

MONMOUTH REAL ESTATE INVESTMENT CORP
Form 10-Q
August 05, 2015

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 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 June 30, 2015

() TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES

EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-33177

MONMOUTH REAL ESTATE INVESTMENT CORPORATION

(Exact name of registrant as specified in its charter)

| | |
|---|--|
| <u>Maryland</u> | <u>22-1897375</u> |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer identification number) |

| | |
|---|------------|
| <u>Juniper Business Plaza, 3499 Route 9 North, Suite 3-D, Freehold, NJ 07728</u> | |
| (Address of Principal Executive Offices) | (Zip Code) |

| | |
|--|---------------------|
| Registrant's telephone number, including area code | <u>(732)</u> |
| <u>577-9996</u> | |

Edgar Filing: MONMOUTH REAL ESTATE INVESTMENT CORP - Form 10-Q

(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the

Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to 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 (sec. 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if smaller reporting company)
Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

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

| Class | Outstanding Shares of Common Stock as of August 3, 2015 |
|--|--|
| Common Stock, \$0.01 par value per share | 60,920,374 |

Table of Contents

MONMOUTH REAL ESTATE INVESTMENT CORPORATION

AND SUBSIDIARIES

FOR THE QUARTER ENDED JUNE 30, 2015

C O N T E N T S

| | Page No |
|--|---------|
| PART I FINANCIAL INFORMATION | |
| Item 1 - Financial Statements (Unaudited): | |
| <u>Consolidated Balance Sheets</u> | 3 |
| <u>Consolidated Statements of Income</u> | 5 |
| <u>Consolidated Statements of Comprehensive Income (Loss)</u> | 7 |
| <u>Consolidated Statements of Cash Flows</u> | 8 |
| <u>Notes to Consolidated Financial Statements</u> | 9 |
| Item 2 - <u>Management's Discussion and Analysis of Financial Condition and Results of Operations.</u> | 20 |
| Item 3 - <u>Quantitative and Qualitative Disclosures About Market Risk.</u> | 32 |
| Item 4 - <u>Controls and Procedures.</u> | 32 |
| PART II - OTHER INFORMATION | |
| Item 1 - <u>Legal Proceedings.</u> | 33 |
| Item 1A - <u>Risk Factors.</u> | 33 |
| Item 2 - <u>Unregistered Sales of Equity Securities and Use of Proceeds.</u> | 33 |
| Item 3 - <u>Defaults Upon Senior Securities.</u> | 33 |
| Item 4 - <u>Mine Safety Disclosures.</u> | 33 |
| Item 5 - <u>Other Information.</u> | 33 |
| Item 6 - <u>Exhibits.</u> | 33 |
| <u>SIGNATURES</u> | 35 |

Table of Contents

ITEM 1. Financial Statements (Unaudited)

MONMOUTH REAL ESTATE INVESTMENT CORPORATION AND SUBSIDIARIES**CONSOLIDATED BALANCE SHEETS****AS OF JUNE 30, 2015 AND SEPTEMBER 30, 2014**

| <u>ASSETS</u> | June 30, | September 30, |
|---|-----------------------|-----------------------|
| | 2015 | 2014 |
| | (Unaudited) | |
| Real Estate Investments: | | |
| Land | \$ 125,660,590 | \$ 109,858,989 |
| Buildings and Improvements | 777,670,914 | 634,068,423 |
| Total Real Estate Investments | 903,331,504 | 743,927,412 |
| Accumulated Depreciation | (121,373,445) | (107,004,184) |
| Net Real Estate Investments | 781,958,059 | 636,923,228 |
| Cash and Cash Equivalents | 14,051,779 | 20,474,661 |
| Securities Available for Sale at Fair Value | 48,854,600 | 59,311,403 |
| Tenant and Other Receivables | 729,045 | 1,312,975 |
| Deferred Rent Receivable | 4,923,162 | 3,759,031 |
| Prepaid Expenses | 4,635,243 | 2,764,795 |
| Financing Costs, net of Accumulated Amortization of | | |
| \$4,318,400 and \$3,710,149, respectively | 5,381,622 | 4,356,264 |
| Capitalized Lease Costs, net of Accumulated Amortization of | | |
| \$2,377,868 and \$1,886,457, respectively | 3,405,746 | 2,741,414 |
| Intangible Assets, net of Accumulated Amortization of | | |
| \$10,823,831 and \$9,740,983, respectively | 6,395,157 | 6,490,881 |
| Other Assets | 6,177,072 | 5,622,048 |
| TOTAL ASSETS | \$ 876,511,485 | \$ 743,756,700 |

See Accompanying Notes to the Consolidated Financial Statements

Table of Contents**MONMOUTH REAL ESTATE INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS – CONTINUED****AS OF JUNE 30, 2015 AND SEPTEMBER 30, 2014**

| | June 30, | September 30, 2014 |
|---|--------------------|---------------------------|
| LIABILITIES AND SHAREHOLDERS' EQUITY | 2015 | (Unaudited) |
| Liabilities: | | |
| Mortgage Notes Payable | \$365,066,254 | \$287,796,006 |
| Loans Payable | 65,101,892 | 25,200,000 |
| Accounts Payable and Accrued Expenses | 3,786,989 | 4,930,041 |
| Other Liabilities | 7,368,574 | 5,199,571 |
| Total Liabilities | 441,323,709 | 323,125,618 |

COMMITMENTS AND CONTINGENCIES

Shareholders' Equity:

Series A - 7.625% Cumulative Redeemable Preferred

Stock, \$0.01 Par Value Per Share: 2,139,750 Shares

Authorized, Issued and Outstanding as of June 30, 2015

and September 30, 2014

53,493,750 53,493,750

Series B - 7.875% Cumulative Redeemable Preferred

Stock, \$0.01 Par Value Per Share: 2,300,000 Shares

Authorized, Issued and Outstanding as of June 30, 2015

and September 30, 2014

57,500,000 57,500,000

Common Stock - \$0.01 Par Value Per Share: 200,000,000 Shares

Authorized as of June 30, 2015 and September 30, 2014;

60,434,435 and 57,008,754 Shares Issued and Outstanding as of

June 30, 2015 and September 30, 2014, respectively

604,344 570,088

Excess Stock - \$0.01 Par Value Per Share: 200,000,000 Shares

Authorized as of June 30, 2015 and September 30, 2014;

-0- -0-

No Shares Issued or Outstanding as of June 30, 2015 and

Edgar Filing: MONMOUTH REAL ESTATE INVESTMENT CORP - Form 10-Q

September 30, 2014

| | | |
|---|--------------------|--------------------|
| Additional Paid-In Capital | 326,119,791 | 308,945,888 |
| Accumulated Other Comprehensive (Loss) Income | (2,530,109) | 121,356 |
| Undistributed Income | -0- | -0- |
| Total Shareholders' Equity | 435,187,776 | 420,631,082 |

TOTAL LIABILITIES & SHAREHOLDERS' EQUITY \$876,511,485 \$743,756,700

See Accompanying Notes to the Consolidated Financial Statements

Table of Contents**MONMOUTH REAL ESTATE INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)****FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2015 AND 2014**

| | Three Months Ended | | Nine Months Ended | |
|---|---------------------------|--------------------|--------------------------|--------------------|
| | 6/30/2015 | 6/30/2014 | 6/30/2015 | 6/30/2014 |
| INCOME: | | | | |
| Rental Revenue | \$17,256,131 | \$13,383,738 | \$48,891,870 | \$41,039,489 |
| Reimbursement Revenue | 3,416,151 | 2,356,132 | 8,316,538 | 6,706,841 |
| Lease Termination Income | -0- | 1,182,890 | 238,625 | 1,182,890 |
| TOTAL INCOME | 20,672,282 | 16,922,760 | 57,447,033 | 48,929,220 |
| EXPENSES: | | | | |
| Real Estate Taxes | 2,629,105 | 1,997,324 | 6,569,299 | 5,626,181 |
| Operating Expenses | 1,083,276 | 865,519 | 3,085,138 | 2,714,499 |
| General & Administrative Expenses | 1,606,503 | 1,505,292 | 4,414,813 | 3,954,011 |
| Acquisition Costs | 440,705 | -0- | 1,303,389 | 462,864 |
| Depreciation | 5,099,045 | 3,991,113 | 14,369,261 | 11,779,471 |
| Amortization of Capitalized Lease Costs and Intangible Assets | 492,468 | 451,338 | 1,497,783 | 1,346,023 |
| TOTAL EXPENSES | 11,351,102 | 8,810,586 | 31,239,683 | 25,883,049 |
| OTHER INCOME (EXPENSE): | | | | |
| Interest and Dividend Income | 872,778 | 941,924 | 2,871,183 | 2,877,486 |
| Gain on Sale of Securities Transactions, net | -0- | 907,171 | 377,087 | 1,483,245 |
| Interest Expense | (4,805,681) | (4,170,104) | (13,429,179) | (12,230,617) |
| Amortization of Financing Costs | (212,419) | (197,617) | (608,251) | (535,297) |
| TOTAL OTHER INCOME (EXPENSE) | (4,145,322) | (2,518,626) | (10,789,160) | (8,405,183) |
| NET INCOME | 5,175,858 | 5,593,548 | 15,418,190 | 14,640,988 |
| Less: Preferred Dividends | 2,151,758 | 2,151,758 | 6,455,274 | 6,455,274 |
| NET INCOME ATTRIBUTABLE TO | | | | |
| COMMON SHAREHOLDERS | \$3,024,100 | \$3,441,790 | \$8,962,916 | \$8,185,714 |

See Accompanying Notes to Consolidated Financial Statements

5

Table of Contents**MONMOUTH REAL ESTATE INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)****FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2015 AND 2014 - CONTINUED**

| | Three Months Ended | | Nine Months Ended | |
|--|---------------------------|------------------|--------------------------|------------------|
| | 6/30/2015 | 6/30/2014 | 6/30/2015 | 6/30/2014 |
| BASIC INCOME – PER SHARE | | | | |
| Net Income | \$0.08 | \$0.11 | \$0.26 | \$0.31 |
| Less: Preferred Dividends | (0.03) | (0.04) | (0.11) | (0.14) |
| Net Income Attributable to Common Shareholders - Basic | \$0.05 | \$0.07 | \$0.15 | \$0.17 |
| DILUTED INCOME – PER SHARE | | | | |
| Net Income | \$0.08 | \$0.11 | \$0.26 | \$0.31 |
| Less: Preferred Dividends | (0.03) | (0.04) | (0.11) | (0.14) |
| Net Income Attributable to Common Shareholders - Diluted | \$0.05 | \$0.07 | \$0.15 | \$0.17 |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING | | | | |
| Basic | 59,539,781 | 50,659,518 | 58,375,573 | 47,541,797 |
| Diluted | 59,637,749 | 50,760,023 | 58,503,574 | 47,634,310 |

See Accompanying Notes to Consolidated Financial Statements

6

Table of Contents**MONMOUTH REAL ESTATE INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)****FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2015 AND 2014 - CONTINUED**

| | Three Months Ended | | Nine Months Ended | |
|--|---------------------------|--------------------|--------------------------|---------------------|
| | 6/30/2015 | 6/30/2014 | 6/30/2015 | 6/30/2014 |
| Net Income | \$5,175,858 | \$5,593,548 | \$15,418,190 | \$14,640,988 |
| Other Comprehensive Income: | | | | |
| Unrealized Holding Gains (Losses) Arising During the Period | (3,809,002) | 1,594,440 | (2,274,378) | 3,430,743 |
| Reclassification Adjustment for Net Gains Realized in Income | -0- | (907,171) | (377,087) | (1,483,245) |
| TOTAL COMPREHENSIVE INCOME | 1,366,856 | 6,280,817 | 12,766,725 | 16,588,486 |
| Less: Preferred Dividends | 2,151,758 | 2,151,758 | 6,455,274 | 6,455,274 |
| COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO COMMON SHAREHOLDERS | \$(784,902) | \$4,129,059 | \$6,311,451 | \$10,133,212 |

See Accompanying Notes to Consolidated Financial Statements

7

Table of Contents**MONMOUTH REAL ESTATE INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)****FOR THE NINE MONTHS ENDED JUNE 30, 2015 AND 2014**

| | Nine Months Ended | |
|---|--------------------------|----------------------|
| | 6/30/2015 | 6/30/2014 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Income | \$15,418,190 | \$14,640,988 |
| Noncash Items Included in Net Income: | | |
| Depreciation & Amortization | 16,475,295 | 13,660,791 |
| Stock Compensation Expense | 283,578 | 256,770 |
| Gain on Sale of Securities Transactions, net | (377,087) | (1,483,245) |
| Changes In: | | |
| Tenant, Deferred Rent and Other Receivables | (503,725) | 238,223 |
| Prepaid Expenses | (1,870,448) | (927,507) |
| Other Assets and Capitalized Lease Costs | (1,422,882) | (776,146) |
| Accounts Payable, Accrued Expenses and Other Liabilities | 279,066 | 3,256,314 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 28,281,987 | 28,866,188 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of Real Estate and Intangible Assets | (150,086,653) | (73,860,759) |
| Capital and Land Site Improvements | (9,545,564) | (14,825,834) |
| Return of Deposits on Real Estate | 2,500,000 | 1,800,000 |
| Deposits Paid on Acquisitions of Real Estate | (2,800,000) | (2,500,000) |
| Proceeds from Sale of Securities Available for Sale | 9,584,723 | 11,128,031 |
| Purchase of Securities Available for Sale | (1,402,298) | (22,887,701) |
| NET CASH USED IN INVESTING ACTIVITIES | (151,749,792) | (101,146,263) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net Proceeds from Loans Payable | 39,901,892 | 3,000,000 |
| Proceeds from Mortgage Notes Payable | 97,473,058 | 48,905,000 |
| Principal Payments on Mortgage Notes Payable | (20,202,810) | (19,132,018) |
| Financing Costs Paid on Debt | (1,633,609) | (961,596) |
| Proceeds from the Exercise of Stock Options | 612,409 | 620,696 |
| Proceeds from Underwritten Public Offering of Common Stock | | |
| | -0- | 65,112,686 |
| Offering, net of offering costs | | |
| Proceeds from Issuance of Common Stock in the DRIP, net of | | |
| | 27,402,004 | 26,983,425 |
| Dividend Reinvestments | | |
| Preferred Dividends Paid | (6,455,274) | (6,455,274) |
| Common Dividends Paid, net of Reinvestments | (20,052,747) | (15,482,159) |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 117,044,923 | 102,590,760 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (6,422,882) | 30,310,685 |
| CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD | 20,474,661 | 12,404,512 |

CASH AND CASH EQUIVALENTS - END OF PERIOD

\$14,051,779 \$42,715,197

See Accompanying Notes to Consolidated Financial Statements

8

Table of Contents

MONMOUTH REAL ESTATE INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

JUNE 30, 2015

NOTE 1 – ORGANIZATION AND ACCOUNTING POLICIES

Monmouth Real Estate Investment Corporation, a Maryland corporation, together with its consolidated subsidiaries (MREIC, the Company, or we), operates as a real estate investment trust (REIT) deriving its income primarily from real estate rental operations. As of June 30, 2015, the Company owned ninety properties with total square footage of approximately 13,624,000 as compared to eighty-two properties with total square footage of approximately 11,207,000, as of September 30, 2014. As of June 30, 2015, these properties are located in twenty-eight states: Alabama, Arizona, Colorado, Connecticut, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Maryland, Michigan, Minnesota, Mississippi, Missouri, Nebraska, New Jersey, New York, North Carolina, Ohio, Oklahoma, Pennsylvania, South Carolina, Tennessee, Texas, Virginia, and Wisconsin. The Company also owns a portfolio of REIT investment securities which the Company generally limits to no more than approximately 10% of its undepreciated assets.

The Company has elected to be taxed as a REIT under Sections 856-860 of the Internal Revenue Code (the Code), and intends to maintain its qualification as a REIT in the future. As a qualified REIT, with limited exceptions, the Company will not be taxed under Federal and certain state income tax laws at the corporate level on taxable income that it distributes to its shareholders. For special tax provisions applicable to REITs, refer to Sections 856-860 of the Code. The Company is subject to franchise taxes in several of the states in which the Company owns property.

The interim Consolidated Financial Statements furnished herein have been prepared in accordance with Accounting Principles Generally Accepted in the United States of America (U.S. GAAP) applicable to interim financial information, the instructions to Form 10-Q, and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended June 30, 2015 are not necessarily indicative of the results that may be expected for the year ending September 30, 2015. For further information, refer to the Consolidated Financial Statements and footnotes thereto included in the Company's annual report on Form 10-K for the fiscal year ended September 30, 2014.

Use of Estimates

In preparing the financial statements in accordance with U.S. GAAP, management is required to make certain estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods and related disclosure of contingent assets and liabilities. Actual results could differ from these estimates and assumptions.

Reclassification

Certain prior period amounts in the accompanying Consolidated Financial Statements have been reclassified to conform to the current period's presentation.

Lease Termination Income

Lease Termination Income is recognized in operating revenues when there is a signed termination agreement, all of the conditions of the agreement have been met, the tenant is no longer occupying the property and the termination consideration is probable of collection. Lease termination amounts are paid by tenants who want to terminate their lease obligations before the end of the contractual term of the lease by agreement with the Company.

Table of Contents

During the nine months ended June 30, 2015, the Company entered into a lease termination agreement with its tenant, Norton McNaughton of Squire, Inc. (Norton), whereby the Company received a lease termination fee of \$238,625 in December 2014, terminating the lease effective January 31, 2015. Prior to the lease termination, Norton was leasing the Company's 302,400 square foot building located in its Hanahan, SC location through April 29, 2015 at an annualized rent of approximately \$1,389,000, or \$4.54 per square foot. Prior to the lease termination, Norton sub-leased the Company's space to Science Applications International Corporation (SAIC). In conjunction with the lease termination, the Company simultaneously entered into a lease agreement for four years and three months with SAIC from February 1, 2015 through April 30, 2019 at an initial annualized rent of approximately \$1,406,000, or \$4.65 per square foot, with 2% increases each year.

The Company's lease with its tenant, Graybar Electric Company (Graybar), at its 26,340 square foot building located in Ridgeland (Jackson), MS has an early termination option which may be exercised at any time on the condition that the Company is provided with six months of notice. The Company has not received notice nor does the Company anticipate that this tenant will exercise its early termination option. Annual rent on both the U.S. GAAP straight-line rent basis and on the cash basis for this location is \$109,275, or \$4.15 per square foot and the lease expires in July 2019.

The Company's lease with its tenant, CHEP USA, Inc. (CHEP), at its 83,000 square foot building located in Roanoke, VA has an early termination option which may be exercised after August 2021, on the condition that the Company is provided with six months of notice and CHEP pays the Company a \$500,000 termination fee. The U.S. GAAP straight-line rent per annum for this location is \$468,364, or \$5.64 per square foot, and the lease expires in January 2025.

The Company's lease with its tenant, Pittsburgh Glass Works, LLC (PGW), at its 102,135 square foot building located in O'Fallon (St. Louis), MO has an early termination option which may be exercised after January 1, 2016 but before December 31, 2016, on the condition that the Company is provided with six months of notice and PGW pays the Company a \$213,462 termination fee. Additionally, PGW has an early termination option which may be exercised after January 1, 2017, on the condition that the Company is provided with six months of notice and PGW pays the Company a \$106,731 termination fee. Annual rent on both the U.S. GAAP straight-line rent basis and on the cash basis for this location is \$426,924, or \$4.18 per square foot, and the lease expires in June 2018.

Other than the Company's leases with Graybar, CHEP and PGW, the Company does not have any other leases that contain an early termination option.

Stock Compensation Plan

The Company has a Stock Option and Stock Award Plan, adopted in 2007 and amended and restated in 2010 (the 2007 Plan), authorizing the grant to officers and key employees of options to purchase up to 1,500,000 shares of

common stock including up to 100,000 shares of restricted stock awarded to any one participant in any one fiscal year.

The Company accounts for awards of stock options and restricted stock in accordance with ASC 718-10, Compensation-Stock Compensation. ASC 718-10 requires that compensation cost for all stock awards be calculated and amortized over the service period (generally equal to the vesting period). The compensation cost for stock option grants is determined using option pricing models, intended to estimate the fair value of the awards at the grant date less estimated forfeitures. The compensation expense for restricted stock is recognized based on the fair value of the restricted stock awards less estimated forfeitures. The fair value of restricted stock awards is equal to the fair value of the Company's stock on the grant date. The amortization of compensation costs for stock options grants and restricted stock are included in General and Administrative Expenses in the accompanying Consolidated Statements of Income and amounted to \$96,673 and \$85,136 for the three months ended June 30, 2015 and 2014, respectively and amounted to \$283,578 and \$256,770 for the nine months ended June 30, 2015 and 2014, respectively.

During the nine months ended June 30, 2015 and 2014, the following stock options were granted under the Company's 2007 Stock Option and Stock Award Plan, as amended and restated (the "2007 Plan"):

Table of ContentsDate of Number of Number of Option ExpirationGrant Employees Shares Price Date

1/5/15 1 65,000 \$11.16 1/5/23

1/3/14 1 65,000 \$8.94 1/3/22

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for grants in the fiscal year indicated:

Fiscal 2015 Fiscal 2014

| | | |
|-------------------------|--------|--------|
| Dividend yield | 5.38% | 6.71% |
| Expected volatility | 19.78% | 19.07% |
| Risk-free interest rate | 1.97% | 2.45% |
| Expected lives (years) | 8 | 8 |
| Estimated forfeitures | -0- | -0- |

The fair value of options granted during the nine months ended June 30, 2015 and 2014 was \$0.93 and \$0.53, respectively.

During the nine months ended June 30, 2015, no shares of restricted stock were granted under the Company's 2007 Plan. During the nine months ended June 30, 2015, four participants exercised options to purchase 81,200 shares of common stock at a weighted average exercise price of \$7.54 per share for total proceeds of \$612,409. As of June 30, 2015, a total of 604,646 shares were available to grant as stock options or as restricted stock and there were outstanding options to purchase 635,000 shares under the 2007 Plan. The aggregate intrinsic value of options outstanding as of June 30, 2015 was \$801,650 and the aggregate intrinsic value of options exercised during the nine months ended June 30, 2015 was \$333,369.

On July 5, 2015, the Compensation Committee of the Board of Directors awarded 47,000 shares of restricted common stock to participants under the 2007 Plan (See Note 10).

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers" as a new Topic, Accounting Standards Codification ("ASC") Topic 606, which amended the existing accounting standards for revenue recognition. ASU 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the

expected consideration received in exchange for those goods or services. In July 2015, the FASB deferred the effective date for annual reporting periods beginning after December 15, 2017 (including interim reporting periods within those periods). Early adoption is permitted to the original effective date of December 15, 2016 (including interim reporting periods within those periods). The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Company is currently in the process of evaluating the impact of adoption of the ASU on its Consolidated Financial Statements, but does not expect the impact to be material.

In April 2015, the FASB issued ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs," ("ASU 2015-03"). ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The standard is effective for annual reporting periods beginning after December 15, 2015, and interim periods within those years, with early adoption permitted. The Company is currently evaluating the potential impact the new standard will have on its Consolidated Financial Statements and the method of adoption.

Management does not believe that any other recently issued, but not yet effective accounting pronouncements, if adopted, would have a material effect on the accompanying Consolidated Financial Statements.

Table of Contents

NOTE 2 – NET INCOME PER SHARE

Basic Net Income per Share is calculated by dividing Net Income Attributable to Common Shareholders by the weighted-average number of common shares outstanding during the period. Diluted Net Income per Common Share is calculated by dividing Net Income Attributable to Common Shareholders by the weighted-average number of common shares outstanding plus the weighted-average number of net shares that would be issued upon exercise of stock options pursuant to the treasury stock method.

In addition, common stock equivalents of 97,968 and 100,505 shares are included in the diluted weighted average shares outstanding for the three months ended June 30, 2015 and 2014, respectively, and common stock equivalents of 128,001 and 92,513 shares are included in the diluted weighted average shares outstanding for the nine months ended June 30, 2015 and 2014, respectively. For the diluted weighted average shares outstanding for the three months ended June 30, 2015 and 2014, 130,000 and 65,000 options to purchase shares of common stock, respectively, were antidilutive and for the nine months ended June 30, 2015 and 2014, 65,000 options to purchase shares of common stock were antidilutive.

NOTE 3 – REAL ESTATE INVESTMENTS

Acquisitions

On October 3, 2014, the Company purchased a newly constructed 163,378 square foot industrial building located in Lindale, TX, which is in the Tyler Metropolitan Statistical Area (MSA). The building is 100% net-leased to FedEx Ground Package System, Inc. through June 2024. The purchase price was \$10,271,355. The Company obtained a 15 year self-amortizing mortgage of \$7,000,000 at a fixed interest rate of 4.57%. Annual rental revenue over the remaining term of the lease is approximately \$725,000. In connection with the acquisition, the Company completed its evaluation of the acquired lease. As a result of its evaluation, the Company allocated \$341,355 to an Intangible Asset associated with the lease in-place.

On October 10, 2014, the Company purchased a newly constructed 198,773 square foot industrial building located in Sauget, IL, which is in the St. Louis, MO MSA. The building is 100% net-leased to FedEx Ground Package System, Inc. through May 2029. The purchase price was \$15,231,000. The Company obtained a 15 year self-amortizing mortgage of \$10,660,000 at a fixed interest rate of 4.40%. Annual rental revenue over the remaining term of the lease is approximately \$1,036,000. In connection with the acquisition, the Company completed its evaluation of the acquired lease. As a result of its evaluation, the Company allocated \$31,000 to an Intangible Asset associated with the lease in-place.

On October 14, 2014, the Company purchased a 38,833 square foot industrial building which was constructed in 2012 and is located in Rockford, IL. The building is 100% net-leased to B/E Aerospace, Inc. through June 2027. The property was acquired, all-cash, for a purchase price of \$5,200,000. Annual rental revenue over the remaining term of the lease is approximately \$359,000. In connection with the acquisition, the Company completed its evaluation of the acquired lease. As a result of its evaluation, the Company allocated \$100,000 to an Intangible Asset associated with the lease in-place.

On November 25, 2014, the Company purchased a newly constructed 158,417 square foot industrial building located in Kansas City, MO. The building is 100% net-leased to Bunzl Distribution Midcentral, Inc. through September 2021. The purchase price was \$9,635,770. The Company obtained a 7 year mortgage of \$7,226,828, amortizing over 25 years at a fixed interest rate of 5.18%. Annual rental revenue over the remaining term of the lease is approximately \$736,000. In connection with the acquisition, the Company completed its evaluation of the acquired lease. As a result of its evaluation, the Company allocated \$35,770 to an Intangible Asset associated with the lease in-place.

On December 12, 2014, the Company purchased a newly constructed 599,840 square foot industrial building located in Frankfort, KY. The building is 100% net-leased to Jim Beam Brands Company through January 2025. The purchase price was \$28,000,000. The Company obtained a 10 year mortgage of \$19,600,000 at a fixed interest rate of 4.84% with an amortization schedule as follows: amortizing over 18 years during the first 30 months, amortizing over 14 years during the next 30 months,

Table of Contents

amortizing over 11 years during the next 30 months and amortizing over 8 years during the final 30 months. Annual rental revenue over the remaining term of the lease is approximately \$1,989,000. In connection with the acquisition, the Company completed its evaluation of the acquired lease. As a result of its evaluation, the Company has not allocated any amount to an Intangible Asset.

On February 26, 2015, the Company purchased a newly constructed 297,579 square foot industrial building located in Jacksonville, FL. The building is 100% net-leased to FedEx Ground Package System, Inc. through December 2029. The purchase price was \$30,645,954. The Company obtained a 15 year self-amortizing mortgage of \$20,000,000 at a fixed interest rate of 3.93%. Annual rental revenue over the remaining term of the lease is approximately \$1,992,000. In connection with the acquisition, the Company completed its evaluation of the acquired lease. As a result of its evaluation, the Company has not allocated any amount to an Intangible Asset.

On March 13, 2015, the Company purchased a newly constructed 232,200 square foot industrial building located in Monroe, OH, which is in the Cincinnati MSA. The building is 100% net-leased to UGN, Inc. through February 2030. The purchase price was \$13,416,000. The Company obtained a 15 year self-amortizing mortgage of \$8,700,000 at a fixed interest rate of 3.77%. Annual rental revenue over the remaining term of the lease is approximately \$1,045,000. In connection with the acquisition, the Company completed its evaluation of the acquired lease. As a result of its evaluation, the Company allocated \$479,000 to an Intangible Asset associated with the lease in-place.

On May 7, 2015, the Company purchased a newly constructed 671,354 square foot industrial building located in Greenwood, IN, which is in the Indianapolis MSA. The building is 100% net-leased to ULTA, Inc. through July 2025. The purchase price was \$37,484,574. The Company obtained a 15 year self-amortizing mortgage of \$24,286,230 at a fixed interest rate of 3.91%. Annual rental revenue over the remaining term of the lease is approximately \$2,643,000. In connection with the acquisition, the Company completed its evaluation of the acquired lease. As a result of its evaluation, the Company has not allocated any amount to an Intangible Asset.

FedEx Ground Package System, Inc.'s ultimate parent, FedEx Corporation (FDX), B/E Aerospace, Inc., ULTA Inc.'s ultimate parent and Ulta Salon, Cosmetics & Fragrance, Inc. are publicly-owned companies and financial information related to these entities is available at the SEC's website, www.sec.gov. Jim Beam Brands Company's ultimate parent, Suntory Beverage & Food Limited is a publicly-owned company and financial information related to this entity is available at the Tokyo Stock Exchange's website, www.jpx.co.jp/english and Bunzl Distribution Midcentral, Inc.'s ultimate parent, Bunzl plc is a publicly-owned company and financial information related to this entity is available at the U.K. government's website, <https://www.gov.uk/government/organisations/companies-house>. The references in this quarterly report to the SEC's website, the Tokyo Stock Exchange's website and the U.K. government's website are not intended to and do not include or incorporate by reference into this quarterly report the information on those websites.

Expansions

Edgar Filing: MONMOUTH REAL ESTATE INVESTMENT CORP - Form 10-Q

During December 2014, a 62,260 square foot expansion of a building leased to NF&M International, Inc. located in Monaca, PA was completed for a cost of approximately \$4,503,000, resulting in a new 10 year lease which extended the current lease expiration date from September 30, 2018 to December 31, 2024. In addition, the expansion resulted in an initial increase in annual rent effective January 1, 2015 from \$381,805, or \$3.39 per square foot, to \$820,000, or \$4.69 per square foot. Furthermore, annual rent will increase in year five of the lease to \$841,600, or \$4.81 per square foot, resulting in an annualized rent over the new ten year period of \$830,800, or \$4.75 per square foot.

During June 2015, a parking lot expansion for a property leased to FedEx Ground Package System, Inc. located in El Paso, TX was completed for a cost of approximately \$2,472,000 resulting in an increase in annual rent effective July 1, 2015 from \$1,045,610, or \$7.25 per square foot to \$1,345,289, or \$9.33 per square foot.

Table of Contents

During June 2015, a 38,428 square foot expansion of a building leased to FedEx Ground Package System, Inc. located in Oklahoma City, OK was substantially completed for a cost of approximately \$3,332,000, resulting in a new 10 year lease which extended the current lease expiration date from March 31, 2022 to July 31, 2025. In addition, the expansion resulted in an increase in annual rent effective August 1, 2015 from \$712,532, or \$5.94 per square foot, to \$1,045,751, or \$6.60 per square foot.

Pro forma information

The following unaudited pro forma condensed financial information has been prepared utilizing the historical financial statements of the Company and the effect of additional revenue and expenses from the properties acquired during fiscal 2015 and 2014, assuming that the acquisitions had occurred as of October 1, 2013, after giving effect to certain adjustments including (a) Rental Revenue adjustments resulting from the straight-lining of scheduled rent increases, (b) Interest Expense resulting from the assumed increase in Mortgage Notes Payable and Loans Payable related to the new acquisitions, and (c) Depreciation Expense related to the new acquisitions. In addition, a portion of the proceeds received from the May 28, 2014 public offering of 8,050,000 shares of the Company's common stock were used to fund property acquisitions and therefore, the weighted average shares outstanding used in calculating the Basic and Diluted Net Income per Share Attributable to Common Shareholders has been adjusted to account for the portion of the offering proceeds used to fund acquisitions as if the offering had occurred as of October 1, 2013. The unaudited pro forma condensed financial information is not indicative of the results of operations that would have been achieved had the acquisitions reflected herein been consummated on the dates indicated or that will be achieved in the future.

| | Three Months Ended | | Nine Months Ended | |
|--|---------------------------|------------------|--------------------------|------------------|
| | 6/30/2015 | 6/30/2014 | 6/30/2015 | 6/30/2014 |
| Rental Revenues | \$17,693,600 | \$16,393,100 | \$51,719,400 | \$50,529,000 |
| Net Income Attributable to Common Shareholders | \$3,152,800 | \$4,186,100 | \$9,429,900 | \$10,274,900 |
| Basic and Diluted Net Income per Share Attributable to Common Shareholders | \$0.05 | \$0.07 | \$0.16 | \$0.19 |

Tenant Concentration

The Company has a concentration of FDX and FDX subsidiary-leased properties consisting of forty-six separate stand-alone leases covering approximately 5,611,000 square feet as of June 30, 2015 and forty-two separate stand-alone leases covering approximately 4,500,000 square feet as of June 30, 2014. The percentage of FDX leased square footage to the total of the Company's rental space was 41% (7% to FDX and 34% to FDX subsidiaries) as of June 30, 2015 and 42% (9% to FDX and 33% to FDX subsidiaries) as of June 30, 2014. The only tenants that leased 5% or more of the Company's total square footage as of June 30, 2015 were FDX and its subsidiaries and ULTA, Inc., which leased approximately 671,000 square feet comprised of 5% of the Company's total rental space. The only tenants that leased 5% or more of the Company's total square footage as of June 30, 2014 were FDX and its

subsidiaries, Milwaukee Electric Tool Corporation, which leased approximately 615,000 square feet, comprising of 6% of the Company's rental space and Ralcorp Holdings, Inc., which leased approximately 558,000 square feet, comprised of 5% of the Company's rental space.

Annualized Rental and Reimbursement Revenue from FDX and its subsidiaries is estimated to be approximately 56% (9% to FDX and 47% to FDX subsidiaries) of total Rental and Reimbursement Revenue for fiscal 2015 and was 54% (10% to FDX and 44% to FDX subsidiaries) for fiscal 2014. No other tenant accounted for 5% or more of the Company's total Rental and Reimbursement revenue for the three and nine months ended June 30, 2015 and 2014.

Table of ContentsNOTE 4 – SECURITIES AVAILABLE FOR SALE AT FAIR VALUE

The Company's Securities Available for Sale at Fair Value consists primarily of marketable common and preferred stock of other REITs with a fair value of \$48,854,600 as of June 30, 2015. The Company generally limits its investment in marketable securities to no more than approximately 10% of its undepreciated assets. The REIT securities portfolio provides the Company with liquidity as well as dividend income and serves as a proxy for real estate when more favorable risk adjusted returns are not available.

During the nine months ended June 30, 2015, the Company sold or redeemed securities with a cost of \$9,207,636 and recognized a Gain on Sale of Securities Transactions of \$377,087. The Company also made purchases of \$1,402,298 in Securities Available for Sale at Fair Value. Of this amount, the Company made total purchases of 51,315 common shares of UMH Properties, Inc. (UMH), a related REIT, through UMH's Dividend Reinvestment and Stock Purchase Plan for a total cost of \$463,975, or a weighted average cost of \$9.04 per share. The Company owned a total of 893,491 UMH common shares as of June 30, 2015 at a total cost of \$8,367,268 and a fair value of \$8,756,207. The Company also owns 200,000 shares of UMH's 8.25% Series A Cumulative Redeemable Preferred Stock at a total cost of \$5,000,000 and a fair value of \$5,220,000.

The Company had total net unrealized holding losses on its securities portfolio of \$2,530,109 as of June 30, 2015. The Company held nine securities that had unrealized losses as of June 30, 2015 totaling \$5,022,397. The Company considers many factors in determining whether a security is other than temporarily impaired, including the nature of the security and the cause, severity and duration of the impairment. The Company normally holds REIT securities long-term and has the ability and intent to hold these securities to recovery. The following is a summary of the securities that the Company has determined to be temporarily impaired as of June 30, 2015:

| Description of Securities | Less than 12 Months | | 12 Months or Longer | |
|---------------------------|---------------------|-------------------|---------------------|-------------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Preferred stock | \$493,999 | \$(6,001) | \$136,170 | \$(33,835) |
| Common stock | 14,781,600 | (4,159,284) | 3,213,900 | (823,277) |
| Total | \$15,275,599 | \$(4,165,285) | \$3,350,070 | \$(857,112) |

The following is a summary of the range of losses:

Number of

| Individual Securities | Fair Value | Unrealized Losses | Range of Loss |
|-----------------------|------------|-------------------|---------------|
|-----------------------|------------|-------------------|---------------|

| | | | |
|---|--------------|---------------|--------|
| 3 | \$1,570,399 | \$(32,209) | 0-5% |
| 2 | 954,170 | (213,467) | 11-20% |
| 4 | 16,101,100 | (4,776,721) | 21-25% |
| 9 | \$18,625,669 | \$(5,022,397) | |

NOTE 5 – DEBT

As of June 30, 2015, total loans payable represents a \$2,433,187 term loan at an annual interest rate of 4.90%, maturing November 29, 2016, a \$2,668,705 term loan at a variable annual interest rate of prime plus 0.75% with a floor of 4.50%, maturing on March 9, 2017 and \$60,000,000 drawn down on the Company's \$60,000,000 unsecured line of credit, maturing on June 30, 2016 at a variable interest rate of LIBOR plus 175 basis points to 250 basis points, depending on the Company's leverage ratio. The unsecured line of credit has a one year extension option, which if exercised, brings the maturity to June 30, 2017. In addition, the Company has a \$20,000,000 accordion feature bringing the total potential availability under the unsecured line of credit (subject to various conditions as specified in the loan agreement) up to \$80,000,000.

Table of Contents

As of June 30, 2015, the interest rate of the \$2,668,705 loan was 4.50% and the interest rate of the \$60,000,000 unsecured line of credit was LIBOR plus 185 basis points, which was 2.18%. The \$2,668,705 term loan is secured by 500,000 shares of UMH common stock with a fair value of \$4,900,000 as of June 30, 2015 and the \$2,433,187 term loan is secured by 200,000 shares of UMH 8.25% Series A preferred stock with a fair value of \$5,220,000 as of June 30, 2015.

In connection with seven of the eight properties acquired during the nine months ended June 30, 2015 which are located in Lindale (Tyler), TX; Sauget (St. Louis, MO), IL; Kansas City, MO; Frankfort, KY; Jacksonville, FL, Monroe (Cincinnati), OH and Greenwood, (Indianapolis), IN (as described in Note 3), the Company entered into seven mortgages originally totaling \$97,473,058.

On December 31, 2014, the Company fully prepaid a mortgage originally set to mature March 1, 2015 in the principal amount of \$2,211,518. This mortgage was secured by the Company's 68,385 square foot facility located in Tampa, FL.

During the nine months ended June 30, 2015, the Company drew down \$40,000,000 on its unsecured line of credit.

NOTE 6 – SHAREHOLDERS' EQUITY

The Company's authorized stock as of June 30, 2015 consisted of 200,000,000 shares of common stock, 2,139,750 shares of 7.625% Series A Cumulative Redeemable Preferred Stock (Series A preferred shares), 2,300,000 shares of 7.875% Series B Cumulative Redeemable Preferred Stock (Series B preferred shares) and 200,000,000 shares of Excess stock.

Common Stock

The Company raised \$33,665,885 (including dividend reinvestments of \$6,263,881) from the issuance of 3,344,481 shares of Common Stock under its Dividend Reinvestment and Stock Purchase Plan (DRIP) during the nine months ended June 30, 2015. During the nine months ended June 30, 2015, the Company paid \$26,316,628 in total cash dividends, or \$0.45 per share to common shareholders, of which \$6,263,881 was reinvested in the DRIP. On July 1, 2015, the Company declared a dividend of \$0.15 per share to be paid September 15, 2015 to common shareholders of record as of the close of business on August 17, 2015.

As of June 30, 2015, the Company does not own any of its own shares of Common Stock.

7.625% Series A Cumulative Redeemable Preferred Stock

During the nine months ended June 30, 2015, the Company paid \$3,059,178 in Preferred Dividends, or \$1.4298 per share on its outstanding Series A preferred shares. Dividends on the Series A preferred shares are cumulative and payable quarterly at an annual rate of \$1.90625 per share. On July 1, 2015, the Company declared a dividend of \$0.4766 per share to be paid September 15, 2015 to Series A preferred shareholders of record as of the close of business on August 17, 2015.

7.875% Series B Cumulative Redeemable Preferred Stock

During the nine months ended June 30, 2015, the Company paid \$3,396,096 in Preferred Dividends, or \$1.4766 per share on its outstanding Series B preferred shares. Dividends on the Series B preferred shares are cumulative and payable quarterly at an annual rate of \$1.96875 per share. On July 1, 2015, the Company declared a dividend of \$0.4922 per share to be paid September 15, 2015 to Series B preferred shareholders of record as of the close of business on August 17, 2015.

Table of ContentsNOTE 7 - FAIR VALUE MEASUREMENTS

The Company measures certain financial assets and liabilities at fair value on a recurring basis, including Securities Available for Sale at Fair Value. The Company's financial assets consist mainly of marketable REIT securities. The fair value of these financial assets was determined using the following inputs at June 30, 2015 and September 30, 2014:

| | Fair Value Measurements at Reporting Date Using | | | |
|---|---|---|---|--|
| | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| <u>As of June 30, 2015:</u> | | | | |
| Equity Securities – Preferred Stock | \$21,882,984 | \$21,882,984 | \$-0- | \$-0- |
| Equity Securities – Common Stock | 26,964,507 | 26,964,507 | -0- | -0- |
| Debt Securities | 7,109 | 7,109 | -0- | -0- |
| Total Securities Available for Sale at Fair Value | \$48,854,600 | \$48,854,600 | \$-0- | \$-0- |
| <u>As of September 30, 2014:</u> | | | | |
| Equity Securities – Preferred Stock | \$31,490,317 | \$31,490,317 | \$-0- | \$-0- |
| Equity Securities – Common Stock | 27,812,582 | 27,812,582 | -0- | -0- |
| Debt Securities | 8,504 | 8,504 | -0- | -0- |
| Total Securities Available for Sale at Fair Value | \$59,311,403 | \$59,311,403 | \$-0- | \$-0- |

In addition to the Company's investments in Securities Available for Sale at Fair Value, the Company is required to disclose certain information about fair values of its other financial instruments. Estimates of fair value are made at a specific point in time based upon, where available, relevant market prices and information about the financial instrument. Such estimates do not include any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. For a portion of the Company's other financial instruments, no quoted market value exists. Therefore, estimates of fair value are necessarily based on a number of significant assumptions (many of which involve events outside the control of management). Such assumptions include assessments of current economic conditions, perceived risks associated with these financial instruments and their counterparties; future expected loss experience and other factors. Given the uncertainties surrounding these assumptions, the reported fair values represent estimates only, and therefore cannot be compared to the historical accounting model. The use of different assumptions or methodologies is likely to result in significantly different fair value estimates.

The fair value of Cash and Cash Equivalents approximates their current carrying amounts since all such items are short-term in nature. The fair value of variable rate Loans Payable approximates their current carrying amounts since such amounts payable are at approximately a weighted-average current market rate of interest. The estimated fair

value of fixed rate mortgage notes payable is based on discounting the future cash flows at a year-end risk adjusted borrowing rate currently available to the Company for issuance of debt with similar terms and remaining maturities. These fair value measurements fall within level 2 of the fair value hierarchy. At June 30, 2015, the fixed rate Mortgage Notes Payable fair value (estimated based upon expected cash outflows discounted at current market rates) amounted to \$373,692,077 and the carrying value amounted to \$365,066,254. When the Company acquires a property, it is required to fair value all of the assets and liabilities, including intangible assets and liabilities, relating to the properties acquired lease (See Note 3). Those fair value measurements fall within level 3 of the fair value hierarchy.

Table of Contents

NOTE 8 - SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for interest during the nine months ended June 30, 2015 and 2014 was \$13,429,472 and \$12,243,164, respectively.

During the nine months ended June 30, 2015 and 2014, the Company had dividend reinvestments of \$6,263,881 and \$5,545,995, respectively, which required no cash transfers.

NOTE 9 – CONTINGENCIES AND COMMITMENTS

From time to time, the Company may be subject to claims and litigation in the ordinary course of business. Management does not believe that any such claim or litigation will have a material adverse effect on the Consolidated Balance Sheets or results of operations.

The Company has entered into separate agreements to purchase eleven new build-to-suit, industrial buildings that are currently being developed in Florida, Kansas, Kentucky, Louisiana, Michigan, New York, North Carolina, Ohio, Texas and Washington. These eleven properties will total approximately 2,743,000 square feet and are net-leased to investment grade tenants, for terms ranging from ten to fifteen years. The aggregate purchase price for the eleven properties will be approximately \$290,678,000. As of June 30, 2015, the Company has made deposits totaling \$3,850,000 on these acquisitions, which are included in Other Assets in the accompanying Consolidated Balance Sheets as of June 30, 2015. Nine of the eleven buildings, representing approximately 2,542,000 square feet, or 93%, will be leased to subsidiaries of FDX. Subject to satisfactory due diligence, we anticipate closing on four of the acquisitions during the remainder of fiscal 2015, closing on six of the acquisitions during fiscal 2016 and closing on one of the acquisitions during fiscal 2017. The Company may make additional acquisitions and the funds for these acquisitions may come from mortgages, draws on our unsecured line of credit, cash on hand, sale of marketable securities, other bank borrowings, proceeds from the DRIP, private placements or public offerings of additional common or preferred stock or other securities. To the extent that funds or appropriate properties are not available, fewer acquisitions will be made.

In connection with six of the eleven commitments to purchase industrial properties, as discussed above, totaling approximately \$185,530,000 of the \$290,678,000 committed to be purchased containing approximately 1,646,000 square feet of the 2,743,000 square feet committed to be purchased, the Company has entered into commitments to obtain approximately \$126,986,000 in mortgages at fixed rates ranging from 3.55% to 4.08%, with a weighted average interest rate of 3.77%. As of June 30, 2015, the Company has paid commitment and loan processing fees for five of the six mortgage commitments totaling approximately \$1,890,000. A portion of the total commitment and loan processing fees totaling approximately \$1,804,000 will be refunded as each acquisition closes. The closings are expected to take place during the remainder of fiscal 2015 and throughout fiscal 2016.

The Company currently has two expansion projects in progress, consisting of one building expansion, adding additional rental space of 48,116 square feet, and one parking lot expansion. The properties are leased to FedEx Ground Package System, Inc. and are located in Texas and Florida. Expansion costs are expected to be approximately \$4,402,000. As of June 30, 2015, the Company has incurred expansion costs of approximately \$3,096,000 and the total remaining expansion costs are expected to be incurred during fiscal 2015 and the first quarter of fiscal 2016. Upon completion of the expansions, annual rent for the properties will be increased by approximately \$447,000. These expansions will result in a new ten year lease extension from the date of completion.

NOTE 10 – SUBSEQUENT EVENTS

Material subsequent events have been evaluated and are disclosed herein.

On July 5, 2015, the Compensation Committee of the Board of Directors awarded 47,000 shares of restricted common stock to participants under the amended and restated 2007 Plan. The grant date fair value of the restricted stock grants awarded to such participants was approximately \$468,000.

Table of Contents

On July 14, 2015, the Company entered into a sale agreement to sell its 160,000 square foot building situated on 15.84 acres located in Monroe, NC to its current tenant, Charlotte Pipe and Foundry Company (Charlotte Pipe) for \$9,000,000. Charlotte Pipe is currently leasing the space at this location through July 2017. The sale is expected to close within 60 days from the date the sale agreement was entered into. As of June 30, 2015, the U.S. GAAP net book value was approximately \$3,800,000. Once the sale is completed, the Company expects to recognize a realized gain, net of closing costs, of approximately \$5,000,000. The Company has an amortizing mortgage securing the property of approximately \$624,000, which is set to mature December 1, 2016. The mortgage has an interest rate of 7.11% and will be repaid at closing, at which time the Company expects to incur a prepayment penalty of approximately \$25,000.

Table of Contents**ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.****Overview and Recent Activity**

The following discussion and analysis of the consolidated financial condition and results of operations should be read in conjunction with the Consolidated Financial Statements and notes thereto provided elsewhere herein and the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2014.

The Company operates as a Real Estate Investment Trust (REIT). The Company seeks to invest in well-located, modern industrial buildings leased primarily to investment grade tenants on long-term net leases. During the nine months ended June 30, 2015, the Company purchased eight net-leased industrial properties, located in Lindale (Tyler), TX; Sauget (St. Louis, MO), IL; Rockford, IL; Kansas City, MO; Frankfort, KY; Jacksonville, FL; Monroe (Cincinnati), OH and Greenwood (Indianapolis), IN totaling approximately 2,360,000 square feet, for approximately \$149,885,000. As of June 30, 2015, the Company owned ninety properties with total square footage of approximately 13,624,000. These properties are located in twenty-eight states. As of the quarter ended June 30, 2015, the Company's weighted average lease expiration term was approximately 7.1 years, its occupancy rate was 97.6% and its annualized average base rent per occupied square foot was \$5.38. As of June 30, 2015, the weighted average age based on the square footage of the Company's buildings was 10.3 years. In addition, total gross real estate investments were \$903,331,504 as of June 30, 2015.

The Company's revenue primarily consists of Rental and Reimbursement Revenue from the ownership of industrial rental property. Net Operating Income (NOI) from property operations is defined as recurring Rental and Reimbursement Revenue, less Real Estate Taxes and Operating Expenses, such as insurance, utilities and repairs and maintenance. NOI increased \$4,082,874, or 32%, for the three months ended June 30, 2015 as compared to the three months ended June 30, 2014 and increased \$8,148,321, or 21%, for the nine months ended June 30, 2015 as compared to the nine months ended June 30, 2014. The increase was due to the additional income related to one industrial property purchased during the last quarter of fiscal 2014 and eight industrial properties purchased during the nine months ended June 30, 2015.

The Company's NOI for the three and nine months ended June 30, 2015 and 2014 is calculated as follows:

| | Three Months Ended | | Nine Months Ended | |
|--|---------------------------|------------------|--------------------------|------------------|
| | 6/30/2015 | 6/30/2014 | 6/30/2015 | 6/30/2014 |
| Rental Revenue | \$17,256,131 | \$13,383,738 | \$48,891,870 | \$41,039,489 |
| Reimbursement Revenue | 3,416,151 | 2,356,132 | 8,316,538 | 6,706,841 |
| Total Rental and Reimbursement Revenue | 20,672,282 | 15,739,870 | 57,208,408 | 47,746,330 |
| Real Estate Taxes | (2,629,105) | (1,997,324) | (6,569,299) | (5,626,181) |
| Operating Expense | (1,083,276) | (865,519) | (3,085,138) | (2,714,499) |
| NOI | \$16,959,901 | \$12,877,027 | \$47,553,971 | \$39,405,650 |

The Company's revenue for the nine months ended June 30, 2015 also includes Lease Termination Income of \$238,625, which represents a payment from the Company's former tenant, Norton McNaughton of Squire, Inc. (Norton). The lease termination payment is a result of Norton terminating its lease obligations effective January 31, 2015, which was before the end of the contractual term of their lease, which was set to expire on April 29, 2015. Prior to the lease termination, Norton was leasing the Company's 302,400 square foot building located in its Hanahan, SC location through April 29, 2015 at an annualized rent of approximately \$1,389,000, or \$4.54 per square foot. Prior to the lease termination, Norton sub-leased the Company's space to Science Applications International Corporation (SAIC). In conjunction with the lease termination, the Company simultaneously entered into a lease agreement for four years and three months with SAIC from February 1, 2015 through April 30, 2019 at an initial annualized rent of approximately \$1,406,000, or \$4.65 per square foot, with 2% increases each year.

Table of Contents

Of the Company's ninety properties, only three leases contain an early termination provision, which are as follows: the Company's lease with its tenant at its 26,340 square foot location in Ridgeland (Jackson), MS, the Company's lease with its tenant at its 83,000 square foot location in Roanoke, VA and the Company's lease with its tenant at its 102,135 square foot location in O'Fallon (St. Louis), MO.

The termination option at the Ridgeland (Jackson), MS location may be exercised at any time on the condition that the Company is provided with six months of notice. Annual rent on both the U.S. GAAP straight-line rent basis and on the cash basis for this location is \$109,275, or \$4.15 per square foot and the lease expires in July 2019. The Company has not received notice nor does the Company anticipate that this tenant will exercise its early termination option.

The termination option at the Roanoke, VA location may be exercised after August 2021, on the condition that the Company is provided with six months of notice and the tenant pays the Company a \$500,000 termination fee. The U.S. GAAP straight-line rent per annum for this location is \$468,364, or \$5.64 per square foot and the lease expires in January 2025.

The termination option at the O'Fallon (St. Louis), MO location may be exercised after January 1, 2016 but before December 31, 2016, on the condition that the Company is provided with six months of notice and the tenant pays the Company a \$213,462 termination fee. Additionally, the tenant has an early termination option which may be exercised after January 1, 2017, on the condition that the Company is provided with six months of notice and the tenant pays the Company a \$106,731 termination fee. Annual rent on both the U.S. GAAP straight-line rent basis and on the cash basis for this location is \$426,924, or \$4.18 per square foot and the lease expires in June 2018.

Acquisitions

On October 3, 2014, the Company purchased a newly constructed 163,378 square foot industrial building located in Lindale, TX, which is in the Tyler Metropolitan Statistical Area (MSA). The building is 100% net-leased to FedEx Ground Package System, Inc. through June 2024. The purchase price was \$10,271,355. The Company obtained a 15 year self-amortizing mortgage of \$7,000,000 at a fixed interest rate of 4.57%. Annual rental revenue over the remaining term of the lease is approximately \$725,000. In connection with the acquisition, the Company completed its evaluation of the acquired lease. As a result of its evaluation, the Company allocated \$341,355 to an Intangible Asset associated with the lease in-place.

On October 10, 2014, the Company purchased a newly constructed 198,773 square foot industrial building located in Sauget, IL, which is in the St. Louis, MO MSA. The building is 100% net-leased to FedEx Ground Package System, Inc. through May 2029. The purchase price was \$15,231,000. The Company obtained a 15 year self-amortizing mortgage of \$10,660,000 at a fixed interest rate of 4.40%. Annual rental revenue over the remaining term of the lease is approximately \$1,036,000. In connection with the acquisition, the Company completed its evaluation of the acquired lease. As a result of its evaluation, the Company allocated \$31,000 to an Intangible Asset associated with the

lease in-place.

On October 14, 2014, the Company purchased a 38,833 square foot industrial building which was constructed in 2012 and is located in Rockford, IL. The building is 100% net-leased to B/E Aerospace, Inc. through June 2027. The property was acquired, all-cash, for a purchase price of \$5,200,000. Annual rental revenue over the remaining term of the lease is approximately \$359,000. In connection with the acquisition, the Company completed its evaluation of the acquired lease. As a result of its evaluation, the Company allocated \$100,000 to an Intangible Asset associated with the lease in-place.

On November 25, 2014, the Company purchased a newly constructed 158,417 square foot industrial building located in Kansas City, MO. The building is 100% net-leased to Bunzl Distribution Midcentral, Inc. through September 2021. The purchase price was \$9,635,770. The Company obtained a 7 year mortgage of \$7,226,828, amortizing over 25 years at a fixed interest rate of 5.18%. Annual rental revenue over the remaining term of the lease is approximately \$736,000. In connection with the acquisition, the Company completed its evaluation of the acquired lease. As a result of its evaluation, the Company allocated \$35,770 to an Intangible Asset associated with the lease in-place.

21

Table of Contents

On December 12, 2014, the Company purchased a newly constructed 599,840 square foot industrial building located in Frankfort, KY. The building is 100% net-leased to Jim Beam Brands Company through January 2025. The purchase price was \$28,000,000. The Company obtained a 10 year mortgage of \$19,600,000 at a fixed interest rate of 4.84% with an amortization schedule as follows: amortizing over 18 years during the first 30 months, amortizing over 14 years during the next 30 months, amortizing over 11 years during the next 30 months and amortizing over 8 years during the final 30 months. Annual rental revenue over the remaining term of the lease is approximately \$1,989,000. In connection with the acquisition, the Company completed its evaluation of the acquired lease. As a result of its evaluation, the Company has not allocated any amount to an Intangible Asset.

On February 26, 2015, the Company purchased a newly constructed 297,579 square foot industrial building located in Jacksonville, FL. The building is 100% net-leased to FedEx Ground Package System, Inc. through December 2029. The purchase price was \$30,645,954. The Company obtained a 15 year self-amortizing mortgage of \$20,000,000 at a fixed interest rate of 3.93%. Annual rental revenue over the remaining term of the lease is approximately \$1,992,000. In connection with the acquisition, the Company completed its evaluation of the acquired lease. As a result of its evaluation, the Company has not allocated any amount to an Intangible Asset.

On March 13, 2015, the Company purchased a newly constructed 232,200 square foot industrial building located in Monroe, OH, which is in the Cincinnati MSA. The building is 100% net-leased to UGN, Inc. through February 2030. The purchase price was \$13,416,000. The Company obtained a 15 year self-amortizing mortgage of \$8,700,000 at a fixed interest rate of 3.77%. Annual rental revenue over the remaining term of the lease is approximately \$1,045,000. In connection with the acquisition, the Company completed its evaluation of the acquired lease. As a result of its evaluation, the Company allocated \$479,000 to an Intangible Asset associated with the lease in-place.

On May 7, 2015, the Company purchased a newly constructed 671,354 square foot industrial building located in Greenwood, IN, which is in the Indianapolis MSA. The building is 100% net-leased to ULTA, Inc. through July 2025. The purchase price was \$37,484,574. The Company obtained a 15 year self-amortizing mortgage of \$24,286,230 at a fixed interest rate of 3.91%. Annual rental revenue over the remaining term of the lease is approximately \$2,643,000. In connection with the acquisition, the Company completed its evaluation of the acquired lease. As a result of its evaluation, the Company has not allocated any amount to an Intangible Asset.

FedEx Ground Package System, Inc.'s ultimate parent, FedEx Corporation (FDX), B/E Aerospace, Inc., ULTA Inc.'s ultimate parent and Ulta Salon, Cosmetics & Fragrance, Inc. are publicly-owned companies and financial information related to these entities is available at the SEC's website, www.sec.gov. Jim Beam Brands Company's ultimate parent, Suntory Beverage & Food Limited is a publicly-owned company and financial information related to this entity is available at the Tokyo Stock Exchange's website, www.jpx.co.jp/english and Bunzl Distribution Midcentral, Inc.'s ultimate parent, Bunzl plc is a publicly-owned company and financial information related to this entity is available at the U.K. government's website, <https://www.gov.uk/government/organisations/companies-house>. The references in this quarterly report to the SEC's website, the Tokyo Stock Exchange's website and the U.K. government's website are not intended to and do not include or incorporate by reference into this quarterly report the information on those websites.

Expansions

During December 2014, a 62,260 square foot expansion of a building leased to NF&M International, Inc. located in Monaca, PA was completed for a cost of approximately \$4,503,000, resulting in a new 10 year lease which extended the current lease expiration date from September 30, 2018 to December 31, 2024. In addition, the expansion resulted in an initial increase in annual rent effective January 1, 2015 from \$381,805, or \$3.39 per square foot, to \$820,000, or \$4.69 per square foot. Furthermore, annual rent will increase in year five of the lease to \$841,600, or \$4.81 per square foot, resulting in an annualized rent over the new ten year period of \$830,800, or \$4.75 per square foot.

Table of Contents

During June 2015, a parking lot expansion for a property leased to FedEx Ground Package System, Inc. located in El Paso, TX was completed for a cost of approximately \$2,472,000 resulting in an increase in annual rent effective July 1, 2015 from \$1,045,610, or \$7.25 per square foot to \$1,345,289, or \$9.33 per square foot.

During June 2015, a 38,428 square foot expansion of a building leased to FedEx Ground Package System, Inc. located in Oklahoma City, OK was substantially completed for a cost of approximately \$3,332,000, resulting in a new 10 year lease which extended the current lease expiration date from March 31, 2022 to July 31, 2025. In addition, the expansion resulted in an increase in annual rent effective August 1, 2015 from \$712,532, or \$5.94 per square foot, to \$1,045,751, or \$6.60 per square foot.

Commitments

The Company has entered into separate agreements to purchase eleven new build-to-suit, industrial buildings that are currently being developed in Florida, Kansas, Kentucky, Louisiana, Michigan, New York, North Carolina, Ohio, Texas and Washington. These eleven properties will total approximately 2,743,000 square feet and are net-leased to investment grade tenants, for terms ranging from ten to fifteen years. The aggregate purchase price for the eleven properties will be approximately \$290,678,000. As of June 30, 2015, the Company has made deposits totaling \$3,850,000 on these acquisitions, which are included in Other Assets in the accompanying Consolidated Balance Sheets as of June 30, 2015. Nine of the eleven buildings, representing approximately 2,542,000 square feet, or 93%, will be leased to subsidiaries of FDX. Subject to satisfactory due diligence, we anticipate closing on four of the acquisitions during the remainder of fiscal 2015, closing on six of the acquisitions during fiscal 2016 and closing on one of the acquisitions during fiscal 2017. The Company may make additional acquisitions and the funds for these acquisitions may come from mortgages, draws on our unsecured line of credit, cash on hand, sale of marketable securities, other bank borrowings, proceeds from the DRIP, private placements or public offerings of additional common or preferred stock or other securities. To the extent that funds or appropriate properties are not available, fewer acquisitions will be made.

In connection with six of the eleven commitments to purchase industrial properties, as discussed above, totaling approximately \$185,530,000 of the \$290,678,000 committed to be purchased containing approximately 1,646,000 square feet of the 2,743,000 square feet committed to be purchased, the Company has entered into commitments to obtain approximately \$126,986,000 in mortgages at fixed rates ranging from 3.55% to 4.08%, with a weighted average interest rate of 3.77%. As of June 30, 2015, the Company has paid commitment and loan processing fees for five of the six mortgage commitments totaling approximately \$1,890,000. A portion of the total commitment and loan processing fees totaling approximately \$1,804,000 will be refunded as each acquisition closes. The closings are expected to take place during the remainder of fiscal 2015 and throughout fiscal 2016.

The Company currently has two expansion projects in progress, consisting of one building expansion, adding additional rental space of 48,116 square feet, and one parking lot expansion. The properties are leased to FedEx Ground Package System, Inc. and are located in Texas and Florida. Expansion costs are expected to be approximately \$4,402,000. As of June 30, 2015, the Company has incurred expansion costs of approximately \$3,096,000 and the

total remaining expansion costs are expected to be incurred during fiscal 2015 and the first quarter of fiscal 2016. Upon completion of the expansions, annual rent for the properties will be increased by approximately \$447,000. These expansions will result in a new ten year lease extension from the date of completion.

On July 14, 2015, the Company entered into a sale agreement to sell its 160,000 square foot building situated on 15.84 acres located in Monroe, NC to its current tenant, Charlotte Pipe and Foundry Company (Charlotte Pipe) for \$9,000,000. Charlotte Pipe is currently leasing the space at this location through July 2017. The sale is expected to close within 60 days from the date the sale agreement was entered into. As of June 30, 2015, the U.S. GAAP net book value was approximately \$3,800,000. Once the sale is completed, the Company expects to recognize a realized gain, net of closing costs, of approximately \$5,000,000. The Company has an amortizing mortgage securing the property of approximately \$624,000, which is set to mature December 1, 2016. The mortgage has an interest rate of 7.11% and will be repaid at closing, at which time the Company expects to incur a prepayment penalty of approximately \$25,000.

Table of Contents

See PART I, Item 1 – Business in the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2014 for a more complete discussion of the economic and industry-wide factors relevant to the Company and the opportunities, challenges, and risks on which the Company is focused.

Significant Accounting Policies and Estimates

The discussion and analysis of the Company’s financial condition and results of operations are based upon the Company’s Consolidated Financial Statements, which have been prepared in accordance with Accounting Principles Generally Accepted in the United States of America (U.S. GAAP). The preparation of these Consolidated Financial Statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of the Company’s Consolidated Financial Statements. Actual results may differ from these estimates under different assumptions or conditions.

On a regular basis, management evaluates our assumptions, judgments and estimates. Management believes there have been no material changes to the items that we disclosed as our significant accounting policies and estimates under Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” in our annual report on Form 10-K for fiscal year ended September 30, 2014.

Changes in Results of Operations

As of June 30, 2015, the Company owned ninety properties with total square footage of approximately 13,624,000 as compared to eighty-one properties with total square footage of approximately 10,764,000, as of June 30, 2014, representing an increase of 27%. As of June 30, 2015, the Company’s weighted average lease expiration term was approximately 7.1 years as compared to 6.8 years as of June 30, 2014. The Company’s occupancy rate was 97.6% as of June 30, 2015 as compared to 94.3% as of June 30, 2014.

Approximately 6% of the Company’s gross leasable area, consisting of six leases totaling 778,702 square feet, were set to expire during fiscal 2015. The Company has renewed all six leases, or 100% of the gross leasable area that was set to expire during fiscal 2015. The Company has incurred or expects to incur tenant improvement costs of approximately \$578,200 and leasing costs of approximately \$438,300 in connection with these six lease renewals. The table below summarizes the lease terms of the six leases which were renewed and includes both the tenant improvement costs and the leasing costs which are presented on a per square foot (PSF) basis averaged over the renewal term.

| | | | | | | | | |
|--------|--------|--------|---------|---------|---------|---------|--------|-------|
| Former | Former | Former | Renewal | Renewal | Renewal | Renewal | Tenant | Leasi |
|--------|--------|--------|---------|---------|---------|---------|--------|-------|

Edgar Filing: MONMOUTH REAL ESTATE INVESTMENT CORP - Form 10-Q

| Property | Tenant | Square Feet | U.S. GAAP Straight-Line Rent PSF | Cash Rent PSF | Lease Expiration | U.S GAAP Straight-Line Rent PSF | Initial Cash Rent PSF | Lease Expiration | Term (years) | Improvement Cost PSF over Renewal Term (1) | Committed Cost PSF over Renewal Term |
|------------------|-----------------------|-------------|----------------------------------|---------------|------------------|---------------------------------|-----------------------|------------------|--------------|--|--------------------------------------|
| Orangeburg, NY | Kellogg Sales Co. | 50,400 | \$7.00 | \$7.00 | 2/28/15 | \$6.50 | \$6.50 | 2/28/18 | 3.0 | \$0.23 | \$0.26 |
| Hanahan, SC | SAIC (2) | 302,400 | 4.25 | 4.54 | 4/29/15 | 4.79 | 4.65 | 4/30/19 | 4.3 | 0.15 | 0.28 |
| Montgomery, IL | Home Depot Pittsburgh | 171,200 | 5.11 | 5.27 | 6/30/15 | 5.70 | 5.48 | 6/30/20 | 5.0 | -0- | -0- |
| O'Fallon, MO | Glass Works | 102,135 | 4.18 | 4.18 | 6/30/15 | 4.18 | 4.18 | 6/30/18 | 3.0 | 0.99 | -0- |
| Kansas City, MO | Kellogg Sales Co. | 65,067 | 5.38 | 5.38 | 7/31/15 | 5.00 | 5.00 | 7/31/18 | 3.0 | 0.22 | 0.20 |
| Ft. Myers, FL | FedEx Ground | 87,500 | 4.76 | 4.76 | 10/31/14 | 4.95 | 4.95 | 10/31/16 | 2.0 | -0- | -0- |
| | Total | 778,702 | | | | | | | | | |
| Weighted Average | | | \$4.76 | \$4.91 | | \$5.06 | \$4.95 | | 3.8 | \$0.19 | \$0.15 |

(1) Amount calculated based on the total cost divided by the square feet, divided by the renewal term.

Table of Contents

In December 2014, the Company entered into a lease termination agreement with its tenant, Norton McNaughton of Squire, Inc. (Norton), whereby the Company received a lease termination fee of \$238,625, terminating the lease effective January 31, 2015. Prior to the lease termination, Norton was leasing the Company's 302,400 square foot building located in its Hanahan, SC location through April 29, 2015 at an annualized rent of approximately (2) \$1,389,000, or \$4.54 per square foot. Prior to the lease termination, Norton sub-leased the Company's space to Science Applications International Corporation (SAIC). In conjunction with the lease termination, the Company simultaneously entered into a lease agreement for four years and three months with SAIC from February 1, 2015 through April 30, 2019 at an initial annualized rent of approximately \$1,406,000, or \$4.65 per square foot, with 2% increases each year.

The six lease renewals resulted in a weighted average term of 3.8 years and a U.S. GAAP straight-line weighted average lease rate of \$5.06 per square foot. The renewed weighted average initial cash rent per square foot is \$4.95. This compares to the former weighted average rent of \$4.76 per square foot on a U.S. GAAP straight-line basis and the former weighted average cash rent of \$4.91 per square foot, representing an increase in the weighted average lease rate of 6% on a U.S. GAAP straight-line basis and an increase in the weighted average lease rate of 1% on a cash basis.

During January 2015, the Company entered into a thirty-seven month lease agreement commencing February 1, 2015 with Altec Industries, Inc. to lease 126,880 square feet of the Company's 382,880 square foot building located in St. Joseph, MO. through February 28, 2018. This increased the occupancy of this building from 67% to 100%. Annual rent commenced March 1, 2015 for \$348,920, or \$2.75 per square foot. The remaining 256,000 square feet is currently being leased to Woodstream Corporation through September 30, 2017.

Rental Revenue increased \$3,872,393, or 29%, for the three months ended June 30, 2015 as compared to the three months ended June 30, 2014. Rental Revenue increased \$7,852,381, or 19%, for the nine months ended June 30, 2015 as compared to the nine months ended June 30, 2014. The increase was primarily due to the acquisition of one property purchased during the second half of fiscal 2014 and the eight properties purchased during the first nine months of fiscal 2015.

Reimbursement Revenue increased \$1,060,019, or 45%, for the three months ended June 30, 2015 compared to the three months ended June 30, 2014. Reimbursement Revenue increased \$1,609,697, or 24%, for the nine months ended June 30, 2015 compared to the nine months ended June 30, 2014. Real Estate Tax Expense increased \$631,781, or 32%, for the three months ended June 30, 2015 as compared to the three months ended June 30, 2014. Real Estate Tax Expense increased \$943,118, or 17%, for the nine months ended June 30, 2015 as compared to the nine months ended June 30, 2014. The increase in Reimbursement Revenue and Real Estate Taxes for the three and nine months ended June 30, 2015 was primarily due to our newly acquired properties. Our single-tenant properties are subject to net-leases which require the tenants to absorb the cost of Real Estate Taxes as well as insurance and the majority of repairs and maintenance. As such, the Company is reimbursed by the tenants for these Real Estate Taxes.

Lease Termination Income amounted to \$0- and \$1,182,890 for the three months ended June 30, 2015 and 2014, respectively. Lease Termination Income amounts to \$238,625 and \$1,182,890 for the nine months ended June 30,

2015 and 2014, respectively. The income for the nine months ended June 30, 2015 represents the payment from a former tenant at our Hanahan, SC property terminating its lease obligations before the end of the contractual term of the lease by agreement with the Company in accordance with the terms of the Lease. In conjunction with the lease termination, the Company simultaneously entered into a lease agreement from February 2015 through April 30, 2019 with the former tenant's sub-tenant. The income for the three and nine months ended June 30, 2014 represents the payment from a former tenant at our Roanoke, VA property. In conjunction with this lease termination, the Company entered into lease agreement with another tenant for 10.5 years at this location.

Operating Expenses increased \$217,757, or 25%, for the three months ended June 30, 2015 as compared to the three months ended June 30, 2014. Operating Expenses increased \$370,639, or 14%, for the nine months ended June 30, 2015 as compared to the nine months ended June 30, 2014. The increase in the three and nine months ended June 30, 2015 was primarily due to the newly acquired properties, the increase in repair and maintenance costs of approximately \$220,000 and an annual increase in property insurance of approximately \$140,000.

Table of Contents

General and Administrative Expense increased \$101,211, or 7%, for the three months ended June 30, 2015 as compared to the three months ended June 30, 2014. General and Administrative Expense increased \$460,802, or 12%, for the nine months ended June 30, 2015 as compared to the nine months ended June 30, 2014. The increase in General and Administrative Expense for the three and nine months ended June 30, 2015 was primarily due to an increase in salary and employee benefit expenses resulting from a combination of an increase in the number of employees and an increase in employees' wage rates.

Acquisition Costs amounted to \$440,705 and \$0 for the three months ended June 30, 2015 and June 30, 2014, respectively. Acquisition Costs increased \$840,525, or 182%, for the nine months ended June 30, 2015 as compared to the nine months ended June 30, 2014. The increase in the three months ended June 30, 2015 was due to the acquisition of one property in the third quarter of fiscal 2015 compared to no acquisitions in the third quarter of fiscal 2014. The increase in the nine months ended June 30, 2015 was primarily due to the acquisition of eight properties purchased during the first nine months of fiscal 2015 compared to five acquisitions in the first nine months of fiscal 2014.

The Company recognized a Gain on Sale of Securities Transactions of \$-0- and \$907,171 for the three months ended June 30, 2015 and 2014, respectively. The Company recognized a Gain on Sale of Securities Transactions of \$377,087 and \$1,483,245 for the nine months ended June 30, 2015 and 2014, respectively.

Interest Expense increased \$635,577, or 15% for the three months ended June 30, 2015 as compared to the three months ended June 30, 2014. Interest Expense increased \$1,198,562, or 10%, for the nine months ended June 30, 2015 as compared to the nine months ended June 30, 2014. This increase is primarily due to an increase in the average balance of mortgages and loans payable due to the newly acquired properties in 2014 and 2015 which was offset by a decrease in the weighted average interest rate. The weighted average interest rate of total debt has decreased from 5.1% at June 30, 2014 to 4.6% at June 30, 2015.

Changes in Financial Condition

The Company generated Net Cash from Operating Activities of \$28,281,987 and \$28,866,188 for the nine months ended June 30, 2015 and 2014, respectively.

Net Real Estate Investments increased \$145,034,831 from September 30, 2014 to June 30, 2015. This increase was due mainly to the purchase of eight industrial properties located in Lindale (Tyler), TX; Sauget (St. Louis, MO), IL; Rockford, IL; Kansas City, MO; Frankfort, KY; Jacksonville, FL; Monroe (Cincinnati), OH and Greenwood (Indianapolis), IN totaling \$149,884,653 of which \$148,897,528 was allocated to Net Real Estate Investments. In addition, the increase was partially due to costs incurred in connection with expansions of our existing properties of approximately \$8,607,000. The increase was partially offset by Depreciation Expense for the nine month period of \$14,369,261.

Securities Available for Sale decreased \$10,456,803 from September 30, 2014 to June 30, 2015. The decrease was due to the sale of securities with a cost basis of \$9,207,636 and a net increase in Unrealized Holding Losses of \$2,651,465, offset with the purchase of securities totaling \$1,402,298.

Mortgage Notes Payable increased \$77,270,248 from September 30, 2014 to June 30, 2015. The increase was due mainly to the origination of seven mortgages totaling approximately \$97,473,000 obtained in connection with the acquisitions of seven of the eight industrial properties purchased in the first three quarters of fiscal 2015. The weighted average interest rate on these seven mortgages is 4.28%. Details on the increase in Mortgage Notes Payable are as follows:

26

Table of Contents

| <u>Property</u> | <u>Mortgage amount</u> | <u>Maturity Interest</u> | |
|------------------------------|------------------------|--------------------------|-------------|
| | | <u>Date</u> | <u>Rate</u> |
| Lindale (Tyler), TX | \$7,000,000 | 11/1/29 | 4.57% |
| Sauget (St. Louis, MO), IL | 10,660,000 | 11/1/29 | 4.40% |
| Kansas City, MO | 7,226,828 | 12/1/21 | 5.18% |
| Frankfort, KY | 19,600,000 | 12/15/24 | 4.84% |
| Jacksonville, FL | 20,000,000 | 12/1/29 | 3.93% |
| Monroe (Cincinnati), OH | 8,700,000 | 4/1/30 | 3.77% |
| Greenwood (Indianapolis), IN | 24,286,230 | 6/1/30 | 3.91% |

The increase in Mortgage Notes Payable was partially offset by scheduled payments of principal of approximately \$17,991,000 and a \$2,211,518 full pre-payment of a mortgage on December 31, 2014 that was originally set to mature March 1, 2015. This mortgage was secured by the Company's 68,385 square foot facility located in Tampa, FL.

The Company is scheduled to repay a total of approximately \$35,020,000 in mortgage principal payments over the next twelve months. The Company intends to make these principal payments from the funds raised from Cash from Operations, the DRIP and draws from the unsecured line of credit facility.

Liquidity and Capital Resources

Net Cash Provided by Operating Activities was \$28,281,987 and \$28,866,188 for the nine months ended June 30, 2015 and 2014, respectively. Dividends paid on common stock for the nine months ended June 30, 2015 and 2014 were \$26,316,628 and \$21,028,154, respectively (of which \$6,263,881 and \$5,545,995, respectively, was reinvested). The Company pays dividends from cash generated from operations.

As of June 30, 2015, the Company owned Securities Available for Sale of \$48,854,600 of which \$10,120,000 is pledged as collateral for two term loans totaling \$5,101,892. The Company generally limits its marketable securities investments to no more than approximately 10% of its undepreciated assets. In instances when the Company can achieve an adequate yield spread, the Company may invest in marketable REIT securities on margin. As of June 30, 2015 there were no draws against the margin. The marketable REIT securities portfolio provides the Company with liquidity as well as dividend income and serves as a proxy for real estate when more favorable risk adjusted returns are not available. As of June 30, 2015, the Company had a net Unrealized Holding Losses on its portfolio of \$2,530,109. The dividends received from the Company's investments, which yielded 7% for the nine months ended June 30, 2015, continue to meet our expectations.

As of June 30, 2015, the Company owned ninety properties, of which sixty-four carried mortgage loans with outstanding principal balances totaling \$365,066,254. The twenty-six unencumbered properties could be refinanced to raise additional funds, although covenants in the Company's unsecured line of credit facility limit the amount of unencumbered properties which can be mortgaged. As of June 30, 2015, the Company has fully drawn down on its \$60,000,000 unsecured line of credit facility. The unsecured line has an additional \$20,000,000 accordion feature which brings the total potential availability up to \$80,000,000. The unsecured line of credit facility matures June 30, 2016, with a one year extension at the Company's option.

The Company's total net debt to total market capitalization was 37% and the Company's total net debt plus preferred equity to total market capitalization was 47% as of June 30, 2015.

During the nine months ended June 30, 2015, the Company paid \$3,059,178 in Preferred Dividends on its outstanding Series A preferred shares. On July 1, 2015, the Company declared a dividend of \$0.4766 per share on the Company's Series A preferred shares payable September 15, 2015 to Series A preferred shareholders of record as of the close of business on August 17, 2015.

Table of Contents

During the nine months ended June 30, 2015, the Company paid \$3,396,096 in Preferred Dividends on its outstanding Series B preferred shares. On July 1, 2015, the Company declared a dividend of \$0.4922 per share on the Company's Series B preferred shares payable September 15, 2015 to Series B preferred shareholders of record as of the close of business on August 17, 2015.

The Company raised \$33,665,885 (including dividend reinvestments of \$6,263,881) from the issuance of 3,344,481 shares of Common Stock under the DRIP during the nine months ended June 30, 2015. Of this amount, UMH Properties, Inc. (UMH), a related REIT, made total purchases of 88,452 common shares for a total cost of \$872,569, or a weighted average cost of \$9.86 per share. During the nine months ended June 30, 2015, the Company paid \$26,316,628 in total cash dividends, or \$0.45 per share to common shareholders, of which \$6,263,881 was reinvested in the DRIP. On July 1, 2015, the Company declared a dividend of \$0.15 per common share to be paid on September 15, 2015 to common shareholders of record as of the close of business on August 17, 2015.

The Company uses a variety of sources to fund its cash needs in addition to cash generated through operations. The Company may sell marketable securities from its investment portfolio, borrow on its unsecured line of credit facility or securities margin loans, refinance debt, or raise capital through the DRIP or capital markets.

The Company has been raising capital through its DRIP, mortgages, draws on its unsecured line of credit, sale of marketable securities and funds generated from its investments in net-leased industrial properties. The Company may raise capital through registered direct placements and public offerings of common and preferred stock. The Company believes that funds generated from operations and from the DRIP, together with the ability to finance and refinance its properties, will provide sufficient funds to adequately meet its obligations over the next year.

The Company has a concentration of FDX and FDX subsidiary-leased properties consisting of forty-six separate stand-alone leases covering approximately 5,611,000 square feet as of June 30, 2015 and forty-two separate stand-alone leases covering approximately 4,500,000 square feet as of June 30, 2014. The percentage of FDX leased square footage to the total of the Company's rental space was 41% (7% to FDX and 34% to FDX subsidiaries) as of June 30, 2015 and 42% (9% to FDX and 33% to FDX subsidiaries) as of June 30, 2014. The only tenants that leased 5% or more of the Company's total square footage as of June 30, 2015 were FDX and its subsidiaries and ULTA, Inc., which leased approximately 671,000 square feet comprised of 5% of the Company's total rental space. The only tenants that leased 5% or more of the Company's total square footage as of June 30, 2014 were FDX and its subsidiaries, Milwaukee Electric Tool Corporation, which leased approximately 615,000 square feet, comprising of 6% of the Company's rental space and Ralcorp Holdings, Inc., which leased approximately 558,000 square feet, comprised of 5% of the Company's rental space.

Annualized Rental and Reimbursement Revenue from FDX and its subsidiaries is estimated to be approximately 56% (9% to FDX and 47% to FDX subsidiaries) of total Rental and Reimbursement Revenue for fiscal 2015 and was 54% (10% to FDX and 44% to FDX subsidiaries) for fiscal 2014. No other tenant accounted for 5% or more of the Company's total Rental and Reimbursement revenue for the three and nine months ended June 30, 2015 and 2014.

Table of Contents

The Company has entered into separate agreements to purchase eleven new build-to-suit, industrial buildings that are currently being developed in Florida, Kansas, Kentucky, Louisiana, Michigan, New York, North Carolina, Ohio, Texas and Washington. These eleven properties will total approximately 2,743,000 square feet and are net-leased to investment grade tenants, for terms ranging from ten to fifteen years. The aggregate purchase price for the eleven properties will be approximately \$290,678,000. As of June 30, 2015, the Company has made deposits totaling \$3,850,000 on these acquisitions, which are included in Other Assets in the accompanying Consolidated Balance Sheets as of June 30, 2015. Nine of the eleven buildings, representing approximately 2,542,000 square feet, or 93%, will be leased to subsidiaries of FDX. Subject to satisfactory due diligence, we anticipate closing on four of the acquisitions during the remainder of fiscal 2015, closing on six of the acquisitions during fiscal 2016 and closing on one of the acquisitions during fiscal 2017. The Company may make additional acquisitions and the funds for these acquisitions may come from mortgages, draws on our unsecured line of credit, cash on hand, sale of marketable securities, other bank borrowings, proceeds from the DRIP, private placements or public offerings of additional common or preferred stock or other securities. To the extent that funds or appropriate properties are not available, fewer acquisitions will be made.

In connection with six of the eleven commitments to purchase industrial properties, as discussed above, totaling approximately \$185,530,000 of the \$290,678,000 committed to be purchased containing approximately 1,646,000 square feet of the 2,743,000 square feet committed to be purchased, the Company has entered into commitments to obtain approximately \$126,986,000 in mortgages at fixed rates ranging from 3.55% to 4.08%, with a weighted average interest rate of 3.77%. As of June 30, 2015, the Company has paid commitment and loan processing fees for five of the six mortgage commitments totaling approximately \$1,890,000. A portion of the total commitment and loan processing fees totaling approximately \$1,804,000 will be refunded as each acquisition closes. The closings are expected to take place during the remainder of fiscal 2015 and throughout fiscal 2016.

The Company currently has two expansion projects in progress, consisting of one building expansion, adding additional rental space of 48,116 square feet, and one parking lot expansion. The properties are leased to FedEx Ground Package System, Inc. and are located in Texas and Florida. Expansion costs are expected to be approximately \$4,402,000. As of June 30, 2015, the Company has incurred expansion costs of approximately \$3,096,000 and the total remaining expansion costs are expected to be incurred during fiscal 2015 and the first quarter of fiscal 2016. Upon completion of the expansions, annual rent for the properties will be increased by approximately \$447,000. These expansions will result in a new ten year lease extension from the date of completion.

The Company intends to acquire additional net-leased industrial properties on long-term leases, primarily to investment grade tenants, and when needed, expand its current properties. The Company has historically and intends to continue to finance purchases of real estate and expansions primarily through mortgages, draws on our unsecured line of credit, cash on hand, sale of marketable securities, other bank borrowings, proceeds from the DRIP, private placements and public offerings of additional common or preferred stock or other securities. To the extent that funds or appropriate properties are not available, fewer acquisitions will be made.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

Table of Contents**Funds From Operations and Core Funds From Operations**

We assess and measure our overall operating results based upon an industry performance measure referred to as Funds From Operations (FFO), which management believes is a useful indicator of our operating performance. FFO is used by industry analysts and investors as a supplemental operating performance measure of a REIT. FFO, as defined by The National Association of Real Estate Investment Trusts (NAREIT), represents net income (loss) attributable to common shareholders, as defined by accounting principles generally accepted in the United States of America (U.S. GAAP), excluding extraordinary items, as defined under U.S. GAAP, gains or losses from sales of previously depreciated real estate assets, impairment charges related to depreciable real estate assets, plus certain non-cash items such as real estate asset depreciation and amortization. NAREIT created FFO as a non-U.S. GAAP supplemental measure of REIT operating performance. We define Core Funds From Operations (Core FFO) as FFO, excluding acquisition costs. We define Adjusted Funds from Operations (AFFO) as Core FFO, excluding stock compensation expense, depreciation of corporate office tenant improvements, amortization of financing costs, lease termination income, net gain or loss on sale of securities transactions, U.S. GAAP straight-line rent adjustments and less recurring capital expenditures. We define recurring capital expenditures as all capital expenditures, excluding capital expenditures related to expansions at our current locations or capital expenditures that are incurred in conjunction with obtaining a new lease or a lease renewal. We believe that, as widely recognized measures of performance used by other REIT's, FFO, Core FFO and AFFO may be considered by investors as supplemental measures to compare our operating performance to those of other REITs. FFO, Core FFO and AFFO exclude historical cost depreciation as an expense and may facilitate the comparison of REITs which have a different cost basis. The items excluded from FFO, Core FFO and AFFO are significant components in understanding the Company's financial performance.

FFO, Core FFO and AFFO (i) do not represent Cash Flow from Operations as defined by U.S. GAAP; (ii) should not be considered as an alternative to Net Income as a measure of operating performance or to Cash Flows from Operating, Investing and Financing Activities; and (iii) are not an alternative to cash flow as a measure of liquidity. FFO, Core FFO and AFFO, as calculated by the Company, may not be comparable to similarly titled measures reported by other REITs.

The following is a reconciliation of the Company's U.S. GAAP Net Income to the Company's FFO, Core FFO and AFFO for the three and nine months ended June 30, 2015 and 2014:

| | Three Months Ended | | Nine Months Ended | |
|--|---------------------------|--------------------|--------------------------|---------------------|
| | 6/30/2015 | 6/30/2014 | 6/30/2015 | 6/30/2014 |
| Net Income Attributable to Common Shareholders | \$3,024,100 | \$3,441,790 | \$8,962,916 | \$8,185,714 |
| Plus: Depreciation Expense | 5,061,146 | 3,991,113 | 14,297,851 | 11,779,471 |
| Plus: Amortization of Intangible Assets | 330,023 | 338,396 | 1,040,631 | 1,009,540 |
| Plus: Amortization of Capitalized Lease Costs (1) | 187,937 | 123,592 | 491,411 | 368,433 |
| FFO Attributable to Common Shareholders | 8,603,206 | 7,894,891 | 24,792,809 | 21,343,158 |
| Plus: Acquisition Costs | 440,705 | -0- | 1,303,389 | 462,864 |
| Core FFO Attributable to Common Shareholders | \$9,043,911 | \$7,894,891 | \$26,096,198 | \$21,806,022 |
| Plus: Stock Compensation Expense | 96,673 | 85,137 | 283,578 | 256,770 |
| Plus: Depreciation of Corporate Office Tenant Improvements | 37,899 | -0- | 71,409 | -0- |

Edgar Filing: MONMOUTH REAL ESTATE INVESTMENT CORP - Form 10-Q

| | | | | |
|--|--------------------|--------------------|---------------------|---------------------|
| Plus: Amortization of Financing Costs | 212,419 | 197,617 | 608,251 | 535,297 |
| Less: Lease Termination Income | -0- | (1,182,890) | (238,625) | (1,182,890) |
| Less: Gain on Sale of Securities Transactions, net | -0- | (907,171) | (377,087) | (1,483,245) |
| Less: U.S. GAAP Straight-line Rent Adjustment | (300,506) | 65,364 | (1,164,131) | (309,332) |
| Less: Recurring Capital Expenditures | (206,071) | (218,595) | (461,868) | (510,965) |
| AFFO Attributable to Common Shareholders | \$8,884,325 | \$5,934,353 | \$24,817,725 | \$19,111,657 |

(1) In previous filings, the Company has presented its calculation of FFO and Core FFO without excluding the effects of the amortization of Capitalized Lease Costs. FFO and Core FFO for the three and nine months ended June 30, 2015 and 2014 has been presented above reflecting the effects of excluding the amortization of Capitalized Lease Costs.

Table of Contents

The following are the Cash Flows provided (used) by Operating, Investing and Financing Activities for the nine months ended June 30, 2015 and 2014:

Nine Months Ended
6/30/2015 6/30/2014

| | | |
|----------------------|---------------|---------------|
| Operating Activities | \$28,281,987 | \$28,866,188 |
| Investing Activities | (151,749,792) | (101,146,263) |
| Financing Activities | 117,044,923 | 102,590,760 |

Forward-Looking Statements

This quarterly report on Form 10-Q includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements provide the Company’s current expectations or forecasts of future events. Forward-looking statements include statements about the Company’s expectations, beliefs, intentions, plans, objectives, goals, strategies, future events, performance and underlying assumptions and other statements that are not historical facts. Forward-looking statements can be identified by their use of forward-looking words, such as “may,” “will,” “anticipate,” “expect,” “believe,” “intend,” “plan,” “should,” “seek” or comparable terms, or the negative use of words, but the absence of these words does not necessarily mean that a statement is not forward-looking.

The forward-looking statements are based on the Company’s beliefs, assumptions and expectations of its future performance, taking into account all information currently available to the Company. Forward-looking statements are not predictions of future events. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to the Company. Some of these factors are described below and under the headings “Business”, “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2014. These and other risks, uncertainties and factors could cause the Company’s actual results to differ materially from those included in any forward-looking statements the Company makes. Any forward-looking statement speaks only as of the date on which it is made. New risks and uncertainties arise over time, and it is not possible for the Company to predict those events or how they may affect the Company. Except as required by law, the Company is not obligated to, and does not intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Important factors that could cause actual results to differ materially from the Company’s expectations include, among others:

- the ability of the Company’s tenants to make payments under their respective leases, the Company’s reliance on certain major tenants and the Company’s ability to re-lease properties that are currently vacant or that become vacant;
- the Company’s ability to obtain suitable tenants for its properties;
- changes in real estate market conditions, economic conditions in the industrial sector and the market in which the Company’s properties are located and general economic conditions;
- the inherent risks associated with owning real estate, including local real estate market conditions, governing laws and regulations and illiquidity of real estate investments;
- the Company’s ability to acquire, finance and sell properties on attractive terms;
- the Company’s ability to repay debt financing obligations;

- the Company's ability to refinance amounts outstanding under its credit facilities at maturity on terms favorable to the Company;
- the loss of any member of the Company's management team;
- the Company's ability to comply with debt covenants;
- the Company's ability to integrate acquired properties and operations into existing operations;
- continued availability of proceeds from issuances of the Company's debt or equity securities;
- the availability of other debt and equity financing alternatives;
- market conditions affecting the Company's debt and equity securities;
- changes in interest rates under the Company's current credit facility and under any additional variable rate debt arrangements that the Company may enter into in the future;
- the Company's ability to successfully implement the Company's selective acquisition strategy;
-

Table of Contents

- the Company's ability to maintain internal controls and procedures to ensure all transactions are accounted for properly, all relevant disclosures and filings are timely made in accordance with all rules and regulations, and any potential fraud or embezzlement is thwarted or detected;
- changes in federal or state tax rules or regulations that could have adverse tax consequences;
- declines in the market value of the Company's investment securities; and
- the Company's ability to qualify as a REIT for federal income tax purposes.

You should not place undue reliance on these forward-looking statements, as events described or implied in such statements may not occur. The Company undertakes no obligation to update or revise any forward-looking statements as a result of new information, future events or otherwise.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no material changes to information required regarding quantitative and qualitative disclosures about market risk from the end of the preceding year to June 30, 2015 (the date of this Quarterly Report on Form 10-Q).

ITEM 4. Controls and Procedures.

The Company's President and Chief Executive Officer (the Company's principal executive officer) and the Company's Chief Financial Officer (the Company's principal financial and accounting officer) with the assistance of other members of the Company's management, evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, the Company's President and Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective as of the end of such period.

Changes In Internal Control Over Financial Reporting

There has not been any change in the Company's internal control over financial reporting during the quarter ended June 30, 2015 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

PART II:

OTHER INFORMATION

Item 1. Legal Proceedings. – None

Risk Factors.

Item 1A. There have been no material changes to information required regarding risk factors from the end of the preceding year to the date of this Quarterly Report on Form 10-Q. In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A – “Risk Factors” in the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2014, which could materially affect the Company’s business, financial condition or future results. The risks described in the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2014 are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that the Company currently deems to be immaterial also may materially adversely affect the Company’s business, financial condition and/or operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds. – None

Item 3. Defaults Upon Senior Securities. – None

Item 4. Mine Safety Disclosures. – None

Other Information.

Item 5. (a) Information Required to be Disclosed in a Report on Form 8-K, but not Reported – None

(b) Material Changes to the Procedures by which Security Holders may Recommend Nominees to Board of Directors – None

Item 6. Exhibits

- 4.1** Specimen certificate representing the Common Stock of Monmouth Real Estate Investment Corporation. Certification of Michael P. Landy, President and Chief Executive Officer of the Company, pursuant to Rule 31.1 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002, (Filed herewith).
- 31.1** Certification of Kevin S. Miller, Chief Financial Officer of the Company, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002, (Filed herewith).
- 31.2** Certification of Kevin S. Miller, Chief Financial Officer of the Company, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002, (Filed herewith).

Table of Contents

32 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by Michael P. Landy, President and Chief Executive Officer, and Kevin S. Miller, Chief Financial Officer (Furnished herewith).

The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015 formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income (Loss), (iv) the Consolidated Statements of Cash Flows and (v) the Notes to Consolidated Financial Statements.

101

As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

34

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MONMOUTH REAL ESTATE

INVESTMENT CORPORATION

Date: August 4, 2015 By: /s/ Michael P. Landy
Michael P. Landy, President and Chief Executive Officer,
its principal executive officer

Date: August 4, 2015 By: /s/ Kevin S. Miller
Kevin S. Miller, Chief Financial Officer, its principal
financial officer and principal accounting officer