

MONMOUTH REAL ESTATE INVESTMENT CORP
Form 10-Q
February 07, 2018

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 December 31, 2017

() 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)

Maryland

22-1897375

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(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) identification number)

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

Registrant's telephone number, including area code (732) 577-9996

(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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth 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
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. Yes No

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

Number of shares outstanding of the issuer's common stock, \$0.01 par value per share, as of February 1, 2018:
77,692,113

MONMOUTH REAL ESTATE INVESTMENT CORPORATION
AND SUBSIDIARIES
FOR THE QUARTER ENDED DECEMBER 31, 2017

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ITEM 1. Financial Statements (Unaudited)

MONMOUTH REAL ESTATE INVESTMENT CORPORATION AND SUBSIDIARIES**CONSOLIDATED BALANCE SHEETS****AS OF DECEMBER 31, 2017 AND SEPTEMBER 30, 2017**

	December 31, 2017	September 30, 2017
	(Unaudited)	
<u>ASSETS</u>		
Real Estate Investments:		
Land	\$ 193,562,859	\$ 187,224,819
Buildings and Improvements	1,290,476,339	1,244,691,715
Total Real Estate Investments	1,484,039,198	1,431,916,534
Accumulated Depreciation	(179,492,182)	(171,060,478)
Real Estate Investments	1,304,547,016	1,260,856,056
Real Estate Held for Sale	9,481,407	14,606,028
Cash and Cash Equivalents	10,755,901	10,226,046
Securities Available for Sale at Fair Value	130,431,475	123,764,770
Tenant and Other Receivables	5,385,744	1,753,054
Deferred Rent Receivable	8,391,569	8,049,275
Prepaid Expenses	9,125,236	5,434,874
Intangible Assets, net of Accumulated Amortization of \$13,554,423 and \$13,404,318, respectively	10,811,664	10,010,165
Capitalized Lease Costs, net of Accumulated Amortization of \$3,114,088 and \$3,393,187, respectively	4,161,907	4,180,907
Financing Costs, net of Accumulated Amortization of \$713,450 and \$619,555, respectively	781,813	875,709
Other Assets	5,251,185	3,280,871
TOTAL ASSETS	\$ 1,499,124,917	\$ 1,443,037,755

See Accompanying Notes to the Consolidated Financial Statements

Table of Contents**MONMOUTH REAL ESTATE INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS – CONTINUED****AS OF DECEMBER 31, 2017 AND SEPTEMBER 30, 2017**

	December 31, 2017	September 30, 2017
	(Unaudited)	
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Liabilities:		
Fixed Rate Mortgage Notes Payable, net of Unamortized Debt Issuance Costs	\$612,651,435	\$591,364,371
Loans Payable	110,000,000	120,091,417
Accounts Payable and Accrued Expenses	3,587,862	4,450,753
Other Liabilities	18,801,819	14,265,518
Total Liabilities	745,041,116	730,172,059
COMMITMENTS AND CONTINGENCIES		
Shareholders' Equity:		
6.125% Series C Cumulative Redeemable Preferred Stock, \$0.01 Par Value Per Share: 12,400,000 Shares Authorized as of December 31, 2017 and September 30, 2017; 10,879,379 and 9,839,445 Shares Issued and Outstanding as of December 31, 2017 and September 30, 2017, respectively	271,984,475	245,986,125
Common Stock, \$0.01 Par Value Per Share: 192,039,750 Shares Authorized as of December 31, 2017 and September 30, 2017; 77,209,110 and 75,630,521 Shares Issued and Outstanding as of December 31, 2017 and September 30, 2017, respectively	772,091	756,305
Excess Stock, \$0.01 Par Value Per Share: 200,000,000 Shares Authorized as of December 31, 2017 and September 30, 2017; No Shares Issued or Outstanding as of December 31, 2017 and September 30, 2017	-0-	-0-
Additional Paid-In Capital	485,469,807	459,552,701
Accumulated Other Comprehensive Income (Loss)	(4,142,572)	6,570,565
Undistributed Income	-0-	-0-
Total Shareholders' Equity	754,083,801	712,865,696
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	\$1,499,124,917	\$1,443,037,755

See Accompanying Notes to the Consolidated Financial Statements

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	Three Months Ended	
	12/31/2017	12/31/2016
INCOME:		
Rental Revenue	\$27,692,482	\$23,280,856
Reimbursement Revenue	5,049,340	3,900,755
Lease Termination Income	210,261	-0-
TOTAL INCOME	32,952,083	27,181,611
EXPENSES:		
Real Estate Taxes	3,862,663	2,906,981
Operating Expenses	1,436,241	1,294,468
General & Administrative Expenses	1,947,032	1,442,463
Acquisition Costs	-0-	178,526
Depreciation	8,483,984	6,992,495
Amortization of Capitalized Lease Costs and Intangible Assets	538,071	447,797
TOTAL EXPENSES	16,267,991	13,262,730
OTHER INCOME (EXPENSE):		
Dividend and Interest Income	2,864,217	1,292,151
Gain on Sale of Securities Transactions	100,153	806,108
Interest Expense, including Amortization of Financing Costs	(7,405,947)	(6,163,219)
TOTAL OTHER INCOME (EXPENSE)	(4,441,577)	(4,064,960)
INCOME FROM CONTINUING OPERATIONS	12,242,515	9,853,921
Gain on Sale of Real Estate Investments	5,387,886	-0-
NET INCOME	17,630,401	9,853,921
Less: Preferred Dividends	4,316,946	3,697,760
NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$13,313,455	\$6,156,161

See Accompanying Notes to Consolidated Financial Statements

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MONMOUTH REAL ESTATE INVESTMENT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
FOR THE THREE MONTHS ENDED DECEMBER 31, 2017 AND 2016 - CONTINUED

	Three Months Ended	
	12/31/2017	12/31/2016
BASIC INCOME – PER SHARE		
Net Income	\$0.23	\$0.14
Less: Preferred Dividends	(0.06)	(0.05)
Net Income Attributable to Common Shareholders - Basic	\$0.17	\$0.09
DILUTED INCOME – PER SHARE		
Net Income	\$0.23	\$0.14
Less: Preferred Dividends	(0.06)	(0.05)
Net Income Attributable to Common Shareholders - Diluted	\$0.17	\$0.09
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING		
Basic	76,375,400	69,686,153
Diluted	76,586,782	69,829,793

See Accompanying Notes to Consolidated Financial Statements

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MONMOUTH REAL ESTATE INVESTMENT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

FOR THE THREE MONTHS ENDED DECEMBER 31, 2017 AND 2016

	Three Months Ended	
	12/31/2017	12/31/2016
Net Income	\$17,630,401	\$9,853,921
Other Comprehensive Income:		
Unrealized Holding Gains (Losses) Arising During the Period	(10,612,984)	(1,941,041)
Reclassification Adjustment for Net Gains Realized in Income	(100,153)	(806,108)
TOTAL COMPREHENSIVE INCOME	6,917,264	7,106,772
Less: Preferred Dividends	4,316,946	3,697,760
COMPREHENSIVE INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$2,600,318	\$3,409,012

See Accompanying Notes to Consolidated Financial Statements

Table of Contents**MONMOUTH REAL ESTATE INVESTMENT CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)****FOR THE THREE MONTHS ENDED DECEMBER 31, 2017 AND 2016**

	Three Months Ended	
	12/31/2017	12/31/2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 17,630,401	\$ 9,853,921
Noncash Items Included in Net Income:		
Depreciation & Amortization	9,315,949	7,721,205
Deferred Straight Line Rent	(396,028)	(343,239)
Stock Compensation Expense	130,763	100,155
Gain on Sale of Securities Transactions	(100,153)	(806,108)
(Gain) / Loss on Sale of Real Estate Investments	(5,387,886)	95,336
Changes In:		
Tenant & Other Receivables	(3,607,013)	(255,461)
Prepaid Expenses	(3,690,362)	(2,645,032)
Other Assets & Capitalized Lease Costs	(89,641)	(428,282)
Accounts Payable, Accrued Expenses & Other Liabilities	3,284,409	860,211
NET CASH PROVIDED BY OPERATING ACTIVITIES	17,090,439	14,152,706
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Real Estate & Intangible Assets	(52,500,165)	(56,101,538)
Capital Improvements	(1,782,422)	(696,941)
Proceeds on Sales of Real Estate	10,499,704	4,125,819
Return of Deposits on Real Estate	450,000	1,000,000
Deposits Paid on Acquisitions of Real Estate	(1,350,000)	(820,000)
Proceeds from Sale of Securities Available for Sale	2,435,168	3,738,938
Purchase of Securities Available for Sale	(19,714,857)	(6,396,581)
NET CASH USED IN INVESTING ACTIVITIES	(61,962,572)	(55,150,303)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Repayments on Loans Payable	(10,091,417)	(4,790,684)
Proceeds from Fixed Rate Mortgage Notes Payable	33,800,000	38,000,000
Principal Payments on Fixed Rate Mortgage Notes Payable	(12,351,030)	(9,456,016)
Financing Costs Paid on Debt	(361,905)	(636,963)
Proceeds from the Exercise of Stock Options	284,800	-0-
Redemption of 7.625% Series A Preferred Stock	-0-	(53,493,750)
Proceeds from At-The-Market Preferred Equity Program, net of offering costs	25,687,516	-0-
Proceeds from Issuance of Common Stock in the DRIP, net of Dividend Reinvestments	22,611,458	18,877,487
Preferred Dividends Paid	(4,080,685)	(3,422,136)
Common Dividends Paid, net of Reinvestments	(10,096,749)	(9,107,243)

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NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	45,401,988	(24,029,305)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	529,855	(65,026,902)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	10,226,046	95,749,508
CASH AND CASH EQUIVALENTS - END OF PERIOD	\$ 10,755,901	\$ 30,722,606

See Accompanying Notes to Consolidated Financial Statements

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MONMOUTH REAL ESTATE INVESTMENT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

DECEMBER 31, 2017

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 December 31, 2017, the Company owned 108 properties with total square footage of approximately 19,096,000, which was 99.5% occupied, as compared to 108 properties with total square footage of approximately 18,790,000, which was 99.3% occupied as of September 30, 2017. These properties are located in 30 states: Alabama, Arizona, Colorado, Connecticut, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maryland, Michigan, Minnesota, Mississippi, Missouri, Nebraska, New Jersey, New York, North Carolina, Ohio, Oklahoma, Pennsylvania, South Carolina, Tennessee, Texas, Virginia, Washington and Wisconsin. As of the quarter ended December 31, 2017, the Company's weighted average lease maturity was approximately 7.9 years and its annualized average base rent per occupied square foot was \$5.99. As of December 31, 2017, the weighted average building age, based on the square footage of the Company's buildings, was 9.1 years. 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 (which is the Company's total assets excluding accumulated depreciation). Total gross real estate investments, excluding marketable REIT securities investments of \$130,431,475, were \$1,484,039,198 as of December 31, 2017.

The Company has elected to be taxed as a REIT under Sections 856-860 of the Internal Revenue Code of 1986, as amended (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.

In December 2017, the Tax Cuts and Jobs Act of 2017 (the Act), Code Section 199A, was added to the Code and became effective for tax years beginning after December 31, 2017 and before January 1, 2026. Under the Act, subject to certain income limitations, an individual taxpayer may deduct 20% of the aggregate amount of qualified REIT dividends they receive from their taxable income. Qualified REIT dividends do not include any portion of a dividend received from a REIT that is classified as a capital gain dividend.

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 months ended December 31, 2017 are not necessarily indicative of the results that may be expected for the year ending September 30, 2018. 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, 2017.

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.

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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.

Two leases that were set to expire during fiscal 2018 were leased to Kellogg Sales Company (Kellogg) at the Company's 65,067 square foot facility located in Kansas City, MO through July 31, 2018 and at the Company's 50,400 square foot facility located in Orangeburg, NY through February 28, 2018. Kellogg informed the Company that it will not be renewing its leases at these two properties. On December 18, 2017, the Company sold its property, located in Kansas City, MO for \$4,900,000, with net sale proceeds to the Company of approximately \$4,602,000 and on December 22, 2017, the Company sold its property, located in Orangeburg, NY for \$6,170,000, with net sale proceeds to the Company of approximately \$5,898,000. The sale of these two properties resulted in a realized gain of approximately \$5,388,000, representing a 105% gain over the depreciated U.S. GAAP basis and a realized net gain on a historic cost undepreciated basis of approximately \$1,804,000, representing a 21% net gain over the Company's historic cost basis. In conjunction with the sale of these two properties, the Company simultaneously entered into a lease termination agreement for each property whereby the Company received a termination fee from Kellogg totaling approximately \$210,000 which represents a weighted average of 80% of the then remaining rent due under each respective lease.

Of the Company's 108 properties, only five locations have leases that contain an early termination provision. The Company's leases with early termination provisions are the 26,340 square foot location in Ridgeland (Jackson), MS, the 36,270 square feet location in Urbandale (Des Moines), IA, the 38,833 square foot location in Rockford, IL, the 83,000 square foot location in Roanoke, VA and the 102,135 square foot location in O'Fallon (St. Louis), MO. Each lease termination provision contains certain requirements that must be met in order to exercise each termination provision. These requirements include: date termination can be exercised, the time frame that notice must be given by the tenant to the Company and the termination fee that would be required to be paid by the tenant to the Company. The total potential termination fee to be paid to the Company from the five leases with termination provisions amounts to approximately \$1,756,000.

Stock Compensation Plan

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 option grants and restricted stock are included in General and Administrative Expenses in the accompanying Consolidated Statements of Income and amounted to \$130,763 and \$100,155 for the three months ended December 31, 2017 and 2016, respectively.

During the three months ended December 31, 2017, no options were granted. During the three months ended December 31, 2016, the following stock options, which vest one year after grant date, were granted under the Company's Plan:

Date of Grant	Number of Employees	Number of Shares	Option Price	Expiration Date
12/9/16	10	215,000	\$ 14.24	12/9/24

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

	Fiscal 2017
Dividend yield	4.49 %
Expected volatility	18.88 %
Risk-free interest rate	2.26 %
Expected lives (years)	8
Estimated forfeitures	-0-

The weighted-average fair value of options granted during the three months ended December 31, 2016 was \$1.45 per option.

During the three months ended December 31, 2017 and 2016, 12,500 and -0- shares of restricted stock were granted. During the three months ended December 31, 2017, two participants exercised options awarded under the Plan to purchase an aggregate of 20,000 shares of common stock at a weighted average exercise price of \$14.24 per share for total proceeds of \$284,800. During the three months ended December 31, 2016, no options were exercised. As of December 31, 2017, a total of 1,740,542 shares were available for grant as stock options, as restricted stock, or other equity based awards, plus any shares subject to outstanding options that expire or are forfeited without being exercised, and there were outstanding options to purchase 650,000 shares. The aggregate intrinsic value of options outstanding as of December 31, 2017 was \$3,981,900.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, "Leases". ASU 2016-02 amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. The standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. ASU 2016-02 will be effective for annual reporting periods beginning after December 15, 2018. Early adoption is permitted. The Company is continuing to evaluate the potential impact this standard may have on the consolidated financial statements and the timing of adoption. The most significant changes for the Company related to lessor accounting under ASU 2016-02 include bifurcating its revenue into lease and non-lease components and the new standard's narrow definition of initial direct costs for leases. Since the Company's revenue is primarily derived from leasing activities from long-term net leases and since the Company currently does not capitalize indirect costs for leases, the Company believes it will continue to account for its leases and related leasing costs in substantially the same manner as it currently does once the adoption of the ASU 2016-02 becomes effective.

In January 2016, the FASB issued ASU 2016-01, “Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities”. ASU 2016-01 requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income, requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset, and eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. These changes become effective for the Company’s fiscal year beginning October 1, 2018. The Company is currently in the process of evaluating the impact of the adoption on its consolidated financial statements and has not determined the effects of this update on the Company’s financial position, results of operations or cash flows and disclosures at this time. The Company anticipates that the most significant change for the Company, once ASU 2016-01 is adopted, will be the accounting for the Company’s investments in marketable securities classified as available for sale, which are currently carried at fair value with unrealized holding gains and losses being excluded from earnings and reported as a separate component of Shareholders’ Equity until realized and the change in net unrealized holding gains and losses being reflected as comprehensive income (loss). Under ASU 2016-01, these marketable securities will continue to be measured at fair value, however the changes in net unrealized holding gains and losses will be recognized through net income.

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In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers”. The FASB issued further guidance in ASU 2016-12, “Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients”, that provides clarifying guidance in certain narrow areas and adds some practical expedients. ASU 2014-09 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The effective date of ASU 2014-09 was extended by one year by ASU 2015-14, “Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date”. The new standard is effective for the first interim period within annual reporting periods beginning after December 15, 2017. Therefore, the Company expects to adopt the standard effective October 1, 2018. The standard permits the use of either the retrospective or cumulative effect transition method, and the Company is evaluating which transition method it will elect. The Company is also in the process of evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company’s revenue is primarily derived from leasing activities and historically the Company’s property dispositions have been cash sales with no contingencies and no future involvement in the property. Since this standard applies to all contracts with customers except those that are within the scope of other guidance, such as leases, the Company does not expect the adoption of this standard to have a significant impact on its consolidated financial statements and related disclosures.

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.

Segment Reporting & Financial Information

The Company’s primary business is the ownership and management of real estate properties. The Company invests in well-located, modern, single tenant, industrial buildings leased primarily to investment-grade tenants or their subsidiaries on long-term net leases. The Company reviews operating and financial information for each property on an individual basis and, therefore, each property represents an individual operating segment. The Company evaluates financial performance using Net Operating Income (NOI) from property operations. NOI is a non-GAAP financial measure, which we define as recurring Rental and Reimbursement Revenue, less Real Estate Taxes and Operating Expenses, such as insurance, utilities and repairs and maintenance. The Company has aggregated the properties into one reportable segment as the properties share similar long-term economic characteristics and have other similarities, including the fact that they are operated as industrial properties subject to long-term net leases primarily to investment-grade tenants or their subsidiaries.

NOTE 2 – NET INCOME PER SHARE

Basic Net Income per Common 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 211,382 and 143,640 shares are included in the diluted weighted-average shares outstanding for the three months ended December 31, 2017 and 2016, respectively. For the diluted weighted-average shares outstanding for the three months ended December 31, 2017 and 2016, -0- and 215,000 options to purchase shares of common stock were antidilutive.

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On November 2, 2017, the Company purchased a newly constructed 121,683 square foot industrial building, situated on 16.2 acres, located in Charleston, SC. The building is 100% net-leased to FedEx Corporation (FDX) for 15 years through August 2032. The purchase price was \$21,872,170. The Company obtained a 15 year fully-amortizing mortgage loan of \$14,200,000 at a fixed interest rate of 4.23%. Annual rental revenue over the remaining term of the lease averages approximately \$1,312,000.

On November 30, 2017, the Company purchased a newly constructed 300,000 square foot industrial building, situated on 123 acres, located in Oklahoma City, OK. The building is 100% net-leased to Amazon.com Services, Inc. for 10 years through October 2027. The purchase price was \$30,250,000. The Company obtained a 10 year mortgage loan, amortizing over 18 years, of \$19,600,000 at a fixed interest rate of 3.64%. Annual rental revenue over the remaining term of the lease averages approximately \$1,884,000.

The Company evaluated the property acquisitions which took place during the three months ended December 31, 2017, to determine whether an integrated set of assets and activities meets the definition of a business, pursuant to ASU 2017-01. Acquisitions that do not meet the definition of a business are accounted for as asset acquisitions. Accordingly, the Company accounted for the properties purchased in Charleston, SC and Oklahoma City, OK as asset acquisitions and allocated the total cash consideration, including transaction costs of approximately \$378,000, to the individual assets acquired on a relative fair value basis. There were no liabilities assumed in these acquisitions. The financial information set forth below summarizes the Company's purchase price allocation for these two properties acquired during the three months ended December 31, 2017 that are accounted for as asset acquisitions:

Land	\$6,257,523
Building	45,108,625
In-Place Leases	1,134,017

The following table summarizes the operating results included in the Company's consolidated statements of income for the three months ended December 31, 2017 for the properties acquired during the three months ended December 31, 2017:

	Three Months Ended 12/31/2017
Rental Revenues	\$ 373,297

Net Income Attributable to Common Shareholders 182,297

Subsequent to quarter end, on January 22, 2018, the Company purchased a newly constructed 831,764 square foot industrial building, situated on 62.4 acres, located in Savannah, GA. The building is 100% net-leased to Shaw Industries, Inc. for 10 years through September 2027. The purchase price was \$57,483,636. The Company obtained a 14 year fully-amortizing mortgage loan of \$33,300,000 at a fixed interest rate of 3.53%. Annual rental revenue over the remaining term of the lease averages approximately \$3,470,000.

FDX, Amazon.com Services, Inc.'s ultimate parent, Amazon.com, Inc. and Shaw Industries, Inc.'s ultimate parent, Berkshire Hathaway, Inc. are publicly-owned companies and financial information related to these entities is available at the SEC's website, www.sec.gov. The references in this report to the SEC's website are not intended to and do not include or incorporate by reference into this report the information on those websites.

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Expansions

On November 1, 2017, a parking lot expansion for a property leased to FedEx Ground Package System, Inc., a subsidiary of FDX, located in Indianapolis, IN was completed for a total project cost of approximately \$1,683,000, resulting in a new 10 year lease which extended the prior lease expiration date from April 2024 to October 2027. In addition, the expansion resulted in an increase in annual rent effective from the date of completion of approximately \$184,000 from approximately \$1,533,000, or \$4.67 per square foot, to approximately \$1,717,000, or \$5.24 per square foot.

Disposition and Real Estate classified as Held for Sale

Two leases that were set to expire during fiscal 2018 were leased to Kellogg at our 65,067 square foot facility located in Kansas City, MO through July 31, 2018 and at our 50,400 square foot facility located in Orangeburg, NY through February 28, 2018. Kellogg informed the Company that they will not be renewing their leases at these two properties. On December 18, 2017, the Company sold its property, located in Kansas City, MO for \$4,900,000, with net sale proceeds to the Company of approximately \$4,602,000 and on December 22, 2017, the Company sold its property, located in Orangeburg, NY for \$6,170,000, with net sale proceeds to the Company of approximately \$5,898,000. The sale of these two properties resulted in a realized gain of approximately \$5,388,000, representing a 105% gain over the depreciated U.S. GAAP basis and a realized net gain on a historic cost undepreciated basis of approximately \$1,804,000, representing a 21% net gain over the Company's historic cost basis. In conjunction with the sale of these two properties, the Company simultaneously entered into a lease termination agreement for each property whereby the Company received a termination fee from Kellogg totaling approximately \$210,000 which represents a weighted average of 80% of the then remaining rent due under each respective lease.

Real Estate Held for Sale at December 31, 2017 consists of two properties that the Company has entered into agreements to sell. The two properties consist of an 87,500 square foot facility located in Ft. Myers, FL, which is currently vacant and an 68,370 square foot facility located in Colorado Springs, CO.

During the prior year quarter, on October 27, 2016, the Company sold its 59,425 square foot industrial building situated on 4.78 acres located in White Bear Lake, MN for net proceeds of approximately \$4,126,000.

Since the sale of the properties located in White Bear Lake, MN, Kansas City, MO and Orangeburg, NY and the future sale of the two properties classified as Real Estate Held for Sale do not represent a strategic shift that has a major effect on the Company's operations and financial results, the operations generated from these properties are not included in Discontinued Operations.

The following table summarizes the operations that are included in the accompanying Consolidated Statements of Income for the three months ended December 31, 2017 and 2016 for the two properties that were sold during the current quarter, prior to their sale, one property sold during the prior year quarter, prior to its sale, and for the two properties that are classified as Real Estate Held for Sale in the accompanying Consolidated Balance Sheets.

	Three Months Ended	
	12/31/2017	12/31/2016
Rental and Reimbursement Revenue	\$ 579,762	\$ 566,906
Lease Termination Income	210,260	-0-
Real Estate Taxes	(210,710)	(94,166)
Operating Expenses	(48,335)	(64,826)
Depreciation & Amortization	(58,542)	(136,891)
Interest Expense, including Amortization of Financing Costs	(14,601)	(52,548)
Income from Operations	457,834	218,475
Gain (Loss) on Sale of Real Estate Investments	5,387,886	(95,336)
Net Income	\$ 5,845,720	\$ 123,139

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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 generated from property acquired and expanded during fiscal 2018 to date, and during fiscal 2017, assuming that the acquisitions and completed expansions had occurred as of October 1, 2016, 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 Fixed Rate Mortgage Notes Payable and Loans Payable related to the new acquisitions, and (c) Depreciation Expense related to the new acquisitions. In addition, the net proceeds raised from the issuance of the 6.125% Series C Cumulative Redeemable Preferred Stock less the redemptions of the Company's 7.625% Series A Cumulative Redeemable Preferred Stock redeemed on October 14, 2016 and the Company's 7.875% Series B Cumulative Redeemable Preferred Stock redeemed on June 7, 2017 were used to help fund property acquisitions and, therefore, the pro forma preferred dividend expense has been adjusted to account for its effect on Net Income Attributable to Common Shareholders as if all the preferred stock issuances and redemptions had occurred on October 1, 2016. In addition, Net Income Attributable to Common Shareholders excludes the operations of the properties sold during fiscal 2018 and 2017 which were the vacant property located in White Bear Lake, MN that was sold on October 27, 2016, the property located in Kansas City, MO that was sold on December 18, 2017 and the property located in Orangeburg, NY that was sold on December 22, 2017 and excludes the two properties classified as Real Estate Held for Sale. Furthermore, the proceeds raised from the Dividend Reinvestment and Stock Purchase Plan (the DRIP) were used to fund property acquisitions and expansions 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 increase in shares raised through the DRIP, as if all the shares raised had occurred on October 1, 2016. The unaudited pro forma condensed financial information is not indicative of the results of operations that would have been achieved had the acquisitions and expansions reflected herein been consummated on the dates indicated or that will be achieved in the future.

	Three Months Ended	
	12/31/2017	12/31/2016
Rental Revenue	\$28,645,000	\$28,727,300
Net Income Attributable to Common Shareholders	\$7,665,700	\$6,841,000
Basic and Diluted Net Income per Share Attributable to Common Shareholders	\$0.10	\$0.09

Tenant Concentration

The Company has a concentration of FDX and FDX subsidiary-leased properties, consisting of 59 separate stand-alone leases covering approximately 9,513,000 square feet as of December 31, 2017 and 55 separate stand-alone leases covering approximately 8,187,000 square feet as of December 31, 2016. The 59 separate stand-alone leases that

are leased to FDX and FDX subsidiaries have a weighted average lease maturity of 8.7 years. The percentage of FDX and its subsidiaries leased square footage to the total of the Company's rental space was 50% (8% to FDX and 42% to FDX subsidiaries) as of December 31, 2017 and 49% (6% to FDX and 43% to FDX subsidiaries) as of December 31, 2016. As of December 31, 2017, the only tenants that leased 5% or more of the Company's total square footage were FDX and its subsidiaries and Milwaukee Electric Tool Corporation, which leases one property through July 2028 consisting of approximately 862,000 square feet, which was approximately 5% of the Company's rental space. As of December 31, 2017, no other tenants, other than FDX and its subsidiaries and Milwaukee Electric Tool Corporation, accounted for 5% or more of the Company's total rental space.

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Annualized Rental and Reimbursement Revenue from FDX and its subsidiaries is estimated to be approximately 60% (7% to FDX and 53% to FDX subsidiaries) of total Rental and Reimbursement Revenue for fiscal 2018 and was 59% (6% to FDX and 53% to FDX subsidiaries) of total Rental and Reimbursement Revenue for fiscal 2017. No other tenant, other than FDX and its subsidiaries, accounted for 5% or more of the Company's total Rental and Reimbursement Revenue for the three months ended December 31, 2017 and 2016.

FDX is a publicly-owned company and financial information related to this entity is available at the SEC's website, www.sec.gov. FDX is rated "BBB" by S&P Global Ratings (www.standardandpoors.com) and is rated "Baa2" by Moody's (www.moody.com), which are both considered "Investment Grade" ratings. The references in this report to the SEC's website, S&P Global Ratings' website and Moody's website are not intended to and do not include or incorporate by reference into this report the information of FDX, S&P Global Ratings or Moody's on such websites.

In addition to real estate property holdings, the Company held \$130,431,475 in marketable REIT securities at December 31, 2017, representing 7.8% of the Company's undepreciated assets (which is the Company's total assets excluding accumulated depreciation). These liquid real estate holdings are not included in calculating the tenant concentration ratios above and therefore further enhance the Company's diversification. The securities portfolio provides the Company with additional liquidity, diversification and income and serves as a proxy for real estate when more favorable risk adjusted returns are not available.

NOTE 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 \$130,431,475 as of December 31, 2017. The Company generally limits its investment in marketable securities to no more than approximately 10% of its undepreciated assets (which is the Company's total assets excluding accumulated depreciation). The REIT securities portfolio provides the Company with additional liquidity, diversification and income and serves as a proxy for real estate when more favorable risk adjusted returns are not available.

During the three months ended December 31, 2017, the Company sold or redeemed securities with a cost basis of \$2,335,015 and recognized a Gain on Sale of Securities Transactions of \$100,153. In addition, the Company recognized dividend income on its investment in securities of \$2,862,644 for the three months ended December 31, 2017. The Company also made purchases of \$19,714,857 in Securities Available for Sale at Fair Value. Of this amount, the Company made total purchases of 14,252 common shares of UMH Properties, Inc. (UMH), a related REIT, for a total cost of \$203,097, or a cost of \$14.25 per share, which were purchased through UMH's Dividend Reinvestment and Stock Purchase Plan. The Company owned a total of 1,142,568 UMH common shares as of December 31, 2017 at a total cost of \$11,434,947 and a fair value of \$17,024,261. The Company owns 100,000 shares of UMH's 8.00% Series B Cumulative Redeemable Preferred Stock at a total cost of \$2,500,000 with a fair value of \$2,731,550. The unrealized gain on the Company's investment in UMH's common and preferred stock as of December

31, 2017 was \$5,820,864.

As of December 31, 2017, the Company had total net unrealized holding losses on its securities portfolio of \$4,142,572. 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 December 31, 2017:

Description of Securities	Less than 12 Months		12 Months or Longer	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Preferred stock	\$4,372,000	\$(435,781)	\$-0-	\$-0-
Common stock	43,891,500	(13,494,567)	-0-	-0-
Total	\$48,263,500	\$(13,930,348)	\$-0-	\$-0-

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The following is a summary of the range of losses:

	Number of		
Individual Securities	Fair Value	Unrealized Losses	Range of Loss
2	\$21,899,500	\$(1,823,408)	1%-10%
1	7,120,000	(1,278,551)	15 %
1	19,244,000	(10,828,389)	36 %
4	\$48,263,500	\$(13,930,348)	

NOTE 5 – DEBT

For the three months ended December 31, 2017 and 2016, amortization of financing costs included in interest expense was \$293,894 and \$280,913, respectively.

The following is a summary of our Fixed Rate Mortgage Notes Payable as of December 31, 2017 and September 30, 2017:

	12/31/2017		9/30/2017	
	Amount	Weighted Average Interest Rate (1)	Amount	Weighted Average Interest Rate (1)
Fixed Rate Mortgage Notes Payable	\$620,411,537	4.16 %	\$598,962,567	4.18 %
Debt Issuance Costs	\$10,878,623		\$10,597,083	
Accumulated Amortization of Debt Issuance Costs	(3,118,521)		(2,998,887)	
Unamortized Debt Issuance Costs	\$7,760,102		\$7,598,196	
Fixed Rate Mortgage Notes Payable, net of Unamortized Debt Issuance Costs	\$612,651,435		\$591,364,371	

(1) Weighted average interest rate excludes amortization of debt issuance costs.

As of December 31, 2017, interest payable on these mortgages were at fixed rates ranging from 3.45% to 7.60%, with a weighted average interest rate of 4.16%. This compares to a weighted average interest rate of 4.18% as of September 30, 2017 and 4.44% as of December 31, 2016. As of December 31, 2017, the weighted average loan maturity of the Fixed Rate Mortgage Notes Payable was 11.5 years. This compares to a weighted average loan maturity of the Fixed Rate Mortgage Notes Payable of 11.6 years as of September 30, 2017 and 10.7 years as of December 31, 2016.

In connection with the two properties acquired during the three months ended December 31, 2017, which are located in Charleston, SC and Oklahoma City, OK (as described in Note 3), the Company obtained one 15 year, fully-amortizing mortgage loan and one, 10 year loan, amortizing over 18 years. The two mortgage loans originally totaled \$33,800,000 with an original weighted average mortgage loan maturity of 12.1 years and a weighted average interest rate of 3.89%.

During the three months ended December 31, 2017, the Company fully repaid one mortgage loan for its property located in Richfield, OH, totaling approximately \$2,633,000.

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As of December 31, 2017, Loans Payable represented the amount drawn down on the Company's \$200,000,000 unsecured line of credit facility (the Facility) in the amount of \$110,000,000.

The Facility matures in September 2020 with a one year extension at the Company's option (subject to various conditions as specified in the loan agreement). During the three months ended December 31, 2017, the Company had no additional draws under the Facility. Availability under the Facility is limited to 60% of the value of the borrowing base properties. The value of the borrowing base properties is determined by applying a 7.0% capitalization rate to the NOI generated by the Company's unencumbered, wholly-owned industrial properties. Borrowings under the Facility, will, at the Company's election, either i) bear interest at LIBOR plus 140 basis points to 220 basis points, depending on the Company's leverage ratio, or ii) bear interest at BMO's prime lending rate plus 40 basis points to 120 basis points, depending on the Company's leverage ratio. The Company's borrowings as of December 31, 2017, based on the Company's leverage ratio as of December 31, 2017, bear interest at LIBOR plus 170 basis points, which was at an interest rate of 3.06% as of December 31, 2017. In addition, the Company has a \$100,000,000 accordion feature, bringing the total potential availability under the Facility (subject to various conditions as specified in the loan agreement) up to \$300,000,000.

The Company also invests in equity securities of other REITs which provides the Company with additional liquidity, diversification and income and serves as a proxy for real estate when more favorable risk adjusted returns are not available. The Company from time to time may purchase these securities on margin, at an interest rate of 2.0%, when the interest and dividend yields exceed the cost of funds. In general, the Company may borrow up to 50% of the value of the marketable securities, which was \$130,431,475 as of December 31, 2017. As of December 31, 2017, there were no draws against the margin.

NOTE 6 – SHAREHOLDERS' EQUITY

The Company's authorized stock as of December 31, 2017 consisted of 192,039,750 shares of common stock, of which 77,209,110 shares were issued and outstanding, 12,400,000 authorized shares of 6.125% Series C Cumulative Redeemable Preferred Stock, \$0.01 par value per share (6.125% Series C Preferred Stock), of which 10,879,379 were issued and outstanding, and 200,000,000 authorized shares of Excess Stock, \$0.01 par value per share, of which none were issued or outstanding.

Common Stock

On October 2, 2017, the Company's Board of Directors approved a 6.25% increase in the Company's quarterly common stock dividend, raising it to \$0.17 per share from \$0.16 per share, representing the Company's second dividend increase in three years. The increased dividend represents an annualized dividend rate of \$0.68 per share.

The Company has maintained or increased its cash dividend for 26 consecutive years.

The Company raised \$25,531,430 (including dividend reinvestments of \$2,919,972) from the issuance of 1,546,089 shares of common stock under its DRIP during the three months ended December 31, 2017. During the three months ended December 31, 2017, the Company paid \$13,016,721 in total cash dividends, or \$0.17 per share, to common shareholders, of which \$2,919,972 was reinvested in the DRIP.

On January 16, 2018, the Company declared a dividend of \$0.17 per share to be paid March 15, 2018 to common shareholders of record as of the close of business on February 15, 2018.

On January 16, 2018, the Board of Directors reaffirmed its Share Repurchase Program that authorizes the Company to purchase up to \$10,000,000 in the aggregate of the Company's common stock. The Company may repurchase its shares from time to time if, in the opinion of the Board of Directors, such acquisition is advantageous to the Company. No shares were repurchased during the three months ended December 31, 2017 and, as of December 31, 2017, the Company does not own any of its own shares.

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6.125% Series C Cumulative Redeemable Preferred Stock

During the three months ended December 31, 2017, the Company paid \$4,080,685 in Preferred Dividends, or \$0.3828125 per share, on its outstanding 6.125% Series C Preferred Stock for the period September 1, 2017 through November 30, 2017. As of December 31, 2017, the Company has accrued Preferred Dividends of \$1,388,254 covering the period December 1, 2017 to December 31, 2017. Dividends on the 6.125% Series C Preferred Stock are cumulative and payable quarterly at an annual rate of \$1.53125 per share. The 6.125% Series C Preferred Stock has no maturity date and will remain outstanding indefinitely unless redeemed or otherwise repurchased. Except in limited circumstances relating to the Company's qualification as a REIT, or in connection with a change of control, the 6.125% Series C Preferred Stock is not redeemable prior to September 15, 2021. On and after September 15, 2021, at any time, and from time to time, the 6.125% Series C Preferred Stock will be redeemable in whole, or in part, at the Company's option, at a cash redemption price of \$25.00 per share, plus all accrued and unpaid dividends (whether or not declared) to, but not including, the date of redemption. On January 16, 2018, the Company declared a dividend of \$0.3828125 per share to be paid March 15, 2018 to the 6.125% Series C Preferred shareholders of record as of the close of business on February 15, 2018.

On June 29, 2017, the Company entered into an At-The-Market Preferred Equity Program (Preferred Stock ATM Program) with FBR Capital Markets & Co. in which the Company may, from time to time, offer and sell additional shares of its 6.125% Series C Preferred Stock, with a liquidation preference of \$25.00 per share, having an aggregate sales price of up to \$100,000,000. The Company began selling shares through the Preferred Stock ATM Program on July 3, 2017. During the three months ended December 31, 2017, the Company sold 1,039,934 shares under its Preferred Stock ATM Program at a weighted average price of \$25.13 per share, and generated net proceeds, after offering expenses, of approximately \$25,688,000.

As of December 31, 2017, 10,879,379 shares of the 6.125% Series C Preferred Stock were issued and outstanding.

Subsequent to the quarter end, through January 24, 2018, the Company sold 145,997 shares under its Preferred Stock ATM Program at a weighted average price of \$25.04 per share, and realized net proceeds, after offering expenses, of approximately \$3,595,000.

NOTE 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 December 31, 2017 and September 30, 2017:

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	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)
As of December 31, 2017:				
Equity Securities – Preferred Stock	\$8,818,945	\$8,818,945	\$-0-	\$-0-
Equity Securities – Common Stock	121,608,411	121,608,411	-0-	-0-
Mortgage Backed Securities	4,119	4,119	-0-	-0-
Total Securities Available for Sale at Fair Value	\$130,431,475	\$130,431,475	\$-0-	\$-0-
As of September 30, 2017:				
Equity Securities – Preferred Stock	\$11,818,628	\$11,818,628	\$-0-	\$-0-
Equity Securities – Common Stock	111,941,806	111,941,806	-0-	-0-
Mortgage Backed Securities	4,336	4,336	-0-	-0-
Total Securities Available for Sale at Fair Value	\$123,764,770	\$123,764,770	\$-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 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 yearend 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 December 31, 2017, the Fixed Rate Mortgage Notes Payable fair value (estimated based upon expected cash outflows discounted at current market rates) amounted to approximately \$624,966,000 and the carrying value amounted to \$620,411,537. Those fair value measurements are estimated based on independent third party appraisals and fall within level 3 of the fair value hierarchy.

NOTE 8 - SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for interest during the three months ended December 31, 2017 and 2016 was approximately \$7,198,000 and \$5,882,000, respectively.

During the three months ended December 31, 2017 and 2016, the Company had dividend reinvestments of \$2,919,972 and \$2,077,156, respectively, which required no cash transfers.

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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.

In addition to the property purchased subsequent to the quarter end, as described in Note 10, the Company has entered into agreements to purchase two new build-to-suit, industrial buildings that are currently being developed in Florida and South Carolina, consisting of approximately 660,000 square feet, with net-leased terms of 10 and 15 years with a weighted average lease term of 12 years. The purchase price for these properties is approximately \$78,018,000. Approximately 261,000 square feet, or 40%, is leased to FedEx Ground Package System, Inc. Subject to satisfactory due diligence and other customary closing conditions and requirements, we anticipate closing these transactions during fiscal 2018 and the first quarter of fiscal 2019. In connection with the two properties, the Company has entered into commitments to obtain two mortgage loans totaling \$49,360,000 at fixed rates of 3.82% and 4.25%, with a weighted average interest rate of 3.99%. Both of these mortgage loans are 15 year, fully-amortizing loans.

The Company is under contract to sell two properties consisting of (i) an 87,500 square foot vacant building located in Ft. Myers, FL, for \$6,400,000, which is approximately \$2,400,000 above the Company's U.S. GAAP net book carrying value and is anticipated to close during the second quarter of fiscal 2018 (ii) a 68,370 square foot building located in Colorado Springs, CO for \$5,800,000, which is approximately the Company's U.S. GAAP net book carrying value and is anticipated to close during the third quarter of fiscal 2018. The completion of these two sales are subject to customary closing conditions and requirements.

NOTE 10 – SUBSEQUENT EVENTS

Material subsequent events have been evaluated and are disclosed herein.

On January 16, 2018, the Company declared a common dividend of \$0.17 per share to be paid March 15, 2018 to common shareholders of record as of the close of business on February 15, 2018.

On January 16, 2018, the Company declared a preferred dividend of \$0.3828125 per share to be paid March 15, 2018 to Series C preferred shareholders of record as of the close of business on February 15, 2018.

On January 22, 2018, the Company purchased a newly constructed 831,764 square foot industrial building, situated on 62.4 acres, located in Savannah, GA. The building is 100% net-leased to Shaw Industries, Inc. and is guaranteed by Shaw Industries Group, Inc., a wholly owned subsidiary of Berkshire Hathaway, Inc. for 10 years through September 2027. The purchase price was \$57,483,636. The Company obtained a 14 year fully-amortizing mortgage loan of \$33,300,000 at a fixed interest rate of 3.53%. Annual rental revenue over the remaining term of the lease averages approximately \$3,470,000.

Subsequent to the quarter end, through January 24, 2018, the Company sold 145,997 shares under its Preferred Stock ATM Program at a weighted average price of \$25.04 per share, and realized net proceeds, after offering expenses, of approximately \$3,595,000.

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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, 2017.

The Company operates as a real estate investment trust (REIT). The Company seeks to invest in well-located, modern single-tenant industrial buildings leased primarily to investment grade tenants or their subsidiaries on long-term net leases. During the three months ended December 31, 2017, the Company purchased two net-leased industrial properties, located in Charleston, SC and Oklahoma City, OK totaling approximately 422,000 square feet, for approximately \$52,122,000. In connection with the two properties acquired during the three months ended December 31, 2017, the Company entered into one, 15 year, fully-amortizing mortgage loan and one 10 year mortgage loan, amortizing over 18 years. The two mortgage loans originally totaled \$33,800,000 with an original weighted average loan maturity of 12.1 years and a weighted average interest rate of 3.89%. As of December 31, 2017, the Company owned 108 properties with total square footage of approximately 19,096,000. These properties are located in 30 states. As of the quarter ended December 31, 2017, the Company's weighted average lease maturity was approximately 7.9 years, its occupancy rate was 99.5% and its annualized average base rent per occupied square foot was \$5.99. As of December 31, 2017, the weighted average building age, based on the square footage of the Company's buildings, was 9.1 years. In addition, total gross real estate investments, excluding marketable REIT securities investments of \$130,431,475, were \$1,484,039,198 as of December 31, 2017.

The Company evaluates its financial performance using Net Operating Income (NOI) from property operations, which is a non-GAAP financial measure that the Company defines as Net Income Attributable to Common Shareholders plus Redemption of Preferred Stock, Preferred Dividends, General and Administrative Expenses, Acquisition Costs, Depreciation, Amortization of Capitalized Lease Costs and Intangible Assets, Interest Expense, including Amortization of Financing Costs, less Dividend and Interest Income, Gain on Sale of Securities Transactions, Lease Termination Income and Gain on Sale of Real Estate Investments. The components of NOI are recurring Rental and Reimbursement Revenue, less Real Estate Taxes and Operating Expenses, such as insurance, utilities and repairs and maintenance. Other REITs may use different methodologies to calculate NOI and, accordingly, our NOI may not be comparable to all other REITs.

The following is a reconciliation of the Company's Net Income Attributable to Common Shareholders to the Company's NOI for the three months ended December 31, 2017 and 2016:

	Three Months Ended	
	12/31/2017	12/31/2016
Net Income Attributable to Common Shareholders	\$13,313,455	\$6,156,161
Plus: Preferred Dividends	4,316,946	3,697,760
Plus: General & Administrative Expenses	1,947,032	1,442,463
Plus: Acquisition Costs	-0-	178,526
Plus: Depreciation	8,483,984	6,992,495
Plus: Amortization of Capitalized Lease Costs and Intangible Assets	538,071	447,797
Plus: Interest Expense, including Amortization of Financing Costs	7,405,947	6,163,219
Less: Dividend and Interest Income	(2,864,217)	(1,292,151)
Less: Gain on Sale of Securities Transactions	(100,153)	(806,108)
Less: Gain on Sale of Real Estate Investments	(5,387,886)	-0-
Less: Lease Termination Income	(210,261)	-0-
Net Operating Income- NOI	\$27,442,918	\$22,980,162

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The components of the Company's NOI for the three months ended December 31, 2017 and 2016 is as follows:

	Three Months Ended	
	12/31/2017	12/31/2016
Rental Revenue	\$27,692,482	\$23,280,856
Reimbursement Revenue	5,049,340	3,900,755
Total Rental and Reimbursement Revenue	32,741,822	27,181,611
Real Estate Taxes	(3,862,663)	(2,906,981)
Operating Expenses	(1,436,241)	(1,294,468)
Net Operating Income- NOI	\$27,442,918	\$22,980,162

NOI from property operations increased \$4,462,756, or 19%, for the three months ended December 31, 2017 as compared to the three months ended December 31, 2016. This increase was due to the additional income related to ten industrial properties purchased during fiscal 2017 and two industrial properties purchased during the three months ended December 31, 2017.

Acquisitions

On November 2, 2017, the Company purchased a newly constructed 121,683 square foot industrial building, situated on 16.2 acres, located in Charleston, SC. The building is 100% net-leased to FedEx Corporation (FDX) for 15 years through August 2032. The purchase price was \$21,872,170. The Company obtained a 15 year fully-amortizing mortgage loan of \$14,200,000 at a fixed interest rate of 4.23%. Annual rental revenue over the remaining term of the lease averages approximately \$1,312,000.

On November 30, 2017, the Company purchased a newly constructed 300,000 square foot industrial building, situated on 123 acres, located in Oklahoma City, OK. The building is 100% net-leased to Amazon.com Services, Inc. for 10 years through October 2027. The purchase price was \$30,250,000. The Company obtained a 10 year mortgage loan, amortizing over 18 years, of \$19,600,000 at a fixed interest rate of 3.64%. Annual rental revenue over the remaining term of the lease averages approximately \$1,884,000.

Subsequent to quarter end, on January 22, 2018, the Company purchased a newly constructed 831,764 square foot industrial building, situated on 62.4 acres, located in Savannah, GA. The building is 100% net-leased to Shaw Industries, Inc. for 10 years through September 2027. The purchase price was \$57,483,636. The Company obtained a 14 year fully-amortizing mortgage loan of \$33,300,000 at a fixed interest rate of 3.53%. Annual rental revenue over the remaining term of the lease averages approximately \$3,470,000.

FDX, Amazon.com Services, Inc.'s ultimate parent, Amazon.com, Inc. and Shaw Industries, Inc.'s ultimate parent, Berkshire Hathaway, Inc. are publicly-owned companies and financial information related to these entities is available at the SEC's website, www.sec.gov. The references in this report to the SEC's website are not intended to and do not include or incorporate by reference into this report the information on those websites.

Expansions

On November 1, 2017, a parking lot expansion for a property leased to FedEx Ground Package System, Inc., a subsidiary of FDX, located in Indianapolis, IN was completed for a total project cost of approximately \$1,683,000, resulting in a new 10 year lease which extended the prior lease expiration date from April 2024 to October 2027. In addition, the expansion resulted in an increase in annual rent effective from the date of completion of approximately \$184,000 from approximately \$1,533,000, or \$4.67 per square foot, to approximately \$1,717,000, or \$5.24 per square foot.

Disposition

Two leases that were set to expire during fiscal 2018 were leased to Kellogg Sales Company (Kellogg) at the Company's 65,067 square foot facility located in Kansas City, MO through July 31, 2018 and at the Company's 50,400 square foot facility located in Orangeburg, NY through February 28, 2018. Kellogg informed the Company that it will not be renewing its leases at these two properties. On December 18, 2017, the Company sold its property, located in Kansas City, MO for \$4,900,000, with net sale proceeds to the Company of approximately \$4,602,000 and on December 22, 2017, the Company sold its property, located in Orangeburg, NY for \$6,170,000, with net sale proceeds to the Company of approximately \$5,898,000. The sale of these two properties resulted in a realized gain of approximately \$5,388,000, representing a 105% gain over the depreciated U.S. GAAP basis and a realized net gain on a historic cost undepreciated basis of approximately \$1,804,000, representing a 21% net gain over the Company's historic cost basis. In conjunction with the sale of these two properties, the Company simultaneously entered into a lease termination agreement for each property whereby the Company received a termination fee from Kellogg totaling approximately \$210,000 which represents a weighted average of 80% of the then remaining rent due under each respective lease.

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Commitments

In addition to the property purchased subsequent to the quarter end, as described above, the Company has entered into agreements to purchase two new build-to-suit, industrial buildings that are currently being developed in Florida and South Carolina, consisting of approximately 660,000 square feet, with net-leased terms of 10 and 15 years with a weighted average lease term of 12 years. The purchase price for these properties is approximately \$78,018,000. Approximately 261,000 square feet, or 40%, is leased to FedEx Ground Package System, Inc. Subject to satisfactory due diligence and other customary closing conditions and requirements, we anticipate closing these transactions during fiscal 2018 and the first quarter of fiscal 2019. In connection with the two properties, the Company has entered into commitments to obtain two mortgage loans totaling \$49,360,000 at fixed rates of 3.82% and 4.25%, with a weighted average interest rate of 3.99%. Both of these mortgage loans are 15 year, fully-amortizing loans.

The Company is under contract to sell two properties consisting of (i) an 87,500 square foot vacant building located in Ft. Myers, FL, for \$6,400,000, which is approximately \$2,400,000 above the Company's U.S. GAAP net book carrying value and is anticipated to close during the second quarter of fiscal 2018 (ii) a 68,370 square foot building located in Colorado Springs, CO for \$5,800,000, which is approximately the Company's U.S. GAAP net book carrying value and is anticipated to close during the third quarter of fiscal 2018. The completion of these two sales are subject to customary closing conditions and requirements.

See PART I, Item 1 – Business in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2017 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 that 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, 2017.

Changes in Results of Operations

As of December 31, 2017, the Company owned 108 properties with total square footage of approximately 19,096,000, as compared to 100 properties with total square footage of approximately 16,554,000, as of December 31, 2016, representing an increase in square footage of 15%. At quarter end, the Company's weighted average lease expiration term was approximately 7.9 years as compared to 7.4 years at the end of the prior year period. The Company's occupancy rate was 99.5% as of December 31, 2017 as compared to 100.0% as of December 31, 2016, representing a decrease of 50 basis points. The Company's weighted average building age was 9.1 years as of December 31, 2017 as compared to 9.9 years as of December 31, 2016.

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In fiscal 2018, approximately 8% of our gross leasable area, representing 16 leases totaling 1,546,637 square feet, is set to expire. As of the date of this quarterly report, 6 of the 16 leases have renewed. The six leases that have renewed thus far represent 568,898 square feet, or 37% of the expiring square footage, and have a weighted average lease term of 6.1 years.

We have incurred, or we expect to incur tenant improvement costs of approximately \$435,000 and leasing commission costs of approximately \$432,000 in connection with these five lease renewals. The table below summarizes the lease terms of the five leases which were renewed. In addition, the table below includes both the tenant improvement costs and the leasing commission costs, which are presented on a per square foot (PSF) basis averaged over the renewal term.

Property	Tenant	Square Feet	Former U.S. GAAP Straight-Line Rent PSF	Former Cash Rent PSF	Former Lease Expiration	Renewal U.S. GAAP Straight-Line Rent PSF	Renewal Initial Cash Rent PSF	Renewal Lease Expiration	Renewal Term (years)	Tenant Improvement Cost over Renewal Term (1)	Leasing Commission Cost over Renewal Term (1)
Chattanooga, TN	FedEx Express	60,637	\$5.13	\$5.13	10/31/17	\$5.26	\$5.26	10/31/22	5.0	\$0.43	\$0.11
Lakeland, FL	FedEx Express	32,105	4.83	4.83	11/30/17	4.83	4.83	11/30/27	10.0	0.37	0.10
Orlando, FL	FedEx Express	110,638	5.69	6.02	11/30/17	6.02	6.02	11/30/27	10.0	0.12	0.12
St. Joseph, MO	Altec Industries	126,880	2.75	2.75	2/28/18	2.94	2.87	2/28/23	5.0	0.01	0.13
Edwardsville, KS	Carlisle Tire	179,280	4.23	4.39	5/31/18	4.10	4.15	7/31/23	5.2	0.05	0.16
Augusta, GA	FedEx Ground	59,358	7.64	7.64	6/30/18	8.64	8.64	6/30/21	3.0	-0-	-0-
	Total	568,898									
Weighted Average			\$4.67	\$4.78		\$4.85	\$4.85		6.1	\$0.13	\$0.12

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

These six lease renewals result in a weighted average term of 6.1 years and a renewed U.S. GAAP straight-line weighted average lease rate of \$4.85 per square foot. The renewed weighted average initial cash rent per square foot is also \$4.85. This compares to the former weighted average rent of \$4.67 per square foot on a U.S. GAAP straight-line basis and the former weighted average cash rent of \$4.78 per square foot, representing an increase in the weighted average lease rate of 3.9% on a U.S. GAAP straight-line basis and an increase in the weighted average lease rate of 1.5% on a cash basis.

Two leases that were set to expire during fiscal 2018 were leased to Kellogg at the Company's 65,067 square foot facility located in Kansas City, MO through July 31, 2018 and at the Company's 50,400 square foot facility located in Orangeburg, NY through February 28, 2018. Kellogg informed the Company that it will not be renewing its leases at these two properties. On December 18, 2017, the Company sold its property, located in Kansas City, MO for \$4,900,000, with net sale proceeds to the Company of approximately \$4,602,000 and on December 22, 2017, the Company sold its property, located in Orangeburg, NY for \$6,170,000, with net sale proceeds to the Company of approximately \$5,898,000. The sale of these two properties resulted in a realized gain of approximately \$5,388,000, representing a 105% gain over the depreciated U.S. GAAP basis and a realized net gain on a historic cost undepreciated basis of approximately \$1,804,000, representing a 21% net gain over the Company's historic cost basis. In conjunction with the sale of these two properties, the Company simultaneously entered into a lease termination agreement for each property whereby the Company received a termination fee from Kellogg totaling approximately \$210,000 which represents a weighted average of 80% of the then remaining rent due under each respective lease.

Another remaining lease set to expire during fiscal 2018 is leased to Caterpillar Logistics Services, Inc. (Caterpillar) at our 218,120 square foot facility located in Griffin, GA through December 31, 2017. In September 2017, we entered into a three year lease agreement with Rinnai America Corporation through December 31, 2020 for this location. The new lease commenced on January 1, 2018, with initial annual rent of \$807,044, representing \$3.70 per square foot, with 3.0% annual increases thereafter, resulting in a straight-line annualized rent of \$831,000, representing \$3.81 per square foot over the life of the lease. This compares to the former U.S. GAAP straight-line and the former cash rent of \$5.36 per square foot, representing a decrease in the average lease rate of 28.9% on a U.S. GAAP straight-line basis and a decrease in the lease rate of 31.0% on a cash basis.