidated financial statements.

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ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the nine month period ended September 30, 2014 (Unaudited)

and the year ended December 31, 2013

(Amounts in Thousands, Except Per Share Data)

	Common Stock	Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Undistributed Net Income	Non-Controlling Interests in Joint Ventures	Total
Balances, January 1, 2013	$ 14,598	$ 196,107	$ (1,578)	$ 28,001	$ 931	$ 238,059
Distributions - common stock Cash - $1.42 per share				(21,999)		(21,999)
Shares issued through equity offering program net	363	8,802				9,165
Restricted stock vesting	50	(50)				
Shares issued through dividend reinvestment plan	210	4,025				4,235
Contributions from non-controlling interests					480	480
Distributions to non-controlling interests					(298)	(298)
Compensation expense - restricted stock		1,440				1,440
Net income				17,875	49	17,924
Other comprehensive income (loss)			1,088		(4)	1,084
Balances, December 31, 2013	15,221	210,324	(490)	23,877	1,158	250,090
Distributions - common stock Cash - $1.11 per share				(17,796)		(17,796)
Shares issued through equity offering program net	179	3,596				3,775
Restricted stock vesting	101	(101)				
Shares issued through dividend reinvestment plan	168	3,195				3,363
Contribution from non-controlling interest					306	306
Distributions to non-controlling interests					(199)	(199)
Compensation expense - restricted stock		1,368				1,368
Net income				10,533	76	10,609
Other comprehensive loss			(1,551)		(17)	(1,568)
Balances, September 30, 2014	$ 15,669	$ 218,382	$ (2,041)	$ 16,614	$ 1,324	$ 249,948

See accompanying notes to consolidated financial statements.

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ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

(Unaudited)

	Nine Months Ended September 30, 2014	2013
Cash flows from operating activities:		
Net income	$ 10,609	$ 14,429
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on disposition of real estate held by unconsolidated joint venture		(2,807)
Gain on sale - unconsolidated joint venture interest		(1,898)
Gain on sale of available-for-sale securities (to related party in 2014)	(134)	(6)
Impairment loss	1,093	
Increase in rental income from straight-lining of rent	(1,108)	(751)
Increase in rental income from amortization of intangibles relating to leases	(144)	(99)
Amortization of restricted stock expense	1,368	1,132
Equity in earnings of unconsolidated joint ventures	(397)	(513)
Distributions of earnings from unconsolidated joint ventures	399	968
Depreciation and amortization	10,985	8,406
Amortization and write-off of financing costs	741	662
Payment of leasing commissions	(165)	(122)
Changes in assets and liabilities:		
Decrease (increase) in escrow, deposits, other assets and receivables	535	(1,104)
(Decrease) increase in accrued expenses and other liabilities	(383)	1,111
Net cash provided by operating activities	23,399	19,408
Cash flows from investing activities:		
Purchase of real estate	(33,167)	(101,314)
Improvements to real estate	(716)	(1,680)
Distributions of return of capital from unconsolidated joint ventures	53	5,397
Net proceeds from sale of real estate	5,177	
Net proceeds from disposition of unconsolidated joint venture interest		13,444
Net proceeds from sale of available-for-sale securities (to related party in 2014)	266	19
Net cash used in investing activities	(28,387)	(84,134)
Cash flows from financing activities:		
Scheduled amortization payments of mortgages payable	(5,675)	(4,859)
Repayment of mortgages payable	(25,456)	(4,708)
Proceeds from mortgage financings	46,839	60,401
Proceeds from sale of common stock, net	3,775	7,962
Proceeds from bank line of credit	27,500	27,000
Repayment on bank line of credit	(29,500)	(3,500)
Issuance of shares through dividend reinvestment plan	3,363	3,006
Payment of financing costs	(712)	(434)
Capital contributions from non-controlling interests	306	481
Distribution to non-controlling interests	(199)	(299)
Cash distributions to common stockholders	(17,625)	(15,998)
Net cash provided by financing activities	2,616	69,052

Net (decrease) increase in cash and cash equivalents		(2,372)		4,326
Cash and cash equivalents at beginning of period		16,631		14,577
Cash and cash equivalents at end of period	$	14,259	$	18,903

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ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

(Unaudited) (Continued)

	Nine Months Ended September 30, 2014		Nine Months Ended September 30, 2013	
Supplemental disclosures of cash flow information:				
Cash paid during the period for interest expense	$	12,382	$	9,738
Supplemental schedule of non-cash investing and financing activities:				
Purchase accounting allocation - intangible lease assets		1,999		10,333
Purchase accounting allocation - intangible lease liabilities		2,844		1,544
Restricted cash for tenant improvements and other reserve		1,845		

See accompanying notes to consolidated financial statements.

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One Liberty Properties, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

September 30, 2014

Note 1 - Organization and Background

One Liberty Properties, Inc. (OLP) was incorporated in 1982 in Maryland. OLP is a self-administered and self-managed real estate investment trust (REIT). OLP acquires, owns and manages a geographically diversified portfolio of retail (including furniture stores, restaurants, office supply stores and supermarkets), industrial, flex, office, health and fitness and other properties, a substantial portion of which are subject to long-term net leases. As of September 30, 2014, OLP owned 113 properties, including six properties owned by consolidated joint ventures and five properties owned by unconsolidated joint ventures. The 113 properties are located in 30 states.

Note 2 Summary Accounting Policies

Principles of Consolidation/Basis of Preparation

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and include all of the information and disclosures required by U.S. Generally Accepted Accounting Principles (GAAP) for interim reporting. Accordingly, they do not include all of the disclosures required by GAAP for complete financial statement disclosures. In the opinion of management, all adjustments necessary for fair presentation (including normal recurring accruals) have been included. The results of operations for the three and nine months ended September 30, 2014 are not necessarily indicative of the results for the full year. These statements should be read in conjunction with the consolidated financial statements and related notes included in OLP s Annual Report on Form 10-K for the year ended December 31, 2013.

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

The consolidated financial statements include the accounts and operations of OLP, its wholly-owned subsidiaries and its investment in six joint ventures in which the Company, as defined, has a controlling interest. OLP and its consolidated subsidiaries are hereinafter referred to as the Company . Material intercompany items and transactions have been eliminated in consolidation.

Disposals of Properties

In April 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, which changes the criteria for determining which future disposals can be presented as discontinued operations and modifies related disclosure requirements. Under the new guidance, a discontinued operation is defined as a disposal of a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has (or will have) a major effect on an entity s operations and financial results. The guidance is effective for calendar year public companies beginning in the first quarter of 2015 and is to be applied on a prospective basis for new disposals. Early adoption of this guidance is permitted but only for disposals (or classifications as held-for-sale) that have not been reported

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One Liberty Properties, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

September 30, 2014 (Continued)

Note 2 - Summary Accounting Policies (continued)

in financial statements previously issued. The Company adopted this guidance in the first quarter of 2014. It is expected that most of the Company s future dispositions will not meet the criteria for being treated as a discontinued operation under this guidance. This guidance was applied for 2014 disposals with the exception of the two properties that were sold in February 2014 because these properties were previously classified as properties held-for-sale as of December 31, 2013. These properties will continue to be accounted for as discontinued operations for the periods presented.

Investment in Joint Ventures

The Company assesses the accounting treatment for each joint venture investment. This assessment includes a review of each joint venture or limited liability company agreement to determine the rights of each party and whether those rights are protective or participating. The agreements typically contain certain protective rights such as the requirement of partner approval to sell, finance or refinance the property and to pay capital expenditures and operating expenditures outside of the approved budget or operating plan. In situations where the Company and its partner, among other things, (i) approve the annual budget, (ii) approve certain expenditures, (iii) prepare or review and approve the joint venture s tax return before filing, and (iv) approve each lease at each property, the Company does not consolidate the joint venture as the Company considers these to be substantive participation rights that result in shared power over the activities that most significantly impact the performance of the joint venture.

The FASB s guidance for determining whether an entity is a variable interest entity, or VIE, requires the determination of whether the entity s equity investment at risk is sufficient to permit the entity to finance its activities without additional subordinated financial support and whether the entity s at-risk equity holders have a controlling financial interest. Under this guidance, an entity would be required to consolidate a VIE if the entity is determined to be the primary beneficiary the entity is considered to be the primary beneficiary when it has the (i) power to direct the activities that most significantly impact the VIE s economic performance and (ii) obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could be significant to the VIE. Additionally, the Company assesses the accounting treatment for any interests pursuant to which the Company may have a variable interest as a lessor. Leases may contain certain protective rights such as the right of sale and the receipt of certain escrow deposits. In situations where the Company does not have the power over tenant activities that most significantly impact the performance of the property, the Company would not consolidate tenant operations.

In June 2014, the Company purchased land for $6,510,000 in Sandy Springs, Georgia improved with a 196 unit apartment complex, and simultaneously entered into a long-term triple net ground lease with the owner/operator of this complex (see Note 4). The Company determined that it has a variable interest through its ground lease and the owner/operator is a VIE because its equity investment at risk is not sufficient to finance its activities without additional subordinated financial support. The Company s fee interest in the land is collateral for the owner/operator s loan on the buildings located at this property. The Company further determined that it is not the primary beneficiary because the Company does not have the power

One Liberty Properties, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

September 30, 2014 (Continued)

Note 2 - Summary Accounting Policies (continued)

to direct the activities that most significantly impact the owner/operator s economic performance such as management, operational budgets and other rights, including leasing of the units and therefore, will not consolidate the VIE for financial statement purposes. Accordingly, the Company will account for its investment as land and the revenue from the ground lease as Rental Income, net. At September 30, 2014, the Company s maximum exposure to loss as a result of the ground lease is an aggregate of $6,626,000, representing the $6,516,000 carrying value of the land, included in Real estate investments, net, on the consolidated balance sheets and the unbilled rent receivable of $110,000.

In June 2014, the Company entered into a joint venture, in which the Company has a 95% equity interest, and acquired a property located in Joppa, Maryland (see Note 4). The Company also made a senior preferred equity investment in the joint venture. The Company has determined that this joint venture is a VIE as the Company s voting rights are not proportional to its economic interests and substantially all of the joint venture s activities are conducted by the Company. The Company further determined that it is the primary beneficiary of the VIE as it has the power to direct the activities that most significantly impact the joint venture s performance including management, approval of expenditures, and sale of the property, as well as the obligation to absorb the losses or rights to receive benefits from the VIE. Accordingly, the Company consolidates the operations of this joint venture for financial statement purposes.

For the consolidated VIE, the carrying amounts and classification in the Company s consolidated balance sheets were assets (none of which are restricted) consisting of land of $3,805,000, building and improvements (net of depreciation) of $8,081,000, cash of $318,000, prepaid expenses and receivables of $38,000, accrued expenses and other liabilities of $123,000 and non-controlling interest in joint ventures of $309,000. The joint venture s creditors do not have recourse to the assets of the Company other than those held by the joint venture.

With respect to five consolidated joint ventures in which the Company has between an 85% to 95% interest, the Company has determined that (i) such ventures are not VIE s and (ii) the Company exercises substantial operating control and accordingly, such ventures are consolidated for financial statement purposes.

The Company accounts for its investments in five unconsolidated joint ventures under the equity method of accounting. All investments in these joint ventures have sufficient equity at risk to permit the entity to finance its activities without additional subordinated financial support and, as a group, the holders of the equity at risk have power through voting rights to direct the activities of these ventures. As a result, none of these joint ventures are VIE s. In addition, although the Company is the managing member, it does not exercise substantial operating control over these entities, and therefore the entities are not consolidated. These investments are recorded initially at cost, as investments in unconsolidated joint ventures, and subsequently adjusted for their share of equity in earnings, cash contributions and distributions. None of the joint venture debt is recourse to the Company, subject to standard carve-outs.

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One Liberty Properties, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

September 30, 2014 (Continued)

Note 2 - Summary Accounting Policies (continued)

Tenant Reimbursements

Tenant reimbursements represent contractually obligated reimbursements from tenants for recoverable real estate taxes and operating expenses.

Reclassifications

Certain amounts previously reported in the consolidated financial statements have been reclassified in the accompanying consolidated financial statements to conform to the current period s presentation, primarily to break out tenant reimbursements that had been included in rental income, net, for all periods presented. In addition, the operations of two properties that were sold in February 2014 were reclassified to discontinued operations for the three and nine months ended September 30, 2013.

Note 3 - Earnings Per Common Share

Basic earnings per share was determined by dividing net income allocable to common stockholders for the applicable period by the weighted average number of shares of common stock outstanding during such period. Net income is also allocated to the unvested restricted stock during the applicable period, as the restricted stock is entitled to receive dividends and is therefore considered a participating security. Unvested restricted stock is not allocated net losses and/or any excess of dividends declared over net income; such amounts are allocated entirely to the common stockholders other than the holders of unvested restricted stock. The restricted stock units awarded under the Pay-for-Performance program described in Note 13 are excluded from the basic earnings per share calculation, as these units are not participating securities.

Diluted earnings per share reflects the potential dilution that could occur if securities or other rights exercisable for, or convertible into, common stock were exercised or converted or otherwise resulted in the issuance of common stock that shared in the earnings of the Company. For the three and nine months ended September 30, 2014 and 2013, the diluted weighted average number of shares of common stock includes 100,000 shares (of an aggregate of 200,000 shares) of common stock underlying the restricted stock units awarded pursuant to the Pay-For-Performance program. These 100,000 shares may vest upon satisfaction of the total stockholder return metric. The number of shares that would be issued pursuant to this metric is based on the market price and dividends paid as of the end of each quarterly period assuming the end of that quarterly period was the end of the vesting period. The remaining 100,000 shares of common stock underlying the restricted stock units awarded under the Pay-For-Performance program are not included during the three and nine months ended September 30, 2014 and 2013, as they did not meet the return on capital performance metric during such periods.

There were no options outstanding to purchase shares of common stock or other rights exercisable for, or convertible into, common stock during the nine months ended September 30, 2014 and 2013.

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One Liberty Properties, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

September 30, 2014 (Continued)

Note 3 - Earnings Per Common Share (continued)

The following table provides a reconciliation of the numerator and denominator of earnings per share calculations (amounts in thousands, except per share amounts):

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Numerator for basic and diluted earnings per share:				
Income from continuing operations	$ 2,647	$ 3,084	$ 10,596	$ 14,004
Less: net income attributable to non-controlling interests	(27)	(17)	(76)	(32)
Less: earnings allocated to unvested shares	(178)	(165)	(534)	(494)
Income from continuing operations available for common stockholders	2,442	2,902	9,986	13,478
Discontinued operations		144	13	425
Net income available for common stockholders, basic and diluted	$ 2,442	$ 3,046	$ 9,999	$ 13,903
Denominator for basic earnings per share:				
- weighted average common shares	15,650	15,093	15,508	14,871
- weighted average unvested restricted stock shares				
	15,650	15,093	15,508	14,871
Effect of diluted securities:				
- restricted stock units awarded under Pay-for-Performance program	100	100	100	100
Denominator for diluted earnings per share				
- weighted average shares	15,750	15,193	15,608	14,971
Earnings per common share, basic	$ .16	$ .20	$ .64	$ .93
Earnings per common share, diluted	$ .16	$ .20	$ .64	$ .93
Net income attributable to One Liberty Properties, Inc. common stockholders, net of non-controlling interests:				
Income from continuing operations	$ 2,620	$ 3,067	$ 10,520	$ 13,972
Income from discontinued operations		144	13	425
Net income attributable to One Liberty Properties, Inc.	$ 2,620	$ 3,211	$ 10,533	$ 14,397

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One Liberty Properties, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

September 30, 2014 (Continued)

Note 4 - Real Estate Acquisitions and Contingent Liability

The following chart details the Company s real estate acquisitions, all of which were acquired for cash, during the nine months ended September 30, 2014 (amounts in thousands):

Description of Property	Date Acquired	Contract Purchase Price	Third Party Real Estate Acquisition Costs (a)
Total Wine and More retail store, Greensboro, North Carolina	January 21, 2014	$ 2,971	$ 20
Chuck E Cheese restaurant, Indianapolis, Indiana	January 23, 2014	2,138	9
Savers Thrift Superstore, Highlands Ranch, Colorado	May 7, 2014	4,825	44
Hobby Lobby retail store, Woodbury, Minnesota	May 21, 2014	4,770	34
Land - River Crossing Apartments, Sandy Springs, Georgia (b)	June 4, 2014	6,510	(c)
Noxell Corporation industrial building, Joppa, Maryland (d)	June 26, 2014	11,650	(c)
Other (e)			104
Totals		$ 32,864	$ 211

(a) Included as an expense in the accompanying consolidated statement of income.

(b) The Company s fee interest in the land is collateral for the tenant s mortgage loan secured by the buildings located at this property.

(c) Transaction costs aggregating $303 incurred with these asset acquisitions were capitalized.

(d) Owned by a joint venture in which the Company has a 95% interest. The non-controlling interest contributed $306 for its 5% interest, which was equal to the fair value of such interest at the date of purchase.

(e) Costs incurred for potential acquisitions and properties purchased in 2013.

The following chart provides the allocation of the purchase price for the Company s real estate acquisitions during the nine months ended September 30, 2014 (amounts in thousands):

Description of Property	Land	Building	Building Improvements	Intangible Lease Asset	Intangible Lease Liability	Total
Total Wine and More retail store, Greensboro, North Carolina	$ 1,046	$ 1,468	$ 83	$ 374	$	$ 2,971
Chuck E Cheese restaurant, Indianapolis, Indiana	853	1,321	145	94	(275)	2,138
Savers Thrift Superstore, Highlands Ranch, Colorado	2,361	2,644	280	856	(1,316)	4,825
Hobby Lobby retail store, Woodbury, Minnesota	1,190	3,667	335	734	(1,156)	4,770
Land - River Crossing Apartments, Sandy Springs, Georgia (a)	6,516					6,516
Noxell Corporation industrial building, Joppa, Maryland (b)	3,805	7,991	151			11,947
Subtotals	15,771	17,091	994	2,058	(2,747)	33,167
Other (c)	74	70	18	(59)	(97)	6
Totals	$ 15,845	$ 17,161	$ 1,012	$ 1,999	$ (2,844)	$ 33,173

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One Liberty Properties, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

September 30, 2014 (Continued)

Note 4 - Real Estate Acquisitions and Contingent Liability (continued)

(a) Includes capitalized transaction costs of $6 incurred with this asset acquisition.

(b) Includes capitalized transaction costs of $297 incurred with this asset acquisition.

(c) Adjustments to finalize intangibles relating to properties purchased in 2013.

Each property purchased by the Company in 2014 is net leased by a single tenant pursuant to a lease that expires between 2015 through 2044.

In June 2014, the Company purchased land in Sandy Springs, Georgia improved with a 196 unit apartment complex, for a land purchase price of $6,510,000 and simultaneously entered into a long-term triple net ground lease with the owner/operator of this complex. Pursuant to the terms of the ground lease, the owner/operator is obligated to make certain unit renovations as and when units become vacant. A cash reserve of $1,845,000 is held on behalf of the owner/operator to cover renovation work and other reserve requirements and is classified as Restricted cash on the consolidated balance sheet.

At closing, the owner/operator obtained a $16,230,000 mortgage from a third party which, together with the Company s purchase of the land, provided substantially all of the aggregate funds to acquire the complex. The Company provided its land as collateral for the owner/operator s mortgage loan; accordingly the land position is subordinated to the mortgage.

As a result of the 2014 acquisitions, the Company recorded intangible lease assets of $2,058,000 and intangible lease liabilities of $2,747,000, representing the value of the origination costs and acquired leases. As of September 30, 2014, the weighted average amortization period for these acquisitions is 7.4 years for the intangible lease assets and 8.2 years for the intangible lease liabilities. The Company assessed the fair value of the lease intangibles based on estimated cash flow projections that utilize appropriate discount rates and available market information. Such inputs are Level 3 (as defined in Note 14) in the fair value hierarchy. The Company has finalized the purchase price allocations for the properties acquired during the nine months ended September 30, 2014.

Acquisitions Subsequent to September 30, 2014

On October 2, 2014, the Company purchased a stadium style theater located in Indianapolis, Indiana for $9,000,000, which was paid in cash. The property is net leased to Regal Cinemas, Inc. through 2027.

On October 21, 2014, the Company purchased through a joint venture in which it has a 90% interest, a Pathmark supermarket property located in Philadelphia, Pennsylvania for $7,700,000, which was financed in part by mortgage financing of $4,635,000. The mortgage, which matures in 2021, bears interest at a rate of 3.885% per annum. The property is net leased through 2021.

The aggregate annual base rent at acquisition for these two properties is approximately $1,280,000.

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One Liberty Properties, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

September 30, 2014 (Continued)

Note 5 - Discontinued Operations, Properties Held for Sale and Impairment

On February 3, 2014, the Company sold two properties located in Michigan for a total sales price of $5,177,000, net of closing costs. At December 31, 2013, the Company recorded a $61,700 impairment charge representing the loss on the sale of these properties. The following table summarizes the components of income from discontinued operations applicable to these properties (amounts in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	**2013**	**2014**	**2013**
Rental income	$	$ 244	$ 141	$ 730
Depreciation and amortization		36		108
Real estate expenses			17	1
Interest expense		64	111	196
Total expenses		100	128	305
Income from discontinued operations	$	$ 144	$ 13	$ 425

On October 15, 2014, the Company sold a property located in Parsippany, New Jersey for approximately $38,600,000, net of closing costs. At September 30, 2014, the Company classified the net book value of the property s land, building and building improvements of $25,589,000 as properties held for sale and classified the unbilled rent receivable, tenant origination costs and intangible lease assets of $2,836,000 as assets related to property held for sale in the accompanying consolidated balance sheet. The sale resulted in a gain of approximately $10,000,000 for financial statement purposes, which will be included in net gain on sale of property during the year and three months ended December 31, 2014, and resulted in a gain of approximately $21,000,000 for federal tax purposes. The Company is pursuing acquisitions which may allow it to defer all or part of the tax gain in accordance with Section 1031 of the Internal Revenue Code of 1986, as amended. In connection with the sale, the Company paid off the approximate $13,400,000 mortgage balance on this property and incurred a $1,580,000 mortgage prepayment penalty, which will also be reported during the year and three months ended December 31, 2014.

During the three months ended September 30, 2014, the Company determined there were indicators of impairment at its property located in Morrow, Georgia at which the tenant did not renew the lease which expired October 31, 2014, efforts to re-let the property were unsuccessful and the non-recourse mortgage on the property matured on November 1, 2014. The Company recorded an impairment charge of $1,093,000 at September 30, 2014 in the accompanying consolidated statement of income, does not intend to make any further payments on the mortgage, and intends to surrender the property to the mortgagee. The Company measured fair value of the property based on a sales comparison approach (as discussed in Note 14). At September 30, 2014, the adjusted net book value of the property was $1,470,000.

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One Liberty Properties, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

September 30, 2014 (Continued)

Note 6   Lease Termination Fee Income

In June 2014, the Company received a $1,269,000 lease termination fee from a retail tenant in a lease buy-out transaction. In connection with the receipt of this fee, the Company wrote-off $150,000 as an offset to rental income, representing the entire balance of the unbilled rent receivable and the intangible lease asset related to this property. The Company re-leased this property simultaneously with the termination of the existing tenant s lease.

Note 7 - Investment in Unconsolidated Joint Ventures

At September 30, 2014 and December 31, 2013, the Company had investments in five unconsolidated joint ventures, each of which owned and operated one property. The Company s equity investment in such unconsolidated joint ventures at such dates totaled $4,874,000 and $4,906,000, respectively. In addition to the $2,807,000 gain on the sale of a tenant-in-common property in the nine months ended September 30, 2013, the Company recorded equity in earnings of $397,000 and $513,000 for the nine months ended September 30, 2014 and 2013, respectively, and $134,000 and $122,000 for the three months ended September 30, 2014 and 2013, respectively.

Additionally, in April 2013, the Company sold its 90% equity interest in a joint venture to its partner and recorded a gain of $1,898,000.

Note 8 - Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its tenants to make required rent payments. If the financial condition of a specific tenant were to deteriorate resulting in an impairment of its ability to make payments, additional allowances may be required. At September 30, 2014 and December 31, 2013, there was no balance in allowance for doubtful accounts.

The Company records bad debt expense as a reduction of rental income. For the three and nine months ended September 30, 2014 and 2013, the Company did not incur any bad debt expense.

Note 9 - Line of Credit

The Company has a $75,000,000 revolving credit facility with Manufacturer s & Trader s Trust Company, VNB New York Corp., Bank Leumi USA and Israel Discount Bank of New York. This facility matures March 31, 2015. The Company is currently in negotiations for a new facility. The Company pays interest at the greater of (i) 90 day LIBOR plus 3% (3.24% at September 30, 2014) and (ii) 4.75% per annum and there is an unused facility fee of .25% per annum. At September 30, 2014 and November 3, 2014, there were outstanding balances of $21,250,000 and $20,250,000, respectively, under the facility. The Company was in compliance with all covenants at September 30, 2014.

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One Liberty Properties, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

September 30, 2014 (Continued)

Note 10 - Compensation and Services Agreement

The Company agreed to pay fees of $3,300,000 and $3,465,000 in 2014 and 2015, respectively (including overhead expenses of $186,375 and $195,694 and property management fees, included in real estate expenses on the income statement, of $850,000 and $892,500 in 2014 and 2015, respectively) pursuant to the compensation and services agreement, as amended, with Majestic Property Management Corp. Majestic Property Management Corp is wholly-owned by the Vice Chairman of the Company s Board of Directors.

Effective July 1, 2014, certain employees of affiliated companies performing services pursuant to this agreement are paid directly by the Company for the time they spend performing services on the Company s behalf. Accordingly, the fees (including the overhead expenses and property management fees) paid pursuant to this agreement were reduced to $2,855,000 and $2,535,000 for 2014 and 2015, respectively. At September 30, 2014, the Company recorded a receivable from Majestic Property Management Corp. for $223,000 representing amounts paid during the three months ended September 30, 2014 in excess of the reduced fee. This receivable was applied against the fee payable for October 2014 and the balance was repaid to the Company on October 3, 2014.

Note 11 - Common Stock Cash Dividend

On September 11, 2014, the Board of Directors declared a quarterly cash dividend of $.37 per share on the Company s common stock, totaling $5,976,000. The quarterly dividend was paid on October 3, 2014 to stockholders of record on September 25, 2014.

Note 12 - Shares Issued through Equity Offering Program

On March 20, 2014, the Company entered into an amended and restated equity offering sales agreement to sell shares of the Company s common stock from time to time with an aggregate sales price of up to approximately $38,360,000, through an at the market equity offering program. During the nine months ended September 30, 2014, the Company sold 179,051 shares for proceeds of $3,889,700, net of commissions of $39,000, and incurred offering costs, primarily professional fees, of $114,500. The Company has not sold any shares subsequent to September 30, 2014.

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One Liberty Properties, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

September 30, 2014 (Continued)

Note 13 - Stock Based Compensation

The Company s 2012 Incentive Plan, approved by the Company s stockholders in June 2012, permits the Company to grant, among other things, stock options, restricted stock, restricted stock units and performance share awards and any one or more of the foregoing to its employees, officers, directors and consultants. A maximum of 600,000 shares of the Company s common stock is authorized for issuance pursuant to this Plan, of which 229,000 shares of restricted stock are outstanding as of September 30, 2014. An aggregate of 452,000 shares of restricted stock and restricted stock units outstanding under the Company s 2003 and 2009 equity incentive plans (collectively, the Prior Plans) have not yet vested. No additional awards may be granted under the Prior Plans.

The restricted stock grants are charged to general and administrative expense over the respective vesting periods based on the market value of the common stock on the grant date. Substantially all the outstanding restricted stock awards provide for vesting upon the fifth anniversary of the date of grant and under certain circumstances may vest earlier. For accounting purposes, the restricted stock is not included in the shares shown as outstanding on the balance sheet until they vest; however dividends are paid on the unvested shares.

On September 14, 2010, the Board of Directors approved a Pay-for-Performance program under the Company s 2009 Incentive Plan and awarded 200,000 performance share awards in the form of restricted stock units (the Units). The holders of Units are not entitled to dividends or to vote the underlying shares until the Units vest and shares are issued. Accordingly, for accounting purposes, the shares underlying the Units are not included in the shares shown as outstanding on the balance sheet. If the defined performance criteria are satisfied in full at June 30, 2017, one share of the Company s common stock will vest and be issued for each Unit outstanding and a pro-rata portion of the Units will vest and be issued if the performance criteria fall between defined ranges. In the event that the performance criteria are not satisfied in whole or in part at June 30, 2017, the unvested Units will be forfeited and no shares of the Company s common stock will be issued for those Units. No Units were forfeited or vested in the nine months ended September 30, 2014.

As of September 30, 2014 and December 31, 2013, there were no options outstanding under the Company s equity incentive plans.

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One Liberty Properties, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

September 30, 2014 (Continued)

Note 13 - Stock Based Compensation (continued)

The following is a summary of the activity of the equity incentive plans (excluding, except as otherwise noted, the 200,000 Units):

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Restricted share grants			118,850	112,650
Per share grant price			$ 20.54	$ 21.59
Deferred compensation to be recognized over vesting period			$ 2,441,000	$ 2,432,000
Non-vested shares:				
Non-vested beginning of period	481,045	470,015	470,015	407,460
Grants			118,850	112,650
Vested during period			(101,300)	(50,095)
Forfeitures	(50)		(6,570)	
Non-vested end of period	480,995	470,015	480,995	470,015
Average per share value of non-vested shares (based on grant price)	$ 14.55	$ 14.22	$ 14.55	$ 14.22
Value of shares vested during the period (based on grant price)	$	$	$ 621,000	$ 876,000
The total charge to operations for all incentive plans, including the 200,000 Units, is as follows:				
Outstanding restricted stock grants	$ 419,000	$ 335,000	$ 1,281,000	$ 1,037,000
Outstanding restricted stock units	29,000	31,000	87,000	95,000
Total charge to operations	$ 448,000	$ 366,000	$ 1,368,000	$ 1,132,000

As of September 30, 2014, there were approximately $5,293,000 of total compensation costs related to non-vested awards that have not yet been recognized, including $315,000 related to the Pay-for-Performance program (net of forfeiture and performance assumptions which are re-evaluated quarterly). These compensation costs will be charged to general and administrative expense over the remaining respective vesting periods. The weighted average vesting period is approximately 2.6 years.

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One Liberty Properties, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

September 30, 2014 (Continued)

Note 14 - Fair Value Measurements

The Company measures the fair value of financial instruments based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, a fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity and the reporting entity s own assumptions about market participant assumptions. In accordance with the fair value hierarchy, Level 1 assets/liabilities are valued based on quoted prices for identical instruments in active markets, Level 2 assets/liabilities are valued based on quoted prices in active markets for similar instruments, on quoted prices in less active or inactive markets, or on other observable market inputs and Level 3 assets/liabilities are valued based significantly on unobservable market inputs.

The carrying amounts of cash and cash equivalents, restricted cash, escrow, deposits and other assets and receivables, and accrued expenses and other liabilities are not measured at fair value on a recurring basis, but are considered to be recorded at amounts that approximate fair value.

At September 30, 2014, the $301,337,000 estimated fair value of the Company s mortgages payable is more than their carrying value by approximately $7,585,000 assuming a blended market interest rate of 4.5% based on the 9.1 year weighted average remaining term of the mortgages. At December 31, 2013, the $283,142,000 estimated fair value of the Company s mortgages payable is more than their carrying value by approximately $5,097,000 assuming a blended market interest rate of 5% based on the 9.0 year weighted average remaining term of the mortgages.

At September 30, 2014 and December 31, 2013, the $21,250,000 and $23,250,000, respectively, carrying amount of the Company s line of credit approximates its fair value.

The fair value of the Company s mortgages payable and line of credit are estimated using unobservable inputs such as available market information and discounted cash flow analysis based on borrowing rates the Company believes it could obtain with similar terms and maturities. These fair value measurements fall within Level 3 of the fair value hierarchy.

Considerable judgment is necessary to interpret market data and develop estimated fair value. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

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One Liberty Properties, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

September 30, 2014 (Continued)

Note 14 - Fair Value Measurements (continued)

Fair Value on a Recurring Basis

The fair value of the Company s available-for-sale securities and derivative financial instruments was determined using the following inputs (amounts in thousands):

	As of	Carrying and Fair Value	Fair Value Measurements on a Recurring Basis Level 1	Level 2
Financial assets:				
Equity securities	September 30, 2014	$ 24	$ 24	$
	December 31, 2013	282	282	
Interest rate swaps	September 30, 2014	134		134
	December 31, 2013	265		265
Derivative financial instruments:				
[redacted]				
	December 31, 2013	774		774

The Company does not own any financial instruments that are classified as Level 3.

Available-for-sale securities

At September 30, 2014, the Company s available-for-sale securities included a $24,200 investment in equity securities (included in other assets on the consolidated balance sheet). The aggregate cost of these securities was $5,300 and at September 30, 2014, the unrealized gain was $18,900. Such unrealized gains were included in accumulated other comprehensive loss on the consolidated balance sheet. Fair values are approximated based on current market quotes from financial sources that track such securities.

In May 2014, the Company sold to Gould Investors L.P., a related party, 37,081 shares of BRT Realty Trust, a related party, for proceeds of $266,000 (based on the average of the closing prices for the 30 days preceding the sale). The cost of these shares was $132,000 and the Company realized a gain on sale of $134,000, of which $132,000 was reclassified from accumulated other comprehensive loss on the consolidated balance sheet into earnings.

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One Liberty Properties, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

September 30, 2014 (Continued)

Note 14 - Fair Value Measurements (continued)

Derivative financial instruments

Fair values are approximated using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of the derivatives. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with it use Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by the Company and its counterparty. As of September 30, 2014, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company determined that its derivative valuation is classified in Level 2 of the fair value hierarchy.

As of September 30, 2014, the Company had 17 interest rate derivatives outstanding, all of which were interest rate swaps, related to 17 outstanding mortgage loans with an aggregate $84,606,000 notional amount and mature between 2014 and 2024 (weighted average maturity of 6.71 years). Such interest rate swaps, all of which were designated as cash flow hedges, converted LIBOR based variable rate mortgages to fixed annual rate mortgages (with interest rates ranging from 3.55% to 6.50% and a weighted average interest rate of 4.91% at September 30, 2014). The fair value of the Company s derivatives designated as hedging instruments in asset and liability positions reflected as other assets or other liabilities on the consolidated balance sheets were $134,000 and $2,062,000, respectively, at September 30, 2014, and $265,000 and $774,000, respectively, at December 31, 2013.

Two of the Company s unconsolidated joint ventures, in which a wholly owned subsidiary of the Company is a 50% partner, had an interest rate derivative outstanding at September 30, 2014 with a notional amount of $3,735,000. This interest rate derivative has an interest rate of 5.81% and matures in April 2018.

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One Liberty Properties, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

September 30, 2014 (Continued)

Note 14 - Fair Value Measurements (continued)

The following table presents the effect of the Company s derivative financial instruments on the consolidated statement of income for the periods presented (amounts in thousands):

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
One Liberty Properties and Consolidated Subsidiaries				
Amount of loss recognized on derivatives in Other comprehensive loss	$ (357)	$ (972)	$ (2,765)	$ (372)
Amount of loss reclassification from Accumulated other comprehensive loss into Interest expense	(476)	(284)	(1,300)	(592)
Unconsolidated Joint Ventures (Company s share)				
Amount of gain (loss) recognized on derivative in Other comprehensive loss	$ 11	$ (15)	$ (37)	$ 18
Amount of loss reclassification from Accumulated other comprehensive loss into Equity in earnings of unconsolidated joint ventures	(28)	(14)	(83)	(42)

No gain or loss was recognized with respect to hedge ineffectiveness or to amounts excluded from effectiveness testing on the Company s cash flow hedges for the three and nine months ended September 30, 2014 and 2013. During the twelve months ending September 30, 2015, the Company estimates an additional $1,725,000 will be reclassified from other comprehensive income (loss) as an increase to interest expense.

The derivative agreements in effect at September 30, 2014 provide that if the wholly owned subsidiary of the Company which is a party to the agreement defaults or is capable of being declared in default on any of its indebtedness, then a default can be declared on such subsidiary s derivative obligation. In addition, the Company is a party to one of the derivative agreements and if there is a default by the subsidiary on the loan subject to the derivative agreement to which the Company is a party and if there are swap breakage losses on account of the derivative being terminated early, the Company could be held liable for interest rate swap breakage losses, if any.

As of September 30, 2014, the fair value of the derivatives in a liability position, including accrued interest, and excluding any adjustments for nonperformance risk, was approximately $2,252,000. In the unlikely event that the Company breaches any of the contractual provisions of the derivative contracts, it would be required to settle its obligations thereunder at their termination liability value of $2,252,000. Such amount is included in accrued expenses and other liabilities at September 30, 2014.

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One Liberty Properties, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

September 30, 2014 (Continued)

Note 14 - Fair Value Measurements (continued)

Fair Value on a Non-Recurring Basis

Non-financial assets measured at fair value on a non-recurring basis in the consolidated financial statements consists of a property located in Morrow, Georgia for which the Company recorded an impairment charge of $1,093,000 at September 30, 2014 (as disclosed in Note 5 - Discontinued Operations, Properties Held for Sale and Impairment). The Company measured the fair value of the property using a sales comparison approach and included comparable sales and listings in the identified market adjusted for the subject property. Such inputs were determined to be Level 3 inputs in the fair value hierarchy. Significant unobservable inputs used in the fair value measurement include price per square foot rates, which range from $25 to $33 per square foot. The Company s internally prepared valuation is reviewed and approved by a diverse group of management, as deemed necessary, and valuations are performed and updated as appropriate.

Note 15 - New Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which provides guidance for revenue recognition. This update is effective for interim and annual reporting periods beginning after December 15, 2016. The Company is currently in the process of evaluating the impact, if any, the adoption of this ASU will have on its consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40), which provides guidance on management s responsibility in evaluating whether there is substantial doubt about a company s ability to continue as a going concern and about related footnote disclosures. For each reporting period, management will be required to evaluate whether there are conditions or events that raise substantial doubt about a company s ability to continue as a going concern within one year from the date the financial statements are issued. The amendments in this update are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The Company does not expect the adoption of this guidance to have any impact on its consolidated financial statements.

Note 16 - Subsequent Events

Subsequent events have been evaluated and except as disclosed in Note 4 (Real Estate Acquisitions and Contingent Liability) and Note 5 (Discontinued Operations, Properties Held for Sale and Impairment), there were no other events relative to the Company s consolidated financial statements that require additional disclosure.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. We intend such forward-looking statements to be covered by the safe harbor provision for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and include this statement for purposes of complying with these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, are generally identifiable by use of the words may, will, could, believe, expect, intend, anticipate, estimate, project, or similar expressions or variations thereof. Forward-looking statements should not be relied on since they involve known and unknown risks, uncertainties and other factors which are, in some cases, beyond our control and which could materially affect actual results, performance or achievements. Investors are encouraged to review the risk factors included in our Annual Report on Form 10-K for the year ended December 31, 2013 under the caption Item 1A. Risk Factors for a discussion of certain factors which may cause actual results to differ materially from current expectations and are cautioned not to place undue reliance on any forward-looking statements.

Recent Developments

Subsequent to September 30, 2014, we:

- sold an office property located in Parsippany, New Jersey for approximately $38.6 million, net of closing costs, resulting in a $10 million gain (without giving effect to the $1.58 million mortgage prepayment penalty) for financial statement purposes, which will be reported in the year and three months ended December 31, 2014. In connection with the sale, we paid off the approximate $13.4 million mortgage balance on this property; and

- acquired two properties for approximately $16.7 million - a movie theater located in Indianapolis, Indiana for $9 million and a supermarket located in Philadelphia, Pennsylvania for $7.7 million (including mortgage debt of approximately $4.6 million with an annual interest rate of 3.885% and maturing in 2021).

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Overview

We are a self-administered and self-managed real estate investment trust, organized in Maryland in 1982. We acquire, own and manage a geographically diversified portfolio of retail (including furniture stores, restaurants, office supply stores and supermarkets), industrial, flex, office, health and fitness and other properties, a substantial portion of which are leased under long-term net leases. As of September 30, 2014, we own 113 properties (including six properties owned by consolidated joint ventures and five properties owned by unconsolidated joint ventures) located in 30 states. Based on square footage, our occupancy rate at September 30, 2014 is approximately 99.2%.

We face a variety of risks and challenges in our business. We, among other things, face the possibility we will not be able to acquire accretive properties on acceptable terms, lease our properties on terms favorable to us or at all, our tenants may not be able to pay their rental and other obligations and we may not be able to renew or re-let, on acceptable terms, leases that are expiring.

We seek to manage the risk of our real property portfolio by diversifying among types of properties and industries, locations, tenants and scheduled lease expirations. We monitor the risk of tenant non-payments through a variety of approaches tailored to the applicable situation. Generally, based on our assessment of the credit risk posed by our tenants, we monitor a tenant s financial condition through one or more of the following actions: reviewing tenant financial statements, obtaining other tenant related financial information, regular contact with tenant s representatives, tenant credit checks and regular management reviews of our tenants.

Further, we are sensitive to the risks facing the retail industry as a result of the growth of e-commerce. We are addressing this exposure by seeking to acquire properties that we believe capitalize on e-commerce activities, such as e-commerce distribution and warehousing facilities.

In acquiring properties, we balance an evaluation of the terms of the leases and the credit of the existing tenants with a fundamental analysis of the real estate to be acquired, which analysis takes into account, among other things, the estimated value of the property, local demographics and the ability to re-rent or dispose of the property on favorable terms upon lease expiration or early termination.

We have elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended. To qualify as a REIT, we must meet a number of organizational and operational requirements, including a requirement that we distribute currently at least 90% of ordinary taxable income to our stockholders. We intend to comply with these requirements and to maintain our REIT status.

Our 2014 contractual rental income is approximately $54.7 million and represents, after giving effect to any abatement, concessions or adjustments, the base rent payable to us in calendar year 2014 under leases in effect at September 30, 2014. The 2014 contractual rental income excludes approximately $1.5 million of straight-line rent, amortization of approximately $240,000 of intangibles and our share of the rental income payable to our unconsolidated joint ventures, which in 2014 will be approximately $1.5 million.

The following table sets forth scheduled lease expirations of leases for our properties (excluding unconsolidated joint ventures) as of September 30, 2014 for the calendar years indicated below:

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[redacted]

2014	1	50,400	$ 451,500	0.8%
[redacted]				
2016	14	456,882	3,778,017	6.9
[redacted]				
2018	18	394,055	5,554,161	10.2
[redacted]				
2020	7	181,108	4,305,178	7.9
[redacted]				
2022	10	1,221,745	9,200,383	16.8
[redacted]				
2024 and thereafter (3)	25	1,739,764	16,703,954	30.6
[redacted]				

(1) Lease expirations assume tenants do not exercise existing renewal options.

(2) Excludes the Indiana and Pennsylvania properties acquired in October 2014 these properties will provide an aggregate base rent of approximately $285,000 from the date of purchase through December 31, 2014.

(3) Includes the Parsippany, New Jersey property which was sold on October 15, 2014 this 106,680 square foot property represents $2,248,281 of 2014 contractual rental income. The effect of the sale, which is not reflected in this table, is an approximate $480,000 decrease in 2014 contractual rental income.

Results of Operations

The following table compares revenues and operating expenses of continuing operations for the periods indicated:

	Three Months Ended September 30,		Increase	%	Nine Months Ended September 30,		Increase	%
(Dollars in thousands)	**2014**	**2013**	**(Decrease)**	**Change**	**2014**	**2013**	**(Decrease)**	**Change**
Revenues:								
Rental income	$ 14,552	$ 12,487	$ 2,065	16.5%	$ 42,308	$ 35,588	$ 6,720	18.9%
Tenant reimbursements	635	483						