

MONMOUTH REAL ESTATE INVESTMENT CORP
Form 10-K
December 11, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

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

For the fiscal year ended September 30, 2008

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 (I.R.S. Employer
incorporation or organization) 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 - NASDAQ Global Select Market

7.625% Series A Cumulative Redeemable Preferred Stock \$.01 par value per share, \$25 liquidation value per share -
NASDAQ Global Select Market

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
 Yes 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 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 12 preceding months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark 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 of this Form 10-K

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. Large accelerated filer Accelerated filer

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 No

The aggregate market value of the voting stock of the registrant held by nonaffiliates of the registrant at March 31, 2008 was \$177,800,256.

There were 24,585,851 shares of Common Stock and 1,322,500 shares of 7.625% Series A Cumulative Redeemable Preferred Stock outstanding as of December 1, 2008.

Documents Incorporated by Reference: Exhibits incorporated by reference are listed in Part IV, Item 15 (a) (3).

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PART I

ITEM 1 BUSINESS

General Development of the Business

In this 10-K, we, us, our, or the Company, refers to Monmouth Real Estate Investment Corporation, together with 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, 2008.

On July 31, 2007, the Company completed its 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 .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.

The Company's primary business is the ownership of real estate. Its investment focus is to own net leased industrial properties which are leased to investment-grade tenants on long-term leases. In addition, the Company holds a portfolio of REIT securities.

Narrative Description of Business

Currently, the Company derives its income primarily from real estate rental operations. Rental and reimbursement revenue was \$39,480,885, \$28,296,938 and \$24,698,242 for the years ended September 30, 2008, 2007 and 2006, respectively. Total assets were \$389,077,597 and \$366,908,245 as of September 30, 2008 and 2007, respectively.

The Company has approximately 6,068,000 square feet of space that it leases, of which approximately 2,793,000 square feet, or 46%, is leased to Federal Express Corporation (FDX) and its subsidiaries and approximately 279,000 square feet, or 5%, is leased to Keebler Company, a subsidiary of the Kellogg Company. During 2008, 2007 and 2006, rental and reimbursement revenue from properties leased to these companies approximated 61%, 55% and 55%, respectively, of total rental and reimbursement revenue. The Company's weighted-average lease expiration was 5.6 years as of September 30, 2008 and its average rent per occupied square foot as of September 30, 2008 and 2007 was \$5.28 and \$5.61, respectively. At September 30, 2008 and 2007, the Company's occupancy was 98%.

At September 30, 2008, the Company owns fifty-eight rental properties. (See Item 2 for detailed description of the properties.) These properties are located in twenty-five states: Alabama, Arizona, Colorado, Connecticut, Florida, Georgia, Illinois, Iowa, Kansas, Maryland, Michigan, Minnesota, Missouri, Mississippi, North Carolina, Nebraska, New Jersey, New York, Ohio, Pennsylvania, South Carolina, Tennessee, Texas, Virginia, and Wisconsin.

All properties are leased on a net basis except the industrial park in Monaca, Pennsylvania and the shopping center in Somerset, New Jersey.

In fiscal 2008, the Company purchased two net-leased industrial properties for a total cost of approximately \$18,800,000 and sold two net-leased properties for a total sales price of \$10,735,000. The Company anticipates additional acquisitions in 2009. The funds for these acquisitions are expected to come from the Company's available line of credit, mortgages, other bank borrowings, proceeds from the Dividend Reinvestment and Stock Purchase Plan (DRIP), private placements and public placements of additional common or preferred stock. 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 announces acquisitions only upon closing.

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 which fit the Company's investment policy.

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 borrowing, 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.

Investment and Other Policies

The Company's investment policy is to concentrate its investments in the area of long-term net-leased industrial properties to investment grade tenants. The Company's strategy is to obtain a favorable yield spread between the yield 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 current 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 to investment grade tenants on long-term leases. In management's opinion, newly built facilities leased to FDX or FDX subsidiaries 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.

The Company had 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 two remaining affiliated companies based on use or services provided. The Company currently has ten employees. Allocations of salaries and benefits are made between the affiliated companies based on the amount of the employees' time dedicated to each affiliated company.

Property Management

All of the wholly-owned properties are managed by Cronheim Management Services, Inc. (CMS), a division of David Cronheim Company, a related party as discussed in Note No. 14 to the Consolidated Financial Statements. During fiscal 2008, 2007 and 2006, the Company was subject to management contracts with CMS. For each of the calendar years 2008, 2007, and 2006 the management fee was fixed at \$380,000. CMS provides sub-agents as regional managers for the Company's properties and compensates them out of this management fee. CMS also received \$3,219, \$33,273 and \$15,419 in lease commissions in 2008, 2007 and 2006, respectively. CMS received \$42,558 for a real estate commission on the sale of the South Brunswick, New Jersey property in 2007. The David Cronheim Mortgage Corporation, an affiliated company, received \$-0-, \$47,250 and \$-0- in mortgage brokerage commissions in 2008, 2007 and 2006, respectively.

The industrial property in Carlstadt, New Jersey is managed by Marcus Associates, an entity affiliated with the 49% minority partner of the entity, Palmer Terrace Realty Associates, LLC, which owns the property. Management fees paid to Marcus Associates for 2008 and 2007 (from the time of the merger) totaled \$12,993 and \$2,166, respectively. The industrial properties in Wheeling, Illinois and El Paso, Texas, are managed by Jones Development Company, an entity affiliated with the 37% and 35% minority partners of Wheeling Partners, LLC and Jones EPI, LLC, respectively, which own the properties, respectively. Management fees paid to Jones Development Company for 2008 and 2007 (from the time of the merger) were \$20,327 and \$3,477.

Additional information about the Company can be found on the Company's website which is located at www.mreic.com. The Company's filings with the Securities and Exchange Commission are made available through a link on the Company's website or by calling Investor Relations.

ITEM 1A RISK FACTORS

Real Estate Industry Risks

We face risks associated with 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;
- competition from other available real estate;
- our ability to provide adequate maintenance and insurance; and
- increased operating costs, including insurance premiums, utilities and real estate taxes, which may not be offset by increased rents.

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. In addition, our portfolio of industrial properties faces competition from other properties within each submarket where our industrial properties are located. 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 and noncompliance could result in the imposition of fines or an award of damages to private litigants. Future legislation may impose additional requirements. We cannot predict what requirements may be enacted or amended or what costs we will incur to comply with such requirements.

Our investments are concentrated in the industrial 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 to stockholders, 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 FDX. FDX is our largest tenant. As of September 30, 2008, FDX leases approximately 46% of the total square footage that we own and provides approximately 56% the Company's annual rental and reimbursement revenue. If FDX terminated its leases with us or was unable to make lease payments because of a downturn in its business or otherwise, our financial condition and ability to make distributions to stockholders will be materially and adversely affected.

We have been and may continue to 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 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 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.

Actions by our competitors may decrease or prevent increases of 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, cash available for distribution, market price of our preferred and common stock and ability to satisfy our debt service obligations could be materially adversely affected.

Coverage under our existing insurance policies may be inadequate to cover losses. 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 occurs 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 face risks associated with property acquisitions. We acquire 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 acquisition of portfolios of properties, into our existing operations, and as a result, our results of operations and financial condition could be adversely affected; and

-

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

Financing Risks

We face risks generally associated with our debt. We finance a portion of our investments in properties and marketable securities through 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 risks, including:

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rising interest rates on our floating rate debt;

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

- refinancing terms less favorable than the terms of existing debt; and

- failure 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 and face risks associated with the use of debt to fund acquisitions, including refinancing risk. We mortgage 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, ability to make distributions to our shareholders and the market price of our preferred and common stock.

We face risks related to balloon payments. 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 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 make distributions to our shareholders.

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 issuance may dilute the holdings of our current common stockholders.

We may become more highly leveraged. 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 might become more highly leveraged as a result, and our financial condition and cash available for distribution to stockholders might be negatively affected and the risk of default on our indebtedness could increase.

Covenants in our credit agreements 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, our financial condition would be adversely affected.

Other Risks

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 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 and bylaws contain provisions restricting the transfer of our capital stock.

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 a return, our earnings 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 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 assure our ability to remain a qualified REIT for Federal income tax purposes, the ownership limit may also limit the opportunity for stockholders to receive a premium for their 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 the holders of a majority or more of our common stock 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.

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Our board of directors may authorize and 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. Maryland law provides protection for Maryland corporations against unsolicited takeovers by limiting, among other things, the duties of the directors in unsolicited takeover situations. 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. Moreover, under Maryland law the act of a director of a Maryland corporation relating to or affecting an acquisition or potential acquisition of control is not subject to any higher duty or greater scrutiny than is applied to any other act of a director. Maryland law also contains a statutory presumption that an act of a director of a Maryland corporation satisfies the applicable standards of conduct for directors under Maryland law.

The Maryland Business Combination Act provides that unless exempted, a Maryland corporation may not engage in 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 UMH Properties, Inc., a Maryland corporation.

We may 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 2010. 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 Internal Revenue Service, 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 requirements applicable to REITs. To maintain qualification as a REIT under the Code, a REIT must annually distribute to its shareholders 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 distribution requirements. Difficulties in meeting the distribution requirements 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 or because deductions may be disallowed or limited, or the Internal Revenue Service 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 distribution requirements and interest and penalties could apply which could adversely affect our financial condition. If we fail to make a required distribution, we would cease to be taxed as a REIT.

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 security holder level. We 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.

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. It is believed 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, 2008:

<u>State</u>	<u>City</u>	<u>Fiscal Year</u> <u>Acquisition</u>	<u>Type</u>	<u>Square</u> <u>Footage</u>	<u>Mortgage</u> <u>Balance</u> <u>9/30/08</u>
AL	Huntsville	2005	Industrial	56,698	\$2,085,660
AZ	Tolleson	2003	Industrial	288,211	7,972,908
CO	Colorado Springs	2006	Industrial	68,286	3,138,089
CO	Denver	2005	Industrial	69,865	2,969,400
CT	Newington	2001	Industrial	54,812	1,597,852
FL	Cocoa	2008	Industrial	89,101	6,996,921
FL	Ft. Myers	2003	Industrial	90,020	2,637,935
FL	Jacksonville	1999	Industrial	95,883	3,436,915
FL	Lakeland	2007	Industrial	31,096	1,375,000
FL	Orlando	2008	Industrial	110,638	5,800,000
FL	Punta Gorda	2007	Industrial	34,624	2,766,650
FL	Tampa (FDX Gr)	2004	Industrial	170,779	11,051,227
FL	Tampa (FDX)	2006	Industrial	95,662	5,424,686
FL	Tampa (Kellogg)	2007	Industrial	68,385	3,581,604
	Augusta (FDX				
GA	Gr)	2005	Industrial	59,358	2,104,979
GA	Augusta (FDX)	2007	Industrial	30,332	1,125,000
GA	Griffin	2006	Industrial	215,720	9,471,388
IL	Burr Ridge	1997	Industrial	12,477	477,558
IL	Elgin	2002	Industrial	89,052	3,494,333
IL	Granite City	2001	Industrial	184,800	6,329,209
IL	Montgomery	2007	Industrial	171,200	5,839,349

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IL	Schaumburg	1997	Industrial	73,500	1,323,003
IL	Wheeling (1)	2007	Industrial	123,000	6,253,177
IO	Urbandale	1994	Industrial	36,150	-0-
KS	Edwardsville	2003	Industrial	179,280	3,539,226
MD	Beltsville	2001	Industrial	147,668	3,854,395
MI	Orion	2007	Industrial	193,371	11,894,901
MI	Romulus	1998	Industrial	72,000	1,262,421
MN	White Bear Lake	2007	Industrial	59,425	2,312,693
MO	O' Fallon	1994	Industrial	102,135	-0-
MO	Kansas City	2007	Industrial	65,067	3,156,934
MO	Liberty	1998	Industrial	98,200	2,005,972
MO	St. Joseph	2001	Industrial	388,671	5,728,114
MS	Jackson	1993	Industrial	26,340	-0-
MS	Richland	1994	Industrial	36,000	-0-
NC	Fayetteville	1997	Industrial	148,000	3,550,000
NC	Greensboro	1993	Industrial	40,560	-0-

<u>State</u>	<u>City</u>	<u>Fiscal Year</u> <u>Acquisition</u>	<u>Type</u>	<u>Square</u> <u>Footage</u>	<u>Mortgage</u> <u>Balance</u> <u>9/30/2008</u>
NC	Monroe	2001	Industrial	160,000	2,739,207
NC	Winston-Salem	2002	Industrial	106,507	3,872,111
NE	Omaha	1999	Industrial	88,140	1,949,017
NJ	Carlstadt (2)	2007	Industrial	59,400	2,712,115
NJ	Somerset (3)	1970	Shopping Center	42,773	-0-
NY	Cheektowaga	2007	Industrial	84,923	2,217,304
NY	Orangeburg	1993	Industrial	50,400	-0-
OH	Bedford Heights	2007	Industrial	84,600	3,836,642
OH	Richfield	2006	Industrial	79,485	5,334,180
OH	Union Township	2000	Industrial	103,818	3,553,377
PA	Monaca	1997	Industrial	291,474	-0-
PA	Quakertown	2007	Industrial	37,660	-0-
SC	Hanahan (Norton)	2005	Industrial	306,000	7,685,724
SC	Hanahan (FDX Gr)	2005	Industrial	91,776	2,893,827
TN	Chattanooga	2007	Industrial	67,775	3,016,609
TN	Shelby County	2007	Land	N/A	-0-
TX	El Paso (4)	2007	Industrial	91,854	5,597,572
VA	Charlottesville	1999	Industrial	49,900	1,395,821
VA	Richmond (Carrier)	2007	Industrial	60,000	-0-
VA	Richmond (FDX)	2001	Industrial	112,870	3,331,966
VA	Roanoke	2007	Industrial	83,000	4,479,678
WI	Cudahy	2001	Industrial	139,564	2,774,983
				6,068,285	\$191,947,632

(1)

The Company owns a 63% controlling equity interest.

(2)

The Company owns a 51% controlling equity interest.

(3)

The Company has an undivided 2/3 interest.

(4)

The Company has a 65% controlling equity interest.

<u>State</u>	<u>City</u>	<u>Tenant</u>	<u>Annual Rent</u>	<u>Lease Expiration</u>
AL	Huntsville	Fedex Ground Package System. Inc	\$ 278,000	08/31/14
AZ	Tolleson	Western Container Corp	1,243,000	04/30/12
CO	Colorado Springs	Fedex Ground Package System. Inc	645,000	09/30/18
CO	Denver	Fedex Ground Package System. Inc	421,000	07/31/18
CT	Newington	Keebler Company	340,000	02/28/11
FL	Cocoa	Fedex Ground Package System. Inc	739,000	11/19/16
FL	Ft. Myers	Fedex Ground Package System. Inc	400,000	10/31/11
FL	Jacksonville	Federal Express Corporation	575,000	05/31/13
FL	Lakeland	Federal Express Corporation	165,000	11/30/12
FL	Orlando	Federal Express Corporation	644,000	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	572,000	09/30/17
FL	Tampa	Kellogg Sales Company	444,000	12/31/09
GA	Augusta	Fedex Ground Package System. Inc	453,000	08/31/18
GA	Augusta	Federal Express Corporation	142,000	11/30/12
GA	Griffin	Caterpillar Logistics Services, Inc.	1,094,000	11/30/16
IL	Burr Ridge	Sherwin-Williams Company	152,000	10/31/09
IL	Elgin	Joseph T. Ryerson	614,000	01/31/12
IL	Granite City	Anheuser-Busch, Inc.	1,147,000	05/31/11
IL	Montgomery	Home Depot USA, Inc.	898,000	06/30/10
IL	Schaumburg	Federal Express Corporation (1)	496,000	03/31/17
IL	Wheeling (2)	Fedex Ground Package System. Inc	1,386,000	5/31/17
IA	Urbandale	Keystone Automotive	129,000	03/31/17
KS	Edwardsville	Carlisle Tire & Wheel Company	671,000	05/31/12
MD	Beltsville		1,426,000	07/31/18

		Fedex Ground Package System. Inc		
		Fedex Ground Package System. Inc	1,285,000	06/30/17
MI	Orion			
MI	Romulus	Federal Express Corporation	450,000	05/31/11
MN	White Bear Lake	Federal Express Corporation	433,000	04/01/11
MO	O' Fallon	PPG Industries	449,000	06/30/09
MO	Kansas City	Kellogg Sales Company	368,000	07/31/12
MO	Liberty	Johnson Controls, Inc. (3)	624,000	12/31/08
MO	St. Joseph	Mead Corporation (4)	1,204,000	11/30/15
MS	Jackson	Vacant	-0-	N/A
MS	Richland	Federal Express Corporation	140,000	3/31/14
NC	Fayetteville	Maidenform, Inc.	396,000	12/31/12
NC	Greensboro	Keebler Company (5)	173,000	08/31/09

<u>State</u>	<u>City</u>	<u>Tenant</u>	<u>Annual Rent</u>	<u>Lease Expiration</u>
NC	Monroe	HD Supply, Inc. Fedex Ground Package System.	594,000	10/31/11
NC	Winston-Salem	Inc	637,000	12/31/11
NE	Omaha	Federal Express Corporation	535,000	10/31/13
NJ	Carlstadt (2)	Macy's East, Inc.	371,000	03/31/14
NJ	Somerset	various (6) Fedex Ground Package System.	391,000	various
NY	Cheektowaga	Inc	645,000	10/31/16
NY	Orangeburg	Keebler Company	353,000	12/31/09
OH	Bedford Heights	Federal Express Corporation Fedex Ground Package System.	456,000	08/31/13
OH	Richfield	Inc	645,000	10/31/16
OH	Union Township	RPS Ground (FDX)	499,000	08/31/13
PA	Monaca	various	400,000	various
PA	Quakertown	MagiKitchen Norton McNaughton of Squire, Inc.	286,000	03/31/15
SC	Hanahan	Fedex Ground Package System.	1,301,000	04/29/15
SC	Hanahan	Inc	659,000	07/31/18
TN	Chattanooga	Federal Express Corporation	370,000	10/27/12
TN	Shelby County	N/A Fedex Ground Package System.	N/A	N/A
TX	El Paso (2)	Inc	668,000	09/30/15
VA	Charlottesville	Federal Express Corporation	368,000	08/31/10
VA	Richmond	Carrier Sales	396,000	05/31/11
VA	Richmond	Federal Express Corporation	707,000	10/21/09
VA	Roanoke	DHL Fedex Ground Package System.	593,000	12/07/16
WI	Cudahy	Inc	901,000	06/30/17
			\$34,087,000	

(1)

Lease has an early termination option in 2012.

(2)

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

(3)

Subleased to Lear Corporation

(4)

Subleased to Hallmark.

(5)

Subleased to Highways and Skyways of NC, Inc.

(6)

The Company owns an undivided 2/3 interest. Estimated annual rent reflects the Company's proportionate share of the total rent.

The Company's weighted-average lease expiration was 5.6 years as of September 30, 2008 and its average rent per occupied square foot as of September 30, 2008 and 2007 was \$5.28 and \$5.61, respectively. As of September 30, 2008 and 2007, the Company's occupancy was 98%. All properties were 100% occupied at September 30, 2008 except for the following:

<u>Property</u>	<u>Occupancy</u>
Monaca, PA	61%
Jackson, MS	Lease is being negotiated

During 2008, the Company executed or extended the following leases:

	Former	Previous	Renewal	New
	Rent	Lease	Rent	Lease
<u>Property</u>	<u>PSF</u>	<u>Expiration</u>	<u>PSF</u>	<u>Expiration</u>
Romulus, MI	\$5.71	5/31/08	\$6.24	5/31/11
Jacksonville, FL	5.68	5/31/08	6.00	5/31/13
Charlottesville, VA	7.27	8/31/08	7.37	8/31/10
Omaha, NE	5.86	10/31/08	6.07	10/31/13
Beltsville, MD	8.19	12/31/10	9.66	*7/31/18
Denver, CO	6.98	9/30/14	8.08	*7/31/18
Hanahan, SC (FDX Gr)	6.89	10/14/14	7.19	*7/31/18
Augusta, GA (FED Gr)	7.89	8/31/14	8.03	*8/31/18
Colorado Springs, CO	7.74	9/30/15	9.44	*9/30/18

* Buildings were expanded in 2008 and existing lease terms were extended for an additional ten years.

On June 3, 2008, the Company sold an 84,376 square foot industrial building in Franklin, Massachusetts for a sale price of \$6,685,000. The property was leased to Kellogg Sales Company at the time of sale and was leased through January 2010 at an annual rent of approximately \$527,000 or \$6.25 per square foot. The Company recognized a gain on sale of \$3,268,496.

On July 22, 2008, the Company sold its 44,719 square foot industrial property in Ramsey, New Jersey for a sale price of \$4,050,000. The property was leased to Bogen Photo at the time of the sale and was leased through March 2010 at an annual rent of approximately \$330,000 or \$ 7.38 per square foot. The Company recognized a gain on the sale of \$3,522,120.

ITEM 3 LEGAL PROCEEDINGS

None.

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted during the fourth quarter of 2008 to a vote of security holders through the solicitation of proxies or otherwise.

PART II

ITEM 5 - MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED

STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY

SECURITIES

The shares of common stock of Monmouth Real Estate Investment Corporation are traded on the NASDAQ Global Select Market, under the symbol "MNRTA". 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 2008

Fiscal 2007

Market Price

Market Price

Fiscal Qtr.	High	Low	Distrib.	Fiscal Qtr.	High	Low	Distrib.
First	\$8.49	\$7.80	\$.15	First	\$8.59	\$7.95	\$.15
Second	8.28	7.60	.15	Second	8.95	8.16	.15
Third	8.04	6.33	.15	Third	9.05	8.39	.15
Fourth	8.14	6.15	.15	Fourth	8.90	7.50	.15
			\$				\$.60
			.60				

On September 30, 2008, the closing price of our common stock was \$7.79.

As of September 30, 2008, there were approximately 1,028 shareholders of record who held shares of common stock of the Company.

It is the Company's intention to continue distributing quarterly dividends. On October 1, 2008 the Company declared a dividend of \$.15 per share to be paid on December 15, 2008 to shareholders of record on November 17, 2008. Future 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, 2006, the Company issued 1,322,500 shares of 7.625% Series A Cumulative Redeemable Preferred Stock, par value \$.01 per share (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. On October 1, 2008, the board of directors declared a quarterly dividend of \$0.4766 per share to be paid December 15, 2008 to shareholders of record as of November 17, 2008.

Equity Compensation Plan Information

The following table summarizes information, as of September 30, 2008, relating to equity compensation plans 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	Weighted-average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding Securities reflected in column (a))
	(a)	(b)	(c)
Equity Compensation Plans Approved by Security Holders	1,332,170	\$7.77	1,255,000
Equity Compensation Plans not Approved by Security Holders	N/A	N/A	N/A

Total	1,332,170	\$7.77	1,255,000
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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 as of and for each of the years in the five year period ended September 30, 2008. The Company merged with Monmouth Capital on July 31, 2007 and activity related to Monmouth Capital from that date is included in 2008 and 2007. This table should be read in conjunction with all of the financial statements and notes thereto included elsewhere herein.

OPERATING DATA:	2008	2007	<u>September 30,</u> 2006	2005	2004
Rental and Reimbursement Revenue	\$39,480,885	\$28,296,938	\$24,698,242	\$22,478,334	\$19,370,984
(Loss) Gain on Securities Transactions, net	(3,660,283)	156,723	50,983	1,541,952	1,714,395
Interest and Dividend Income	1,871,262	1,467,444	1,028,151	1,525,325	1,801,107
Total Expenses	20,679,970	15,264,134	12,389,029	11,107,307	9,701,507
Gain (Loss) on Sale of Investment Property	6,790,616	4,634,564	(28,385)	-0-	-0-
Income from Equity Investment	-0-	-0-	-0-	82,500	110,000
Gain on Dissolution of Equity Investment	-0-	-0-	-0-	1,269,179	-0-
Interest Expense	13,138,767	8,969,087	8,298,077	7,993,039	6,970,090
Income from Continuing Operations	3,733,383	5,712,586	5,090,270	7,788,027	6,315,972
Discontinued Operations	7,289,512	5,105,052	1,075,318	1,258,795	1,356,663

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Net Income	11,022,895	10,817,638	6,165,588	9,046,822	7,672,635
Net Income Applicable to Common Shareholders	8,501,551	8,947,885	6,165,588	9,046,822	7,672,635
Income from Continuing Operations Per Share	.15	.27	.26	.43	.39
Basic					
Diluted	.15	.27	.26	.43	.39
Net Income Per Common Share					
Basic	.35	.41	.32	.50	.47
Diluted	.35	.41	.31	.50	.47

**BALANCE SHEET
DATA:**

Total Assets	\$389,077,597	\$366,908,245	\$241,906,933	\$217,841,402	\$195,487,662
Real Estate Investments, Net	349,352,651	321,409,179	220,210,796	191,744,473	166,879,808
Mortgage Notes Payable	191,947,632	174,352,038	122,194,039	111,968,518	97,530,963
Subordinated Convertible Debentures	14,990,000	14,990,000	-0-	-0-	-0-
7.625% Cumulative Redeemable Preferred Stock	33,062,500	33,062,500	-0-	-0-	-0-
Shareholders Equity	159,910,964	167,214,302	107,566,977	102,560,241	92,907,840

**CASH FLOW
DATA:**

Net Cash Provided (Used) By:					
Operating Activities	\$17,438,835	\$13,224,299	\$11,991,556	\$11,429,276	\$9,725,898
Investing Activities	(39,831,002)	(25,526,868)	(32,691,106)	(19,643,014)	(35,417,062)
Financing Activities	16,345,092	21,668,476	16,806,026	13,211,677	26,068,148

September 30,

OTHER INFORMATION:	2008	2007	2006	2005	2004
Average Number of Common					
Shares Outstanding - Basic	24,131,497	21,050,803	19,555,278	17,967,360	16,206,433
Funds from Operations*	\$11,397,238	\$11,606,920	\$11,753,324	\$13,794,594 (A)	\$ 11,718,456
Cash Dividends Per Common					
Share	.60	.60	.60	.58	.58

* Funds from operations (FFO), is defined as net income applicable to common shareholders, excluding gains (or losses) from sales of depreciable assets, plus depreciation and amortization of intangible assets. 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 bases. 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 is calculated as follows:

	2008	2007	2006	2005	2004
Net Income	\$11,022,895	\$10,817,638	\$6,165,588	\$9,046,822	\$ 7,672,635
Less: Preferred Dividend	(2,521,344)	(1,869,753)	-0-	-0-	-0-
(Gain) Loss on Sale of				-0-	-0-

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Investment Property (B)	(6,790,616)	(4,634,564)	28,385		
Depreciation	7,940,327	6,326,935	4,869,134	4,358,318	3,853,845
Depreciation Related to Discontinued Operations	86,858	230,982	320,409	192,024	191,976
Amortization of In-Place Lease Intangible Assets	1,659,118	735,682	369,808	197,430	-0-
FFO	\$11,397,238	\$11,606,920	\$11,753,324	\$13,794,594 (A)	\$11,718,456

(A)

Includes Gain on Dissolution of Equity Investment.

(B)

Consists of the gain on sale of the Franklin, MA and Ramsey, NJ properties in 2008, the South Brunswick, NJ property in 2007 and loss on sale of the Wichita, KS property in 2006. These gains (losses) 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, including the documents that are incorporated by reference, 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, intend, or similar e we are making 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:

- 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;
- our ability to obtain suitable tenants for our properties;
- changes in real estate market conditions and general economic conditions;
- the inherent risks associated with owning real estate, including local real estate market conditions, governing laws and regulations and illiquidity of real estate investments;
- our ability to sell properties at an attractive price;

- our ability to repay debt financing obligations;
- our ability to refinance amounts outstanding under our credit facilities at maturity on terms favorable to us;
- the loss of any member of our management team;
- our ability to comply with certain debt covenants;
- our ability to integrate acquired properties and operations into existing operations;
- continued ability to access the debt or equity markets ;
- the availability of other debt and equity financing alternatives;
- changes in interest rates under our current credit facilities and under any additional variable rate debt arrangements that we may enter into in the future;
- our ability to successfully implement our selective acquisition strategy;
- 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;
- changes in federal or state tax rules or regulations that could have adverse tax consequences; and
- 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.

Overview

The Company is a REIT. The Company's primary business is the ownership and management of industrial buildings subject to long-term leases to investment grade tenants. The Company owns fifty-seven industrial properties and one shopping center with a total of 6,068,000 square feet. Total real estate investments were \$349,352,651 at September 30, 2008. These properties are located in twenty-five states: Alabama, Arizona, Colorado, Connecticut, Florida, Georgia, Illinois, Iowa, Kansas, Maryland, Michigan, Minnesota, Missouri, Mississippi, North Carolina, Nebraska, New Jersey, New York, Ohio, Pennsylvania, South Carolina, Tennessee, Texas, Virginia, and Wisconsin.

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The Company's weighted-average lease expiration was 5.6 and 5.4 years as of September 30, 2008 and 2007, respectively and its average rent per occupied square foot as of September 30, 2008 and 2007 was \$5.28 and \$5.61, respectively. At September 30, 2008 and 2007, the Company's occupancy was 98%.

During fiscal 2008, the Company acquired approximately \$18,839,000 in industrial properties (two properties), totaling approximately 200,000 square feet of industrial space. During fiscal 2008, the Company sold 129,095 square feet of industrial space (two properties) for a selling price of approximately \$10,735,000. During fiscal 2007, the Company acquired approximately \$28,561,000 in industrial properties (three properties), totaling approximately 311,000 square feet of industrial space. Also in 2007, the Company merged with Monmouth Capital and acquired a controlling interest in approximately 1,035,000 square feet of industrial property. See additional information on the merger with Monmouth Capital in Note No. 2 in the Notes to the Consolidated Financial Statements included in this Form 10-K.

The Company has a concentration of FDX leased properties. At September 30, 2008, the percentage of FDX and subsidiaries leased square footage as a total of the Company's rental space was 46%, with 17% leased with FDX and 29% leased with FDX subsidiaries. The percentage of rental and reimbursement revenue from FDX was 56% for the year ended September 30, 2008. This is a risk factor that shareholders should consider.

The Company's revenue primarily consists of rental and reimbursement revenue from the ownership of industrial rental property. Rental and reimbursement revenue increased \$11,183,947, or 40%, for the year ended September 30, 2008 as compared to the year ended September 30, 2007. Total expenses (excluding interest expense) increased \$5,415,836, or 35%, for the year ended September 30, 2008 as compared to the year ended September 30, 2007. The increases were due mainly to the revenue and expenses relating to acquisitions made during 2008 and 2007 and the merger with Monmouth Capital as of July 31, 2007. Interest expense increased \$4,169,680 or 46% due mainly to the origination of \$29,400,000 in new mortgages in 2008 and increased outstanding balances on the Company's line of credit and margin loans. The Company sold two properties during 2008 for approximately \$10,735,000 and recognized a gain on sale of \$6,790,616.

The Company has approximately \$5,000,000 million in cash, \$21,000,000 in REIT securities, and \$3,000,000 available on its line of credit as of September 30, 2008. The Company believes that funds generated from operations and the DRIP, the funds available on the 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 year.

The Company intends to continue to increase its real estate investments in fiscal 2009 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 gain (loss) on securities transactions. The Company holds a portfolio of securities of other REITs with a fair value of \$21,005,663 as of September 30, 2008. 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 until suitable acquisitions of real property are found. As of September 30, 2008, the Company's portfolio consisted of 64% preferred stocks and 36% common stocks. The Company's weighed-average yield on the securities portfolio for 2008 was approximately 9.5%. Interest and dividend income increased \$403,818 or 28% in 2008 as compared to 2007. The increase was due mainly to higher invested funds balance. The Company purchased approximately \$17,000,000 in securities during 2008 partially offset by sales of securities with a cost basis of approximately \$776,000. During 2008, the Company recognized approximately \$3,105,000 in impairment losses due to the writing down of the carrying value of certain securities which were considered other than temporarily impaired and a loss on closed futures contracts of approximately \$742,000. The Company has unrealized losses of \$6,139,451 in its REIT

securities portfolio as of September 30, 2008. Additional impairment losses may be recognized if the REIT securities market remains at current levels and the financial results of the underlying companies deteriorate. The REIT securities market has recently been driven to inordinately low prices and high yields. We believe this to be the result of indiscriminate selling and not the result of normal pricing considerations. The dividends received from our securities investments continue to meet our expectations. It is our intent to hold these securities long-term. As the credit markets begin to function again, more efficient pricing should return to the securities markets.

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 generally accepted accounting principles. 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 Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, (Statement 144) 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, leasing commissions 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 and the Company's overall relationship with the respective tenant. 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 immediately charged to expense.

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 an annual 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, an impairment charge is recognized in earnings and the cost basis of the individual security shall be 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, 2008 and 2007 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.

Revenue Recognition and Estimates