

ONE LIBERTY PROPERTIES INC  
Form 10-K  
March 17, 2014

Use these links to rapidly review the document

[TABLE OF CONTENTS Form 10-K](#)

[PART IV](#)

[Table of Contents](#)

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-K**

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

**For the fiscal year ended December 31, 2013**

**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**

(State or other jurisdiction of  
Incorporation or Organization)

**13-3147497**

(I.R.S. employer  
Identification No.)

**60 Cutter Mill Road, Great Neck, New York**

(Address of principal executive offices)

**11021**

(Zip Code)

Registrant's telephone number, including area code: **(516) 466-3100**

Securities registered pursuant to Section 12(b) of the Act:

**Title of each class**

Common Stock, par value \$1.00 per share

**Name of exchange on which registered**

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **NONE**

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes o No ý

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

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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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 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  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer       Accelerated filer       Non-accelerated filer       Smaller reporting company   
(Do not check if a  
small reporting company)

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

As of June 30, 2013 (the last business day of the registrant's most recently completed second quarter), the aggregate market value of all common equity held by non-affiliates of the registrant, computed by reference to the price at which common equity was last sold on said date, was approximately \$266.6 million.

As of March 10, 2014, the registrant had 15,870,172 shares of common stock outstanding.

### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the proxy statement for the 2014 annual meeting of stockholders of One Liberty Properties, Inc., to be filed pursuant to Regulation 14A not later than April 30, 2014, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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Table of Contents

**TABLE OF CONTENTS**  
**Form 10-K**

<u>Item No.</u>		<u>Page(s)</u>
<u><i>PART I</i></u>		
<u>1.</u>	<u>Business</u>	<u>1</u>
<u>1A.</u>	<u>Risk Factors</u>	<u>8</u>
<u>1B.</u>	<u>Unresolved Staff Comments</u>	<u>16</u>
<u>2.</u>	<u>Properties</u>	<u>18</u>
<u>3.</u>	<u>Legal Proceedings</u>	<u>23</u>
<u>4.</u>	<u>Mine Safety Disclosures</u>	<u>23</u>
<u><i>PART II</i></u>		
<u>5.</u>	<u>Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>24</u>
<u>6.</u>	<u>Selected Financial Data</u>	<u>25</u>
<u>7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>29</u>
<u>7A.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>40</u>
<u>8.</u>	<u>Financial Statements and Supplementary Data</u>	<u>41</u>
<u>9.</u>	<u>Changes In and Disagreements With Accountants on Accounting and Financial Disclosure</u>	<u>41</u>
<u>9A.</u>	<u>Controls and Procedures</u>	<u>41</u>
<u>9B.</u>	<u>Other Information</u>	<u>42</u>
<u><i>PART III</i></u>		
<u>10.</u>	<u>Directors, Executive Officers and Corporate Governance</u>	<u>42</u>
<u>11.</u>	<u>Executive Compensation</u>	<u>42</u>
<u>12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>43</u>
<u>13.</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>43</u>
<u>14.</u>	<u>Principal Accountant Fees and Services</u>	<u>43</u>
<u><i>PART IV</i></u>		
<u>15.</u>	<u>Exhibits and Financial Statement Schedules</u>	<u>44</u>
<u>Signatures</u>		<u>47</u>

---

Table of Contents

**PART I**

**Item 1. Business.**

**General**

We are a self-administered and self-managed real estate investment trust, also known as a REIT. We were incorporated in Maryland on December 20, 1982. We acquire, own and manage a geographically diversified portfolio of retail, industrial, flex, office, health and fitness, and other properties, a substantial portion of which are under long-term leases. Substantially all of our leases are "net leases" and ground leases under which the tenant is typically responsible for real estate taxes, insurance and ordinary maintenance and repairs. As of December 31, 2013, we own 104 properties (including two properties sold in February 2014 as described below) and participate in joint ventures that own five properties. These properties and the properties owned by our joint ventures are located in 29 states and have an aggregate of approximately 6.6 million square feet of space (including approximately 1.2 million square feet of space at properties owned by our joint ventures).

As of December 31, 2013:

our 2014 contractual rental income (as described below) is approximately \$53.1 million;

the occupancy rate of properties owned by us is approximately 99.6% based on square footage;

the occupancy rate of properties owned by our joint ventures is 100% based on square footage;

the weighted average remaining term of our mortgage debt is nine years and the weighted average interest rate thereon is 5.2%; and

the weighted average remaining term of the leases generating our 2014 contractual rental income and for the leases at properties owned by our joint ventures is 8.2 years and 7.0 years, respectively.

Our 2014 contractual rental income represents, after giving effect to any abatements, concessions or adjustments, the base rent payable to us in 2014 under leases in effect at December 31, 2013. Contractual rental income excludes approximately \$1.1 million of straight-line rent, amortization of approximately \$164,000 of intangibles and our share of the rental income payable to our joint ventures, which in 2014 will be approximately \$1.5 million.

**2013 Highlights and Recent Developments**

Our rental income increased by \$7.19 million, or 16.4%, from 2012.

Income from continuing operations increased by \$6.08 million, or 53.7%, from 2012.

We acquired eleven properties for an aggregate of \$107.5 million. The acquired properties account for approximately \$7.9 million, or 14.9%, of our 2014 contractual rental income.

In connection and contemporaneously with the acquisition in 2013 of three properties with an aggregate purchase price of \$77.5 million, we obtained mortgage financing aggregating \$51.9 million.

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We recorded an aggregate gain of \$4.71 million in connection with the sales of our equity interest in our Plano, Texas joint venture and our tenant-in-common interest in a California property.

In the narrative portion of this report, information with respect to our consolidated joint ventures is generally described as if such ventures were our wholly owned subsidiaries and information with respect to unconsolidated joint ventures is generally separately described. Except as otherwise indicated, all references to joint ventures refer to unconsolidated joint ventures. Further, except as otherwise

Table of Contents

indicated or the context otherwise requires, the property information set forth herein includes two properties located in Michigan with an aggregate of 202,000 square feet that were sold in February 2014 for an aggregate sales price of \$5.5 million and excludes two properties acquired in January 2014 for an aggregate purchase price of \$5.11 million. Finally, 2014 contractual rental income derived from multiple properties leased pursuant to a master lease is allocated among such properties based on management's estimate of the appropriate allocations.

**Acquisition Strategies**

We seek to acquire properties throughout the United States that have locations, demographics and other investment attributes that we believe to be attractive. We believe that long-term leases provide a predictable income stream over the term of the lease, making fluctuations in market rental rates and in real estate values less significant to achieving our overall investment objectives. Our goal is to acquire single-tenant properties that are subject to long-term net or ground leases that include periodic contractual rental increases or rent increases based on increases in the consumer price index. Periodic contractual rental increases provide reliable increases in future rent payments and rent increases based on the consumer price index provide protection against inflation. Historically, long-term leases have made it easier for us to obtain longer-term, fixed-rate mortgage financing with principal amortization, thereby moderating the interest rate risk associated with financing or refinancing our property portfolio by reducing the outstanding principal balance over time. We may, however, acquire a property that is subject to a short-term lease when we believe the property represents a good opportunity for recurring income and residual value. Although the acquisition of single-tenant properties subject to net and ground leases is the focus of our investment strategy, we will also consider investments in, among other things, (i) properties that can be re-positioned or re-developed, (ii) community shopping centers anchored by national or regional tenants and (iii) multi-tenant properties. We pay substantially all the operating expenses at community shopping centers, a significant portion of which is reimbursed by the tenants pursuant to their leases.

Generally, we hold the properties we acquire for an extended period of time. Our investment criteria are intended to identify properties from which increased asset value and overall return can be realized from an extended period of ownership. Although our investment criteria favor an extended period of ownership, we will dispose of a property if we regard the disposition of the property as an opportunity to realize the overall value of the property sooner or to avoid future risks by achieving a determinable return from the property.

We identify properties through the network of contacts of our senior management and our affiliates, which includes real estate brokers, private equity firms, banks and law firms. In addition, we attend industry conferences and engage in direct solicitations.

Our charter documents do not limit the number of properties in which we may invest, the amount or percentage of our assets that may be invested in any specific property or property type, or the concentration of investments in any region in the United States. We do not intend to acquire properties located outside of the United States. We will continue to form entities to acquire interests in real properties, either alone or with other investors, and we may acquire interests in joint ventures or other entities that own real property.

It is our policy, and the policy of our affiliated entities, that any investment opportunity presented to us or to any of our affiliated entities that involves primarily the acquisition of a net leased property, a ground lease or a community shopping center, will first be offered to us and may not be pursued by any of our affiliated entities unless we decline the opportunity.

Table of Contents

**Investment Evaluation**

In evaluating potential investments, we consider, among other criteria, the following:

the ability of a tenant, if a net leased property, or major tenants, if a shopping center, to meet operational needs and lease obligations;

the current and projected cash flow of the property;

the estimated return on equity to us;

an evaluation of the property and improvements, given its location and use;

local demographics (population and rental trends);

the terms of tenant leases, including the relationship between current rents and market rents;

the projected residual value of the property;

the potential to finance or refinance the property;

potential for income and capital appreciation;

occupancy of and demand for similar properties in the market area; and

alternate uses or tenants for the property.

**Our Business Objective**

Our business objective is to maintain and increase, over time, the cash available for distribution to our stockholders by:

identifying opportunistic and strategic property acquisitions consistent with our portfolio and our acquisition strategies;

obtaining mortgage indebtedness on favorable terms and maintaining access to capital to finance property acquisitions;

monitoring and maintaining our portfolio, including tenant negotiations and lease amendments with tenants having financial difficulty; and

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managing assets effectively, including lease extensions and opportunistic and strategic property sales.

### Typical Property Attributes

As of December 31, 2013, the properties in our portfolio and owned by our joint ventures typically have the following attributes:

*Net or ground leases.* Substantially all of the leases are net and ground leases under which the tenant is typically responsible for real estate taxes, insurance and ordinary maintenance and repairs. We believe that investments in net and ground leased properties offer more predictable returns than investments in properties that are not net or ground leased;

*Long-term leases.* Many of our leases are long-term leases. Excluding leases relating to properties owned by our joint ventures, leases representing approximately 29.3% of our 2014 contractual rental income expire between 2019 and 2022, and leases representing approximately 39.9% of our 2014 contractual rental income expire after 2022; and

*Scheduled rent increases.* Leases representing approximately 72.5% of our 2014 contractual rental income and leases representing 37.8% of our share of the rental income payable in 2014 with

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## Table of Contents

respect to properties owned by our joint ventures provide for either periodic contractual rent increases or a rent increase based on the consumer price index.

## **Our Tenants**

The following table sets forth information about the diversification of our tenants by industry sector as of December 31, 2013:

Type of Property	Number of Tenants	Number of Properties	2014 Contractual Rental Income	Percentage of 2014 Contractual Rental Income
Retail various	70	58	\$ 21,290,232	40.1%
Industrial	9	12	9,283,651	17.5
Retail furniture(1)	3	13	5,524,110	10.4
Flex	3	3	3,706,785	7.0
Retail office supply(2)	2	9	3,623,175	6.8
Office	2	2	3,423,441	6.5
Health & fitness	3	5	2,961,524	5.6
Other	2	2	3,243,088	6.1
	94	104	\$ 53,056,006	100%

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(1) Eleven properties are net leased to Haverty Furniture pursuant to a master lease covering all such properties.

(2) Includes seven properties which are net leased to Office Depot pursuant to seven separate leases. Five of the Office Depot leases contain cross-default provisions. Also includes two properties net leased to OfficeMax pursuant to separate leases. OfficeMax was acquired by Office Depot in November 2013.

Most of our retail tenants (including franchisees of national chains) operate on a national basis and include, among others, Applebees, Barnes & Noble, Burlington Coat Factory, CarMax, CVS, Kohl's, Marshalls, Mens' Wearhouse, Office Depot, Party City, PetSmart, TGI Fridays, The Sports Authority, Urban Outfitters, Walgreens, Wendy's and Whole Foods and some of our tenants operate on a regional basis, including Haverty Furniture, Giant Food Stores and hhgregg.

## **Our Leases**

Substantially all of our leases are net or ground leases (including the leases entered into by our joint ventures) under which the tenant, in addition to its rental obligation, typically is responsible for expenses attributable to the operation of the property, such as real estate taxes and assessments, water and sewer rents and other charges. The tenant is also generally responsible for maintaining the property and for restoration following a casualty or partial condemnation. The tenant is typically obligated to indemnify us for claims arising from the property and is responsible for maintaining insurance coverage for the property it leases and naming us an additional insured. Under some net leases, we are responsible for structural repairs, including foundation and slab, roof repair or replacement and restoration following a casualty event, and at several properties we are responsible for certain expenses related to the operation and maintenance of the property.

Our typical lease provides for contractual rent increases periodically throughout the term of the lease or for rent increases pursuant to a formula based on the consumer price index. Some of our leases provide for minimum rents supplemented by additional payments based on sales derived from the property subject to the lease. Such additional payments were not a material part of our 2013 rental revenues and are not expected to be a material part of our 2014 rental revenues.



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### Table of Contents

Our policy has been to acquire properties that are subject to existing long-term leases or to enter into long-term leases with our tenants. Our leases generally provide the tenant with one or more renewal options.

The following table sets forth scheduled lease expirations of leases for our properties as of December 31, 2013:

Year of Lease Expiration(1)	Number of Expiring Leases	Approximate Square Footage Subject to Expiring Leases	2014 Contractual Rental Income Under Expiring Leases	Percent of 2014 Contractual Rental Income Represented by Expiring Leases
2014	11	669,274	\$ 3,639,171	6.9%
2015	8	191,099	1,798,687	3.4
2016	14	358,042	3,156,162	6.0
2017	8	89,718	1,781,737	3.4
2018	18	397,147	5,924,158	11.1
2019	5	94,952	1,392,124	2.6
2020	7	181,108	4,305,178	8.1
2021	6	119,260	1,121,779	2.1
2022	8	1,154,724	8,730,507	16.5
2023 and thereafter	29	2,114,914	21,206,503	39.9
	114	5,370,238	\$ 53,056,006	100%

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

Subsequent to December 31, 2013 and with respect to three leases expiring in 2014 representing in the aggregate \$2.6 million or 4.9% of 2014 contractual rental income, we:

extended until September 30, 2015, at the base rent in effect as of December 31, 2013, a lease expiring in late December 2014. The lease as in effect at December 31, 2013, accounts for \$2.04 million or 3.8% of 2014 contractual rental income.

extended until November 2016, at the current base rent rate, a lease expiring in November 2014. The lease as in effect at December 31, 2013 accounts for \$563,163, or 1.06%, of 2014 contractual rental income.

leased for five years a property to a new tenant for which the lease expired in January 2014. The monthly base rent in the first year of such lease is approximately \$40,000 and rent payments commence when specified work is completed at the property.

### **Financing, Re-Renting and Disposition of Our Properties**

Our charter documents do not limit the level of debt we may incur. Our revolving credit facility matures on March 31, 2015 and, among other things, limits total debt that we may incur to 70% of the value of our properties (as determined pursuant to the credit agreement). We

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borrow funds on a secured and unsecured basis and intend to continue to do so in the future.

We also mortgage specific properties on a non-recourse basis, subject to the standard carve-outs described under "Item 2. Properties Mortgage Debt", to enhance the return on our investment in a specific property. The proceeds of mortgage loans may be used for property acquisitions, investments in joint ventures or other entities that own real property, to reduce bank debt and for working capital purposes. The proceeds of our credit facility may be used to payoff existing mortgages, fund the acquisition of additional properties, and to a more limited extent, invest in joint ventures and for

Table of Contents

working capital. Net proceeds received from the sale, financing or refinancing of properties are generally required to be used to repay amounts outstanding under our credit facility.

With respect to properties we acquire on a free and clear basis, we usually seek to obtain long-term fixed-rate mortgage financing, when available at acceptable terms, shortly after the acquisition of such property to avoid the risk of movement of interest rates and fluctuating supply and demand in the mortgage markets. We also will acquire a property that is subject to (and will assume) a fixed-rate mortgage. Substantially all of our mortgages provide for amortization of part of the principal balance during the term, thereby reducing the refinancing risk at maturity. Some of our properties may be financed on a cross-defaulted or cross-collateralized basis, and we may collateralize a single financing with more than one property.

After termination or expiration of any lease relating to any of our properties, we will seek to re-rent or sell such property in a manner that will maximize the return to us, considering, among other factors, the income potential and market value of such property. We acquire properties for long-term investment for income purposes and do not typically engage in the turnover of investments. We will consider the sale of a property if a sale appears advantageous in view of our investment objectives. If there is a substantial tax gain, we may seek to enter into a tax deferred transaction and reinvest the proceeds in another property. Cash realized from the sale of properties, net of required paydowns of our credit facility and of any distributions to stockholders, is available for general working capital purposes and the acquisition of additional properties.

**Our Joint Ventures**

As of December 31, 2013, we participated in five joint ventures that own an aggregate of five properties, with approximately 1.2 million rentable square feet of space. Four of the properties are retail properties and one is an industrial property. We own 50% of the equity interest in all of these joint ventures. At December 31, 2013, our investment in joint ventures was approximately \$4.9 million.

Based on the leases in effect at December 31, 2013, we anticipate that our share of rental income payable to our joint ventures in 2014 will be approximately \$1.5 million. The leases for two properties are expected to contribute 78.3% of the aggregate projected rental income payable to all of our joint ventures in 2014 and expire in 2021 and 2022.

**Competition**

We face competition for the acquisition of properties from a variety of investors, including domestic and foreign corporations and real estate companies, financial institutions, insurance companies, pension funds, investment funds, other REITs and individuals, some of which have significant advantages over us, including a larger, more diverse group of properties and greater financial and other resources than we have.

**Our Structure**

Seven employees, including Patrick J. Callan, Jr., our president and chief executive officer, Lawrence G. Ricketts, Jr., our executive vice president and chief operating officer, Justin Clair, our assistant vice-president and four others, devote all of their business time to our company. Our other executive, administrative, legal, accounting and clerical personnel share their services on a part-time basis with us and other affiliated entities that share our executive offices.

We entered into a compensation and services agreement with Majestic Property Management Corp., effective as of January 1, 2007. Majestic Property is wholly-owned by our vice chairman of the board and it provides compensation to certain of our executive officers. Pursuant to this agreement, we pay an annual fee to Majestic Property and Majestic Property assumed our obligations under a shared

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## Table of Contents

services agreement, and provides us with the services of all affiliated executive, administrative, legal, accounting and clerical personnel that we use on a part time basis, as well as certain property management services, property acquisition, sales and leasing and mortgage brokerage services. The annual fees we pay to Majestic Property are negotiated each year by us and Majestic Property and are approved by our audit committee and independent directors.

In 2013, pursuant to the compensation and services agreement, we paid Majestic Property a fee of approximately \$2.725 million and \$175,000 for our share of all direct office expenses, including, among other expenses, rent, telephone, postage, computer services and internet usage. See Note 9 to our consolidated financial statements for information regarding equity awards to individuals performing services on our behalf.

We believe that the compensation and services agreement allows us to benefit from access to, and from the services of, a group of senior executives with significant knowledge and experience in the real estate industry and our company and its activities. If not for this agreement, we believe that a company of our size would not have access to the skills and expertise of these executives at the cost that we have incurred and will incur in the future. For a description of the background of our management, please see the information under the heading "Executive Officers" in Part I of this Annual Report.

## **Available Information**

Our Internet address is [www.onelibertyproperties.com](http://www.onelibertyproperties.com). On the Investor Information page of our web site, we post the following filings as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission (the "SEC"): our annual report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended. All such filings on our Investor Information Web page, which also includes Forms 3, 4 and 5 filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, as amended, are available to be viewed free of charge.

On the Corporate Governance page of our web site, we post the following charters and guidelines: Audit Committee Charter, Compensation Committee Charter, Nominating and Corporate Governance Committee Charter, Corporate Governance Guidelines and Code of Business Conduct and Ethics, as amended and restated. All such documents on our Corporate Governance Web page are available to be viewed free of charge.

Information contained on our web site is not part of, and is not incorporated by reference into, this Annual Report on Form 10-K or our other filings with the SEC. A copy of this Annual Report on Form 10-K and those items disclosed on our Investor Information Web page and our Corporate Governance Web page are available without charge upon written request to: One Liberty Properties, Inc., 60 Cutter Mill Road, Suite 303, Great Neck, New York 11021, Attention: Secretary.

## **Forward-Looking Statements**

This Annual Report on Form 10-K, together with other statements and information publicly disseminated by us, 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. You should not rely on forward-looking statements since they involve known and unknown risks, uncertainties and

Table of Contents

other factors which are, in some cases, beyond our control and which could materially affect actual results, performance or achievements. Factors which may cause actual results to differ materially from current expectations include, but are not limited to:

the financial condition of our tenants and the performance of their lease obligations;

general economic and business conditions, including those currently affecting our nation's economy and real estate markets;

the availability of and costs associated with sources of liquidity;

accessibility of debt and equity capital markets;

general and local real estate conditions, including any changes in the value of our real estate;

compliance with credit facility covenants;

more competition for leasing of vacant space due to current economic conditions;

changes in governmental laws and regulations relating to real estate and related investments;

the level and volatility of interest rates;

competition in our industry; and

the other risks described under "Risks Related to Our Business" and "Risks Related to the REIT Industry."

Any or all of our forward-looking statements in this report and in any other public statements we make may turn out to be incorrect. Actual results may differ from our forward-looking statements because of inaccurate assumptions we might make or because of the occurrence of known or unknown risks and uncertainties. Many factors mentioned in the discussion below will be important in determining future results. Consequently, no forward-looking statement can be guaranteed and you are cautioned not to place undue reliance on these forward-looking statements. Actual future results may vary materially.

Except as may be required under the United States federal securities laws, we undertake no obligation to publicly update our forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make in our reports that are filed with or furnished to the SEC.

**Item 1A. Risk Factors.**

*Set forth below is a discussion of certain risks affecting our business. The categorization of risks set forth below is meant to help you better understand the risks facing our business and is not intended to limit your consideration of the possible effects of these risks to the listed categories. Any adverse effects arising from the realization of any of the risks discussed, including our financial condition and results of operation, may, and likely will, adversely affect many aspects of our business.*

*In addition to the other information contained or incorporated by reference in this Form 10-K, readers should carefully consider the following risk factors:*

**Risks Related to Our Business**

*If we are unable to re-rent properties upon the expiration of our leases or if our tenants default, our rental income will be reduced and we would incur additional costs.*

Substantially all of our revenues are derived from rental income paid by our tenants. From 2014 through 2016, leases with respect to 33 tenants that account for 18.3% of our 2013 rental income and

Table of Contents

16.3% of our 2014 contractual rental income, expire. One tenant, whose lease expires in September 2015 (after giving effect to an extension entered into in January 2014), accounts for 3.4% of our 2013 rental income and 3.8% of 2014 contractual rental income. If our tenants, and in particular, our significant tenants, (i) do not renew their leases upon the expiration of same, (ii) default on their obligations or (iii) seek rent relief, lease renegotiation or other accommodations, our revenues could decline. At the same time, we would remain responsible for the payment of the mortgage obligations with respect to the related properties and would become responsible for the operating expenses related to these properties, including, among other things, real estate taxes, maintenance and insurance. In addition, we may incur expenses in enforcing our rights as landlord. Even if we find replacement tenants or renegotiate leases with current tenants, the terms of the new or renegotiated leases, including the cost of required renovations or concessions to tenants, or the expense of the reconfiguration of a single tenancy property for use by multiple tenants, may be less favorable than current lease terms and could reduce the amount of cash available to meet expenses and pay distributions.

*Approximately 61.5% of our 2013 rental income and 57.3% of our 2014 contractual rental income is derived from tenants operating in the retail industry and the inability of those tenants to pay rent would significantly reduce our revenues.*

Approximately 6e="2" face="Times New Roman" style="font-size:10.0pt;">

COST OF SERVICES:

Depreciation

\$	243,008
----	---------

\$	161,165
----	---------

\$	
----	--

	690,538
\$	
	426,273
Employee Related Expenses	
	6,743,758
	5,989,697
	19,671,148
	17,500,535
Reagents and Lab Supplies	
	4,317,132
	3,773,726
	12,242,583
	11,403,306
Other Cost of Services	
	3,037,820

2,926,197

8,634,525

9,094,981

TOTAL COST OF SERVICES

\$

14,341,718

\$

12,850,785

\$

41,238,794

\$

38,425,095

GROSS PROFIT ON REVENUES

\$	14,577,857
\$	12,042,353
\$	37,390,671
\$	32,626,232

General and Administrative Expenses:

Depreciation and Amortization

\$

175,850

\$

184,822

\$		505,371
\$		512,004
Other General and Admin. Expenses		7,750,637
		6,666,298
		21,849,957
		18,784,503
Bad Debt Expense		3,493,913
		3,468,547
		9,254,382
		9,044,493

TOTAL GENERAL AND ADMIN. EXPENSES

\$	11,420,400
\$	10,319,667
\$	31,609,710
\$	28,341,000

OPERATING INCOME

\$

3,157,457

\$

1,722,686

\$

5,780,961

\$

4,285,232

OTHER (INCOME) EXPENSES:

Interest Expense

\$

161,960

\$		202,780
\$		559,901
\$		721,356
Interest Income		
)		(4,967)
)		(13,062)
)		(18,284)
)		(31,716)
)		

TOTAL OTHER EXPENSES - NET

\$ 156,993

\$ 189,718

\$ 541,617

\$ 689,640

INCOME BEFORE TAX

\$		3,000,464
\$		1,532,968
\$		5,239,344
\$		3,595,592

Provision for Income Taxes

700,001

28,647

946,000

121,355

NET INCOME

\$

2,300,463

\$

1,504,321

\$

4,293,344

\$

NET INCOME PER SHARE - BASIC:

\$	.20
\$	.13
\$	.37
\$	.31

WEIGHTED AVERAGE NUMBER OF SHARES:

11,423,483

11,586,003

11,502,016

11,308,204

NET INCOME PER SHARE - ASSUMING DILUTION:

\$		.18
\$		.12
\$		.34
\$		.27

WEIGHTED AVERAGE NUMBER OF SHARES:

12,709,076

13,068,750

12,748,984

12,712,045

The Accompanying Notes are an Integral Part of These Financial Statements.

**BIO-REFERENCE LABORATORIES, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****[UNAUDITED]**

	Nine months ended July 31,	
	2003	2002
<b><u>OPERATING ACTIVITIES:</u></b>		
Net Income	\$ 4,293,344	\$ 3,474,237
Adjustments to Reconcile Net Income to Cash Provided by (used for) Operating Activities:		
Deferred Compensation	103,413	199,295
Depreciation and Amortization	1,195,909	938,277
Provision for Bad Debts	9,254,382	9,044,493
Deferred Tax Expense (Benefit)	750,000	(27,000)
Change in Assets and Liabilities:		
(Increase) Decrease in:		
Accounts Receivable	(11,756,558)	(10,112,700)
Inventory	(68,170)	(102,240)
Other Assets	(20,662)	(299,023)
Prepaid Expenses and Other Current Assets	181,248	(224,025)
Increase (Decrease) in:		
Accounts Payable and Accrued Liabilities	\$ 109,821	\$ (251,205)
<b>NET CASH - OPERATING ACTIVITIES</b>	<b>\$ 4,042,727</b>	<b>\$ 2,640,109</b>
<b><u>INVESTING ACTIVITIES:</u></b>		
Acquisition of Equipment and Leasehold Improvements	\$ (729,562)	\$ (448,168)
<b>NET CASH - INVESTING ACTIVITIES</b>	<b>\$ (729,562)</b>	<b>\$ (448,168)</b>
<b><u>FINANCING ACTIVITIES:</u></b>		
Proceeds from Exercise of Options	\$ 70,849	\$ 448,204
Stock Repurchase	(1,070,048)	
Payments of Long-Term Debt	(425,000)	(816,130)
Payments of Capital Lease Obligations	(498,793)	(244,849)
Increase (Decrease) in Revolving Line of Credit	\$ (1,259,466)	(507,932)
<b>NET CASH - FINANCING ACTIVITIES</b>	<b>\$ (3,182,456)</b>	<b>\$ (1,120,707)</b>
<b>NET INCREASE IN CASH</b>	<b>\$ 130,709</b>	<b>\$ 1,071,234</b>

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<u>CASH AT BEGINNING OF PERIODS</u>	\$	3,403,365	\$	2,355,356
CASH AT END OF PERIODS	\$	3,534,074	\$	3,426,590
<u>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</u>				
Cash paid during the period for:				
Interest	\$	646,469	\$	643,074
Income Taxes	\$	60,040	\$	92,212

The Accompanying Notes are an Integral Part of These Financial Statements.

**SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:**

**(UNAUDITED)**

During the nine month period ended July 31, 2003, the Company entered into five capital leases providing for lease payments totaling approximately \$616,800, over their respective terms.

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements.

**BIO-REFERENCE LABORATORIES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(UNAUDITED)**

[1] In the opinion of management, the accompanying unaudited consolidated financial statements reflect all adjustments [consisting only of normal adjustments and recurring accruals] which are necessary to present a fair statement of the results for the interim periods presented but do not include all of the information and footnotes required by generally accepted accounting principles in the United States of America for complete financial statements.

[2] The results of operations for the nine months ended July 31, 2003 are not necessarily indicative of the results to be expected for the entire year.

[3] The consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes for the year ended October 31, 2002 as filed with the Securities and Exchange Commission in the Company's Annual Report on Form 10-K.

[4] The significant accounting policies followed by the Company are set forth in Note 2 to the Company's consolidated financial statements in the October 31, 2002 Form 10-K.

[5] Revenues are recognized at the time the services are performed. Revenues on the Statements of Operations are net of the following amounts for allowances and discounts.

	<b>Three Months Ended July 31 [Unaudited]</b>		<b>Nine Months ended July 31 [Unaudited]</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
Medicare/Medicaid	\$ 20,832,347	\$ 16,817,310	\$ 56,487,965	\$ 47,368,546
Other	21,784,264	18,261,630	51,855,657	52,248,300
	\$ 42,616,611	\$ 35,078,940	\$ 108,343,622	\$ 99,616,846

A number of proposals for legislation or regulation continue to be under discussion which could have the effect of substantially reducing Medicare reimbursements for clinical laboratories or introducing cost sharing to beneficiaries. Depending upon the nature of regulatory action, if any, which is taken and the content of legislation, if any, which is adopted, the Company could experience a significant decrease in revenues from Medicare and Medicaid, which could have a material adverse effect on the Company. The Company is unable to predict, however, the extent to which such actions will be taken.

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[6] An allowance on the Balance Sheet for contractual credits and uncollectible accounts is determined based upon a review of the reimbursement policies and subsequent collections for the different types of payors. The aggregate allowance, which is net against accounts receivable was \$27,521,275 at July 31, 2003 and \$30,045,528 at October 31, 2002 and is comprised of the following items:

	[Unaudited] July 31, 2003	October 31, 2002
Contractual Credits/Discounts	\$ 22,056,821	\$ 23,010,020
Doubtful Accounts	5,464,454	7,035,508
	\$ 27,521,275	\$ 30,045,528

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[7] The following disclosures present certain information on the Company's acquired intangible assets as of July 31, 2003 and October 31, 2002. All intangible assets are being amortized over their estimated useful lives, as indicated below, with no estimated residual value.

Acquired Intangible Assets	Weighted-Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Balance
At July 31, 2003				
Software Costs	5 years	1,535,398	562,682	972,716
Customer Lists	20 years	1,230,202	767,715	462,487
Covenants not-to-Compete	2 years	118,760	118,760	
Employment Agreements	7 years	825,000	499,465	325,535
Costs Related to Acquisitions	19 years	1,087,471	502,472	584,999
Patent	17 Years	156,005	60,210	95,795
<b>Totals</b>		\$ 4,952,836	\$ 2,511,304	\$ 2,441,532

Acquired Intangible Assets	Weighted-Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Balance
At July 31, 2002				
Software Costs	5 years	1,535,398	328,492	1,206,906
Customer Lists	20 years	1,230,202	721,369	508,833
Covenants not-to-Compete	2 years	118,760	118,760	
Employment Agreements	7 years	825,000	402,501	422,499
Costs Related to Acquisitions	19 years	1,087,471	460,312	627,159
Patent	17 Years	156,005	53,180	102,825
<b>Totals</b>		\$ 4,952,836	\$ 2,084,614	\$ 2,868,222

The aggregate acquired intangible amortization expense for the nine months ended July 31, 2003 and 2002 was approximately \$426,500. The estimated acquired intangible asset amortization expense for the fiscal year ending October 31, 2003 and for the four subsequent years is as follows:

Fiscal Year Ended October 31,	Estimated Amortization Expense
2003	559,611
2004	547,235
2005	547,235
2006	547,235
2007	502,589
	\$ 2,703,905

[8] In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards [ SFAS ] No. 143 Accounting for asset retirement obligations which requires that the fair value of a liability for an asset retirement legal obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. This statement is effective for fiscal years beginning after June 15, 2002. The Company adopted SFAS No. 143 effective November 1, 2002.

In August 2001, FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. This statement retains the requirements of SFAS No. 121 but removes goodwill from its scope and describes a probability-weighted cash flow estimation approach in evaluating possible future cash flows to be used in impairment testing. Provisions of this statement are effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. The Company adopted SFAS No. 143 effective November 1, 2002.

In April 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements No. 14, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections ( SFAS 145 ). SFAS 145 among other things rescinds SFAS No. 4, Reporting Gains and Losses from Extinguishment of Debt ( SFAS 4 ), and SFAS No. 64, Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements ( SFAS 64 ) and amends SFAS No. 13, Accounting for Leases ( SFAS 13 ). This statement updates, clarifies and simplifies existing accounting pronouncements. As a result of rescinding SFAS 4 and SFAS 64, the criteria in APB No. 30, Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Event and Transactions, will be used to classify gains and losses from extinguishment of debt. SFAS 13 was amended to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions and makes technical corrections to existing pronouncements. The provisions of SFAS 145 are effective for fiscal years beginning after May 15, 2002, with earlier application encouraged. The Company adopted SFAS 145 effective November 1, 2002.

In July 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities ( SFAS 146 ), which addresses the recognition, measurement, and reporting of costs associated with exit or disposal activities, and supercedes Emerging Issues Task Force ( EITF ) Issue No. 94-3, ALiability Recognition for Certain Employee Termination Benefits and other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring) ( EITF 94-3 ). The principal difference between SFAS 146 and EITF 94-3 relates to the requirements for recognition of a liability for a cost associated with an exit or disposal activity. SFAS 146 requires that a liability for a cost associated with an exit or disposal activity, including those related to employee termination benefits and obligations under operating leases and other contracts, be recognized when the liability is incurred, and not necessarily the date of an entity's commitment to an exit plan, as under EITF 94-3. SFAS 146 also establishes that the initial measurement of a liability recognized under SFAS 146 be based on fair value. The provisions of SFAS 146 are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The Company adopted SFAS 146 effective November 1, 2002.

In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others ( FIN 45 ). FIN 45 requires a guarantor to recognize a liability, at the inception of the guarantee, for the fair value of obligations it has undertaken in issuing the guarantee and to also include more detailed disclosures with respect to guarantees. FIN 45 is effective on a prospective basis for guarantees issued or modified starting January 1, 2003 and requires the additional disclosures in interim and annual financial statements effective for the period ended December 31, 2002. The Company's adoption of the initial recognition and measurement provisions of FIN 45 effective January 1, 2003, did not have a material impact on the Company's results of

operations or financial position.

In December 2002, FASB Statement No. 148 Accounting for Stock-Based Compensation-Transition and Disclosure was issued as an amendment of FASB Statement No. 123. Provisions of Statement No. 148 provide for alternate methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In

addition, Statement No. 148 amends the disclosure requirements of Statement No. 123 to require prominent disclosure in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reporting results. Statement No. 148 is effective for entities with a fiscal year ending after December 15, 2002. Certain disclosure requirement under Statement No. 148 are effective for financial reports containing condensed financial statements for interim periods beginning after December 15, 2002. The Company adopted Statement No. 148 effective February 1, 2003.

In January 2003, the FASB issued Interpretation No. 46 ( FIN 46 ), Consolidation of Variable Interest Entities, which clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is applicable immediately for variable interest entities created after January 31, 2003. For variable interest entities created prior to January 31, 2003, the provisions of FIN 46 are applicable no later than July 1, 2003. The adoption of FIN 46 has no impact on the Company at this time.

At April 30, 2003, the Company had two stock-based employee compensation plans. The Company accounts for those plans under the measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provision of FASB Statement No. 123 to stock-based employee compensation.

	Three Months Ended		Nine Months Ended	
	July 31,		July 31,	
	2003	2002	2003	2002
<b>Net Income (Loss):</b>				
As Reported	\$ 2,300,463	\$ 1,504,321	\$ 4,293,344	\$ 3,474,237
Deduct: Stock Based Employee compensation expense determined under the fair value based method-Net of Tax	-0-	(191,296)	(390,700)	(1,291,118)
Pro-Forma Net income	\$ 2,300,463	\$ 1,313,025	\$ 3,902,644	\$ 2,183,119
<b>Basic Earnings (Loss) Per Share:</b>				
As Reported	\$ 0.20	\$ 0.13	\$ 0.37	\$ 0.31
Pro-Forma	\$ 0.20	\$ 0.11	\$ 0.34	\$ 0.19
<b>Diluted Earnings (Loss) Per Share:</b>				
As Reported	\$ 0.18	\$ 0.12	\$ 0.34	\$ 0.27
Pro-Forma	\$ 0.18	\$ 0.11	\$ 0.31	\$ 0.17

In April 2003, the Financial Accounting Standards Board ( FASB ) issued Statement of financial Accounting Standards No. 149, Amendment of Statement 133 of Derivative Instruments and Hedging Activities ( SFAS 149 ), which clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under FASB Statement No. 133,

Accounting for Derivative Instruments and Hedging Activities. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity ( SFAS 150 ), which established standards for how an issuer classifies and measures certain financial instruments as liabilities (or assets in some circumstances) that were previously classified as equity. Financial instruments which embody an unconditional obligation requiring the issuer to redeem or repurchase it by the transfer of assets or by issuing a variable number of its equity shares must be classified as a liability. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003.

The Company expects that the adoption of the new statements will not have a significant impact on its financial statements.

[9] At July 31, 2003, the Company had recorded a net deferred tax liability of approximately \$442,000 primarily resulting from timing differences associated with the deductibility of certain accrued expenses, fixed asset depreciation and deferred cost amortization. During the nine month period ended July 31, 2003 the Company eliminated the \$900,000 valuation allowance recorded against the gross deferred tax asset at October 31, 2002. The valuation allowance recorded at October 31, 2002 principally pertained to net operating loss carryforwards which management estimates will be fully utilized in fiscal 2003.

[10] In January 2002, we amended our revolving loan agreement with PNC Bank. The maximum amount of the credit line available to the Company is now the lesser of (i) \$25,000,000 or (ii) 50% of our qualified accounts receivable (as defined in the agreement). Interest on advances will be subject to the prime rate or Eurodollar rate of interest plus an additional interest percentage. The additional interest percentage charges on borrowings range from 1% to 3% and are determined based upon certain financial ratios achieved by the Company. During the current fiscal period, the Company had elected to have \$8,000,000 of the total advances outstanding converted into a Eurodollar rate loan with a variable interest rate of 2.740% at July 31, 2003. The remaining outstanding advances during that period were subject to the prime rate of interest. At July 31, 2003, advances of \$1,286,546 were subject to interest at the prime rate. The credit line is collateralized by substantially all of our assets and the assignment of a \$4,000,000 insurance policy on the life of the president of our Company. The line of credit is currently available through September 2004. The terms of this agreement contain, among other provisions, requirements for maintaining defined levels of capital expenditures and fixed charge coverage, various financial ratios and insurance coverage. As of July 31, 2003, we were utilizing approximately \$9,287,000 of this credit facility and had approximately \$11,080,000 of available unused credit under this revolving loan agreement.

[11] In March 2003, the Board of Directors approved the repurchase of up to 500,000 shares of the Company's common stock in the over-the-counter market on or before October 31, 2004 provided: (1) all such repurchases and bids to repurchase effected on any given day shall be made only through a single broker or dealer on that day; (2) any such repurchases on a given day shall not be the opening transaction reported to the consolidated transaction reporting system and no repurchases shall be made during the last half-hour before the scheduled close of trading; (3) the highest purchase price paid to repurchase any shares shall not exceed the higher of the highest independent bid or the last independent reported sale price; and (4) the maximum number of shares that can be repurchased on a given day (excluding block repurchases) shall not exceed 25% of the average daily trading volume reported for the four calendar weeks preceding

the week in which the repurchase is made. It was further decided, that periodically after the repurchase, the repurchased shares would be retired and canceled.

As of July 31, 2003, the Company had repurchased a total of 229,700 shares of its common stock at a cost of \$1,070,048. The cost of the repurchased shares of common stock has been recorded as a reduction of common stock in the amount of \$2,297 and a reduction of additional paid-in capital in the amount of \$1,067,751.

[12] In the normal course of its business, the Company is exposed to a number of asserted and unasserted potential claims. In the opinion of management, the resolution of these matters will not have a material adverse effect on the Company's financial position or results of operations.

At November 1, 1998, the Company was being represented by counsel in connection with various reviews being conducted by the Company's Medicare carrier. One review involved overpayments that occur in the normal course of business. The Company remitted approximately \$75,000 to Medicare in connection with this matter. At October 31, 2002, the Company had established a reserve of \$154,000 on its financial statements for the remaining liability. In January 2003, Medicare determined that the remaining overpayment was \$78,684 and interest on this amount was \$2,392. The total amount of \$81,076 was remitted by the Company to Medicare in January 2003, bringing the matter to a close.

In April 2003, a Determination was rendered in a lawsuit filed by a former employee, David Bennett, who alleged that his employment contract had been improperly terminated by the Company. The arbitrator who presided at the hearing concluded that Mr. Bennett's employment was duly terminated by the Company for cause and rendered his Determination in favor of the Company and against David Bennett with respect to all of Mr. Bennett's claims.

Item 2.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Note Regarding Forward-Looking Statements

**This Quarterly Report on Form 10-Q contains historical information as well as forward-looking statements. Statements looking forward in time are included in this Quarterly Report pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements involve known and unknown risks and uncertainties that may cause the Company's actual results in future periods to be materially different from any future performance suggested herein. For a further discussion concerning risks to the Company's business, the results of its operations and its financial condition, reference is made to the Company's Annual Report on Form 10-K for the year ended October 31, 2002.**

OVERVIEW:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period. While many aspects of our business are subject to complex federal, state and local regulations, the accounting for our business is generally straightforward. Our revenues are primarily comprised of a high volume of relatively low dollar transactions, and about half of all our costs consist of employee compensation and benefits. Revenues are recognized at the time the services are performed and are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered including prospectively determined adjustments under reimbursement agreements with third-party payors. These adjustments are accrued on an estimated basis in the period the services are rendered and adjusted in future periods as final settlements are determined. These estimates are reviewed and adjusted, if warranted, by senior management on a monthly basis. We believe that our estimates and assumptions are correct; however, several factors could cause actual results to differ materially from those currently anticipated due to a number of factors:

our failure to integrate newly acquired businesses (if any) and the cost related to such integration.

our failure to obtain and retain new customers and alliance partners, or a reduction in tests ordered or specimens submitted by existing customers.

adverse results from investigations of clinical laboratories by the government, which may include significant monetary damages and/or exclusion from the Medicare and Medicaid programs.

loss or suspension of a license or imposition of a fine or penalties under, or future changes in, the law or regulations of CLIA-88, or those of Medicare, Medicaid or other federal, state or local agencies.

future changes in federal, state, local and third party payor regulations or policies (or in the interpretation of current regulations) affecting governmental and third-party reimbursement for clinical laboratory testing.

failure to comply with the Federal Occupational Safety and Health Administration requirements and the recently passed Needlestick Safety and Prevention Act.

failure to comply with HIPAA, which could result in significant fines as well as substantial criminal penalties.

changes in payor mix.

failure to maintain our days sales outstanding levels.

increased competition, including price competition.

our ability to attract and retain experienced and qualified personnel.

adverse litigation results.

We utilize diluted earnings per share ( EPS ) on pre-tax income as a performance indicator rather than the traditional EPS calculation on an after tax basis. This pre-tax EPS takes out the nuance of tax differences caused by large net operating loss carryforwards which create benefits (which we used in the past) and tax expense (which we expect in the future). Our pre-tax EPS on a fully diluted basis is shown below:

	January 31	Three Months Ended April 30	July 31	July 31	Nine Months Ended July 31
FY 2002	.06	.10	.12	.28	
FY 2003	.04	.13	.24	.41	

COMPARISON OF THIRD QUARTER 2003 VS THIRD QUARTER 2002

NET REVENUES:

Net revenues for the three month period ended July 31, 2003 were \$28,919,575 as compared to \$24,893,138 for the three month period ended July 31, 2002; which represents an 16% increase in net revenues. This increase is due to a 9% increase in patient counts and a 7% increase in net revenues per patient.

The number of patients serviced during the three month period ended July 31, 2003 was 547,568 which was 9% greater when compared to the prior fiscal year's three month period. Net revenue per patient for the three month period ended July 31, 2003 was \$52.63 compared to net revenue per patient of \$49.38 for the three month period ended July 31, 2002, an increase of \$3.25 or 7%. This increase in net revenues per patient is directly related to the increase in more expensive and esoteric testing.

COST OF SALES:

Cost of Sales increased from \$12,850,785 for the three month period ended July 31, 2002 to \$14,341,718 for the three month period ended July 31, 2003, an increase of \$1,490,933 or 12%. This increase is in line with the increase in net revenues of 16%.

GROSS PROFITS:

Gross profits, increased from \$12,042,353 for the three month period ended July 31, 2002 to \$14,577,857 for the three month period ended July 31, 2003; an increase of \$2,535,504 or 21%. This is primarily attributable to the increase in net revenues. Profit margins increased from 48% to 50% which is primarily attributable to the increase in net revenues and the decrease in direct costs relative to the increase in net revenues.

GENERAL AND ADMINISTRATIVE EXPENSES:

General and administrative expenses for the three month period ended July 31, 2002 was \$10,319,667 as compared to \$11,420,400 for the three month period ended July 31, 2003, an increase of \$1,100,733 or 11%. This increase is in line with the increase in net revenues. However, insurance expense increased approximately \$308,000 or 124% over the prior comparable period.

INTEREST EXPENSE:

Interest expense decreased to \$161,960 during the three month period ended July 31, 2003 from \$202,780 during the three month period ended July 31, 2002 and is due to our decrease in asset based borrowing of approximately \$1,259,000 and lower interest rates. We believe that this trend will continue during the remainder of the current fiscal year.

INCOME:

We realized net income of \$2,300,463 for the three month period ended July 31, 2003, as compared to \$1,504,321 for the three month period ended July 31, 2002 an increase of 53%. Pre-tax income for the period ended July 31, 2003 was \$3,000,464 compared to \$1,532,968 for the period ended July 31, 2002, an increase of \$1,467,496 (96%). The provision for income taxes increased from \$28,647 for the period ended July 31, 2002 to \$700,001 for the period ended July 31, 2003. This increase was anticipated due to the full utilization of certain state tax loss carry-forwards in fiscal 2002 and Federal and State tax loss carry-forwards during the third quarter of fiscal 2003.

NINE MONTHS 2003 COMPARED TO NINE MONTHS 2002

NET REVENUES:

Net Revenues for the nine month period ended July 31, 2003 were \$78,629,465 as compared to \$71,051,327 for the nine month period ended July 31, 2002; this represents an 11% increase in net revenues. This increase is due to a 7% increase in patient counts and a 4% increase in revenue per patient.

The number of patients serviced during the nine month period ended July 31, 2003 was 1,530,727 which was 7% greater when compared to the prior fiscal year's nine month period. Net revenue per patient for the nine month period ended July 31, 2003 was \$51.19, compared to net revenue per patient for the nine month period ended July 31, 2002 of \$49.43, an increase of \$1.76 or 4%. This increase is directly related to our increase in more expensive and esoteric testing.

COST OF SALES:

Cost of Sales increased to \$41,238,794 for the nine month period ended July 31, 2003 from \$38,425,095 for the nine month period ended July 31, 2002. This amounts to a \$2,813,699 or 7% increase in direct operating costs. This increase is less than the increase in net revenues of 11%.

GROSS PROFITS:

Gross profits on net revenues, increased to \$37,390,671 for the nine month period ended July 31, 2003 from \$32,626,232 for the nine month period ended July 31, 2002; an increase of \$4,764,439 (15%) primarily attributable to the increase in net revenues. Gross profit margins increased to 48% during the nine month period ended July 31, 2003, as compared to 46% for the nine month period ended July 31, 2002, primarily attributable to operating efficiencies realized in regard to the increase in net revenues.

GENERAL AND ADMINISTRATIVE EXPENSES:

General and administrative expenses for the nine month period ended July 31, 2003 were \$31,609,710 as compared to \$28,341,000 for the nine month period ended July 31, 2002, an increase of \$3,268,710 or 12%. This increase is in line with the increase in net revenues. However, insurance expense increased approximately \$931,000 or 141% over the prior comparable period.

INTEREST EXPENSE:

Interest expense decreased to \$559,901 during the nine month period ended July 31, 2003 as compared to \$721,356 during the nine month period ended July 31, 2002, a decrease of \$161,455 and is due to our decrease in asset based borrowing and lower interest rates. We believe that this trend will continue during the remainder of the current fiscal year.

INCOME:

We realized net income of \$4,293,344 for the nine months ended July 31, 2003 as compared to \$3,474,237 for the nine month period ended July 31, 2002. Pre-tax income for the period ended July 31, 2003 was \$5,239,344, as compared to \$3,595,592 for the period ended July 31, 2002, an increase of \$1,643,752 (46%) and was caused primarily by a decrease in expenses in relation to an increase in net revenues. The provision for income taxes increased from \$121,355 for the period ended July 31, 2002, to \$946,000 for the current nine month period. This increase was anticipated due to the full utilization of certain state tax loss carry-forwards in fiscal 2002 and Federal and State tax loss carry-forwards during the third quarter of fiscal 2003.

LIQUIDITY AND CAPITAL RESOURCES:

Our working capital at July 31, 2003 was approximately \$15,853,000 as compared to approximately \$12,651,000 at October 31, 2002, an increase of approximately \$3,452,000. Our cash position increased by approximately \$131,000 during the current period. We decreased our short term debt by approximately \$1,259,000 and repaid approximately \$924,000 in existing long-term debt and capital lease obligations. We had current liabilities of approximately \$20,283,000 at July 31, 2003. We generated approximately \$4,043,000 in cash from operations during the current nine month period, compared to cash from operations for the nine month period ended July 31, 2002 of approximately \$2,640,000.

As of July 31, 2003, the Company had repurchased a total of 229,700 shares of its common stock at a cost of \$1,070,048. The cost of the repurchased shares of common stock has been recorded as a reduction of common stock in the amount of \$2,297 and a reduction of additional paid-in capital in the amount of \$1,067,751.

Accounts receivable, net of allowance for doubtful accounts, totaled approximately \$31,201,000 at July 31, 2003, an increase of approximately \$2,502,000 from October 31, 2002, or 9%. This increase was primarily attributable to increased revenue. Cash collected during the nine month period ended July 31, 2003 increased 9% over the comparable nine month period.

Credit risk with respect to accounts receivable is generally diversified due to the large number of patients comprising the client base. We have significant receivable balances with government payors and various insurance carriers. Generally, we do not require collateral or other security to support customer receivables, however, we continually monitor and evaluate our client acceptance and collection procedures to minimize potential credit risks associated with our accounts receivable. While we maintain what we believe to be an adequate allowance for doubtful accounts, there can be no assurance that our ongoing review of accounts receivable will not result in the need for additional reserves. Such additional reserves could have a material impact on our financial position and results of operations.

In January 2002, we amended our revolving loan agreement with PNC Bank. The maximum amount of the credit line available to the Company is now the lesser of (i) \$25,000,000 or (ii) 50% of our qualified accounts receivable (as defined in the agreement). Interest on advances will be subject to the prime rate or Eurodollar rate of interest plus an additional interest percentage. The additional interest percentage charges on borrowings range from 1% to 3% and are determined based upon certain financial ratios achieved by the Company. During the current fiscal period, the Company had elected to have \$8,000,000 of the total advances outstanding converted into a Eurodollar rate loan with a variable interest rate of 2.740% at July 31, 2003. The remaining outstanding advances during that period were subject to the prime rate of interest. At July 31, 2003, advances of \$1,286,546 were subject to interest at the prime rate. The credit line is collateralized by substantially all

of our assets and the assignment of a \$4,000,000 insurance policy on the life of the president of our Company. The line of credit is currently available through September 2004. The terms of this agreement contain, among other provisions, requirements for maintaining defined levels of capital expenditures and fixed charge coverage, various financial ratios and insurance coverage. As of July 31, 2003, we were utilizing approximately \$9,287,000 of this credit facility and had approximately \$11,080,000 of available unused credit under this revolving loan agreement.

We intend to expand our laboratory operations through aggressive marketing, developing specialty testing areas and through acquisitions. These acquisitions may involve cash, notes, common stock, and/or combinations thereof.

At November 1, 1998, the Company was being represented by counsel in connection with various reviews being conducted by the Company's Medicare carrier. One review involved overpayments that occur in the normal course of business. The Company remitted approximately \$75,000 to Medicare in connection with this matter. At October 31, 2002, the Company had established a reserve of \$154,000 on its financial statements for the remaining liability. In January 2003, Medicare determined that the remaining overpayment was \$78,684 and interest on this amount was \$2,392. The total amount of \$81,076 was remitted by the Company to Medicare in January 2003, bringing the matter to a close.

We have various employment and consulting agreements with commitments totaling approximately \$6,282,000 over the next five years of which approximately \$2,968,000 is due during fiscal 2003. We have capitalized leases with commitments totaling approximately \$2,006,000 of which approximately \$748,000 is due during fiscal 2003. We have operating leases with commitments totaling approximately \$9,380,000 of which approximately \$3,444,000 is due during fiscal 2003.

Our cash balance at July 31, 2003 totaled approximately \$3,534,000 as compared to approximately \$3,403,000 at October 31, 2002. We believe that our cash position, the anticipated cash generated from future operations, and the availability of our credit line with PNC Bank, will meet our anticipated cash needs in fiscal 2003.

Impact of Inflation - To date, inflation has not had a material effect on our operations.

#### New Authoritative Pronouncements

The Financial Accounting Standards Board ( FASB ) has issued Statement No. 143 Accounting for Asset Retirement Obligations in June 2001, which requires that the fair value of a liability for an asset retirement legal obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. This statement is effective for fiscal years beginning after June 15, 2002. The Company has adopted SFAS No. 143 effective November 1, 2002.

In August 2001, FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. This statement retains the requirements of SFAS No. 121 but removes goodwill from its scope and describes a probability-weighted cash flow estimation approach in evaluating possible future cash flows to be used in impairment testing. Provisions of this statement are effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. The Company has adopted SFAS No. 144 effective November 1, 2002.

In April 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements No. 14, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections ( SFAS 145 ). SFAS 145 among other things rescinds SFAS No. 4,

Reporting Gains and Losses from Extinguishment of Debt ( SFAS 4 ), and SFAS No. 64, Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements ( SFAS 64 ) and amends SFAS No. 13, Accounting for Leases ( SFAS 13 ). This statement updates, clarifies and simplifies existing accounting pronouncements. As a result of rescinding SFAS 4 and SFAS 64, the criteria in APB No. 30, Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Event and Transactions, will be used to classify gains and losses from extinguishment of debt. SFAS 13 was amended to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions and makes technical corrections to existing pronouncements. The provisions of SFAS 145 are effective for fiscal years beginning after May 15, 2002, with earlier application encouraged. The Company adopted SFAS 145 effective November 1, 2002.

In July 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities ( SFAS 146 ), which addresses the recognition, measurement, and reporting of costs associated with exit or disposal

activities, and supercedes Emerging Issues Task Force ( EITF ) Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring) ( EITF 94-3 ). The principal difference between SFAS 146 and EITF 94-3 relates to the requirements for recognition of a liability for a cost associated with an exit or disposal activity. SFAS 146 requires that a liability for a cost associated with an exit or disposal activity, including those related to employee termination benefits and obligations under operating leases and other contracts, be recognized when the liability is incurred, and not necessarily the date of an entity's commitment to an exit plan, as under EITF 94-3. SFAS 146 also establishes that the initial measurement of a liability recognized under SFAS 146 be based on fair value. The provisions of SFAS 146 are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The Company adopted SFAS 146 effective November 1, 2002.

In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others ( FIN 45 ). FIN 45 requires a guarantor to recognize a liability, at the inception of the guarantee, for the fair value of obligations it has undertaken in issuing the guarantee and to also include more detailed disclosures with respect to guarantees. FIN 45 is effective on a prospective basis for guarantees issued or modified starting January 1, 2003 and requires the additional disclosures in interim and annual financial statements effective for the period ended December 31, 2002. The Company's adoption of the initial recognition and measurement provisions of FIN 45 effective January 1, 2003, did not have a material impact on the Company's results of operations or financial position.

In December 2002, FASB Statement No. 148 Accounting for Stock-Based Compensation-Transition and Disclosure was issued as an amendment of FASB Statement No. 123. Provisions of Statement No. 148 provide for alternate methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, Statement No. 148 amends the disclosure requirements of Statement No. 123 to require prominent disclosure in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reporting results. Statement No. 148 is effective for entities with a fiscal year ending after December 15, 2002. Certain disclosure requirement under Statement No. 148 are effective for financial reports containing condensed financial statements for interim periods beginning after December 15, 2002. The Company adopted Statement No. 148 effective February 1, 2003.

In January 2003, the FASB issued Interpretation No. 46 ( FIN 46 ), Consolidation of Variable Interest Entities, which clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is applicable immediately for variable interest entities created after January 31, 2003. For variable interest entities created prior to January 31, 2003, the provisions of FIN 46 are applicable no later than July 1, 2003. The adoption of FIN 46 has no impact on the Company at this time.

In April 2003, the Financial Accounting Standards Board ( FASB ) issued Statement of financial Accounting Standards No. 149, Amendment of Statement 133 of Derivative Instruments and Hedging Activities ( SFAS 149 ), which clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity ( SFAS 150 ), which established standards for how an issuer classifies and measures certain financial instruments as liabilities (or assets in some circumstances) that were previously classified as equity. Financial instruments which

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embody an unconditional obligation requiring the issuer to redeem or repurchase it by the transfer of assets or by issuing a variable number of its equity shares must be classified as a liability. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003.

The Company expects that the adoption of the new statements will not have a significant impact on its financial statements.

**Item 4 CONTROLS AND PROCEDURES**

(a) Explanation of disclosure controls and procedures. The Company's chief executive officer and its chief financial officer after evaluating the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-14(c) and 15-d-14(c) as of a date within 90 days of the filing date of the quarterly report (the Evaluation Date) have concluded that as of the Evaluation Date, the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities, particularly during the period in which this quarterly report was being prepared.

(b) Changes in internal controls. There were no significant changes in the Company's internal controls or in other factors that could significantly affect the Company's disclosure controls and procedures subsequent to the Evaluation Date, nor any significant deficiencies or material weaknesses in such disclosure controls and procedures requiring corrective actions. As a result, no corrective actions were taken.

**BIO-REFERENCE LABORATORIES, INC.**

**PART II - OTHER INFORMATION**

**Item 4 Submission of Matters to a Vote of Security Holders**

Our Annual Meeting of Stockholders was held on July 31, 2003. At the meeting, the following two individuals were elected by the following vote to serve as Class III directors, each for a term of three years and until his successor is duly elected and qualified.

	<b>For</b>	<b>Withheld</b>
Gary Lederman	11,439,289	134,095
John Roglieri	11,439,289	134,095

Our other directors whose term continued are as follows:

Marc D. Grodman	Class I director
Howard Dubinett	Class I director
Sam Singer	Class II director
Morton L. Topfer	Class II director

The proposal to amend the Corporation's Certificate of Incorporation to increase the number of authorized shares of Common Stock, \$.01 par value, from 18,333,333 shares to 35,000,000 was approved; for 11,178,575, against 385,777, abstentions 8,932.

The proposal to ratify the adoption of the 2003 Employee Incentive Stock Option Plan was approved; for 6,718,199, against 352,877, abstentions 25,790, broker non votes 4,477,002.

**Item 6 Exhibits and Reports on Form 8-K**

(a) Exhibits:

31.1 - Certification of Chief Executive Officer

31.2 - Certification of Chief Financial Officer

32.1 - Certification Pursuant to 18 U.S.C. Section 1350 of Chief Executive Officer

32.2 - Certification Pursuant to 18 U.S.C. Section 1350 of Chief Financial Officer

(b) Reports on Form 8-K - The Company filed no reports on Form 8-K during the quarter ended July 31, 2003.

**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.

**BIO-REFERENCE LABORATORIES, INC.**  
**(Registrant)**

/S/ Marc D. Grodman  
Marc D. Grodman, M.D.  
President and Chief Executive Officer

/S/ Sam Singer  
Sam Singer  
Chief Financial and Accounting Officer

Date: September 5, 2003.