MONMOUTH REAL ESTATE INVESTMENT CORP
Form 10-K
December 12, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT

OF 1934

For the fiscal year ended September 30, 2012

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period ____________________ to ____________________

Commission File Number: 001-33177

MONMOUTH REAL ESTATE INVESTMENT CORPORATION

(Exact name of registrant as specified in its charter)

Maryland **22-1897375**

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

3499 Route 9 North, Suite 3-C, Freehold, NJ 07728

(Address of Principal Executive Offices) (Zip Code)

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

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

Common Stock, $.01 par value per share New York Stock Exchange

7.625% Series A Cumulative Redeemable Preferred Stock, $.01 par value per share, $25 liquidation value per share New York Stock Exchange

7.875% Series B Cumulative Redeemable Preferred Stock, $.01 par value per share, $25 liquidation value per share New York Stock Exchange

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

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

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. _X_Yes __ No _

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

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

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

Large accelerated filer

____

Accelerated filer

_X_

Non-accelerated filer

____

Smaller reporting company

____

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

The aggregate market value of the voting stock of the registrant held by nonaffiliates of the registrant at March 31, 2012 was approximately $368,284,663 (based on the $9.74 closing price per share of common stock).

There were 41,194,309 shares of Common Stock outstanding as of December 1, 2012.

Documents Incorporated by Reference: None.

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PART I

ITEM 1 BUSINESS

General Development of the Business

In this 10-K, we , us , our , MREIC or the Company , refers to Monmouth Real Estate Investment Corporation, to
with its predecessors and subsidiaries, unless the context requires otherwise.

The Company is a corporation operating as a qualified real estate investment trust (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 was established in 1968 as a New Jersey Business Trust (NJBT). In 1990, the NJBT merged into a newly formed Delaware corporation. On May 15, 2003, the Company changed its state of incorporation from Delaware to Maryland by merging with and into a Maryland corporation (the Reincorporation). The Reincorporation was approved by the Company s shareholders at the Company s annual meeting on May 6, 2003. In 2005, the Company formed a wholly-owned taxable REIT subsidiary organized in Maryland, named MREIC Financial, Inc. MREIC Financial, Inc. had no activity from inception through September 30, 2012.

On July 31, 2007, the Company completed a strategic combination with Monmouth Capital Corporation (Monmouth Capital), a New Jersey Corporation (the merger). As a result of the merger, each share of Monmouth Capital s common stock outstanding at the time of the merger was converted into and exchanged for the right to receive 0.655 shares of the Company s common stock and the Company became the owner of all of the outstanding stock of Monmouth Capital. As a result of this transaction, the Company issued 3,727,706 shares of common stock valued at approximately $32,400,000. The total cost of the merger paid by the Company was approximately $33,970,000, which included the value of outstanding stock options of Monmouth Capital and certain transaction costs. The assets and liabilities of Monmouth Capital as of the effective time of the merger were recorded by the Company at their respective fair values and added to those of the Company. Monmouth Capital remains a wholly-owned subsidiary of the Company.

Narrative Description of Business

The Company s primary business is the ownership of real estate. Its investment focus is to own well-located net leased industrial properties which are leased primarily to investment-grade tenants on long-term leases. In addition, the

Company holds a portfolio of REIT securities.

At September 30, 2012, the Company had investments in seventy-two rental properties, consisting of seventy-one industrial properties and one shopping center. (See Item 2 for a detailed description of the properties.) These properties are located in twenty-six states: Alabama, Arizona, Colorado, Connecticut, Florida, Georgia, Illinois, Iowa, Kansas, Maryland, Michigan, Minnesota, Mississippi, Missouri, Nebraska, New Jersey, New York, North Carolina, Ohio, Oklahoma, Pennsylvania, South Carolina, Tennessee, Texas, Virginia, and Wisconsin. All of these properties are wholly-owned with the exception of the two properties in New Jersey in which the Company owns a majority interest. All properties in which the Company has investments are leased on a net basis except an industrial park in Monaca, Pennsylvania and the shopping center located in Somerset, New Jersey.

During fiscal 2012, the Company purchased seven industrial properties totaling approximately 1,000,000 square feet located in Mississippi, New York, Ohio, Oklahoma and Texas for approximately $70,400,000. In the first quarter of fiscal 2013, the Company purchased an industrial property totaling approximately 172,000 square feet for $14,350,000 located in Livonia, Michigan which is 100% net-leased to FedEx Ground Package System. The funds for this additional acquisition were provided by a $9,500,000 mortgage on the property and cash on hand. We have entered into agreements to purchase eight new build-to-suit, industrial buildings that are currently being developed in Kentucky, Minnesota, Mississippi, Pennsylvania, Texas, Virginia and Wisconsin totaling approximately 1,832,000 square feet to be net-leased for 10 or more years, of which approximately 664,000 square

feet or 36% will be leased to FedEx Ground Packaging System. The purchase price for the eight properties is approximately $109,000,000. Subject to satisfactory due diligence, we anticipate closing these eight transactions during fiscal 2013 and fiscal 2014. The Company intends to make additional acquisitions in fiscal 2013 and the funds for these acquisitions may come from mortgages, cash on hand, sale of marketable securities, other bank borrowings, proceeds from the Dividend Reinvestment and Stock Purchase Plan (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. Because of the contingent nature of contracts to purchase real property, the Company typically announces acquisitions only upon closing.

Currently, the Company derives its income primarily from real estate rental operations. Rental and reimbursement revenue (excluding lease termination income in fiscal 2012 of $3,222,283) was $50,488,770, $48,141,484 and $45,212,822 for the years ended September 30, 2012, 2011 and 2010, respectively. Total assets were $574,507,702 and $476,986,836 as of September 30, 2012 and 2011, respectively.

As of September 30, 2012, the Company had approximately 8,506,000 square feet of property, of which approximately 3,665,000 square feet, or approximately 43%, was leased to Federal Express Corporation (FDX) and its subsidiaries (12% to FDX and 31% to FDX subsidiaries). During fiscal 2012, the only tenant that accounted for 5% or more of our rental and reimbursement revenue was FDX (including its subsidiaries). Our rental and reimbursement revenue from FDX and its subsidiaries totaled approximately $27,202,000, $26,883,000 and $26,160,000, or 54%, 56% and 58% of total rent and reimbursement revenues for the years ended September 30, 2012, 2011 and 2010, respectively.

The Company s weighted-average lease expiration was approximately 5.3 and 5.1 years as of September 30, 2012 and 2011, respectively and its average rent per occupied square foot as of September 30, 2012 and 2011 was $5.62 and $5.59, respectively. At September 30, 2012 and 2011, the Company s occupancy rate was 95% and 97%, respectively.

The Company competes with other investors in real estate for attractive investment opportunities. These investors include other equity real estate investment trusts, limited partnerships, syndications and private investors, among others. Competition in the market areas in which the Company operates is significant and affects the Company s ability to acquire or expand properties, occupancy levels, rental rates, and operating expenses of certain properties. Management has built relationships with merchant builders which have historically provided the Company with investment opportunities that fit the Company s investment policy, however, the amount of construction of new industrial properties has significantly decreased in recent years due to the economic recession and subsequent low levels of GDP growth.

The Company continues to invest in both debt and equity securities of other REITs. The Company from time to time may purchase these securities on margin when the interest and dividend yields exceed the cost of the funds. This securities portfolio, to the extent not pledged to secure borrowings, provides the Company with liquidity and additional income. Such securities are subject to risk arising from adverse changes in market rates and prices, primarily interest rate risk relating to debt securities and equity price risk relating to equity securities. From time to

time, the Company may use derivative instruments to mitigate interest rate risk. At September 30, 2012 and 2011, the Company had $61,685,173 and $44,265,059, respectively, of securities available for sale. The unrealized net gain on securities available for sale at September 30, 2012 and 2011 was $5,383,937 and $2,368,163, respectively.

On December 5, 2011, the Company sold 2,000,000 shares of common stock in a registered direct placement. The Company received net proceeds of approximately $16,200,000. The Company used such net proceeds to purchase additional properties in the ordinary course of business and for general corporate purposes.

On June 7, 2012 and June 21, 2012, the Company issued 2,000,000 and 300,000 shares, respectively, of 7.875% Series B Cumulative Redeemable Preferred Stock (Series B Preferred Stock) at an offering price of $25.00 per share in an underwritten public offering. The Company received net proceeds from the offering, after deducting the underwriting discount and other estimated offering expenses, of approximately $55,033,000 and intends to use the net proceeds from the offering to purchase properties in the ordinary course of business and for general corporate purposes.

Recent Developments

The Company s subsidiary, Monmouth Capital, had outstanding at September 30, 2012, $3,620,000 of 8% Convertible Subordinated Debentures due 2013 (the 2013 Debentures), and $4,995,000 of 8% Convertible Subordinated Debentures due 2015 (the 2015 Debentures). These Debentures were convertible into common stock of the Company at any time prior to redemption or maturity, at the conversion price of $9.16 per share in the case of the 2013 Debentures and a conversion price of $11.45 per share in the case of the 2015 Debentures. Pursuant to notice given, on October 29, 2012, the Company s subsidiary redeemed the 2013 and 2015 Debentures on November 30, 2012 for the full principal amount plus accrued interest to November 30, 2012. Between October 1, 2012 and November 30, 2012, $3,500,000 in principal amount of the Debentures was converted to 382,091 shares of common stock and $5,115,000 in principal amount of Debentures was redeemed.

Investment and Other Policies

The Company s investment policy is to concentrate its investments in the area of long-term net-leased industrial properties leased primarily to investment-grade tenants. The Company s strategy is to obtain a favorable yield spread between the income from the net-leased industrial properties and mortgage interest costs. In addition, management believes that investments in well-located industrial properties provide a potential for long-term capital appreciation. There is the risk that, upon expiration of leases, the properties will become vacant or re-leased at lower rents. The results obtained by the Company by re-leasing the properties will depend on the market for industrial properties at that time.

The Company seeks to invest in well-located, modern buildings leased pursuant to long-term leases primarily to investment grade tenants. In management s opinion, the newly built facilities meet these criteria. The Company has a concentration of properties leased to FDX and FDX subsidiaries. This is a risk factor that shareholders should consider. FDX is a publicly-owned corporation and information on its financial and business operations is readily available to the Company s shareholders.

Prior to July 31, 2007, the Company operated as part of a group of three public companies (all REITs) which included UMH Properties, Inc. (UMH) and Monmouth Capital (the affiliated companies). Monmouth Capital was merged into the Company on July 31, 2007. The Company continues to operate in conjunction with UMH. UMH has focused its investing in manufactured home communities. General and administrative expenses are allocated between the Company and UMH based on use or services provided, pursuant to a cost sharing arrangement between the affiliated companies. The Company has substantially reduced the cost sharing of salaries between the affiliated companies and currently has eleven full-time employees whose time is solely dedicated to the Company. During fiscal 2012, the Company transitioned its property management in-house.

The Company may issue securities for property; however, this has not occurred to date. The Company may repurchase or reacquire its shares from time to time if, in the opinion of the Board of Directors, such acquisition is advantageous to the Company.

Property Management

Through July 31, 2012, sixty-eight of the Company s seventy wholly-owned industrial properties and the shopping center in Somerset, NJ, in which the Company holds a two-thirds interest, were managed on behalf of the Company by Cronheim Management Services, Inc. (CMS), a division of David Cronheim Company, a company affiliated with one of our directors as discussed in the Consolidated Financial Statements. CMS provided sub-agents as regional managers for the Company s properties. During fiscal 2011 and 2010 and through July 31, 2012, the Company was subject to management contracts with CMS for a fixed annual fee of $380,000. On February 1, 2012, the management fee contract was increased to $410,000 per annum. During 2012, 2011 and 2010, the Company also agreed to reimburse CMS for fees paid to subagents. CMS provided sub-agents as regional managers for the Company s properties. The Company paid CMS management fees (net of allocation to the minority owner of the Somerset, New Jersey shopping center) of $562,452, $547,751 and $421,647 fiscal 2012, 2011 and 2010, respectively, for the management of the properties subject to the management contract. Effective August 1, 2012,

the Company s management contract with CMS terminated and the Company became a fully integrated and self-managed real estate company. Effective August 1, 2012, the Company s management contracts with CMS terminated and these sixty-eight wholly-owned industrial properties and the shopping center in Somerset, NJ became self-managed by the Company. CMS also received $15,950, $15,400 and $22,773 in lease commissions in fiscal 2012, 2011 and 2010, respectively. The David Cronheim Mortgage Corporation, an affiliated company, received $161,000, $-0- and $100,000 in mortgage brokerage commissions in fiscal 2012, 2011 and 2010.

The industrial property in Carlstadt, New Jersey is owned by Palmer Terrace Realty Associates, LLC. The Company owns 51% of Palmer Terrace Realty Associates, LLC. This property is managed by Marcus Associates, an entity affiliated with the owner of the 49% noncontrolling interest. Management fees paid by Palmer Terrace Realty Associates, LLC to Marcus Associates for each of the fiscal years ended 2012, 2011 and 2010 totaled $15,804.

The industrial property in Wheeling, Illinois was owned by Wheeling Partners, LLC. During fiscal 2011, the Company purchased the remaining 37% noncontrolling interest in Wheeling Partners, LLC for approximately $4,100,000. Prior to the Company purchasing the remaining 37% noncontrolling interest, this property was managed by Jones Development Company, an entity affiliated with the former owner of the 37% noncontrolling interest. Management fees paid by Wheeling Partners, LLC to Jones Development Company for 2011 and 2010 were $3,464 and $13,855, respectively.

The industrial property in El Paso, Texas, was owned by Jones EPI, LLC. During 2010, the Company purchased the remaining 35% noncontrolling interest in Jones EPI, LLC. Prior to the Company purchasing the remaining 35% noncontrolling interest, this property was managed by Jones Development Company, an entity affiliated with the former owner of the 35% noncontrolling interest. Management fees paid by Jones EPI, LLC to Jones Development Company for 2010 were $2,782.

Environmental Matters

Under various federal, state and local environmental laws, statutes, ordinances, rules and regulations, an owner of real property may be liable for the costs of removal or remediation of certain hazardous or toxic substances at, on, in or under such property as well as certain other potential costs relating to hazardous or toxic substances. These liabilities may include government fines and penalties and damages for injuries to persons and adjacent property. Such laws often impose liability without regard to whether the owner knew of, or was responsible for, the presence or disposal of such substances. Although generally our tenants are primarily responsible for any environmental damage and claims related to the leased premises, in the event of the bankruptcy or inability of a tenant of such premises to satisfy any obligations with respect to such environmental liability, the Company may be required to satisfy such obligations. In addition, as the owner of such properties, the Company may be held directly liable for any such damages or claims irrespective of the provisions of any lease.

From time to time, in connection with the conduct of the business or upon acquisition of a property, the Company authorizes the preparation of Phase I and, when necessary, Phase II environmental reports with respect to its properties. Based upon such environmental reports and the Company s ongoing review of its properties, as of the date of this Annual Report, the Company is not aware of any environmental condition with respect to any of its properties which it believes would be reasonably likely to have a material adverse effect on its financial condition and/or results of operations. There can be no assurance, however, that (1) the discovery of environmental conditions, the existence or severity of which were previously unknown; (2) changes in law; (3) the conduct of tenants; or (4) activities relating to properties in the vicinity of our properties, will not expose the Company to material liability in the future.

Contact Information

Additional information about the Company can be found on the Company s website which is located at www.mreic.com. The Company makes available, free of charge, on or through its website, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (SEC). You can also read and copy any materials the Company files with the SEC at its Public Reference Room at 100 F Street, NE, Washington, DC 20549 (1-800-SEC-0330). The SEC maintains an Internet site (http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

ITEM 1A RISK FACTORS

Real Estate Industry Risks

Our business and financial results are affected by local real estate conditions in areas where we own properties. We may be affected adversely by general economic conditions and local real estate conditions. For example, an oversupply of industrial properties in a local area or a decline in the attractiveness of our properties to tenants and potential tenants would have a negative effect on us.

Other factors that may affect general economic conditions or local real estate conditions include:

- population and demographic trends;
- employment and personal income trends;
- zoning, use and other regulatory restrictions;
- income tax laws;
- changes in interest rates and availability and costs of financing;

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competition from other available real estate;

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in instances where our properties are not under a net lease, our ability to provide adequate maintenance and insurance;

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increased operating costs, including insurance premiums, utilities and real estate taxes, which may not be offset by increased rents and in instances where our properties are under a net lease, which may not be reimbursed by our tenants.

We may be unable to compete with our larger competitors and other alternatives available to tenants or potential tenants of our properties. The real estate business is highly competitive. We compete for properties with other real estate investors and purchasers, including other real estate investment trusts, limited partnerships, syndications and private investors, many of whom have greater financial resources, revenues and geographical diversity than we have. Furthermore, we compete for tenants with other property owners. All of our industrial properties are subject to significant local competition. We also compete with a wide variety of institutions and other investors for capital funds necessary to support our investment activities and asset growth. To the extent that we are unable to effectively compete in the marketplace, our business may be adversely affected.

We are subject to significant regulation that inhibits our activities and may increase our costs. Local zoning and use laws, environmental statutes and other governmental requirements may restrict expansion, rehabilitation and reconstruction activities. These regulations may prevent us from taking advantage of economic

opportunities. Legislation such as the Americans with Disabilities Act may require us to modify our properties at a substantial cost and noncompliance could result in the imposition of fines or an award of damages to private litigants. Future legislation may impose additional requirements. We may incur additional costs to comply with any future requirements.

Our investments are concentrated in the industrial distribution sector and our business would be adversely affected by an economic downturn in that sector. Our investments in real estate assets are primarily concentrated in the industrial distribution sector. This concentration may expose us to the risk of economic downturns in this sector to a greater extent than if our business activities included a more significant portion of other sectors of the real estate industry.

Risks Associated with Our Properties

We may be unable to renew leases or relet space as leases expire. While we seek to invest in well-located, modern buildings leased to investment grade tenants on long-term leases, a number of our properties are subject to short-term leases. When a lease expires, a tenant may elect not to renew it. We may not be able to relet the property on similar terms, if we are able to relet the property at all. The terms of renewal or re-lease (including the cost of required renovations and/or concessions to tenants) may be less favorable to us than the prior lease. If we are unable to relet all or a substantial portion of our properties, or if the rental rates upon such reletting are significantly lower than expected rates, our cash generated before debt repayments and capital expenditures and our ability to make expected distributions, may be adversely affected. We have established an annual budget for renovation and reletting expenses that we believe is reasonable in light of each property s operating history and local market characteristics. This budget, however, may not be sufficient to cover these expenses.

Our business is substantially dependent on Federal Express Corporation. FDX, together with its subsidiaries, is our largest tenant. As of September 30, 2012, FDX and its subsidiaries leased approximately 43% of the total square footage that we own. Annualized rental income and occupancy charges from FDX and its subsidiaries are estimated at approximately 54% of total rental and reimbursement revenue for fiscal 2012. If FDX and its subsidiaries, were to terminate its leases with us or become unable to make lease payments because of a downturn in its business or otherwise, our financial condition and ability to make expected distributions would be materially and adversely affected.

We are subject to risks involved in single tenant leases .. We focus our acquisition activities on real properties that are net-leased to single tenants. Therefore, the financial failure of, or other default by, a single tenant under its lease is likely to cause a significant reduction in the operating cash flow generated by the property leased to that tenant and might decrease the value of that property. In addition, we will be responsible for 100% of the operating costs following a vacancy at a single tenant building.

We may be affected negatively by tenant financial difficulties and leasing delays. At any time, a tenant may experience a downturn in its business that may weaken its financial condition. Similarly, a general decline in the economy may result in a decline in the demand for space at our industrial properties. As a result, our tenants may delay lease commencement, fail to make rental payments when due, or declare bankruptcy. Any such event could result in the termination of that tenant s lease and losses to us, resulting in a decrease of distributions to investors.

We receive a substantial portion of our income as rents under long-term leases. If tenants are unable to comply with the terms of their leases because of rising costs or falling revenues, we, in our sole discretion, may deem it advisable to modify lease terms to allow tenants to pay a lower rental rate or a smaller share of operating costs, taxes and insurance. If a tenant becomes insolvent or bankrupt, we cannot be sure that we could recover the premises from the

tenant promptly or from a trustee or debtor-in-possession in any bankruptcy proceeding relating to the tenant. We also cannot be sure that we would receive rent in the proceeding sufficient to cover our expenses with respect to the premises. If a tenant becomes bankrupt, the federal bankruptcy code will apply and, in some instances, may restrict the amount and recoverability of our claims against the tenant. A tenant s default on its obligations to us for any reason could adversely affect our financial condition and the cash we have available for distribution.

We may be unable to sell properties when appropriate because real estate investments are illiquid. Real estate investments generally cannot be sold quickly and, therefore, will tend to limit our ability to vary our property portfolio promptly in response to changes in economic or other conditions. In addition, the Code limits our ability to sell our properties. The inability to respond promptly to changes in the performance of our property portfolio could adversely affect our financial condition and ability to service debt and make distributions to our stockholders.

Environmental liabilities could affect our profitability. We face possible environmental liabilities. Environmental laws today can impose liability on a previous owner or operator of a property that owned or operated the property at a time when hazardous or toxic substances were disposed on, or released from, the property. A conveyance of the property, therefore, does not relieve the owner or operator from liability. As a current or former owner and operator of real estate, we may be required by law to investigate and clean up hazardous substances released at or from the properties we currently own or operate or have in the past owned or operated. We may also be liable to the government or to third parties for property damage, investigation costs and cleanup costs. In addition, some environmental laws create a lien on the contaminated site in favor of the government for damages and costs the government incurs in connection with the contamination. Contamination may adversely affect our ability to sell or lease real estate or to borrow using the real estate as collateral. We are not aware of any environmental liabilities relating to our investment properties which would have a material adverse effect on our business, assets, or results of operations. However, we cannot assure you that environmental liabilities will not arise in the future and that such liabilities will not have a material adverse effect on our business, assets or results of operation.

Actions by our competitors may decrease or prevent increases in the occupancy and rental rates of our properties. We compete with other owners and operators of real estate, some of which own properties similar to ours in the same submarkets in which our properties are located. If our competitors offer space at rental rates below current market rates or below the rental rates we currently charge our tenants, we may lose potential tenants, and we may be pressured to reduce our rental rates below those we currently charge in order to retain tenants when our tenants leases expire. As a result, our financial condition, cash flow and cash available for distribution, the market price of our preferred and common stock and our ability to satisfy our debt service obligations could be materially adversely affected.

Coverage under our existing insurance policies may be inadequate to cover losses. Weather conditions and natural disasters such as hurricanes, tornados, earthquakes, floods, droughts, fires and other environmental conditions can harm our business operations. We generally maintain insurance policies related to our business, including casualty, general liability and other policies, covering our business operations, employees and assets. However, we would be required to bear all losses that are not adequately covered by insurance. In addition, there are certain losses that are not generally insured because it is not economically feasible to insure against them, including losses due to riots or acts of war. If an uninsured loss or a loss in excess of insured limits were to occur with respect to one or more of our properties, then we could lose the capital we invested in the properties, as well as the anticipated future revenue from the properties and, in the case of debt, which is with recourse to us, we would remain obligated for any mortgage debt or other financial obligations related to the properties. Although we believe that our insurance programs are adequate, we cannot assure you that we will not incur losses in excess of our insurance coverage, or that we will be able to obtain insurance in the future at acceptable levels and reasonable costs.

We may be unable to acquire properties on advantageous terms or acquisitions may not perform as we expect. We have acquired individual properties and portfolios of properties, and intend to continue to do so. Our acquisition activities and their success are subject to the following risks:

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when we are able to locate a desired property, competition from other real estate investors may significantly increase the purchase price;

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acquired properties may fail to perform as expected;

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the actual costs of repositioning or redeveloping acquired properties may be higher than our estimates;

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acquired properties may be located in new markets where we face risks associated with an incomplete knowledge or understanding of the local market, a limited number of established business relationships in the area and a relative unfamiliarity with local governmental and permitting procedures;

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we may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into our existing operations, and as a result, our results of operations and financial condition could be adversely affected; and

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we may acquire properties subject to liabilities and without any recourse, or with only limited recourse, to the seller. As a result, if a claim were asserted against us based upon ownership of those properties, we might have to pay substantial sums to resolve it, which could adversely affect our cash flow and financial condition.

Financing Risks

We face inherent risks associated with our debt incurrence. We finance a portion of our investments in properties and marketable securities through the incurrence of debt. We are subject to the risks normally associated with debt financing, including the risk that our cash flow will be insufficient to meet required payments of principal and interest. In addition, debt creates other risks, including:

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rising interest rates on our variable rate debt;

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inability to repay or refinance existing debt as it matures, which may result in forced disposition of assets on disadvantageous terms;

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refinancing terms that are less favorable than the terms of existing debt; and

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inability to meet required payments of principal and/or interest.

We mortgage our properties, which subjects us to the risk of foreclosure in the event of non-payment. We mortgage many of our properties to secure payment of indebtedness and if we are unable to meet mortgage payments, then the property could be foreclosed upon or transferred to the mortgagee with a consequent loss of income and asset value. A foreclosure of one or more of our properties could adversely affect our financial condition, results of operations, cash flow, and ability to service debt and make distributions and the market price of our preferred and common stock.

We face risks related to balloon payments and refinancings. Certain of our mortgages will have significant outstanding principal balances on their maturity dates, commonly known as balloon payments. There can be no

assurance that we will be able to refinance the debt on favorable terms or at all. To the extent we cannot refinance this debt on favorable terms or at all, we may be forced to dispose of properties on disadvantageous terms or pay higher interest rates, either of which would have an adverse impact on our financial performance and ability to service debt and make distributions.

We face risks associated with our dependence on external sources of capital. In order to qualify as a REIT, we are required each year to distribute to our stockholders at least 90% of our REIT taxable income, and we are subject to tax on our income to the extent it is not distributed. Because of this distribution requirement, we may not be able to fund all future capital needs from cash retained from operations. As a result, to fund capital needs, we rely on third-party sources of capital, which we may not be able to obtain on favorable terms, if at all. Our access to third-party sources of capital depends upon a number of factors, including (i) general market conditions; (ii) the market s perception of our growth potential; (iii) our current and potential future earnings and cash distributions; and (iv) the market price of our capital stock. Additional debt financing may substantially increase our debt-to-total capitalization ratio. Additional equity issuances may dilute the holdings of our current stockholders.

We may become more highly leveraged, resulting in increased risk of default on our obligations and an increase in debt service requirements which could adversely affect our financial condition and results of operations and our ability to pay distributions . We have incurred, and may continue to incur, indebtedness in furtherance of our activities **.** Our governing documents do not limit the amount of indebtedness we may incur. Accordingly, our Board of Directors may vote to incur additional debt and would do so, for example, if it were necessary to maintain our status as a REIT. We could therefore become more highly leveraged, resulting in an increased risk of default on our obligations and in an increase in debt service requirements which could adversely affect our financial condition and results of operations and our ability to pay distributions to stockholders.

Covenants in our loan documents could limit our flexibility and adversely affect our financial condition. The terms of our various credit agreements and other indebtedness require us to comply with a number of customary financial and other covenants, such as maintaining debt service coverage and leverage ratios and maintaining insurance coverage. These covenants may limit our flexibility in our operations, and breaches of these covenants could result in defaults under the instruments governing the applicable indebtedness even if we had satisfied our payment obligations. If we were to default under credit agreements or other debt instruments, our financial condition would be adversely affected.

Other Risks

We issued shares of our common stock under our Registration Statement on Form S-3 for our Dividend Reinvestment and Stock Purchase Plan when we were not eligible to use Form S-3, which may result in claims for rescission and other damages. Due to the late filing of a Form 8-K, we temporarily lost our eligibility to register securities on a Form S-3 on December 12, 2011. Despite this ineligibility, we issued approximately 859,000 shares of common stock under our Form S-3 registration statement for our Dividend Reinvestment and Stock Purchase Plan (DRIP) in December 2011, January 2012 and February 2012. The aggregate purchase price of these shares was approximately $7.4 million. On March 13, 2012, we discontinued issuances under this registration statement. On August 1, 2012, we filed a new registration statement on Form S-3, covering the resale of up to 3,000,000 shares of our common stock under the DRIP. On August 2, 2012, we reinstated the DRIP. The purchasers of the shares issued pursuant to our DRIP when we were not eligible to issue shares on Form S-3 could bring claims against us for rescission and other damages under federal or state securities laws.

Current economic conditions, including recent volatility in the capital and credit markets, could harm our business, results of operations and financial condition. The United States is continuing to experience the effects of an economic recession, during which the capital and credit markets experienced extreme volatility and disruption. The current economic environment has been affected by dramatic declines in the stock and housing markets, increases in foreclosures, unemployment and living costs as well as limited access to credit. This economic situation has impacted and is expected to continue to impact consumer spending levels. A sustained economic downward trend could impact our tenants ability to meet their lease obligations due to poor operating results, lack of liquidity, bankruptcy or other reasons. Our ability to lease space and negotiate rents at advantageous rates could also be affected in this type of economic environment. Additionally, if markets again experience periods of volatility, access to capital and credit markets could be disrupted over a more extended period, which may make it difficult to obtain the financing we may need for future growth and/or to meet our debt service obligations as they mature. Any of these events could harm our business, results of operations and financial condition.

We may not be able to access adequate cash to fund our business. Our business requires access to adequate cash to finance our operations, distributions, capital expenditures, debt service obligations, development and redevelopment costs and property acquisition costs, if any. We expect to generate the cash to be used for these purposes primarily with operating cash flow, borrowings under secured term loans, proceeds from sales of strategically identified assets and, when market conditions permit, through the issuance of debt and equity securities from time to time. We may not be able to generate sufficient cash to fund our business, particularly if we are unable to renew leases, lease vacant space or re-lease space as leases expire according to expectations.

Moreover, difficult conditions in the financial markets and the economy generally have caused many lenders to suffer substantial losses, thereby causing many financial institutions to seek additional capital, to merge with other institutions and, in some cases, to fail. As a result, the real estate debt markets are continuing to experience a period of uncertainty, which may reduce our access to funding alternatives, or our ability to refinance debt on favorable

terms, or at all. In addition, market conditions, such as the current global economic environment, may also hinder our ability to sell strategically identified assets and access the debt and equity capital markets. If these conditions persist, we may need to find alternative ways to access cash to fund our business, including distributions to shareholders. Such alternatives may include, without limitation, curtailing development or redevelopment activity, disposing of one or more of our properties possibly on disadvantageous terms or entering into or renewing leases on less favorable terms than we otherwise would, all of which could adversely affect our profitability. If we are unable to generate, borrow or raise adequate cash to fund our business through traditional or

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alternative means, our business, operations, financial condition and distributions to shareholders will be adversely affected.

We are dependent on key personnel. Our executive and other senior officers have a significant role in our success. Our ability to retain our management group or to attract suitable replacements should any members of the management group leave is dependent on the competitive nature of the employment market. The loss of services from key members of the management group or a limitation in their availability could adversely affect our financial condition and cash flow. Further, such a loss could be negatively perceived in the capital markets.

We may amend our business policies without your approval. Our Board of Directors determines our growth, investment, financing, capitalization, borrowing, REIT status, operations and distributions policies. Although our Board of Directors has no present intention to amend or reverse any of these policies, they may be amended or revised without notice to stockholders. Accordingly, stockholders may not have control over changes in our policies. We cannot assure you that changes in our policies will serve fully the interests of all stockholders.

The market value of our preferred and common stock could decrease based on our performance and market perception and conditions. The market value of our preferred and common stock may be based primarily upon the market s perception of our growth potential and current and future cash dividends, and may be secondarily based upon the real estate market value of our underlying assets. The market price of our preferred and common stock is influenced by their respective distributions relative to market interest rates. Rising interest rates may lead potential buyers of our stock to expect a higher distribution rate, which would adversely affect the market price of our stock. In addition, rising interest rates would result in increased expense, thereby adversely affecting cash flow and our ability to service our indebtedness and pay distributions.

There are restrictions on the ownership and transfer of our capital stock. To maintain our qualification as a REIT under the Code, no more than 50% in value of our outstanding capital stock may be owned, actually or by attribution, by five or fewer individuals, as defined in the Code to also include certain entities, during the last half of a taxable year. Accordingly, our charter contains provisions restricting the ownership and transfer of our capital stock. These restrictions may discourage a tender offer or other transaction, or a change in management or of control of us that might involve a premium price for our common stock or preferred stock or that our stockholders otherwise believe to be in their best interests, and may result in the transfer of shares acquired in excess of the restrictions to a trust for the benefit of a charitable beneficiary and, as a result, the forfeiture by the acquirer of the benefits of owning the additional shares.

Our earnings are dependent, in part, upon the performance of our investment portfolio. As permitted by the Code, we invest in and own securities of other real estate investment trusts. To the extent that the value of those investments declines or those investments do not provide an attractive return, our earnings and cash flow could be adversely affected.

We are subject to restrictions that may impede our ability to effect a change in control. Certain provisions contained in our charter and bylaws and certain provisions of Maryland law may have the effect of discouraging a third party from making an acquisition proposal for us and thereby inhibit a change in control. These provisions include the following:

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Our charter provides for three classes of directors with the term of office of one class expiring each year, commonly referred to as a "staggered board." By preventing common stockholders from voting on the election of more than one class of directors at any annual meeting of stockholders, this provision may have the effect of keeping the current members of our Board of Directors in control for a longer period of time than stockholders may desire.

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Our charter generally limits any holder from acquiring more than 9.8% (in value or in number, whichever is more restrictive) of our outstanding equity stock (defined as all of our classes of capital stock, except our excess stock). While this provision is intended to assist us in qualifying as a REIT for Federal income tax purposes, the ownership limit may also limit the opportunity for stockholders to receive a premium for their

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shares of common stock that might otherwise exist if an investor was attempting to assemble a block of shares in excess of 9.8% of the outstanding shares of equity stock or otherwise effect a change in control.

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The request of stockholders entitled to cast a majority of the votes entitled to be cast at such meeting is necessary for stockholders to call a special meeting. We also require advance notice by common stockholders for the nomination of directors or proposals of business to be considered at a meeting of stockholders.

Our Board of Directors may authorize and cause us to issue securities without stockholder approval. Under our charter, the board has the power to classify and reclassify any of our unissued shares of capital stock into shares of capital stock with such preferences, rights, powers and restrictions as the Board of Directors may determine. The authorization and issuance of a new class of capital stock could have the effect of delaying or preventing someone from taking control of us, even if a change in control were in our stockholders best interests.

Maryland business statutes may limit the ability of a third party to acquire control of us. The duties of directors of Maryland corporations do not require them to (a) accept, recommend or respond to any proposal by a person seeking to acquire control of the corporation, (b) authorize the corporation to redeem any rights under, or modify or render inapplicable, any stockholders rights plan, (c) make a determination under the Maryland Business Combination Act or the Maryland Control Share Acquisition Act, or (d) act or fail to act solely because of the effect of the act or failure to act may have on an acquisition or potential acquisition of control of the corporation or the amount or type of consideration that may be offered or paid to the stockholders in an acquisition.

The Maryland Business Combination Act provides that unless exempted, a Maryland corporation may not engage in certain business combinations, including mergers, dispositions of 10 percent or more of its assets, certain issuances of shares of stock and other specified transactions, with an interested stockholder or an affiliate of an interested stockholder for five years after the most recent date on which the interested stockholder became an interested stockholder, and thereafter unless specified criteria are met. An interested stockholder is generally a person owning or controlling, directly or indirectly, 10 percent or more of the voting power of the outstanding stock of the Maryland corporation. In our charter, we have expressly elected that the Maryland Business Combination Act not govern or apply to any transaction with our affiliated company UMH, a Maryland corporation.

We cannot assure you that we will be able to pay distributions regularly. Our ability to pay distributions in the future is dependent on our ability to operate profitably and to generate cash from our operations and the operations of our subsidiaries. We cannot guarantee that we will be able to pay distributions on a regular quarterly basis in the future.

If our leases are not respected as true leases for federal income tax purposes, we would fail to qualify as a REIT. To qualify as a REIT, we must, among other things, satisfy two gross income tests, under which specified percentages of our gross income must be passive income, such as rent. For the rent paid pursuant to our leases to qualify for purposes of the gross income tests, the leases must be respected as true leases for federal income tax purposes and not be treated as service contracts, joint ventures or some other type of arrangement. We believe that our leases will be respected as true leases for federal income tax purposes. However, there can be no assurance that the Internal Revenue Service (IRS) will agree with this view. If the leases are not respected as true leases for federal income tax purposes, we would not be able to satisfy either of the two gross income tests applicable to REITs, and we could lose our REIT status.

Failure to make required distributions would subject us to additional tax. In order to qualify as a REIT, we must, among other requirements, distribute, each year, to our stockholders at least 90 percent of our taxable income, excluding net capital gains. To the extent that we satisfy the 90 percent distribution requirement, but distribute less than 100 percent of our taxable income, we will be subject to federal corporate income tax on our undistributed income. In addition, we will incur a 4 percent nondeductible excise tax on the amount, if any, by which our distributions (or deemed distributions) in any year are less than the sum of:

· 85 percent of our ordinary income for that year;

· 95 percent of our capital gain net earnings for that year; and

· 100 percent of our undistributed taxable income from prior years.

To the extent we pay out in excess of 100 percent of our taxable income for any tax year, we may be able to carry forward such excess to subsequent years to reduce our required distributions for purposes of the 4 percent excise tax in such subsequent years. We intend to pay out our income to our stockholders in a manner intended to satisfy the 90 percent distribution requirement. Differences in timing between the recognition of income and the related cash receipts or the effect of required debt amortization payments could require us to borrow money or sell assets to pay out enough of our taxable income to satisfy the 90 percent distribution requirement and to avoid corporate income tax.

We may not have sufficient cash available from operations to pay distributions, and, therefore, distributions may be made from borrowings. The actual amount and timing of distributions will be determined by our Board of Directors in its discretion and typically will depend on the amount of cash available for distribution, which will depend on items such as current and projected cash requirements and tax considerations. As a result, we may not have sufficient cash available from operations to pay distributions as required to maintain our status as a REIT. Therefore, we may need to borrow funds to make sufficient cash distributions in order to maintain our status as a REIT, which may cause us to incur additional interest expense as a result of an increase in borrowed funds for the purpose of paying distributions.

We may be required to pay a penalty tax upon the sale of a property. The federal income tax provisions applicable to REITs provide that any gain realized by a REIT on the sale of property held as inventory or other property held primarily for sale to customers in the ordinary course of business is treated as income from a prohibited transaction that is subject to a 100 percent penalty tax. Under current law, unless a sale of real property qualifies for a safe harbor, the question of whether the sale of real estate or other property constitutes the sale of property held primarily for sale to customers is generally a question of the facts and circumstances regarding a particular transaction. We intend that we and our subsidiaries will hold the interests in the real estate for investment with a view to long-term appreciation, engage in the business of acquiring and owning real estate, and make occasional sales as are consistent with our investment objectives. We do not intend to engage in prohibited transactions. We cannot assure you, however, that we will only make sales that satisfy the requirements of the safe harbors or that the IRS will not successfully assert that one or more of such sales are prohibited transactions.

We may be adversely affected if we fail to qualify as a REIT. If we fail to qualify as a REIT, we will not be allowed to deduct distributions to stockholders in computing our taxable income and will be subject to Federal income tax, including any applicable alternative minimum tax, at regular corporate rates. In addition, we might be barred from qualification as a REIT for the four years following disqualification. The additional tax incurred at regular corporate rates would reduce significantly the cash flow available for distribution to stockholders and for debt service. Furthermore, we would no longer be required to make any distributions to our stockholders as a condition to REIT qualification. Any distributions to stockholders would be taxable as ordinary income to the extent of our current and accumulated earnings and profits, although such dividend distributions would be subject to a top federal tax rate of 15% through 2012. Corporate distributees, however, may be eligible for the dividends received deduction on the distributions, subject to limitations under the Code.

To qualify as a REIT, we must comply with certain highly technical and complex requirements. We cannot be certain we have complied, and will always be able to comply, with the requirements to qualify as a REIT because there are few judicial and administrative interpretations of these provisions. In addition, facts and circumstances that may be beyond our control may affect our ability to continue to qualify as a REIT. We cannot assure you that new legislation, regulations, administrative interpretations or court decisions will not change the tax laws significantly with respect to our qualification as a REIT or with respect to the Federal income tax consequences of qualification. We believe that we have qualified as a REIT since our inception and intend to continue to qualify as a REIT. However, we cannot assure you that we are qualified or will remain qualified.

There is a risk of changes in the tax law applicable to real estate investment trusts. Because the IRS, the United States Treasury Department and Congress frequently review federal income tax legislation, we cannot predict whether, when or to what extent new federal tax laws, regulations, interpretations or rulings will be adopted. Any of

such legislative action may prospectively or retroactively modify our tax treatment and, therefore, may adversely affect taxation of us and/or our investors.

We may be unable to comply with the strict income distribution requirement applicable to REITs. As noted above, to maintain qualification as a REIT under the Code, a REIT must annually distribute to its stockholders at least 90% of its REIT taxable income, excluding the dividends paid deduction and net capital gains. This requirement limits our ability to accumulate capital. We may not have sufficient cash or other liquid assets to meet the 90% distribution requirements. Difficulties in meeting the 90% distribution requirement might arise due to competing demands for our funds or to timing differences between tax reporting and cash receipts and disbursements, because income may have to be reported before cash is received, because expenses may have to be paid before a deduction is allowed, because deductions may be disallowed or limited or because the IRS may make a determination that adjusts reported income. In those situations, we might be required to borrow funds or sell properties on adverse terms in order to meet the 90% distribution requirement and interest and penalties could apply which could adversely affect our financial condition. If we fail to satisfy the 90% distribution requirement, we would cease to be taxed as a REIT.

If we were considered to actually or constructively pay a preferential dividend to certain of our stockholders, our status as a REIT could be adversely affected. In order to qualify as a REIT, we must distribute annually to our stockholders at least 90% of our REIT taxable income (which does not equal net income as calculated in accordance with GAAP), determined without regard to the deduction for dividends paid and excluding net capital gain. In order for distributions to be counted as satisfying the annual distribution requirements for REITs, and to provide us with a REIT-level tax deduction, the distributions must not be preferential dividends. A dividend is not a preferential dividend if the distribution is pro rata among all outstanding shares of stock within a particular class, and in accordance with the preferences among different classes of stock as set forth in our organizational documents. Currently, there is uncertainty as to the application of the law in certain circumstances an the IRS s position regarding whether certain arrangements that REITs have with their stockholders could give rise to the inadvertent payment of a preferential dividend (e.g., the pricing methodology for stock purchased under a distribution reinvestment plan inadvertently causing a greater than 5% discount on the price of such stock purchased). There is no de minimis exception with respect to preferential dividends; therefore, if the IRS were to take the position that we inadvertently paid a preferential dividend, we may be deemed to have failed the 90% distribution test, and our status as a REIT could be terminated for the year in which such determination is made if we were unable to cure such failure. While we believe that our operations have been structured in such a manner that we will not be treated as inadvertently paying preferential dividends, we can provide no assurance to this effect.

Notwithstanding our status as a REIT, we are subject to various federal, state and local taxes on our income and property. For example, we will be taxed at regular corporate rates on any undistributed taxable income, including undistributed net capital gains; provided, however, that properly designated undistributed capital gains will effectively avoid taxation at the stockholder level. We may be subject to other Federal income taxes and may also have to pay some state income or franchise taxes because not all states treat REITs in the same manner as they are treated for Federal income tax purposes.

Future terrorist attacks and military conflicts could have a material adverse effect on general economic conditions, consumer confidence and market liquidity. Among other things, it is possible that interest rates may be affected by these events. An increase in interest rates may increase our costs of borrowing, leading to a reduction in our earnings. Terrorist acts could also result in significant damages to, or loss of, our properties.

We and our tenants may be unable to obtain adequate insurance coverage on acceptable economic terms for losses resulting from acts of terrorism. Our lenders may require that we carry terrorism insurance even if we do not believe

this insurance is necessary or cost effective. We may also be prohibited under the applicable lease from passing all or a portion of the cost of such insurance through to the tenant. Should an act of terrorism result in an uninsured loss or a loss in excess of insured limits, we could lose capital invested in a property, as well as the anticipated future revenues from a property, while remaining obligated for any mortgage indebtedness or other financial obligations related to the property. Any loss of these types would adversely affect our financial condition.

We are subject to risks arising from litigation. We may become involved in litigation. Litigation can be costly, and the results of litigation are often difficult to predict. We may not have adequate insurance coverage or

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contractual protection to cover costs and liability in the event we are sued, and to the extent we resort to litigation to enforce our rights, we may incur significant costs and ultimately be unsuccessful or unable to recover amounts we believe are owed to us. We may have little or no control of the timing of litigation, which presents challenges to our strategic planning.

ITEM 1B UNRESOLVED STAFF COMMENTS

None.

ITEM 2 - PROPERTIES

The Company operates as a REIT. Our portfolio is primarily comprised of real estate holdings, some of which have been long-term holdings carried on our financial statements at depreciated cost. We believe that their current market values exceed both the original cost and the depreciated cost.

The following table sets forth certain information concerning the Company s real estate investments as of September 30, 2012:

State	City	Fiscal Year Acquisition	Type	Square Footage	Mortgage Balance 9/30/2012
AL	Huntsville	2005	Industrial	73,712	$1,517,136
AZ	Tolleson	2003	Industrial	283,358	5,233,830
CO	Colorado Springs	2006	Industrial	68,370	2,331,135
CO	Denver	2005	Industrial	69,865	2,138,347
CT	Newington	2001	Industrial	54,812	883,732
FL	Cocoa	2008	Industrial	89,101	6,159,845
FL	Ft. Myers	2003	Industrial	87,500	2,126,128
FL	Jacksonville	1999	Industrial	95,883	2,551,257
FL	Lakeland	2007	Industrial	32,105	1,314,513
FL	Orlando	2008	Industrial	110,638	5,172,705
FL	Punta Gorda	2007	Industrial	34,624	2,430,666
FL	Tampa (FDX Gr)	2004	Industrial	167,527	9,125,605
FL	Tampa (FDX)	2006	Industrial	95,662	4,755,184
FL	Tampa (Vacant)	2007	Industrial	68,385	2,547,002
GA	Augusta (FDX Gr)	2005	Industrial	59,358	1,512,799
GA	Augusta (FDX)	2007	Industrial	30,184	1,075,398
GA	Griffin	2006	Industrial	218,120	8,219,757
IA	Urbandale	1994	Industrial	36,270	-0-
IL	Burr Ridge	1997	Industrial	12,500	127,858
IL	Elgin	2002	Industrial	89,052	2,139,149
IL	Granite City	2001	Industrial	184,800	3,711,003
IL	Montgomery	2007	Industrial	171,200	5,149,186
IL	Rockford	2011	Industrial	66,387	1,850,372
IL	Schaumburg	1997	Industrial	73,500	-0-
IL	Wheeling	2007	Industrial	123,000	4,792,255
KS	Edwardsville	2003	Industrial	179,280	2,184,083
KS	Topeka	2009	Industrial	40,000	2,192,408
MD	Beltsville	2001	Industrial	144,523	7,621,060
MI	Orion	2007	Industrial	193,156	10,453,436
MI	Romulus	1998	Industrial	71,933	2,811,133
MN	White Bear Lake	2007	Industrial	59,425	-0-
MO	Kansas City	2007	Industrial	65,067	2,754,812

MO	Liberty	1998	Industrial	98,200	259,672
MO	O' Fallon	1994	Industrial	102,135	-0-
MO	St. Joseph	2001	Industrial	388,671	3,041,207
MS	Olive Branch	2012	Industrial	234,660	10,807,516
MS	Ridgeland (Jackson)	1993	Industrial	26,340	-0-
MS	Richland	1994	Industrial	36,000	-0-
NC	Fayetteville	1997	Industrial	148,000	3,393,480
NC	Greensboro	1993	Industrial	40,560	-0-

State	City	Fiscal Year Acquisition	Type	Square Footage	Mortgage Balance 9/30/2012
NC	Monroe	2001	Industrial	160,000	1,609,176
NC	Winston-Salem	2002	Industrial	106,507	-0-
NE	Omaha	1999	Industrial	89,115	566,053
NJ	Carlstadt (1)	2007	Industrial	59,400	2,442,483
NJ	Somerset (2)	1970	Shopping Center	64,138	-0-
NY	Cheektowaga	2007	Industrial	104,981	1,414,778
NY	Halfmoon	2012	Industrial	75,000	4,158,552
NY	Orangeburg	1993	Industrial	50,400	-0-
OH	Bedford Heights	2007	Industrial	82,269	3,334,608
OH	Lebanon	2012	Industrial	51,130	2,974,113
OH	Richfield	2006	Industrial	79,485	4,323,512
OH	Streetsboro	2012	Industrial	368,060	12,387,391
OH	West Chester Twp	2000	Industrial	103,818	2,918,809
OK	Oklahoma City	2012	Industrial	119,912	6,134,146
PA	Monaca	1997	Industrial	292,000	-0-
SC	Ft. Mill	2010	Industrial	112,784	3,881,926
SC	Hanahan (Norton)	2005	Industrial	306,000	6,806,437
SC	Hanahan (FDX Gr)	2005	Industrial	91,776	2,079,725
TN	Chattanooga	2007	Industrial	60,637	2,370,566
TN	Lebanon	2011	Industrial	381,240	8,364,855
TN	Memphis	2010	Industrial	449,900	9,478,694
TN	Shelby County	2007	Land	N/A	-0-
TX	Carrollton (Dallas)	2010	Industrial	184,317	10,426,352
TX	Corpus Christi	2012	Industrial	46,253	3,012,724
TX	Edinburg	2011	Industrial	113,582	4,569,920
TX	El Paso	2007	Industrial	91,854	4,556,424
TX	El Paso	2011	Land	N/A	-0-
TX	Houston	2010	Industrial	91,295	4,597,844
TX	Waco	2012	Industrial	102,594	5,781,464
VA	Charlottesville	1999	Industrial	48,064	506,266
VA	Richmond (Carrier)	2007	Industrial	60,000	-0-
VA	Richmond (FDX)	2001	Industrial	112,799	1,692,150
VA	Roanoke	2007	Industrial	83,000	3,617,193
WI	Cudahy	2001	Industrial	139,564	1,554,081
				8,505,737	$237,943,911

(1)

The Company owns a 51% controlling equity interest.

(2)

The Company has an undivided 2/3 interest.

The following table sets forth certain information concerning the principal tenants and leases for the Company s properties shown above:

State	City	Tenant	Annualized Rent	Lease Expiration	
AL	Huntsville	FedEx Ground Package System, Inc.	$412,000	08/31/22	(9)
AZ	Tolleson	Western Container Corp	1,232,000	04/30/17	(1)
CO	Colorado Springs	FedEx Ground Package System, Inc.	644,000	09/30/18	
CO	Denver	FedEx Ground Package System, Inc.	564,000	07/31/18	
CT	Newington	Kellogg Sales Company	358,000	02/28/14	(1)
FL	Cocoa	FedEx Ground Package System, Inc.	739,000	11/19/16	
FL	Ft. Myers	FedEx Ground Package System, Inc.	416,000	10/31/14	(1)
FL	Jacksonville	Federal Express Corporation	530,000	05/31/19	(1)
FL	Lakeland	Federal Express Corporation	157,000	11/30/17	(1)
FL	Orlando	Federal Express Corporation	659,000	11/30/17	
FL	Punta Gorda	Federal Express Corporation	304,000	06/30/17	
FL	Tampa	FedEx Ground Package System, Inc.	1,412,000	01/31/19	
FL	Tampa	Federal Express Corporation	603,000	09/30/17	
FL	Tampa	Vacant	-0-	N/A	
GA	Augusta	FedEx Ground Package System, Inc.	477,000	06/30/18	
GA	Augusta	Federal Express Corporation	123,000	11/30/22	(1)
GA	Griffin	Caterpillar, Inc.	1,169,000	11/30/16	
IA	Urbandale	Keystone Automotive	135,000	03/31/17	
IL	Burr Ridge	Sherwin-Williams Company	161,000	10/31/14	
IL	Elgin	Joseph T. Ryerson	506,000	01/31/17	(1)
IL	Granite City	Anheuser-Busch, Inc.	771,000	05/31/16	
IL	Montgomery	Home Depot USA, Inc.	883,000	06/30/15	
IL	Rockford	Sherwin-Williams Company	467,000	12/31/23	
IL	Schaumburg	FedEx Ground Package System, Inc.	515,000	03/31/17	
IL	Wheeling	FedEx Ground Package System, Inc.	1,386,000	05/31/17	
KS	Edwardsville	Carlisle Tire & Wheel Company	689,000	05/31/13	(1)(8)
KS	Topeka	Coca Cola Enterprises, Inc.	332,000	09/30/21	
MD	Beltsville	FedEx Ground Package System, Inc.	1,426,000	07/31/18	
MI	Orion	FedEx Ground Package System, Inc.	1,285,000	06/30/17	
MI	Romulus	Federal Express Corporation	370,000	05/31/21	
MN	White Bear Lake	Federal Express Corporation	433,000	11/30/12	(11)
MO	Kansas City	Kellogg Sales Company	350,000	07/31/15	(1)
MO	Liberty	Vacant	-0-	N/A	
MO	O' Fallon	Pittsburgh Glass Works	427,000	06/30/15	(1)
MO	St. Joseph	Woodstream Corp.	896,000	09/30/17	(4)
MS	Jackson	Graybar Electric Company	109,000	07/31/19	(5)
MS	Olive Branch	Anda Pharmaceuticals, Inc.	1,181,000	05/31/22	
MS	Richland	Federal Express Corporation	140,000	03/31/14	
NC	Fayetteville	Maidenform, Inc.	444,000	12/31/12	(1)
NC	Greensboro	Highways & Skyways, of NC, Inc.	108,000	N/A	(7)
NC	Monroe	Hajoca	565,000	10/31/16	(1)(2)
NC	Winston-Salem	H.E.P. Direct, Inc.	302,000	12/31/17	
NE	Omaha	Federal Express Corporation	535,000	10/31/13	
NJ	Carlstadt	Macy s East, Inc.	460,000	03/31/14	(3)

NJ	Somerset	Various	476,000	Various	(6)
NY	Cheektowaga	FedEx Ground Package System, Inc.	966,000	08/31/19	
NY	Halfmoon	RGH Enterprise, Inc.	574,000	12/01/21	

State	City	Tenant	Annualized Rent	Lease Expiration	
NY	Orangeburg	Kellogg Sales Company	353,000	02/28/14	(1)
OH	Bedford Heights	Federal Express Corporation	421,000	08/31/18	(1)
OH	Lebanon	Siemens Real Estate	452,000	04/30/19	
OH	Richfield	FedEx Ground Package System, Inc.	645,000	10/31/16	
OH	Streetsboro	Best Buy Warehousing Logistics, Inc.	1,582,000	01/31/22	
OH	West Chester Twp	RPS Ground (FDX)	499,000	08/31/13	(8)
OK	Oklahoma City	FedEx Ground Package System, Inc.	700,000	03/31/22	
PA	Monaca	Various	582,000	Various	
SC	Ft. Mill	FedEx Ground Package System, Inc.	1,024,000	09/30/19	
SC	Hanahan	Norton McNaughton of Squire, Inc.	1,389,000	04/29/15	
SC	Hanahan	FedEx Ground Package System, Inc.	675,000	07/31/18	
TN	Chattanooga	Federal Express Corporation	322,000	10/31/17	(1)
TN	Lebanon	Cracker Barrel Old Country Store	1,371,000	06/30/24	
TN	Memphis	FedEx Supply Chain Services, Inc.	1,296,000	05/31/19	
TN	Shelby County	N/A- Land	-0-	N/A	
TX	Corpus Christi	FedEx Ground Package System, Inc.	450,000	08/31/21	
TX	Dallas (Carrollton)	Carrier Enterprises, LLC.	1,535,000	01/11/19	
TX	Edinburg	FedEx Ground Package System, Inc.	598,000	08/31/21	
TX	El Paso	FedEx Ground Package System, Inc.	668,000	09/30/15	
TX	El Paso	N/A- Land	-0-	N/A	
TX	Houston	National Oilwell DHT, L.P.	728,000	09/30/22	
TX	Waco	FedEx Ground Package System, Inc.	659,000	05/29/22	
VA	Charlottesville	Federal Express Corporation	335,000	08/31/17	(1)
VA	Richmond	Carrier Sales	306,000	05/31/16	
VA	Richmond	Federal Express Corporation	677,000	10/21/14	(10)
VA	Roanoke	DHL	621,000	12/07/16	
WI	Cudahy	FedEx Ground Package System, Inc.	901,000	06/30/17	
			$45,480,000		

(1)

Extension has been executed. See fiscal 2012 and 2013 renewal chart below.

(2)

Lease extension had an early termination option which was exercised in October 2012. The Company received a lump sum termination payment of base rent in October 2012 of $423,860 plus reimbursement of real estate, insurance, maintenance and repairs of $153,086 covering the period 11/1/12 through 7/31/13.

(3)

Estimated annual rent is the full rent per the lease. The Company consolidates the results of this property due to its controlling equity interest.

(4)

Current tenant is leasing 66% of the square footage. Former tenant exercised its lease termination option resulting in the Company recognizing $3,222,283 of lease termination income in fiscal 2012 and $113,784 in fiscal 2013.

(5)

Lease has an early termination option in 2014.

(6)

The Company owns an undivided 2/3 interest. Estimated annual rent reflects the Company s proportionate share of the total rent. One tenant, representing 51% of the square footage, gave notice they will be vacating the property as of 1/31/13.

(7)

This tenant is leasing 62% of the square footage on a month to month basis. Tenant gave notice in November 2012 that it will be vacating the property by December 31, 2012.

(8)

Renewal is in discussion for leases expiring in fiscal 2013.

(9)

Lease amendment effective 8/24/12 increased annual rent from $277,932 to $412,260 due to expansion which increased square footage from 56,698 sq. ft. to 73,712 sq. ft. and extended lease term from 8/31/14 to 8/31/22.

(10)

Effective November 1, 2012, lease was amended to extend term to 4/30/23 and adjusted annual rent to $541,440.

(11)

Upon lease expiration, this building became vacant.

All improved properties were 100% occupied at September 30, 2012 except for the following:

Property	Square Footage	Occupancy
Greensboro, NC	40,560	62%
Liberty, MO	98,200	-0-%
Monaca, PA	292,000	69%
Somerset, NJ	64,138	97%
St. Joseph, MO	388,671	66%
Tampa, FL	68,385	-0-%

The Company s weighted-average lease expiration was 5.3 and 5.1 years as of September 30, 2012 and 2011, respectively.

Our average occupancy rates for the years 2012, 2011, 2010, 2009 and 2008 were 95%, 97%, 96%, 96% and 97%, respectively. The average effective annual rent per square foot for 2012, 2011, 2010, 2009 and 2008 was $5.62, $5.59, $5.81, $5.64 and $5.28, respectively.

In fiscal 2012, approximately 15% of our gross leasable area, consisting of twelve leases totaling 1,294,560 square feet, was originally set to expire. As of September 30, 2012, the Company extended the following ten leases which were scheduled to expire in fiscal 2012 representing a tenant retention rate of 86%:

Property	Tenant	Square Feet	Former Average Rent PSF	Previous Lease Expiration	Renewal Average Rent PSF	New Lease Expiration	Renewal Term (years)
Ft Myers, FL	FedEx	87,500	$4.45	10/31/11	$4.76	10/31/14	3.0
Monroe, NC (1)	Hajoca Corporation	160,000	3.71	10/31/11	3.66	10/31/16	5.0
Elgin, IL	Ryerson	89,052	6.90	1/31/12	5.68	1/31/17	5.0
Orangeburg, NY	Kellogg Sales Company	50,400	7.00	2/29/12	7.00	2/28/13	1.0
Newington, CT	Kellogg Sales Company	54,812	6.54	2/29/12	6.54	2/28/13	1.0
Tolleson, AZ	Western Container	283,358	4.33	4/30/12	4.26	4/30/17	5.0
Edwardsville, KS	Carlisle Tire	179,280	3.77	5/31/12	3.84	5/31/13	1.0
O Fallon, MO	Pittsburgh Glass	102,135	4.40	6/30/12	4.18	6/30/15	3.0

Kansas City, MO	Kellogg Sales Company	65,067	5.66	7/31/12	5.38	7/31/15	3.0
Charlottesville, VA	FedEx	48,064	7.37	8/31/12	6.85	8/31/17	5.0
Weighted Average			$4.81		$4.66		3.5

(1)

Lease extension had an early termination option which was exercised in October 2012. The Company received a lump sum termination payment of base rent in October 2012 of $423,860 plus reimbursement of real estate, insurance, maintenance and repairs of $153,086 covering the period 11/1/12 through 7/31/13.

The remaining two leases for properties located in Winston-Salem, NC (containing 106,507 square feet) and located in Tampa, FL (containing 68,385 square feet) expired December 31, 2011. In July 2012, the Company entered in to a 5.4 year lease agreement with H.E.P. Direct Inc. for 100% of the space located in Winston-Salem, NC for an average annual rent per square foot of $2.62.

In fiscal 2013, approximately 11% of our gross leasable area, consisting of 11 leases totaling 896,813 square feet was originally set to expire. To date, the Company has extended the following 8 leases which were scheduled to expire in fiscal 2013:

Property	Tenant	Square feet	Former Average Rent PSF	Previous Lease Expiration	Renewal Average Rent PSF	New Lease Expiration	Renewal Term (years)
Chattanooga, TN	FedEx	60,637	$6.10	10/27/12	$5.13	10/31/17	5.0
Lakeland, FL	FedEx	32,105	5.13	11/30/12	4.83	11/30/17	5.0
Augusta, GA	FedEx	30,184	4.67	11/30/12	4.00	11/30/22	10.0
Fayetteville, NC	Maidenform, Inc.	148,000	3.00	12/31/12	3.00	12/31/13	1.0
Orangeburg, NY	Kellogg Sales Company	50,400	7.00	2/28/13	7.00	2/28/14	1.0
Newington, CT	Kellogg Sales Company	54,812	6.54	2/28/13	6.54	2/28/14	1.0
Jacksonville, FL	FedEx Ground	95,883	6.00	5/31/13	5.40	5/31/19	6.0
Bedford Heights, OH	FedEx	82,269	5.54	8/31/13	4.96	8/31/18	5.0
Weighted Average			$5.16		$4.81		3.6

The Company has been informed that one lease for 59,425 square feet or 7% of the space coming up for renewal in fiscal 2013 will not be renewed. This property is in White Bear Lake, MN leased to FDX. We continue to be in discussions with our tenants regarding the remaining two leases representing 283,098 square feet or 32% of the space scheduled for renewal in fiscal 2013.

The following table presents certain information as of September 30, 2012, with respect to the Company s leases expiring in the next ten years and thereafter:

Fiscal Year of Expiration	Property Count	Total Area Expiring (Sq Ft)	Current Annual Rent - $	Percent of Gross Annual Rent - %
Vacant	2	166,585	$-0-	0%
Month to Month	1	40,560	108,000	1%
Various*	2	356,138	1,058,000	2%
2013	5	650,523	2,630,000	6%
2014	5	289,727	1,846,000	4%
2015	8	949,055	4,971,000	11%
2016	2	244,800	1,077,000	2%

2017	15	1,974,627	11,272,000	25%
2018	10	826,048	5,647,000	12%
2019	8	1,192,862	7,324,000	16%
2020	-0-	-0-	-0-	0%
2021	4	271,768	1,750,000	4%
2022	7	1,065,233	5,836,000	13%
Thereafter	3	477,811	1,961,000	4%
Total	72	8,505,737	$45,480,000	100%

* Various relates to our two multi-tenant properties which have leases ranging from month to month to expirations through 2018.

ITEM 3 LEGAL PROCEEDINGS

None.

ITEM 4 MINE SAFETY DISCLOSURES

None.

PART II

ITEM 5 - MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Since June 1, 2010, the common stock of Monmouth Real Estate Investment Corporation has been traded on the New York Stock Exchange, under the symbol MNR . Previously, the common stock was traded on the NASDAQ Global Select Market. The per share range of high and low market prices and distributions paid to common shareholders during each fiscal quarter of the last two fiscal years were as follows:

Fiscal 2012				Fiscal 2011			
Market Price				Market Price			
Fiscal Qtr.	High	Low	Distrib.	Fiscal Qtr.	High	Low	Distrib.
First	$9.48	$7.51	$.15	First	$8.70	$7.70	$.15
Second	9.80	8.93	.15	Second	8.83	8.00	.15
Third	11.85	9.29	.15	Third	8.87	8.02	.15
Fourth	11.92	10.75	.15	Fourth	8.75	7.50	.15
			$.60				$ .60

On November 30, 2012, the closing price of our common stock was $10.50.

As of November 30, 2012, there were 1,165 shareholders of record who held shares of common stock of the Company.

It is the Company s intention to continue making quarterly distributions. On October 1, 2012, the Company declared a dividend of $.15 per share to be paid on December 17, 2012 to common shareholders of record on November 15, 2012. The Company's annual dividend rate on its common stock is currently $0.60 per share. The Company paid the distributions from cash flows from operations. Future common stock dividend policy will depend on the Company s

earnings, capital requirements, financial condition, availability and cost of bank financing and other factors considered relevant by the Board of Directors.

On December 5, 2011, the Company issued 2,000,000 shares of common stock in a registered direct placement at a price of $8.39 per share. The Company received net proceeds from the common stock offering of approximately $16,200,000. The Company used such net proceeds to purchase additional properties in the ordinary course of business and for general corporate purposes, including repayment of indebtedness.

As of September 30, 2012, the Company had outstanding 2,139,750 shares of 7.625% Series A Cumulative Redeemable Preferred Stock, par value $.01 per share, with an aggregate liquidation preference of $53,493,750 (Series A Preferred Stock). The Series A Preferred Stock ranks, as to dividend rights and rights upon our liquidation, dissolution or winding up, senior to our common stock and equal to any equity securities that we may issue in the future, the terms of which specifically provide that such equity securities rank equal to the Series A Preferred Stock. We are required to pay cumulative dividends on the Series A Preferred Stock in the amount of $1.90625 per share each year, which is equivalent to 7.625% of the $25.00 liquidation value per share. The Series A Preferred Stock is traded on the New York Stock Exchange.

On October 14, 2010, the Company issued 817,250 shares of its Series A Preferred Stock in a registered direct placement at a price of $24.00 per share. The Company received net proceeds from the Series A Preferred Stock offering of approximately $19,000,000 and used such net proceeds to purchase additional properties in the ordinary course of business and for general corporate purposes, including repayment of indebtedness.

On October 1, 2012, the Board of Directors declared a quarterly dividend of $0.4765625 per share on the Company's Series A Preferred Stock payable December 17, 2012, to shareholders of record on November 15, 2012. Series A preferred share dividends are cumulative and payable quarterly at an annual rate of $1.90625 per share.

On June 7, 2012 and June 21, 2012, the Company issued 2,000,000 and 300,000 shares, respectively, of 7.875% Series B Cumulative Redeemable Preferred Stock (Series B Preferred Stock) at an offering price of $25.00 per share in an underwritten public offering. The Company received net proceeds from the offering, after deducting the underwriting discount and other estimated offering expenses, of approximately $55,033,000 and intends to use the net proceeds from the offering to purchase properties in the ordinary course of business and for general corporate purposes, including repayment of indebtedness. Dividends on the Series B Preferred stock are cumulative from the date Series B Preferred Stock were first issued and payable quarterly at an annual rate of $1.96875. The Series B Preferred Stock ranks, as to dividend rights and rights upon our liquidation, dissolution or winding up, senior to our common stock and equal to our Series A Preferred Stock and equal to any equity securities that we may issue in the future, the terms of which specifically provide that such equity securities rank equal to the Series B Preferred Stock. As of September 30, 2012, the Company had outstanding 2,300,000 shares of Series B Preferred Stock, par value $.01 per share, with an aggregate liquidation preference of $57,500,000. We are required to pay cumulative dividends on the Series B Preferred Stock in the amount of $1.96875 per share each year, which is equivalent to 7.875% of the $25.00 liquidation value per share. The Series B Preferred Stock is traded on the New York Stock Exchange.

On October 1, 2012, the Board of Directors declared a quarterly dividend of $0.4921875 per share on the Company's Series B Preferred Stock payable December 17, 2012, to shareholders of record on November 15, 2012. Series B Preferred Stock dividends are cumulative and payable quarterly at an annual rate of $1.96875 per share.

Issuer Purchases of Equity Securities

On June 29, 2011, the Board of Directors reaffirmed its Share Repurchase Program (the repurchase program) that authorizes the Company to purchase up to $10,000,000 in the aggregate of the Company's common stock. The repurchase program was originally created on March 3, 2009 and is intended to be implemented through purchases made from time to time using a variety of methods, which may include open market purchases, privately negotiated transactions or block trades, or by any combination of such methods, in accordance with applicable insider trading and other securities laws and regulations. The size, scope and timing of any purchases will be based on business, market and other conditions and factors, including price, regulatory and contractual requirements or consents, and capital availability. The repurchase program does not require the Company to acquire any particular amount of common stock, and the program may be suspended, modified or discontinued at any time at the Company's discretion without prior notice. Shares of stock repurchased under the repurchase program will be held as treasury shares. During fiscal year 2009, the Company purchased 5,000 shares of its common stock for $4.98 per share for a total of $24,905 on the open market. There were no other purchases under the repurchase program. During fiscal year 2012, the Company distributed the 5,000 shares which were held in treasury to shareholders through the Dividend Reinvestment and Stock Purchase Plan (DRIP). The Company holds no shares in treasury as of September 30, 2012. The maximum dollar value that may be purchased under the repurchase program as of September 30, 2012 is $10,000,000.

Equity Compensation Plan Information

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 and up to 100,000 shares of restricted stock awards in any one fiscal year. See Note 10 in the Notes to the Consolidated Financial Statements included in this Form 10-K for a description of the plan.

The following table summarizes information, as of September 30, 2012, relating to equity compensation plan of the Company (including individual compensation arrangements) pursuant to which equity securities of the Company are authorized for issuance:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plan (excluding Securities reflected in column (a)) (c)
Equity Compensation Plan Approved by Security Holders	859,430	$8.05	801,961
Equity Compensation Plan not Approved by Security Holders	N/A	N/A	N/A
Total	859,430	$8.05	801,961

Comparative Stock Performance

The following line graph compares the total return of the Company s common stock for the last five fiscal years to the FTSE NAREIT Composite Index (US), published by the National Association of Real Estate Investment Trusts (NAREIT), and the S&P 500 Index for the same period. The total return reflects stock price appreciation and dividend reinvestment for all three comparative indices. The information has been obtained from sources believed to be reliable, but neither its accuracy nor its completeness is guaranteed.

ITEM 6 SELECTED FINANCIAL DATA

The following table sets forth selected financial and other information for the Company for the periods and as of the dates indicated. This table should be read in conjunction with management s discussion and analysis of financial condition and results of operations and all of the financial statements and notes thereto included elsewhere herein.

			September 30,		
	2012	2011	2010	2009	2008
OPERATING DATA:					
Rental and Reimbursement Revenue	$50,488,770	$48,141,484	$45,212,822	$41,318,498	$39,148,259
Lease Termination Income	3,222,283	-0-	-0-	-0-	-0-
Gain (Loss) on Securities					
Transactions, net	6,044,065	5,238,203	2,609,149	(6,601,460)	(3,660,283)
Interest and Dividend Income	3,358,674	3,100,327	2,510,909	2,502,253	1,871,262
Total Expenses	26,657,111	24,601,551	22,725,237	19,924,404	18,640,759
Gain (Loss) on Sale of					
Investment Property	-0-	-0-	-0-	-0-	6,790,616
Interest Expense	15,352,499	14,870,906	14,822,725	13,897,398	13,138,767
Amortization Expense	2,439,315	1,855,227	1,639,244	1,568,056	1,993,597
Income from Continuing Operations	18,664,867	15,152,330	11,145,674	1,829,433	3,586,115
Income (loss) from Discontinued Operations	19,628	265,868	(138,159)	(176,532)	7,436,780
Net Income	18,684,495	15,418,198	11,007,515	1,652,901	11,022,895
Net Income (Loss) Attributable					
	13,171,369				
to Common					
Shareholders		11,338,979	8,486,301	(868,313)	8,501,551
Income from Continuing Operations Per Share					
	.47	.43	.36	.07	.15
Basic					
Diluted	.47	.43	.36	.07	.15
Net Income (Loss) Attributable to Common					
Shareholders per share					
Basic	.33	.32	.28	(.03)	.35
Diluted	.33	.32	.28	(.03)	.35
BALANCE SHEET DATA:					
Total Assets	$574,507,702	$476,986,836	$454,118,797	$394,994,437	$389,077,597
	468,967,424	409,023,556	389,588,435	345,880,581	346,605,272

Real Estate Investments, Net					
Mortgage Notes Payable	237,943,911	211,614,170	210,577,861	192,050,283	191,947,632
8% Subordinated Convertible Debentures	8,615,000	8,915,000	13,990,000	13,990,000	14,990,000
Series A 7.625% Cumulative Redeemable Preferred Stock	53,493,750	53,493,750	33,062,500	33,062,500	33,062,500
Series B 7.875% Cumulative Redeemable Preferred Stock	57,500,000	-0-	-0-	-0-	-0-
Total Shareholders Equity	315,687,139	234,514,084	213,034,719	161,497,704	159,910,964
CASH FLOW DATA:					
Net Cash Provided (Used) By:					
Operating Activities	$26,808,821	$22,126,819	$18,995,659	$19,591,455	$17,438,835
Investing Activities	(80,640,038)	(30,365,918)	(55,701,769)	(11,655,914)	(39,831,002)
Financing Activities	72,105,267	7,801,354	37,439,775	(7,202,915)	16,345,092

			September 30,		
OTHER INFORMATION:	**2012**	**2011**	**2010**	**2009**	**2008**
Average Number of Common Shares Outstanding - Basic	39,660,692	35,083,457	30,371,217	24,981,427	24,131,497
Funds from Operations*	$26,119,795	$22,876,729	$19,142,454	$9,152,310	$11,397,238
Adjusted Funds from Operations*	$26,787,594	$23,301,886	$19,601,484	$9,152,310	$11,397,238
Cash Dividends Per Common Share	.60	.60	.60	.60	.60

* Funds from operations (FFO), is defined as net income, attributable to common shareholders, excluding gains (or losses) from sales of depreciable assets, plus depreciation and amortization of intangible assets. Adjusted FFO is defined as FFO plus acquisition costs. FFO should be considered as a supplemental measure of operating

performance used by REITs. The Company believes that FFO is helpful to investors as one of several measures of the performance of a REIT. FFO excludes historical cost depreciation as an expense and may facilitate the comparison of REITs which have different cost basis. The items excluded from FFO are significant components in understanding the Company's financial performance.

FFO (1) does not represent cash flow from operations as defined by generally accepted accounting principles; (2) should not be considered as an alternative to net income as a measure of operating performance or cash flows from operating, investing and financing activities; and (3) is not an alternative to cash flow as a measure of liquidity. FFO, as calculated by the Company, may not be comparable to similarly entitled measures reported by other REITs.

The Company s FFO and adjusted FFO are calculated as follows:

	2012	**2011**	**2010**	**2009**	**2008**
Net Income Attributable to Common Shareholders	$13,171,369	$11,338,979	$8,486,301	($868,313)	$8,501,551
(Gain) Loss on Sale of Investment Property (A)	-0-	-0-	-0-	-0-	(6,790,616)
Depreciation	11,471,070	10,312,807	9,282,829	8,553,869	7,892,129
Depreciation Related to Discontinued Operations	-0-	38,551	123,983	23,118	135,056
Amortization of Lease Intangible Assets	1,477,356	1,186,392	1,249,341	1,443,636	1,659,118
FFO Attributable to Common Shareholders	$26,119,795	$22,876,729	$19,142,454	$9,152,310	$11,397,238
Acquisition Costs	667,799	425,157	459,030	-0-	-0-
Adjusted FFO Attributable to Common Shareholders	$26,787,594	$23,301,886	$19,601,484	$9,152,310	$11,397,238

(A) Consists of the gain on sale of the Franklin, MA and Ramsey, NJ properties in 2008. These gains are included in discontinued operations.

ITEM 7 - MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Safe Harbor Statement

Statements contained in this Form 10-K, that are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Also, when we use any of the words anticipate, assume, believe, estimate, expect, intends, plans, seeks, could, may, or similar expression forward-looking statements. These forward-looking statements are not guaranteed and are based on our current intentions and on our current expectations and assumptions. These statements, intentions, expectations and assumptions involve risks and uncertainties, some of which are beyond our control, which could cause actual results or events to differ materially from those we anticipate or project, such as:

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the ability of our tenants to make payments under their respective leases, our reliance on certain major tenants and our ability to re-lease properties that are currently vacant or that become vacant;

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our ability to obtain suitable tenants for our properties;

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changes in real estate market conditions and general economic conditions;

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the inherent risks associated with owning real estate, including local real estate market conditions, governing laws and regulations and illiquidity of real estate investments;

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our ability to sell properties at an attractive price;

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our ability to repay debt financing obligations;

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our ability to refinance amounts outstanding under our credit facilities at maturity on terms favorable to us;

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the loss of any member of our management team;

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our ability to comply with certain debt covenants;

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our ability to integrate acquired properties and operations into existing operations;

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our continued ability to access the debt or equity markets;

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the availability of other debt and equity financing alternatives;

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market conditions affecting our debt and equity securities;

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changes in interest rates under our current credit facility and under any additional variable rate debt arrangements that we may enter into in the future;

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our ability to successfully implement our selective acquisition strategy;

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our ability to maintain internal controls and processes 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;

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changes in federal or state tax rules or regulations that could have adverse tax consequences;

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declines in the market value of our investment securities; and

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our ability to qualify as a real estate investment trust 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. We undertake no obligation to update or revise any forward-looking statements as a result of new information, future events or otherwise.

The following discussion should be read in conjunction with the financial statements and notes thereto included elsewhere herein.

Overview

The Company is a REIT and its primary business is the ownership and management of industrial buildings subject to long-term net-leases, primarily to investment grade tenants. At September 30, 2012, the Company held investments in seventy-two properties totaling approximately 8,506,000 square feet, consisting of seventy-one industrial properties and one shopping center, located in Somerset, New Jersey. Total net real estate investments were $468,967,424 at September 30, 2012. These properties are located in twenty-six states: Alabama, Arizona, Colorado, Connecticut, Florida, Georgia, Illinois, Iowa, Kansas, Maryland, Michigan, Minnesota, Mississippi, Missouri, Nebraska, New Jersey, New York, North Carolina, Ohio, Oklahoma, Pennsylvania, South Carolina,

Tennessee, Texas, Virginia, and Wisconsin. All of these properties are wholly owned, with the exception of an industrial property in New Jersey, in which the Company owns a majority interest, and the shopping center, in which the Company holds a two-thirds interest.

The Company s weighted-average lease expiration was 5.3 and 5.1 as of September 30, 2012 and 2011, respectively and its average rent per occupied square foot as of September 30, 2012 and 2011 was $5.62 and $5.59, respectively. At September 30, 2012 and 2011, the Company s occupancy was 95% and 97%, respectively. During fiscal 2012, the Company acquired seven industrial properties totaling approximately 1,000,000 square feet for approximately $70,400,000.

The Company has a concentration of FDX leased properties. At September 30, 2012, the total FDX and FDX subsidiaries leased square footage as a percentage of the Company s total rental space was 43%, with 12% leased to FDX and 31% leased to FDX subsidiaries. The percentage of rental and reimbursement revenue from FDX was 54% for the year ended September 30, 2012.

The Company s revenue primarily consists of rental and reimbursement revenue from the ownership of industrial rental property. Rental and reimbursement revenue increased $2,347,286, or 5%, for the year ended September 30, 2012 as compared to the year ended September 30, 2011. Total expenses (excluding other income and expense) increased $2,055,560, or 8%, for the year ended September 30, 2012 as compared to the year ended September 30, 2011. The increases were due mainly to the revenue and expenses relating to the property acquisitions made during fiscal 2012 and an increase in general and administrative expenses of $764,275, which is mainly due to an increase in compensation expense of approximately $533,000.

During the first quarter of fiscal 2013, the Company purchased one industrial property totaling approximately 172,000 square feet for approximately $14,350,000 located in Livonia, Michigan. The Company has entered into agreements to purchase eight new build-to-suit, industrial buildings that are currently being developed in Kentucky, Minnesota, Mississippi, Pennsylvania, Texas, Virginia and Wisconsin totaling approximately 1,832,000 square feet. The purchase price for the eight properties is approximately $109,000,000. Subject to satisfactory due diligence, the Company anticipates closing these eight transactions during fiscal 2013 and fiscal 2014.

The Company intends to continue to increase its real estate investments in fiscal 2013 through acquisitions or expansions of properties. The growth of the real estate portfolio depends on the availability of suitable properties which meet the Company s investment criteria and appropriate financing. Competition in the market areas in which the Company operates is significant and affects acquisitions, occupancy levels, rental rates and operating expenses of certain properties.

Revenues also include interest and dividend income and net gain on securities transactions. The Company holds a portfolio of securities of other REITs with a fair value of $61,685,173 as of September 30, 2012. The Company invests in REIT securities on margin from time to time when the Company can achieve an adequate yield spread. The

REIT securities portfolio provides the Company with liquidity and additional income and serves as a proxy for real estate when suitable acquisitions are not available. As of September 30, 2012, the Company s portfolio consisted primarily of 39% REIT preferred stocks and 61% REIT common stocks. The Company s weighted-average yield on the securities portfolio for 2012 was approximately 7.1%. Interest and dividend income increased to $3,358,674 for fiscal 2012 as compared to $3,100,327 in fiscal 2011. In fiscal 2012, the average balance and yield increased. During fiscal 2012, the Company recognized $6,044,065 in gains on securities transactions. The market for REIT securities has increased during fiscal 2012 and the Company has unrealized gains of $5,383,937 in its REIT securities portfolio as of September 30, 2012. The dividends received from our securities investments continue to meet our expectations. It is our intent to hold these securities long-term.

The Company had $24,650,858 in cash and cash equivalents and $61,685,173 in REIT securities as of September 30, 2012. The Company believes that funds generated from operations, the Dividend Reinvestment and Stock Purchase Plan (the DRIP), the issuance of Cumulative Redeemable Preferred Stock and the line of credit (Line of Credit), together with the ability to finance and refinance its properties, will provide sufficient funds to adequately meet its obligations over the next several years.

On December 5, 2011, the Company issued 2,000,000 shares of common stock in a registered direct placement at a price of $8.39 per share. The Company received net proceeds from the common stock offering of approximately $16,200,000. The Company used such net proceeds to purchase additional properties in the ordinary course of business and for general corporate purposes, including the repayment of indebtedness.

On June 7, 2012 and June 21, 2012, the Company issued 2,000,000 and 300,000 shares, respectively, of 7.875% Series B Cumulative Redeemable Preferred Stock (Series B Preferred Stock) at an offering price of $25.00 per share in an underwritten public offering. The Company received net proceeds from the offering, after deducting the underwriting discount and other estimated offering expenses, of approximately $55,033,000 and intends to use the net proceeds from the offering to purchase properties in the ordinary course of business and for general corporate purposes, including the repayment of indebtedness.

See PART I, Item 1 Business and Item 1A Risk Factors for a more complete discussion of the economic and industry-wide factors relevant to the Company and the opportunities and 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 operation 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. 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.

Significant accounting policies are defined as those that involve significant judgment and potentially could result in materially different results under different assumptions and conditions. Management believes the following significant accounting policies are affected by our more significant judgments and estimates used in the preparation of the Company s consolidated financial statements. For a detailed description of these and other accounting policies, see Note No. 1 in the Notes to the Company s Consolidated Financial Statements included in this Form

10-K.

Real Estate Investments

The Company applies Financial Accounting Standards Board Accounting Standards Codification (ASC) 360-10, Property, Plant & Equipment (ASC 360-10) to measure impairment in real estate investments. Rental properties are individually evaluated for impairment when conditions exist which may indicate that it is probable that the sum of expected future cash flows (on an undiscounted basis without interest) from a rental property is less than its historical net cost basis. These expected future cash flows consider factors such as future operating income, trends and prospects as well as the effects of leasing demand, competition and other factors. Upon determination that a permanent impairment has occurred, rental properties are reduced to their fair value. For properties to be disposed of, an impairment loss is recognized when the fair value of the property, less the estimated cost to sell, is less than the carrying amount of the property measured at the time there is a commitment to sell the property and/or it is actively being marketed for sale. A property to be disposed of is reported at the lower of its carrying amount or its estimated fair value, less its cost to sell. Subsequent to the date that a property is held for disposition, depreciation expense is not recorded.

Upon acquisition of a property, the Company allocates the purchase price of the property based upon the fair value of the assets acquired, which generally consist of land, buildings and intangible assets, including in-place leases and above and below market leases. The Company allocates the purchase price to the fair value of the tangible assets of an acquired property determined by third party appraisal of the property obtained in conjunction with the purchase. Acquired above and below market leases are valued based on the present value of the difference between prevailing market rates and the in-place rates over the remaining lease term.

The purchase price is further allocated to in-place lease values based on management's evaluation of the specific characteristics of each tenant's lease. Acquired above and below market leases are amortized over the remaining non-cancelable terms of the respective leases. The value of in-place lease intangibles is amortized to expense over the remaining lease term. If a tenant terminates its lease early, the unamortized portion of the tenant improvements, leasing commissions above and below market leases and the in-place lease value is charged to expense when there is a signed termination agreement, all of the conditions of the termination agreement are met, the tenant is no longer occupying the property and the termination consideration, if any, is probable of collection.

The Company conducted a comprehensive review of all real estate asset classes in accordance with ASC Topic 360, which indicates that asset values should be analyzed whenever events or changes in circumstances indicate that the carrying value of a property may not be fully recoverable.

The following are examples of such events or changes in circumstances that would indicate to management that there may be an impairment of a property:

§

A non-renewal of a lease and subsequent move out by the tenant;

§

A renewal of a lease at a significantly lower rent than a previous lease;

§

A significant decrease in the market value of a property;

§

A significant adverse change in the extent or manner in which a property is being used or in its physical condition;

§

A significant adverse change in legal factors or in the business climate that could affect the value of a property, including an adverse action or assessment by a regulator;

§

An accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a property;

§

A current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a property; or

§

A current expectation that, more likely than not, a property will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

The process entails the analysis of property for instances where the net book value exceeds the estimated fair value. In accordance with ASC Topic 360, an impairment loss shall be recognized if the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. The Company utilizes the experience and knowledge of its internal valuation team to derive certain assumptions used to determine an operating property s cash flow. Such assumptions include re-leasing and renewal probabilities upon future lease expirations, vacancy factors, rental growth rates, and capital expenditures.

As part of our review of our property portfolio, we have evaluated our properties in Monaca, PA, Greensboro, NC and St. Joseph, MO which had occupancy rates of 69%, 62% and 66%, respectively, as of September 30, 2012, and noted that the sum of the discounted cash flows exceeded its historical net cost basis. We have also evaluated the two vacant properties in our portfolio and any properties which we believe may not renew their leases and noted that the sum of the discounted cash flows expected for potential leases of these properties exceeded their historical net cost basis. Management considers on a quarterly basis whether the marketing rent (advertised) or the market rent has decreased or if any additional indicators are present which would indicate a significant decrease in net cash flows. Management typically will obtain an independent appraisal to assist in evaluating a potential impairment for a property that has been vacant for several years. We have also considered the properties which had lease renewals at rental rates lower than the previous rental rates and noted that the sum of the new discounted cash flows expected for the renewed leases exceeded these properties historical net cost basis.

The Company reviewed its operating properties in light of the requirements of ASC Topic 360-10 and determined that, as of September 30, 2012, the undiscounted cash flows over the holding period for these properties were in excess of their carrying values and, therefore, no impairment charges were required.

Securities Available for Sale

Investments in non-real estate assets consist primarily of marketable securities. Management individually reviews and evaluates our marketable securities for impairment on a quarterly basis, or when events or circumstances occur. Management considers, among other things, credit aspects of the issuer, amount of decline in fair value over cost and length of time in a continuous loss position. If a decline in fair value is determined to be other than temporary, a non-cash impairment charge is recognized in earnings and the cost basis of the individual security is written down to fair value as the new cost basis.

The Company classifies its securities among three categories: Held-to-maturity, trading and available-for-sale. The Company s securities at September 30, 2012 and 2011 are all classified as available-for-sale and are carried at fair value based on quoted market prices. Gains or losses on the sale of securities are calculated based on the average cost method and are accounted for on a trade date basis. Unrealized holding gains and losses are excluded from earnings and reported as a separate component of Shareholders Equity until realized. The change in net unrealized holding gains are reflected as comprehensive income.

Revenue Recognition and Estimates

Rental income from tenants with leases having scheduled rental increases are recognized on a straight-line basis over the term of the lease. Leases typically provide for reimbursement of real estate taxes, insurance, and other operating costs. These occupancy charges are recognized as earned. Estimates are used to establish amounts receivable and revenue from tenants for such things as annualized rents, real estate taxes and other cost recoveries. In addition, an estimate is made with respect to whether a provision for allowance for doubtful accounts receivable and loans receivable is necessary. The allowance for doubtful accounts reflects management s estimate of the amounts of the recorded accounts receivable and loans receivable at the balance sheet date that will not be realized from cash receipts in subsequent periods. If cash receipts in subsequent periods vary from our estimates, or if the Company s tenants financial condition deteriorates as a result of operating difficulties, additional changes to the allowance may be required.

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. In March 2012, the Company received $3,222,283 in lease termination income on its property in St. Joseph, MO. The Company also received reimbursement of $79,353 for real estate taxes and utilities. Additionally, if the Company does not re-lease or sell the entire property before November 30, 2012, the tenant will pay to the Company additional rent from September 1, 2012 through November 30, 2012 in the amount of $111,113 per month (pro-rated for any area/time leased). On May 8, 2012, the Company entered into a 5-year lease agreement with Woodstream Corp. for approximately 256,000 square feet (representing approximately 66% of the space) at the Company s 388,671 square foot facility in St. Joseph, MO. Rent commenced on September 1, 2012 and the annual rental income is $896,000 ($3.50 per square foot). This lease expires on September 30, 2017. In December 2012, the Company expects to

receive $113,784 in lease termination income representing approximately 34% of the additional rent from September 1, 2012 through November 30, 2012 for the portion of the space that was not re-leased.

Results of Operations

Occupancy and Rent per Occupied Square Foot

The Company s weighted-average lease expiration was 5.3 and 5.1 years as of September 30, 2012 and 2011, respectively and its average rent per occupied square foot for fiscal 2012 and 2011 was $5.62 and $5.59, respectively. As of September 30, 2012 and 2011, the Company s occupancy rate was 95% and 97%, respectively. All improved properties were 100% occupied at September 30, 2012 except for the following:

Property	Square Footage	Occupancy
Greensboro, NC	40,560	62%
Liberty, MO	98,200	-0-%
Monaca, PA	292,000	69%
Somerset, NJ	64,138	97%
St. Joseph, MO	388,671	66%
Tampa, FL	68,385	-0-%

Lease Renewals and Extensions

In fiscal 2012, approximately 15% of our gross leasable area, consisting of twelve leases totaling 1,294,560 square feet, was originally set to expire. As of September 30, 2012, the Company extended the following ten leases which were scheduled to expire in fiscal 2012 representing a tenant retention rate of 86%:

Property	Tenant	Square Feet	Former Average Rent PSF	Previous Lease Expiration	Renewal Average Rent PSF	New Lease Expiration	Renewal Term (years)
Ft Myers, FL	FedEx	87,500	$4.45	10/31/11	$4.76	10/31/14	3.0
Monroe, NC (1)	Hajoca Corporation	160,000	3.71	10/31/11	3.66	10/31/16	5.0
Elgin, IL	Ryerson	89,052	6.90	1/31/12	5.68	1/31/17	5.0
Orangeburg, NY	Kellogg Sales Company	50,400	7.00	2/29/12	7.00	2/28/13	1.0
Newington, CT	Kellogg Sales Company	54,812	6.54	2/29/12	6.54	2/28/13	1.0
Tolleson, AZ	Western Container	283,358	4.33	4/30/12	4.26	4/30/17	5.0

Edwardsville, KS	Carlisle Tire	179,280	3.77	5/31/12	3.84	5/31/13	1.0
O Fallon, MO	Pittsburgh Glass	102,135	4.40	6/30/12	4.18	6/30/15	3.0
Kansas City, MO	Kellogg Sales Company	65,067	5.66	7/31/12	5.38	7/31/15	3.0
Charlottesville, VA	FedEx	48,064	7.37	8/31/12	6.85	8/31/17	5.0
Weighted Average			$4.81		$4.66		3.5

(1)

Lease extension had an early termination option which was exercised in October 2012. The Company received a lump sum termination payment of base rent in October 2012 of $423,860 plus reimbursement of real estate, insurance, maintenance and repairs of $153,086 covering the period 11/1/12 through 7/31/13.

The remaining two leases for properties located in Winston-Salem, NC (containing 106,507 square feet) and located in Tampa, FL (containing 68,385 square feet) expired December 31, 2011. In July 2012, the Company entered into a 5.4 year lease agreement with H.E.P. Direct Inc. for 100% of the space located in Winston-Salem ,NC for an average annual rent per square foot of $2.62.

In fiscal 2013, approximately 11% of our gross leasable area, consisting of 11 leases totaling 896,813 square feet was originally set to expire. To date, the Company has extended the following 8 leases which were scheduled to expire in fiscal 2013:

Property	Tenant	Square feet	Former Average Rent PSF	Previous Lease Expiration	Renewal Average Rent PSF	New Lease Expiration	Renewal Term (years)
Chattanooga, TN	FedEx	60,637	$6.10	10/27/12	$5.13	10/31/17	5.0
Lakeland, FL	FedEx	32,105	5.13	11/30/12	4.83	11/30/17	5.0
Augusta, GA	FedEx	30,184	4.67	11/30/12	4.00	11/30/22	10.0
Fayetteville, NC	Maidenform, Inc.	148,000	3.00	12/31/12	3.00	12/31/13	1.0
Orangeburg, NY	Kellogg Sales Company	50,400	7.00	2/28/13	7.00	2/28/14	1.0
Newington, CT	Kellogg Sales Company	54,812	6.54	2/28/13	6.54	2/28/14	1.0
Jacksonville, FL	FedEx Ground	95,883	6.00	5/31/13	5.40	5/31/19	6.0
Bedford Heights, OH	FedEx	82,269	5.54	8/31/13	4.96	8/31/18	5.0
Weighted Average			$5.16		$4.81		3.6

The Company has been informed that one lease for 59,425 square feet or 7% of the space coming up for renewal in fiscal 2013 will not be renewed. This property is in White Bear Lake, MN leased to FDX. We continue to be in discussions with our tenants regarding the remaining two leases representing 283,098 square feet or 32% of the space scheduled for renewal in fiscal 2013.

Acquisitions During Fiscal 2012

On October 11, 2011, the Company purchased a 368,060 square foot industrial building located in Streetsboro, Ohio. The building is 100% net leased to Best Buy Warehousing Logistics, Inc. through January 31, 2022. The purchase price was $19,600,000. The Company obtained a mortgage of $12,740,000 at a fixed interest rate of 5.5% for 10 years and paid the remaining amount with a draw on its unsecured Line of Credit. This mortgage matures on November 1, 2021. Annual rental income over the remaining term of the lease is approximately $1,582,000.

On October 18, 2011, the Company purchased a 46,253 square foot industrial building located in Corpus Christi, Texas. The building is 100% net leased to FedEx Ground Package System, Inc. through August 31, 2021 and is subject to a ground lease with the City of Corpus Christi. The purchase price was $4,992,000. The Company

obtained a mortgage of $3,150,000 and paid the remaining amount with a draw on its Line of Credit. The mortgage has a fixed interest rate of 5.85% for the first 5 years, and on December 1, 2016, the interest rate will reset to the Federal Home Loan Bank of New York rate plus 275 basis points with a floor of 5.5%. This mortgage matures on November 1, 2021. Annual rental income over the remaining term of the lease (including the ground rent) is approximately $450,000. The Company recorded an intangible asset related to the lease in-place of $227,500.

On November 9, 2011, the Company purchased a 75,000 square foot industrial building located in Halfmoon, New York. The building is 100% net leased to RGH Enterprises Inc. d/b/a Edgepark Medical Supplies through December 1, 2021. The purchase price was $6,019,000. Initially, the Company used a draw on its Line of Credit to fund this purchase. On January 13, 2012, the Company obtained a mortgage of $4,213,000 at a fixed rate of 5.25% for the first 5 years and repaid the draw under the Line of Credit. On January 13, 2017 and every 5 years thereafter, the interest rate under the mortgage will reset to the 5 year U.S. Treasury yield plus 265 basis points with a minimum rate of 5.25%. This mortgage matures on January 13, 2037. Annual rental income over the remaining term of the lease is approximately $574,000. The Company recorded an intangible asset related to the lease in-place of $493,000.

On December 20, 2011, the Company purchased a 51,130 square foot industrial building located in Lebanon, Ohio. The building is 100% net leased to Siemens Real Estate, a division of Siemens Corporation, through April 30, 2019. The purchase price was $5,100,000. The Company obtained a mortgage of $3,030,000 at a fixed

rate of 5.55% through December 31, 2016. On January 1, 2017 the interest rate will reset to the lender s prevailing rate for the remainder of the loan. This mortgage matures on May 1, 2019. There is no prepayment penalty at the interest rate reset date. The Company paid the remaining amount of the purchase price with cash on hand. Annual rental income over the remaining term of the lease is approximately $452,000. The Company recorded an intangible asset related to the lease in-place of $684,000.

On March 15, 2012, the Company purchased a 234,660 square foot industrial building located in Olive Branch, Mississippi. The building is 100% net leased to Anda Pharmaceuticals, Inc., a distribution division of Watson Pharmaceuticals, Inc., through May 31, 2022. The purchase price was $16,500,000. The Company obtained a mortgage of $11,000,000 at a fixed rate of 4.8%. This mortgage matures on April 1, 2022. The Company paid the remaining amount of the purchase price with cash on hand. Annual rental income over the remaining term of the lease is approximately $1,181,000. The Company recorded an intangible asset related to the lease in-place of $1,950,000.

On June 8, 2012, the Company purchased a 119,912 square foot industrial building located in Oklahoma City, Oklahoma. The building is 100% net leased to FedEx Ground Package System, Inc. through March 31, 2022. The purchase price was $9,453,000. The Company obtained a mortgage of $6,200,000 at a fixed rate of 4.35%. This mortgage matures on June 1, 2024. The Company paid the remaining amount of the purchase price with cash on hand. Annual rental income over the remaining term of the lease is approximately $700,000.

On July 18, 2012, the Company purchased a 102,594 square foot industrial building located in Waco, TX. The building is 100% net leased to FedEx Ground Package System, Inc. through May 29, 2022. The purchase price was $8,733,000. The Company obtained a mortgage of $5,800,000 at a fixed rate of 4.75%. This mortgage matures on August 1, 2022. The Company paid the remaining amount of the purchase price with cash on hand. Annual rental income over the remaining term of the lease is approximately $659,000.

The ultimate parents of these tenants - Best Buy, Federal Express Corporation, RGH Enterprises Inc., Siemens AG, and Watson Pharmaceuticals Inc. - are public companies and financial information related to these entities can be found on the Securities and Exchange Commission website at *www.SEC.gov*.

Comparison of Year Ended September 30, 2012 to Year Ended September 30, 2011

The following tables summarize the Company s rental revenue, reimbursement revenue, real estate taxes, operating expenses, and depreciation expense by category. For the purposes of the following discussion, properties are properties owned as of October 1, 2010 that have not been subsequently expanded. One property was expanded in fiscal 2012 and no properties were expanded in fiscal 2011. Vacant properties were properties vacant in fiscal 2012 and 2011. Acquired properties are properties that were acquired subsequent to September 30, 2010. Other amounts relate to general corporate expenditures.

As of September 30, 2012 and 2011, the occupancy rates of the Company s same store properties were 95% and 97%, respectively.

Rental Revenues	2012	2011	$ Change	% Change
Same Store Properties	$36,483,720	$36,926,967	($443,247)	(1%)
Acquired Properties	6,199,223	1,693,311	4,505,912	266%
Expanded Properties	292,012	277,929	14,083	5%
Vacant Properties	418,858	1,013,042	(594,184)	(59%)
Disposed Properties	-0-	323,279	(323,279)	(100%)
Total	$43,393,813	$40,234,528	$3,159,285	8%

Rental revenue from same store properties decreased slightly due mainly to a reduction in rental rates for the renewed or extended leases as described in the Lease Renewals and Extensions table during fiscal 2012 as well

as a partial vacancy in our St. Joseph, Missouri property. Rent from acquired properties included rental revenue from the properties located in Lebanon, TN, Rockford, IL and Edinburg, TX (all acquired in fiscal 2011) and Streetsboro, OH, Corpus Christi, TX, Halfmoon, NY, Lebanon, OH, Olive Branch, MS, Oklahoma City, OK and Waco, TX (all acquired in fiscal 2012) as described under acquisitions above.

Reimbursement Revenues	2012	2011	$ Change	% Change
Same Store Properties	6,417,835	$7,381,786	($963,951)	(13%)
Acquired Properties	549,038	207,724	341,314	164%
Expanded Properties	60,303	35,631	24,672	69%
Vacant Properties	67,781	221,516	(153,735)	(69%)
Disposed Properties	-0-	60,299	(60,299)	(100%)
Total	$7,094,957	$7,906,956	($811,999)	(10%)

Reimbursement revenues from same store properties decreased due mainly to adjustments in billings related to real estate taxes from reduced taxable assessed values on property taxes in certain jurisdictions and decreases in miscellaneous reimbursements.

Real Estate Taxes	2012	2011	$ Change	% Change
Same Store Properties	$5,389,255	$6,595,865	($1,206,610)	(18%)
Acquired Properties	111,592	192,680	(81,088)	(42%)
Expanded Properties	27,934	27,156	778	3%
Vacant Properties	246,129	368,556	(122,427)	(33%)
Disposed Properties	-0-	54,818	(54,818)	(100%)
Total	$5,774,910	$7,239,075	($1,464,165)	(20%)

Real estate taxes from same store, acquired and vacant properties decreased due to adjustments in estimates related to real estate taxes from reduced taxable assessed values on properties in certain jurisdictions. Our single tenant properties are subject to net-leases which require the tenants to absorb the real estate taxes as well as insurance and the majority of the repairs and maintenance. As such, the Company is reimbursed by the tenants for these real estate taxes.

Operating Expenses	2012	2011	$ Change	% Change
Same Store Properties	$2,383,002	$2,113,663	$269,339	13%
Acquired Properties	492,091	20,751	471,340	2271%
Expanded Properties	12,940	14,745	(1,805)	(12%)
Vacant Properties	245,741	314,053	(68,312)	(22%)
Disposed Properties	-0-	6,100	(6,100)	(100%)

Total	$3,133,774	$2,469,312	$664,462	27%

Operating expenses for same store properties increased due mainly to increases in insurance premiums of approximately $100,000, utilities of approximately $22,000 and repairs and maintenance of approximately $55,000. Operating expenses for acquired properties increased due mainly to the increase of properties acquired in 2012 of seven properties versus properties acquired in 2011 of three properties.

Depreciation	2012	2011	$ Change	% Change
Same Store Properties	$9,869,277	$9,445,678	$423,599	4%
Acquired Properties	1,024,280	292,816	731,464	250%
Expanded Properties	73,916	71,482	2,434	3%
Vacant Properties	503,597	464,280	39,317	8%
Disposed Properties	-0-	38,551	(38,551)	(100%)
Total	$11,471,070	$10,312,807	$1,158,263	11%

Depreciation from same store properties increased slightly due mainly to capital projects placed in service during the year.

Interest Expense	2012	2011	$ Change	% Change
Same Store Properties	$11,446,327	$12,517,824	($1,071,497)	(9%)
Acquired Properties	2,426,580	720,792	1,705,788	237%
Expanded Properties	87,439	95,858	(8,419)	(9%)
Vacant Properties	230,952	467,054	(236,102)	(51%)
Disposed Properties	-0-	5,717	(5,717)	(100%)
Debentures and Loans Payable	1,161,201	1,063,661	97,540	9%
Total	$15,352,499	$14,870,906	$481,593	3%

Interest expense for same store properties decreased due mainly to the decrease in the outstanding balances of the mortgages due to principal payments made in fiscal 2012 of $29,703,259.

General and administrative expenses increased $764,275 or 20% during fiscal 2012 as compared to fiscal 2011. The increases related mainly to increases in executive compensation and employee benefits of approximately $530,000, increases of franchise taxes of approximately $21,000 and an increase in professional fees of approximately $50,000. Included in the increase in executive compensation and employee benefits expense during fiscal 2012 was a one-time charge of $210,510 for restricted stock grants awarded to a participant who is of retirement age and therefore their entire amount of measured compensation cost has been recognized at grant date.

Interest and dividend income increased $258,347 in fiscal 2012 as compared to fiscal 2011. This is due mainly to an increase in the size of the REIT securities portfolio. The value of the securities portfolio increased from $44,265,059 as of September 30, 2011 to $61,685,173 as of September 30, 2012. The REIT securities portfolio yield for fiscal 2012 was approximately 7.1% as compared to 7.0% for fiscal 2011.

Gain (loss) on securities transactions, net consisted of the following:

	2012	2011
Gross realized gains	$6,066,971	$5,265,715
Gross realized losses	(22,906)	(27,512)
Total Gain (Loss) on Securities Transactions, net	$6,044,065	$5,238,203

The Company had an accumulated net unrealized gain on its securities portfolio of $5,383,937 as of September 30, 2012.

Comparison of Year Ended September 30, 2011 to Year Ended September 30, 2010

The following tables summarize the Company s rental revenue, reimbursement revenue, real estate taxes, operating expenses, and depreciation expense by category. For the purposes of the following discussion, same store properties are properties owned as of October 1, 2009 that have not been subsequently expanded. No properties were expanded in fiscal 2011 or 2010. Vacant properties were properties vacant in fiscal 2011 and 2010. Acquired properties are properties that were acquired subsequent to September 30, 2009. Other amounts relate to general corporate expenditures.

As of September 30, 2011 and 2010, the occupancy rates of the Company s same store properties were 97% and 96%, respectively.

Rental Revenues	2011	2010	$ Change	% Change
Same Store Properties	$33,999,820	$34,228,382	($228,562)	(1%)
Acquired Properties	6,234,708	3,095,073	3,139,635	101%
Total	$40,234,528	$37,323,455	$2,911,073	8%

Rental revenue from same store properties decreased slightly due mainly to the decreased rental rates in the renewed or extended leases. Rent from acquired properties included rental revenue from the properties located in Memphis, TN, Houston, TX, Carrollton, TX and Ft. Mill, SC (all acquired in fiscal 2010) and Lebanon, TN, Rockford, IL and Edinburg, TX (all acquired in fiscal 2011).

Reimbursement Revenues	2011	2010	$ Change	% Change
Same Store Properties	$7,077,255	$7,318,393	($241,138)	(3%)
Acquired Properties	829,701	570,974	258,727	45%

Total	$7,906,956	$7,889,367	$17,589	0%

Reimbursement revenues from same store properties decreased slightly due mainly to adjustments in billings related to real estate taxes from decreased taxes in certain jurisdictions and decreases in miscellaneous reimbursements.

Real Estate Taxes	2011	2010	$ Change	% Change
Same Store Properties	$6,231,706	$6,339,983	($108,277)	(2%)
Vacant Properties	209,378	205,235	4,143	2%
Acquired Properties	797,991	553,073	244,918	

NOTE 6: INCOME TAXES

The following table lists the components of the provision for income taxes:

Years ended December 31,	2015	2014	2013
(in thousands)			
Current provision:			
Federal	$5,056	$4,275	$2,325
State	300	143	99
Deferred provision (benefit):			
Federal	1,256	(762)	57
State	53	(43)	21
Total income tax provision	$6,665	$3,613	$2,502

A reconciliation between the federal graduated statutory rate and Marine Products' effective tax rate is as follows:

Years ended December 31,	2015	2014	2013
Federal statutory rate	35.0%	35.0%	34.0%
State income taxes, net of federal benefit	0.8	0.7	0.7
Research and experimentation credit	(1.1)	(2.1)	(4.9)
Tax-exempt interest	(0.4)	(1.1)	(1.4)
Tax-exempt gain on SERP assets	(0.1)	(0.5)	(1.2)
Manufacturing deduction	(2.5)	(3.3)	(2.7)
Change in valuation allowance	—	—	0.2
Other	—	0.1	0.2
Effective tax rate	31.7%	28.8%	24.9%

Significant components of the Company’s deferred tax assets and liabilities are as follows:

December 31,	2015	2014
(in thousands)		
Deferred tax assets:		
Warranty costs	$1,209	$1,362
Sales incentives and discounts	547	512
Stock-based compensation	1,061	996
Pension	2,300	2,499
All others	514	444
State credits and NOL’s	4,967	4,674
Valuation allowance	(4,694)	(4,401)
Total deferred tax assets	5,904	6,086
Deferred tax liabilities:		
Depreciation and amortization expense	(1,062)	(392)
Basis differences in joint venture	(504)	—
Net deferred tax assets	$4,338	$5,694

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Total net income tax payments were $5,797,000 in 2015, $3,509,000 in 2014, and $2,600,000 in 2013. As of December 31, 2015 the Company had net operating loss carry forwards related to state income taxes and credits of approximately $20.6 million that will expire between 2016 and 2035. As of December 31, 2015 the Company has a valuation allowance of approximately $4.7 million, representing the tax affected amount of state tax credits and loss carry forwards that the Company does not expect to utilize, against the corresponding deferred tax asset.

The Company’s policy is to record interest and penalties related to income tax matters as income tax expense. Accrued interest and penalties were immaterial as of December 31, 2015 and 2014.

As of December 31, 2015 and 2014, our liability for unrecognized tax benefits was $15,000 and $14,000, respectively, all of which would affect our effective rate if recognized. It is reasonably possible that the amount of the unrecognized benefits with respect to our unrecognized tax positions will increase or decrease in the next 12 months. These changes may be the result of, among other things, state tax settlements under voluntary disclosure agreements. However, quantification of an estimated range cannot be made at this time.

The Company and its subsidiaries are subject to U.S. federal and state income tax in multiple jurisdictions. In many cases our uncertain tax positions are related to tax years that remain open and subject to examination by the relevant taxing authorities. The Company’s 2012 through 2015 tax years remain open to examination. Additional years may be open to the extent attributes are being carried forward to an open year.

The Protecting Americans from Tax Hikes Act of 2015 (“PATH”) was signed into law on December 18, 2015 and retroactively reinstated the provisions of the bonus depreciation deduction and the research and experimentation credits (“R&E credits”) for 2015 and future years. As a result of the retroactive extension, the Company’s effective rate for 2015 included a tax benefit due to the combined effect from the bonus depreciation on the manufacturing deduction and the R&E credits attributable to the year.

In September 2013, the U.S. Department of the Treasury issued final regulations under Internal Revenue Code Sections 162(a), 263(a), and 168 that provide guidance on the deduction and capitalization of expenditures related to tangible property. Adoption of these regulations required certain mandatory and elective accounting methods with respect to property and equipment, inventory and supplies. MPC adopted these regulations as of January 1, 2014 and adoption of these provisions did not have a material impact on the results of operations or financial position during

2014 or 2015.

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NOTE 7: ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated other comprehensive loss consists of the following:

(in thousands)	Pension Adjustment	Unrealized (Loss) gain on Securities	Total
Balance at December 31, 2013	$ (990)	$ 137	$(853)
Change during 2014:			
Before-tax amount	(1,639)	(213)	(213)
Tax benefit	582	74	74
Reclassification adjustment, net of taxes			
Amortization of net loss	23	—	(1,034)
Net realized gain	—	57	57
Total activity in 2014	(1,034)	(82)	(1,116)
Balance at December 31, 2014	$ (2,024)	$ 55	$(1,969)
Change during 2015:			
Before-tax amount	119	(157)	(157)
Tax (expense) benefit	(42)	55	55
Reclassification adjustment, net of taxes			
Amortization of net loss	48	—	125
Net realized gain	—	45	45
Total activity in 2015	125	(57)	68
Balance at December 31, 2015	$ (1,899)	$ (2)	$(1,901)

NOTE 8: FAIR VALUE MEASUREMENTS

The various inputs used to measure assets at fair value establish a hierarchy that distinguishes between assumptions based on market data (observable inputs) and the Company’s assumptions (unobservable inputs). The hierarchy consists of three broad levels as follows:

1. Level 1 – Quoted market prices in active markets for identical assets or liabilities.
2. Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
3. Level 3 – Unobservable inputs developed using the Company's estimates and assumptions, which reflect those that market participants would use.

The following table summarizes the valuation of financial instruments measured at fair value on a recurring basis on the balance sheet as of December 31, 2015 and 2014:

	Fair Value Measurements at December 31, 2015 with:		
(in thousands)	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs
	(Level 1)	(Level 2)	(Level 3)
Assets:			
Trading securities	$ —	$ 6,491	$ —
Available-for-sale securities:			—
Municipal Obligations	$ —	$ 30,996	$ —
Corporate Obligations	—	3,958	—
Total	$ —	$ 34,954	$ —

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	Fair Value Measurements at December 31, 2014 with:					
(in thousands)	Quoted prices in active markets for identical assets (Level 1)		Significant other observable inputs (Level 2)		Significant unobservable inputs (Level 3)	
Assets:						
Trading securities	$	—	$	6,575	$	—
Available-for-sale securities:						—
Municipal Obligations	$	—	$	32,080	$	—
Corporate Obligations		—		5,404		—
Total	$	—	$	37,484	$	—

The Company determines the fair value of the marketable securities that are available-for-sale through quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active. The trading securities are comprised of the SERP assets, as described in Note 10, and are recorded primarily at their net cash surrender values, which approximates fair value, as provided by the issuing insurance company. Significant observable inputs, in addition to quoted market prices, were used to value the trading securities. As a result, the Company classified these investments as using level 2 inputs. The Company’s policy is to recognize transfers between levels at the beginning of quarterly reporting periods. For the year ended December 31, 2015 there were no significant transfers in or out of levels 1, 2 or 3.

The carrying amount of other financial instruments reported in the balance sheet for current assets and current liabilities approximate their fair values because of the short-term maturity of these instruments. The Company currently does not use the fair value option to measure any of its existing financial instruments and has not determined whether or not it will elect this option for financial instruments it may acquire in the future.

NOTE 9: COMMITMENTS AND CONTINGENCIES

Lawsuits — The Company is a defendant in certain lawsuits which allege that plaintiffs have been damaged as a result of the use of the Company's products. The Company is vigorously contesting these actions. Management, after consultation with legal counsel, is of the opinion that the outcome of these lawsuits will not have a material adverse effect on the financial position, results of operations or liquidity of Marine Products.

Dealer Floor Plan Financing — To assist dealers in obtaining financing for the purchase of its boats for inventory, the Company has entered into agreements with various dealers and selected third-party floor plan lenders to guarantee varying amounts of qualifying dealers' debt obligations. The Company's obligation under these guarantees becomes effective in the case of a default under the financing arrangement between the dealer and the third party lender. The agreements provide for the return of repossessed boats to the Company in new and unused condition subject to normal wear and tear as defined, in exchange for the Company's assumption of specified percentages of the debt obligation on those boats, up to certain contractually determined dollar limits by lender.

As a result of dealer defaults, the Company became contractually obligated to repurchase inventory for approximately $1.1 million during the fourth quarter of 2014, none of which remains outstanding as of December 31, 2014. The Company recorded costs in connection with these repurchases of approximately $75 thousand during 2014 as a reduction of net sales. As of December 31, 2014, there were no repossessed boats remaining in inventory as the Company redistributed all of these boats among existing and replacement dealers. There were no material repurchases of inventory under contractual agreements during 2015. Management continues to monitor the risk of additional defaults and resulting repurchase obligations based in part on information provided by the third-party floor plan lenders and will adjust the guarantee liability at the end of each reporting period based on information reasonably available at that time.

The Company currently has an agreement with one of the floor plan lenders whereby the contractual repurchase limit is to not exceed 16 percent of the average net receivables financed by the floor plan lender for dealers during the prior 12 month period, which was $8.5 million as of December 31, 2015. The Company has contractual repurchase agreements with additional lenders with an aggregate maximum repurchase obligation of approximately $6.7 million, with various expiration and cancellation terms of less than one year, for an aggregate repurchase obligation with all financing institutions of approximately $15.2 million as of December 31, 2015. This repurchase obligation risk is mitigated by the value of the boat repurchased.

Lease Obligations — In June 2001, the Company entered into a lease transaction for existing boat manufacturing space located in Valdosta, Georgia. This lease was accounted for as a capital lease and was paid in full in 2012.

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Minimum annual operating lease obligations with terms in excess of one year, in effect at December 31, 2015, are summarized in the following table:

(in thousands)	
2016	$375
2017	357
2018	348
2019	213
2020	1
Thereafter	—-
Total rental commitments	$1,294

Total rent expense charged to operations was approximately $135,000 in 2015, $118,000 in 2014 and $140,000 in 2013.

Income Taxes — The amount of income taxes the Company pays is subject to ongoing audits by federal and state tax authorities, which often result in proposed assessments. Other long-term liabilities included the Company's estimated liabilities for these probable assessments and totaled approximately $43,000 as of December 31, 2015 and $44,000 as of December 31, 2014.

Employment Agreements — The Company has agreements with two employees, which provide for a monthly payment to each of the employees equal to 10 percent of profits (defined as pretax income before goodwill adjustments and certain allocated corporate expenses) in addition to a base salary. The expense under these agreements totaled approximately $6,411,000 in 2015, $4,225,000 in 2014 and $3,421,000 in 2013 and is included in selling, general and administrative expenses in the accompanying consolidated statements of operations.

NOTE 10: EMPLOYEE BENEFIT PLANS

Supplemental Executive Retirement Plan (SERP)

The Company permits selected highly compensated employees to defer a portion of their compensation into the SERP. The SERP assets are invested primarily in company-owned life insurance ("COLI") policies as a funding source to satisfy the obligation of the SERP. The assets are subject to claims by creditors, and the Company can designate them to another purpose at any time. Investments in COLI policies consist of variable life insurance policies of $7.9 million as of December 31, 2015 and $8.2 million as of December 31, 2014. In the COLI policies, the Company is able to allocate assets across a set of choices provided by the insurance company, including fixed income securities and equity funds. The COLI policies are recorded at their net cash surrender values, which approximates fair value, as provided by the issuing insurance company, whose Standard & Poor's credit rating was A+.

The Company classifies the SERP assets as trading securities as described in Note 1. The fair value of these assets totaled $6,491,000 as of December 31, 2015 and $6,575,000 as of December 31, 2014. The SERP assets are reported in other assets on the consolidated balance sheets and changes related to the fair value of the assets are included in selling, general and administrative expenses in the consolidated statements of operations. Trading (losses) gains related to the SERP assets totaled $(84,000) in 2015, $187,000 in 2014 and $361,000 in 2013. The SERP liabilities are recorded on the balance sheet in pension liabilities with any change in the fair value of the SERP liabilities recorded as selling, general and administrative expenses in the consolidated statements of operations.

Retirement Income Plan — Marine Products participates in the tax-qualified, defined benefit, noncontributory, trusteed retirement income plan sponsored by RPC, Inc. ("RPC") that covers substantially all employees with at least one year of service prior to 2002.

The Company's fair value of the plan assets exceeded the projected benefit obligation for its Retirement Income Plan by $110,000 and thus the plan was over-funded as of December 31, 2015.

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The following table sets forth the funded status of the Retirement Income Plan and the amounts recognized in Marine Products' consolidated balance sheets:

December 31,	2015	2014
(in thousands)		
ACCUMULATED BENEFIT OBLIGATION, END OF YEAR	$5,703	$6,355
CHANGE IN PROJECTED BENEFIT OBLIGATION:		
Benefit obligation at beginning of year	$6,355	$4,873
Service cost	—	—
Interest cost	259	261
Actuarial (gain) loss	(671)	1,450
Benefits paid	(240)	(229)
Projected benefit obligation at end of year	$5,703	$6,355
CHANGE IN PLAN ASSETS:		
Fair value of plan assets at beginning of year	$6,014	$5,887
Actual return on plan assets	(131)	221
Employer contributions	170	135
Benefits paid	(240)	(229)
Fair value of plan assets at end of year	$5,813	$6,014
Funded status at end of year	$110	$(341)

December 31,	2015	2014
(in thousands)		
AMOUNTS RECOGNIZED IN THE CONSOLIDATED BALANCE SHEETS CONSIST OF:		
Noncurrent assets	$110	$—
Current liabilities	—	—
Noncurrent liabilities	—	(341)
	$110	$(341)

The funded status of the Retirement Income Plan was recorded in the consolidated balance sheets in other assets as of December 31, 2015 and in pension liabilities as of December 31, 2014.

December 31,	2015	2014
(in thousands)		

AMOUNTS (PRE-TAX) RECOGNIZED IN ACCUMULATED OTHER COMPREHENSIVE LOSS CONSIST OF:		
Net loss	$2,944	$3,139
Prior service cost (credit)	—	—
Net transition obligation (asset)	—	—
	$2,944	$3,139

The accumulated benefit obligation for the Retirement Income Plan as of December 31, 2015 and 2014 has been disclosed above. The Company uses a December 31 measurement date for this qualified plan.

Amounts recorded in the consolidated balance sheet as pension liabilities consist of:

December 31,	2015	2014
(in thousands)		
SERP liability	$(6,590)	$(6,698)
Funded status	—	(341)
Pension liabilities	$(6,590)	$(7,039)

Marine Products' funding policy is to contribute to the Retirement Income Plan the amount required, if any, under the Employee Retirement Income Security Act of 1974. Contributions to the plan totaled $170,000 during 2015 and $135,000 during 2014.

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The components of net periodic benefit cost are summarized as follows:

Years ended December 31, (in thousands)	2015	2014	2013
Service cost for benefits earned during the period	$—	$—	$—
Interest cost on projected benefit obligation	259	261	235
Expected return on plan assets	(421)	(411)	(369)
Amortization of net loss	76	37	68
	$(86)	$(113)	$(66)

The Company recognized a pre-tax increase to the funded status in accumulated other comprehensive income of $195,000 in 2015 compared to a pre-tax decrease of $1,602,000 in 2014 and a pre-tax increase of $1,211,000 in 2013. There were no previously unrecognized prior service costs during 2015, 2014 and 2013. The pre-tax amounts recognized in other comprehensive income for the years ended December 31, 2015, 2014 and 2013 are summarized as follows:

(in thousands)	2015	2014	2013
Net (gain) loss	$(119)	$1,639	$(1,143)
Amortization of net loss	(76)	(37)	(68)
Net transition obligation (asset)	—	—	—
Amount recognized in accumulated other comprehensive income	$(195)	$1,602	$(1,211)

The amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost in 2016 are as follows:

(in thousands)	2016
Amortization of net loss	$ 76
Prior service cost (credit)	—
Net transition obligation (asset)	—
Estimated net periodic cost	$ 76

The weighted average assumptions as of December 31 used to determine the projected benefit obligation and net benefit cost were as follows:

December 31,	2015	2014	2013
PROJECTED BENEFIT OBLIGATION:			
Discount rate	4.75%	4.25%	5.35%
Rate of compensation increase	N/A	N/A	N/A
NET BENEFIT COST:			
Discount rate	4.25%	5.35%	4.34%
Expected return on plan assets	7.00%	7.00%	7.00%
Rate of compensation increase	N/A	N/A	N/A

The Company's expected return on assets assumption is derived from a detailed periodic assessment by its management and investment advisor. It includes a review of anticipated future long-term performance of individual asset classes and consideration of the appropriate asset allocation strategy given the anticipated requirements of the plan to determine the average rate of earnings expected on the funds invested to provide for the pension plan benefits. While the assessment gives appropriate consideration to recent fund performance and historical returns, the rate of return assumption is derived primarily from a long-term, prospective view. Based on its recent assessment, the Company has concluded that its expected long-term return assumption of seven percent is reasonable.

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The plan's weighted average asset allocation at December 31, 2015 and 2014 by asset category along with the target allocation for 2016 are as follows:

Asset Category	Target Allocation for 2016	Percentage of Plan Assets as of December 31, 2015		Percentage of Plan Assets as of December 31, 2014	
Cash and Cash Equivalents	0% - 5%	0.7	%	1.0	%
Debt Securities – Core Fixed Income	15% - 50%	25.8		24.3	
Domestic Equity Securities	0% - 40%	38.5		37.0	
International Equity Securities	0% - 30%	23.2		22.8	
Real Estate	0% - 20%	7.2		10.5	
Real Return	0% - 20%	0.0		1.6	
Alternative/Opportunistic/Special	0% - 20%	4.6		2.8	
Total	100.0%	100.0	%	100.0	%

The Company's overall investment strategy is to achieve a mix of approximately 70 percent of investments for long-term growth and 30 percent for near-term benefit payments, with a wide diversification of asset types, fund strategies and fund managers. Equity securities primarily include investments in large-cap and small-cap companies domiciled domestically and internationally. Fixed-income securities include corporate bonds, mortgage-backed securities, sovereign bonds and U.S. Treasuries. Other types of investments include real estate funds and private equity funds that follow several different investment strategies. For each of the asset categories in the pension plan, the investment strategy is identical – maximize the long-term rate of return on plan assets with an acceptable level of risk in order to minimize the cost of providing pension benefits. The investment policy establishes a target allocation for each asset class which is rebalanced as required. The plan utilizes a number of investment approaches, including but not limited to individual market securities, equity and fixed income funds in which the underlying securities are marketable, and debt funds to achieve this target allocation. Company management expects to make a contribution to the pension plan of approximately $180,000 during fiscal year 2016.

Some of our assets, primarily our private equity and real estate funds, do not have readily determinable market values given the specific investment structures involved and the nature of the underlying investments. For plan asset reporting as of December 31, 2015, publicly traded asset pricing was used where possible. For assets without readily determinable values, estimates were derived from investment manager statements combined with discussions focusing on underlying fundamentals and significant events. Additionally, these investments are categorized as level 3 investments and are valued using significant non-observable inputs which do not have a readily determinable fair value. In accordance with ASU No. 2011-12 "Investments In Certain Entities That Calculate Net Asset Value per Share

(Or Its Equivalent)," these investments are valued based on the net asset value per share calculated by the funds in which the plan has invested. These valuations are subject to judgments and assumptions of the funds which may prove to be incorrect, resulting in risks of incorrect valuation of these investments. The Company seeks to mitigate these risks by evaluating the appropriateness of the funds' judgments and assumptions by reviewing the financial data included in the funds' financial statements for reasonableness.

The following tables present our plan assets using the fair value hierarchy as of December 31, 2015 and 2014. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value. See Note 8 for a brief description of the three levels under the fair value hierarchy.

Fair Value Hierarchy as of December 31, 2015:

Investments (in thousands)		Total	Level 1	Level 2	Level 3
Cash and Cash Equivalents	(1)	$39	$ 39	$—	$ —
Fixed Income Securities	(2)	1,501	—	1,501	—
Domestic Equity Securities		2,237	805	1,432	—
International Equity Securities	(3)	1,346	—	1,346	—
Real Estate	(4)	418	—	—	418
Real Return	(5)	—	—	—	—
Alternative/Opportunistic/Special	(6)	272	—	—	272
		$5,813	$ 844	$4,279	$ 690

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Fair Value Hierarchy as of December 31, 2014:

Investments (in thousands)		Total	Level 1	Level 2	Level 3
Cash and Cash Equivalents	(1)	$61	$61	$—	$ —
Fixed Income Securities	(2)	1,459	589	870	—
Domestic Equity Securities		2,226	797	1,429	—
International Equity Securities	(3)	1,372	—	1,372	—
Real Estate	(4)	631	—	—	631
Real Return	(5)	95	—	95	—
Alternative/Opportunistic/Special	(6)	170	—	—	170
		$6,014	$1,447	$3,766	$ 801

(1) Cash and cash equivalents, which are used to pay benefits and plan administrative expenses, are held in Rule 2a-7 money market funds.

(2) Fixed income securities are primarily valued using a market approach with inputs that include broker quotes, benchmark yields, base spreads and reported trades.

(3) International equity securities are valued using a market approach based on the quoted market prices of similar instruments in their respective markets.

(4) Real estate fund values are primarily reported by the fund manager and are based on valuation of the underlying investments, which include inputs such as cost, discounted future cash flows, independent appraisals and market based comparable data.

(5) Real return funds invest in global equities, commodities and inflation protected core bonds that are valued primarily using a market approach based on the quoted market prices of identical instruments in their respective markets.

(6) Alternative/Opportunistic/Special funds can invest across the capital structure in both liquid and illiquid securities that are valued using a market approach based on the quoted market prices of identical instruments, or if no market price is available, instruments will be held at their fair market value (which may be cost) as reasonably determined by the investment manager, independent dealers, or pricing services.

The following table presents a reconciliation of Level 3 assets held during the year ended December 31, 2015:

Investments	Balance at December 31, 2014	Net Realized and Unrealized Gains/(Losses)	Net Purchases, Issuances and Settlements	Net Transfers In to (Out of) Level 3	Balance at December 31, 2015
(in thousands)					
Real Estate	$ 631	$ 64	$ (277)	$ —	$ 418
Alternative/Opportunistic/Special	170	17	85	—	272
	$ 801	$ 81	$ (192)	$ —	$ 690

The following table presents a reconciliation of Level 3 assets held during the year ended December 31, 2014:

Investments	Balance at December 31, 2013	Net Realized and Unrealized Gains/(Losses)	Net Purchases, Issuances and Settlements	Net Transfers In to (Out of) Level 3	Balance at December 31, 2014
(in thousands)					
Real Estate	$ 491	$ 34	$ 106	$ —	$ 631
Alternative/Opportunistic/Special	—	4	166	—	170
	$ 491	$ 38	$ 272	$ —	$ 801

The Company expects to contribute approximately $180,000 to the Retirement Income Plan in 2016.

The Company estimates that the future benefits payable for the Retirement Income Plan over the next ten years are as follows:

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(in thousands)	
2016	$278
2017	261
2018	251
2019	257
2020	269
2021-2025	$1,531

401(k) Plan— Marine Products participates in a defined contribution 401(k) plan sponsored by RPC that is available to substantially all full-time employees with more than 90 days of service. This plan allows employees to make tax-deferred contributions of up to 25 percent of their annual compensation, not exceeding the permissible deduction imposed by the Internal Revenue Code. The Company matches 50 percent of each employee's contributions that do not exceed six percent of the employee's compensation, as defined by the 401(k) plan. Employees vest in the Company's contributions after three years of service. The charges to expense for Marine Products' contributions to the 401(k) plan were approximately $250,000 in 2015, $194,000 in 2014 and $203,000 in 2013.

Stock Incentive Plan— The Company reserved 3,000,000 shares of common stock under the 2014 Stock Incentive Plan with a term of ten years expiring in April 2024. All future equity compensation awards by the Company will be issued under the 2014 plan. This plan provides for the issuance of various forms of stock incentives, including among others, incentive and non-qualified stock options and restricted shares. As of December 31, 2015, there were approximately 2,620,250 shares available for grant.

The Company recognizes compensation expense for the unvested portion of awards outstanding over the remainder of the service period. The compensation cost recorded for these awards will be based on their fair value at grant date less the cost of estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods to reflect actual forfeitures. Cash flows related to share-based awards to employees that result in tax benefits in excess of recognized cumulative compensation cost (excess tax benefits) are classified as financing cash flows.

Pre-tax stock-based employee compensation expense was approximately $1,993,000 ($1,285,000 after tax) for 2015, $1,754,000 ($1,131,000 after tax) for 2014 and $1,702,000 ($1,098,000 after tax) for 2013.

Stock Options— Stock options are granted at an exercise price equal to the fair market value of the Company's common stock at the date of grant except for grants of incentive stock options to owners of greater than 10 percent of the Company's voting securities which must be made at 110 percent of the fair market value of the Company's common stock. Options generally vest ratably over a period of five years and expire in 10 years, except to owners of greater than 10 percent of the Company's voting securities, which expire in five years.

The Company estimates the fair value of stock options as of the date of grant using the Black-Scholes option pricing model. The Company has not granted stock options to employees since 2004.

There were no options exercised in 2015 and there have been no stock options outstanding since December 31, 2013. There was no tax benefit associated with the exercise of non-qualified stock options during 2015, 2014 or 2013.

Restricted Stock— Marine Products grants selected employees time lapse restricted stock. Time lapse restricted shares vest after a certain stipulated number of years from the grant date, depending on the terms of the issue. Prior to 2004, the Company issued time lapse restricted shares that vest over ten years. Beginning in 2004, the Company issued time lapse restricted shares that vest in 20 percent increments starting with the second anniversary of the grant, over the six year period beginning on the date of grant. During these years, grantees receive all dividends declared and retain voting rights for the shares.

The agreements under which the restricted stock is issued provide that shares awarded may not be sold or otherwise transferred until restrictions established under the stock plans have lapsed. Upon termination of employment from the Company (other than due to death, disability or retirement on or after age 65), shares with restrictions are forfeited in accordance with the plan.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Marine Products Corporation and Subsidiaries
Years ended December 31, 2015, 2014 and 2013

The following is a summary of the changes in non-vested restricted shares for the year ended December 31, 2015:

	Shares	Weighted Average Grant-Date Fair Value
Non-vested shares at January 1, 2015	1,251,400	$ 6.47
Granted	319,750	7.08
Vested	(313,800)	5.77
Forfeited	(3,150)	6.89
Non-vested shares at December 31, 2015	1,254,200	$ 6.80

The fair value of restricted stock awards is based on the market price of the Company's stock on the date of grant and is amortized to compensation expense on a straight line basis over the requisite service period. The weighted average grant date fair value of these restricted stock awards was $7.08 in 2015, $7.90 in 2014 and $6.40 in 2013. The total fair value of shares vested was approximately $2,254,000 in 2015, $2,295,000 in 2014 and $1,457,000 during 2013. Tax benefits for compensation tax deductions in excess of compensation expense related to restricted shares credited to capital in excess of par value was approximately $256,000 in 2015, $342,000 in 2014 and $136,000 in 2013. The excess tax deductions are classified as financing cash flows in the accompanying consolidated statements of cash flows.

Other Information— As of December 31, 2015 total unrecognized compensation cost related to non-vested restricted shares was approximately $6,908,000 which is expected to be recognized over a weighted-average period of 3.4 years.

NOTE 11: RELATED PARTY TRANSACTIONS

In conjunction with its spin-off from RPC in 2001, the Company and RPC entered into various agreements that define the companies' relationship after the spin-off.

The Transition Support Services Agreement provides for RPC to provide certain services, including financial reporting and income tax administration, acquisition assistance, etc., to Marine Products until the agreement is

terminated by either party. Marine Products reimbursed RPC for its estimated allocable share of administrative costs incurred for services rendered on behalf of Marine Products totaling $753,000 in 2015, $663,000 in 2014 and $670,000 in 2013. The Company's receivable (payable) due from (to) RPC for these services was $11,000 as of December 31, 2015 and $(47,000) as of December 31, 2014. The Company's directors are also directors of RPC and all of the Company's executive officers with the exception of one are employees of both the Company and RPC.

The Employee Benefits Agreement provides for, among other things, the Company's employees to continue participating subsequent to the spin-off in two RPC sponsored benefit plans, specifically, the defined contribution 401(k) plan and the defined benefit retirement income plan.

RPC and Marine Products own 50 percent each of a limited liability company called 255 RC, LLC that was created for the joint purchase and ownership of a corporate aircraft. The purchase of the aircraft was completed in January 2015, and the purchase was funded primarily by a $2,554,000 contribution by each company to 255 RC, LLC. Each of RPC and Marine Products is a party to an operating lease agreement with 255 RC, LLC for a period of five years. During 2015, Marine Products recorded certain net operating costs comprised of rent and an allocable share of fixed costs of approximately $148,000 for the corporate aircraft. The Company accounts for this investment using the equity method and its proportionate share of income or loss is recorded in selling, general and administrative expenses. As of December 31, 2015 the investment closely approximates the underlying equity in the net assets of 255 RC, LLC.

A group that includes the Company's Chairman of the Board, R. Randall Rollins and his brother Gary W. Rollins, who is also director of the Company, and certain companies under their control, controls in excess of fifty percent of the Company's voting power.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of disclosure controls and procedures — The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in its Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms, and that such information is accumulated and communicated to its management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As of the end of the period covered by this report, December 31, 2015 (the "Evaluation Date"), the Company carried out an evaluation, under the supervision and with the participation of its management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures. Based upon this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at a reasonable assurance level as of the Evaluation Date.

Management's report on internal control over financial reporting — Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Management's report on internal control over financial reporting is included on page 29 of this report. Grant Thornton LLP, the Company's independent registered public accounting firm, has audited the effectiveness of internal control as of December 31, 2015 and issued a report thereon which is included on page 30 of this report.

Changes in internal control over financial reporting — Management's evaluation of changes in internal control did not identify any changes in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information concerning directors and executive officers will be included in the Marine Products Proxy Statement for its 2016 Annual Meeting of Stockholders, in the section titled "Election of Directors." This information is incorporated herein by reference. Information about executive officers is contained on page 16 of this document.

Audit Committee and Audit Committee Financial Expert

Information concerning the Audit Committee of the Company and the Audit Committee Financial Expert(s) will be included in the Marine Products Proxy Statement for its 2016 Annual Meeting of Stockholders, in the section titled "Corporate Governance and Board of Directors, Committees and Meetings – Audit Committee." This information is incorporated herein by reference.

Code of Ethics

Marine Products has a Code of Business Conduct that applies to all employees. In addition, the Company has a Code of Business Conduct and Ethics for Directors and Executive Officers and Related Party Transaction Policy. Both of these documents are available on the Company's website at www.marineproductscorp.com. Copies are also available at no extra charge by writing to Attn.: Human Resources, Marine Products Corporation, 2801 Buford Highway, Suite 520, Atlanta, Georgia 30329. Marine Products intends to satisfy the disclosure requirement under Item 10 of Form 8-K regarding an amendment to, or waiver from, a provision of its code of ethics that relates to any elements of the code of ethics definition enumerated in SEC rules by posting such information on its internet website, the address of which is provided above.

Section 16(a) Beneficial Ownership Reporting Compliance

Information regarding compliance with Section 16(a) of the Exchange Act will be included under "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's Proxy Statement for its 2016 Annual Meeting of Stockholders, which is incorporated herein by reference.

Item 11. Executive Compensation

Information concerning director and executive compensation will be included in the Marine Products Proxy Statement for its 2016 Annual Meeting of Stockholders, in the sections titled “Compensation Committee Interlocks and Insider Participation,” “Director Compensation,” “Compensation Discussion and Analysis” and “Executive Compensation.” This information is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information concerning security ownership will be included in the Marine Products Proxy Statement for its 2016 Annual Meeting of Stockholders, in the sections titled, “Capital Stock” and “Election of Directors.” This information is incorporated herein by reference.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth certain information regarding equity compensation plans as of December 31, 2015.

Plan Category	(A) Number of Securities To Be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(B) Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	(C) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (A))	
Equity compensation plans approved by securityholders	—	$ —	2,620,250	(1)
Equity compensation plans not approved by securityholders	—	—	—	
Total	—	$ —	2,620,250	

(1) All of the securities can be issued in the form of restricted stock or other stock awards.

See "NOTE 10: EMPLOYEE BENEFIT PLANS" to the Consolidated Financial Statements for information regarding the material terms of the equity compensation plans.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information concerning certain relationships and related party transactions will be included in the Marine Products Proxy Statement for its 2016 Annual Meeting of Stockholders, in the section titled "Certain Relationships and Related Party Transactions." Information regarding director independence will be included in the Marine Products Proxy Statement for its 2016 Annual Meeting of Stockholders in the section titled "Director Independence and NYSE Requirements." This information is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

Information regarding principal accountant fees and services will be included in the section titled, "Independent Registered Public Accountants" in the Marine Products Proxy Statement for its 2016 Annual Meeting of Stockholders. This information is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

Consolidated Financial Statements, Financial Statement Schedule and Exhibits

1. Consolidated financial statements listed in the accompanying Index to Consolidated Financial Statements and Schedule are filed as part of this report.

2. The financial statement schedule listed in the accompanying Index to Consolidated Financial Statements and Schedule is filed as part of this report.

3. Exhibits listed in the accompanying Index to Exhibits are filed as part of this report. The following such exhibits are management contracts or compensatory plans or arrangements:

10.5 Marine Products Corporation 2004 Stock Incentive Plan (incorporated herein by reference to Appendix B to the Definitive Proxy Statement filed on March 24, 2004).

10.6 Form of stock option grant agreement under the 2001 Employee Stock Incentive Plan (incorporated herein by reference to Exhibit 10.7 to the Form 10-K filed on March 21, 2003).

10.7 Form of performance restricted stock grant agreement under the 2001 Employee Stock Incentive Plan (incorporated herein by reference to Exhibit 10.9 to the Form 10-K filed on March 21, 2003).

10.8 Form of stock option grant agreement under the 2004 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the Form 10-Q filed on November 1, 2004).

10.9 Form of time lapse restricted stock grant agreement under the 2004 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.8 to the Form 10-Q filed on November 1, 2004).

10.10 Form of performance restricted stock grant agreement under the 2004 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.9 to the Form 10-Q filed on November 1, 2004).

10.11 Supplemental Retirement Plan (incorporated herein by reference to Exhibit 10.16 to the Form 10-K filed on March 15, 2005).

10.12 First Amendment to 2001 Employee Stock Incentive Plan and 2004 Stock Incentive Plan (incorporated by reference to Exhibit 10.19 to the Form 10-K filed on March 2, 2007).

10.13 Performance Based Compensation Agreement between James A. Lane, Jr. and Chaparral Boats, Inc. (incorporated herein by reference to Exhibit 10.1 to the Form 8-K filed on April 26, 2013).

10.14 Summary of 'At-Will' compensation arrangements with the Executive Officers as of February 28, 2009 (incorporated herein by reference to Exhibit 10.20 to the Form 10-K filed on March 5, 2009).

10.15 Form of time lapse restricted stock agreement under the 2004 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the Form 10-Q filed on May 2, 2012).

10.16 Summary of compensation arrangements with non-employee directors (incorporated herein by reference to Exhibit 10.16 to the Form 10-K filed on February 27, 2015).

10.17 2014 Stock Incentive Plan (incorporated herein by reference to Appendix A to the Registrant's definitive Proxy Statement filed on March 17, 2014).

Exhibits (inclusive of item 3 above):

Exhibit Number	Description
3.1	(A) Articles of Incorporation of Marine Products Corporation (incorporated herein by reference to Exhibit 3.1 to the Form 10 filed on February 13, 2001).
	(B) Certificate of Amendment of Certificate of Incorporation of Marine Products Corporation executed on June 8, 2005 (incorporated herein by reference to Exhibit 99.1 to the current report on Form 8-K filed on June 9, 2005).
3.2	Amended and Restated Bylaws of Marine Products Corporation (incorporated herein by reference to Exhibit 3.2 to the Form 10-Q filed on July 31, 2015).
4	Form of Common Stock Certificate of Marine Products Corporation (incorporated herein by reference to Exhibit 4.1 to the Form 10 filed on February 3, 2001).
10.1	Agreement Regarding Distribution and Plan of Reorganization, dated February 12, 2001, by and between RPC, Inc. and Marine Products Corporation (incorporated herein by reference to Exhibit 10.2 to the Form 10 filed on February 13, 2001).
10.2	Employee Benefits Agreement, dated February 12, 2001, by and between RPC, Inc., Chaparral Boats, Inc. and Marine Products Corporation (incorporated herein by reference to Exhibit 10.3 to the Form 10 filed on February 13, 2002).
10.3	Transition Support Services Agreement, dated February 12, 2001, by and between RPC, Inc. and Marine Products Corporation (incorporated herein by reference to Exhibit 10.4 to the Form 10 filed on February 13, 2001).
10.4	Tax Sharing Agreement, dated February 12, 2001, by and between RPC, Inc. and Marine Products Corporation (incorporated herein by reference to Exhibit 10.5 to the Form 10 filed on February 13, 2001).
10.5	Marine Products Corporation 2004 Stock Incentive Plan (incorporated herein by reference to Appendix B to the Definitive Proxy Statement filed on March 24, 2004).
10.6	Form of stock option grant agreement under the 2001 Employee Stock Incentive Plan (incorporated herein by reference to Exhibit 10.7 to the Form 10-K filed on March 21, 2003).
10.7	Form of performance restricted stock grant agreement under the 2001 Employee Stock Incentive Plan (incorporated herein by reference to Exhibit 10.9 to the Form 10-K filed on March 21, 2003).
10.8	Form of stock option grant agreement under the 2004 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the Form 10-Q filed on November 1, 2004).
10.9	Form of time lapse restricted stock grant agreement under the 2004 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.2 to the Form 10-Q filed on November 1, 2004).
10.10	Form of performance restricted stock grant agreement under the 2004 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.3 to the Form 10-Q filed on November 1, 2004).
10.11	Supplemental Retirement Plan (incorporated herein by reference to Exhibit 10.16 to the Form 10-K filed on March 15, 2005).
10.12	First Amendment to 2001 Employee Stock Incentive Plan and 2004 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.19 to the Form 10-K filed on March 2, 2007).
10.13	Performance Based Compensation Agreement between James A. Lane, Jr. and Chaparral Boats, Inc. (incorporated herein by reference to Exhibit 10.1 to the Form 8-K filed on April 26, 2013).
10.14	Summary of ‘At-Will’ compensation arrangements with the Executive Officers as of February 28, 2009 (incorporated herein by reference to Exhibit 10.20 to the Form 10-K filed on March 5, 2009).

10.15	Form of time lapse restricted stock agreement under the 2004 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the Form 10-Q filed on May 2, 2012).
10.16	Summary of compensation arrangements with non-employee directors (incorporated herein by reference to Exhibit 10.16 to the Form 10-K filed on February 27, 2015).
10.17	2014 Stock Incentive Plan (incorporated herein by reference to Appendix A to the Registrant's definitive Proxy Statement filed on March 17, 2014).
21	Subsidiaries of Marine Products Corporation (incorporated herein by reference to Exhibit 21 to the Form 10-K filed on March 4, 2008).
23	Consent of Grant Thornton LLP
24	Powers of Attorney for Directors
31.1	Section 302 certification for Chief Executive Officer
31.2	Section 302 certification for Chief Financial Officer
32.1	Section 906 certification for Chief Executive Officer and Chief Financial Officer

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

Any schedules not shown above have been omitted because they are not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Marine Products Corporation
/s/ Richard A. Hubbell
Richard A. Hubbell
President and Chief Executive Officer
February 29, 2016

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ Richard A. Hubbell Richard A. Hubbell	President and Chief Executive Officer (Principal Executive Officer)	February 29, 2016
/s/ Ben M. Palmer Ben M. Palmer	Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	February 29, 2016

The Directors of Marine Products Corporation (listed below) executed a power of attorney, appointing Richard A. Hubbell their attorney-in-fact, empowering him to sign this report on their behalf.

R. Randall Rollins, Director	James A. Lane, Jr., Director
Gary W. Rollins, Director	Linda H. Graham, Director
Henry B. Tippie, Director	Bill J. Dismuke, Director
James B. Williams, Director	Larry L. Prince, Director

/s/ Richard A. Hubbell
Richard A. Hubbell
Director and as
Attorney-in-fact
February 29, 2016

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INDEX TO CONSOLIDATED FINANCIAL STATEMENTS, REPORTS AND SCHEDULE

The following documents are filed as part of this report.

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Schedules not listed above have been omitted because they are not applicable or the required information is included in the consolidated financial statements or notes thereto.

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

MARINE PRODUCTS CORPORATION AND SUBSIDIARIES (in thousands of dollars)

	For the years ended December 31, 2015, 2014 and 2013			
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Net (Write-Offs)/ Recoveries	Balance at End of Period
Year ended December 31, 2015				
Allowance for doubtful accounts	$ 25	$ —	$ —	$ 25
Deferred tax asset valuation allowance	$ 4,401	$ 293	$ —	$ 4,694
Year ended December 31, 2014				
Allowance for doubtful accounts	$ 25	$ —	$ —	$ 25
Deferred tax asset valuation allowance	$ 4,359	$ 42	$ —	$ 4,401
Year ended December 31, 2013				

Allowance for doubtful accounts	$ 22	$ —	$ 3	$ 25
Deferred tax asset valuation allowance	$ 4,155	$ 204	$ —	$ 4,359

SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

	First	Second	Third	Fourth
	(in thousands except per share data)			
2015				
Net sales	$50,644	$59,498	$47,038	$49,881
Gross profit	10,205	12,604	9,874	11,117
Net income	2,929	4,429	3,103	3,845
Earnings per share — basic (a)	0.08	0.12	0.08	0.10
Earnings per share — diluted (a)	$0.08	$0.12	$0.08	$0.10
2014				
Net sales	$47,702	$47,975	$37,932	$37,441
Gross profit	8,838	9,432	6,967	7,434
Net income	1,978	3,013	1,882	2,041
Earnings per share — basic (a)	0.05	0.08	0.05	0.06
Earnings per share — diluted (a)	$0.05	$0.08	$0.05	$0.05

(a) The sum of the earnings per share for the four quarters may differ from annual amounts due to the required method of computing the weighted average shares for the respective periods.