ONE LIBERTY PROPERTIES INC
Form 10-Q
August 08, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

x	**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended June 30, 2011

OR

o	**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission File Number 001-09279

ONE LIBERTY PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

MARYLAND (State or other jurisdiction of incorporation or organization)	**13-3147497** (I.R.S. employer identification number)
60 Cutter Mill Road, Great Neck, New York (Address of principal executive offices)	**11021** (Zip code)

(516) 466-3100

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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

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 small reporting company in Rule 12b-2 of the Exchange Act.

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

As of August 1, 2011, the registrant had 14,494,859 shares of common stock outstanding.

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One Liberty Properties Inc. and Subsidiaries

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Part I FINANCIAL INFORMATION

Item 1. Financial Statements

ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands, Except Par Value)

	June 30, 2011 (Unaudited)	December 31, 2010
Assets		
Real estate investments, at cost		
Land	$ 127,531	$ 126,697
Buildings and improvements	323,110	319,203
	450,641	445,900
Less accumulated depreciation	58,365	54,137
Real estate investments, net	392,276	391,763
Property held for sale (including related assets of $808)		10,678
Investment in unconsolidated joint ventures	5,287	4,777
Cash and cash equivalents	11,447	7,732
Available-for-sale securities	367	422
Unbilled rent receivable	11,811	11,149
Unamortized intangible lease assets	10,501	10,887
Escrow, deposits and other assets and receivables	3,021	4,684
Investment in BRT Realty Trust at market (related party)	234	266
Unamortized deferred financing costs	2,402	2,265
Total assets	$ 437,346	$ 444,623
Liabilities and Stockholders Equity		
Liabilities:		
Mortgages payable	$ 198,174	$ 215,308
Line of credit	4,500	36,200
Dividends payable	4,762	3,806
Accrued expenses and other liabilities	4,323	5,144
Unamortized intangible lease liabilities	5,384	4,982
Total liabilities	217,143	265,440
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $1 par value; 12,500 shares authorized; none issued		
Common stock, $1 par value; 25,000 shares authorized; 14,081 and 11,212 shares issued and outstanding	14,081	11,212

Paid-in capital		187,222		147,158
Accumulated other comprehensive loss		(443)		(156)
Accumulated undistributed net income		19,343		20,969
Total stockholders equity		220,203		179,183
Total liabilities and stockholders equity	$	437,346	$	444,623

See accompanying notes to consolidated financial statements.

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ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Per Share Data)

(Unaudited)

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Revenues:				
Rental income, net	$ 11,241	$ 10,323	$ 22,343	$ 20,079
Operating expenses:				
Depreciation and amortization	2,323	2,091	4,648	4,159
General and administrative (including $847, $647, $1,444 and $1,194, respectively, to related party)	2,053	1,913	3,802	3,566
Real estate acquisition costs	18	168	45	514
Real estate expenses	527	485	988	665
Leasehold rent	77	77	154	154
Total operating expenses	4,998	4,734	9,637	9,058
Operating income	6,243	5,589	12,706	11,021
Other income and expenses:				
Equity in earnings of unconsolidated joint ventures	105	128	135	253
Gain on disposition of real estate held by unconsolidated joint venture		107		107
Gain on settlement of debt	1,240		1,240	
Other income, including realized gain on sale of available-for-sale securities and interest income	40	174	53	225
Interest:				
Expense	(3,333)	(3,701)	(6,974)	(6,980)
Amortization of deferred financing costs	(182)	(150)	(495)	(292)
Income from continuing operations	4,113	2,147	6,665	4,334
Discontinued operations:				
Income from operations	97	252	277	486
Net gain on sale	932		932	
Income from discontinued operations	1,029	252	1,209	486
Net income	$ 5,142	$ 2,399	$ 7,874	$ 4,820
Weighted average number of common shares outstanding:				
Basic	14,078	11,453	13,419	11,424
Diluted	14,178	11,453	13,469	11,453

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ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Per Share Data)

(Unaudited) (Continued)

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Net income per common share basic:				
Income from continuing operations	$ .29	$ .19	$ .48	$ .38
Income from discontinued operations	.07	.02	.09	.04
Net income per common share basic	$ .36	$ .21	$ .57	$ .42
Net income per common share diluted:				
Income from continuing operations	$ .28	$ .19	$ .48	$ .38
Income from discontinued operations	.07	.02	.09	.04
Net income per common share diluted	$ .35	$ .21	$ .57	$ .42
Cash distribution declared per share of common stock	$ .33	$ .30	$ .66	$ .60

See accompanying notes to consolidated financial statements.

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ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

AND COMPREHENSIVE INCOME

For the six month period ended June 30, 2011 (Unaudited)

and the year ended December 31, 2010

(Amounts in Thousands, Except Per Share Data)

	Common Stock	Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Undistributed Net Income	Total
Balances, January 1, 2010	$ 10,879	$ 143,272	$ 191	$ 25,786	$ 180,128
Distributions - common stock					
Cash - $1.23 per share				(14,123)	(14,123)
Issuance of stock for stock dividend obligation at December 31, 2009	216	1,888			2,104
Restricted stock vesting	36	(36)			
Shares issued through dividend reinvestment plan	81	1,119			1,200
Compensation expense - restricted stock		915			915
Net income				9,306	9,306
Other comprehensive income -					
Net unrealized loss on available-for-sale securities			(60)		(60)
Net unrealized loss on derivative instruments			(287)		(287)
Comprehensive income					8,959
Balances, December 31, 2010	11,212	147,158	(156)	20,969	179,183
Distributions - common stock					
Cash - $.66 per share				(9,500)	(9,500)
Restricted stock vesting	46	(46)			
Shares issued in stock offering - net of offering costs of $282	2,700	37,869			40,569
Shares issued through dividend reinvestment plan	123	1,720			1,843
Compensation expense - restricted stock		521			521
Net income				7,874	7,874
Other comprehensive income -					
Net unrealized loss on available-for-sale securities			(87)		(87)
Net unrealized loss on derivative instruments			(128)		(128)
OLP s share of joint venture net unrealized loss on derivative			(72)		(72)

instruments										
Comprehensive income										7,587
Balances, June 30, 2011	$	14,081	$	187,222	$	(443)	$	19,343	$	220,203

See accompanying notes to consolidated financial statements.

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ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

(Unaudited)

	Six Months Ended June 30, 2011	2010
Cash flows from operating activities:		
Net income	$ 7,874	$ 4,820
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on settlement of debt	(1,240)	
Gain on sale of real estate	(932)	
Gain on sale of available-for-sale securities		(129)
Increase in rental income from straight-lining of rent	(679)	(880)
Decrease in rental income resulting from bad debt expense	508	79
Decrease in rental income from amortization of intangibles relating to leases	47	10
Amortization of restricted stock expense	521	460
Gain on disposition of real estate held by unconsolidated joint venture		(107)
Equity in earnings of unconsolidated joint ventures	(135)	(253)
Distributions of earnings from unconsolidated joint ventures	199	209
Depreciation and amortization	4,711	4,291
Amortization and write off of financing costs	495	292
Changes in assets and liabilities:		
(Increase) decrease in escrow, deposits, other assets and receivables	(693)	89
Decrease in accrued expenses and other liabilities	(887)	(1)
Net cash provided by operating activities	9,789	8,880
Cash flows from investing activities:		
Purchase of real estate and improvements	(2,612)	(15,936)
Net proceeds from sale of real estate	11,544	
Investment in unconsolidated joint ventures	(669)	
Distributions of return of capital from unconsolidated joint ventures	23	22
Prepaid tenant improvement allowance		(1,750)
Net proceeds from sale of available-for-sale securities		5,997
Net cash provided by (used in) investing activities	8,286	(11,667)
Cash flows from financing activities:		
Scheduled amortization payments of mortgages payable	(2,750)	(2,721)
Repayment of mortgages payable	(15,303)	(2,433)
Proceeds from mortgage financings	2,000	3,000
Proceeds from common stock offering, net	40,569	
Proceeds from bank line of credit	4,500	
Repayment on bank line of credit	(36,200)	
Issuance of shares through dividend reinvestment plan	1,843	
Payment of financing costs	(475)	(882)
Cash distributions to common stockholders	(8,544)	(3,683)
Expenses associated with stock issuance		(48)
Net cash used in financing activities	(14,360)	(6,767)

Net increase (decrease) in cash and cash equivalents		3,715		(9,554)
Cash and cash equivalents at beginning of period		7,732		28,036
Cash and cash equivalents at end of period	$	11,447	$	18,482

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ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

(Unaudited) (Continued)

	Six Months Ended June 30, 2011	2010
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest expense	$ 7,131	$ 6,783
Supplemental schedule of non-cash investing and financing activities:		
Common stock dividend portion paid in shares of Company s common stock		2,209
Assumption of mortgage payable in connection with purchase of real estate		17,654
Settlement of mortgage debt	1,259	
Purchase accounting allocation intangible lease assets	234	1,121
Purchase accounting allocation intangible lease liabilities	612	365
Reclassification of 2010 prepaid tenant improvement allowance to building improvements	1,750	
Reclassification of real estate owned to property held for sale		10,678

See accompanying notes to consolidated financial statements.

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One Liberty Properties, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

June 30, 2011

Note 1 - Organization and Background

One Liberty Properties, Inc. (OLP) was incorporated in 1982 in Maryland. OLP is a self-administered and self-managed real estate investment trust (REIT). OLP acquires, owns and manages a geographically diversified portfolio of retail (including furniture and office supply stores), industrial, office, flex, health and fitness and other properties, a substantial portion of which are under long-term net leases. As of June 30, 2011, OLP owned 84 properties, three of which are vacant and one of which is a 50% tenancy in common interest. OLP s joint ventures owned a total of five properties. The 89 properties are located in 29 states.

Note 2 - Basis of Preparation

The accompanying interim unaudited consolidated financial statements as of June 30, 2011 and for the three and six months ended June 30, 2011 and 2010 reflect all normal recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the results for such interim periods. The results of operations for the three and six months ended June 30, 2011 are not necessarily indicative of the results for the full year.

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

The consolidated financial statements include the accounts and operations of OLP and its wholly-owned subsidiaries (collectively, the Company). Material intercompany items and transactions have been eliminated. The Company accounts for its investments in unconsolidated joint ventures under the equity method of accounting. All investments in joint ventures have sufficient equity at risk to permit the entity to finance its activities without additional subordinated financial support and, as a group, the holders of the equity at risk have power through voting rights to direct the activities of the venture. As a result, none of the Company s joint ventures are variable interest entities. In addition, although the Company is the managing member of these joint ventures, it does not exercise substantial operating control over these entities, and therefore the entities are not consolidated. These investments are recorded initially at cost, as investments in unconsolidated joint ventures, and subsequently adjusted for their share of equity in earnings, cash contributions and distributions. None of the joint venture debt is recourse to the Company.

Certain amounts reported in previous consolidated financial statements have been reclassified in the accompanying consolidated financial statements to conform to the current periods presentation, primarily to reclassify the assets of one property, which was sold in May 2011, to property held for sale at December 31, 2010 and to reclassify the operations of this property to discontinued operations for the three and six months ended June 30, 2011 and 2010. In addition, the operations of one property, which was sold in September 2010, were reclassified to discontinued operations for the three and six months ended June 30, 2010.

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One Liberty Properties, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

June 30, 2011 (Continued)

Note 2 Basis of Preparation (Continued)

These statements should be read in conjunction with the consolidated financial statements and related notes which are included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010.

Note 3 - Earnings Per Common Share

For the three and six months ended June 30, 2011 and 2010, basic earnings per share was determined by dividing net income allocable to common stockholders for the applicable period by the weighted average number of shares of common stock outstanding during such period, including the effect of the 2,700,000 shares sold in February 2011 as described in Note 10. Net income during the applicable period is also allocated to the unvested restricted stock as the restricted stock is entitled to receive dividends and is therefore considered a participating security. Unvested restricted stock is not allocated net losses and/or any excess of dividends declared over net income; such amounts are allocated entirely to the common stockholders other than the holders of unvested restricted stock. The weighted average unvested shares of restricted stock outstanding was 348,000 and 357,000 during the three and six months ended June 30, 2011, respectively, and 327,000 and 342,000 during the three and six months ended June 30, 2010, respectively. The dividends declared payable to unvested restricted stockholders was $115,000 and $230,000 during the three and six months ended June 30, 2011, respectively, and $97,000 and $204,000 during the three and six months ended June 30, 2010, respectively. The restricted stock units awarded under the Pay-for-Performance program described in Note 13 are excluded from the basic earnings per share calculation, as these units are not participating securities.

Diluted earnings per share reflects the potential dilution that could occur if securities or other rights exercisable for, or convertible into, common stock were exercised, converted or otherwise resulted in the issuance of common stock that shared in the earnings of the Company. The weighted average number of common shares outstanding used for the diluted earnings per share calculation for the three and six months ended June 30, 2010 includes the full impact of common stock issued in connection with the dividend paid in January 2010, based on the December 11, 2009 dividend declaration date, as the shares were contingently issuable as of December 11, 2009. This stock dividend was included in basic earnings per share as of the January 25, 2010 issuance date. The diluted weighted average number of common shares also includes 100,000 shares of common stock underlying the restricted stock units awarded on September 14, 2010 under the Pay-for-Performance Program. These shares would be deemed issued based on the Company s stock price at June 30, 2011 and dividends paid through such date. The remaining 100,000 shares of common stock underlying the restricted stock units awarded under the Pay-For-Performance Program are not included, as they did not meet the defined performance metric as of June 30, 2011.

There were no options outstanding to purchase shares of common stock or other rights exercisable for, or convertible into, common stock during the three and six months ended June 30, 2011 and 2010.

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One Liberty Properties, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

June 30, 2011 (Continued)

Note 4 - Investment in Unconsolidated Joint Ventures

The Company s five unconsolidated joint ventures each own and operate one property, including a 50% owned joint venture which acquired a retail property in March 2011 for a total purchase price of $3,200,000. At June 30, 2011 and December 31, 2010, the Company s equity investment in unconsolidated joint ventures totaled $5,287,000 and $4,777,000, respectively. In addition to the $107,000 gain on sale of property in the three and six months ended June 30, 2010, the Company recorded equity in earnings of $135,000 and $253,000 for the six months ended June 30, 2011 and 2010, respectively, and $105,000 and $128,000 for the three months ended June 30, 2011 and 2010, respectively.

Note 5 - Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its tenants to make required rent payments. If the financial condition of a specific tenant were to deteriorate, resulting in an impairment of its ability to make payments, additional allowances may be required. At June 30, 2011 and December 31, 2010, the balance in allowance for doubtful accounts was $1,485,000 and $977,000, respectively, recorded as a reduction to accounts receivable. The Company records bad debt expense as a reduction of rental income. For the three and six months ended June 30, 2011, the Company recorded bad debt expense of $197,000 and $508,000, respectively. For the three and six months ended June 30, 2010, the Company recorded bad debt expense of $17,000 and $79,000, respectively. For the three and six months ended June 30, 2010, $14,000 of such bad debt expense was recorded in discontinued operations. The bad debt expense for the three months ended June 30, 2011 results substantially from uncollected rental income and real estate taxes related to a property previously leased by Robb & Stucky. Robb & Stucky filed for bankruptcy protection in February 2011, thereafter rejected its lease and vacated the property as of June 30, 2011.

Note 6 - Real Estate Acquisition

On March 4, 2011, the Company acquired a retail property in Illinois for an all cash purchase price of $2,325,000. The Company incurred third party acquisition costs of $21,000 related to this acquisition.

As a result of this acquisition, the Company recorded intangible lease liabilities of $612,000 and intangible lease assets of $234,000, representing the value of the acquired below market lease and origination costs. The Company assessed the fair value of the lease intangibles based on estimated cash flow projections that use appropriate discount rates and available market information (including an evaluation of lease renewal options). Such inputs are Level 3 in the fair value hierarchy. The fair value of the tangible assets of an acquired property is determined by valuing the property as if it were vacant. The value, as determined, is allocated to land, buildings and improvements based on management s judgment.

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One Liberty Properties, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

June 30, 2011 (Continued)

Note 7 - Discontinued Operations and Property Held for Sale

On May 20, 2011, the Company sold a property, leased to Office Depot and located in California, to an unrelated party for consideration of $11,544,000, net of closing costs, and realized a gain of approximately $932,000, which is included in net gain on sale in discontinued operations in the three and six months ended June 30, 2011. The net book value of the property, including related assets of $808,000, was $10,678,000 at December 31, 2010 and is included in property held for sale on the accompanying balance sheet.

The following is a summary of income from discontinued operations applicable to the property sold in May 2011 and the two properties sold in July 2010 and September 2010 (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
Rental income	$ 120	$ 371	$ 342	$ 717
Depreciation and amortization	21	66	63	132
Real estate expenses	2	10	2	12
Interest expense		43		87
Total expenses	23	119	65	231
Income from operations	97	252	277	486
Net gain on sale	932		932	
Income from discontinued operations	$ 1,029	$ 252	$ 1,209	$ 486

Note 8 Gain on Settlement of Debt

On June 27, 2011, the Company paid off the $8,893,000 principal balance of the mortgage secured by the property previously leased to Robb & Stucky with a payment of $7,634,000. The $1,240,000 gain on settlement of debt is net of a $19,000 write off of the remaining balance of related deferred mortgage costs.

This property was tested for impairment and it was determined that no charge was required.

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One Liberty Properties, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

June 30, 2011 (Continued)

Note 9 - Line of Credit

On January 6, 2011, the Company entered into an amendment of its credit facility with VNB New York Corp., Bank Leumi USA, Israel Discount Bank of New York and Manufacturer s & Trader s Trust Company, which, among other things, increased the Company s borrowing capacity by $15,000,000 to $55,000,000 and extended the maturity by one year to March 31, 2013. The interest rate thereon is the greater of (i) 90 day LIBOR plus 3% (3.25% at June 30, 2011), and (ii) 6% per annum, and there is an unused facility fee of .25% per annum. In connection with the amendment, the Company incurred a $350,000 commitment fee which is being amortized over the remaining term of the facility. At June 30, 2011, there was $4,500,000 outstanding under the facility. The Company was in compliance with all covenants at June 30, 2011.

Note 10 Public Offering

On February 11, 2011, the Company sold 2,700,000 shares of its common stock for net proceeds of approximately $40,569,000. The proceeds were used to repay two mortgages in aggregate amount of $7,700,000 having a weighted average interest rate of 7.9% and to reduce the amount outstanding under the line of credit by $26,200,000. The remaining balance of the proceeds was used for general corporate purposes, including the purchase of a property in March 2011.

Note 11 - Common Stock Cash Dividend

On June 14, 2011, the Board of Directors declared a quarterly cash dividend of $.33 per share on the Company s common stock, totaling $4,762,000. The quarterly dividend was paid on July 6, 2011 to stockholders of record as of June 28, 2011.

Note 12 - Comprehensive Income

Comprehensive income for the three and six months ended June 30, 2011 and 2010 is as follows (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**

Net income	$ 5,142	$ 2,399	$ 7,874	$ 4,820
Other comprehensive income -				
Net unrealized gain (loss) on available-for-sale securities	(8)	(206)	(87)	(133)
Net unrealized gain (loss) on derivative instruments	(308)	(277)	(200)	(406)
Comprehensive income	$ 4,826	$ 1,916	$ 7,587	$ 4,281

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One Liberty Properties, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

June 30, 2011 (Continued)

Note 12 - Comprehensive Income (Continued)

Accumulated other comprehensive loss includes an accumulated net unrealized loss on available-for-sale securities of $40,000, an unrealized loss on available-for-sale securities in a joint venture of $27,000, a net unrealized loss on derivative instruments of $303,000, and our 50% share of a net unrealized loss on a joint venture derivative instrument of $73,000, resulting in a total cumulative net loss of $443,000 at June 30, 2011. At December 31, 2010, accumulated other comprehensive loss of $156,000 was comprised of a net accumulated unrealized gain on available-for-sale securities of $47,000, an unrealized loss on available-for-sale securities in a joint venture of $27,000 and a net unrealized loss on derivative instruments of $176,000.

Note 13 - Stock Based Compensation

The Company s 2009 Incentive Plan, approved by the Company s stockholders in June 2009, permits the Company to grant stock options, restricted stock and/or performance-based awards to its employees, officers, directors and consultants. A maximum of 600,000 shares of the Company s common stock is authorized for issuance pursuant to the 2009 Incentive Plan.

The Company s 2003 Incentive Plan, approved by the Company s stockholders in June 2003, permitted the Company to grant stock options and restricted stock to its employees, officers, directors and consultants. A maximum of 275,000 shares of the Company s common stock was authorized for issuance pursuant to the 2003 Incentive Plan.

The restricted stock grants are charged to general and administrative expense over the respective vesting periods based on the market value of the common stock on the grant date. Substantially all restricted stock awards made to date provide for vesting upon the fifth anniversary of the grant date and under certain circumstances may vest earlier. For accounting purposes, the restricted stock is not included in the shares shown as outstanding on the balance sheet until they vest; however dividends are paid on the unvested shares.

On September 14, 2010, the Board of Directors approved a Pay-For-Performance Program under the Company s 2009 Incentive Plan, and awarded 200,000 performance share awards in the form of restricted stock units (the Units). The holders of Units are not entitled to dividends or to vote the underlying shares until the Units vest and shares are issued. Accordingly, for accounting purposes, the shares underlying the Units are not included in the shares shown as outstanding on the balance sheet. If the defined performance criteria are satisfied in full at June 30, 2017, one share of the Company s common stock will vest and be issued for each Unit outstanding and a pro-rata portion of the Units will vest and be issued if the performance criteria fall between defined ranges. In the event that the performance criteria are not satisfied in whole or in part at June 30, 2017, the unvested Units will be forfeited and no shares of the Company s common stock will be issued for those Units. No Units were granted, vested or forfeited in the six months ended June 30, 2011.

Through June 30, 2011, a total of 416,910 and 274,100 stock awards (*i.e.* restricted shares and restricted stock units) were issued pursuant to the Company s 2009 and 2003

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One Liberty Properties, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

June 30, 2011 (Continued)

Note 13 - Stock Based Compensation (Continued)

Incentive Plans, respectively. Under the 2009 Incentive Plan, 183,090 shares remain available for grant. No additional shares may be granted under the 2003 Incentive Plan. As of June 30, 2011, there were approximately $2,932,000 of total compensation costs related to nonvested awards that have not yet been recognized, including $537,000 related to the Pay-for-Performance Program (net of forfeiture and performance assumptions which are re-evaluated quarterly). These compensation costs will be charged to general and administrative expense over the remaining respective vesting periods. The weighted average vesting period is approximately four years. As of June 30, 2011, there were no options outstanding under the 2009 and 2003 Incentive Plans.

A summary of the activity of the incentive plans follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
Restricted share grants			74,040	
Average per share grant price			$ 16.19	
Recorded as deferred compensation			$ 1,199,000	
Non-vested shares:				
Non-vested beginning of period	348,385	357,925	320,940	357,925
Grants			74,040	
Vested during period		(36,050)	(46,450)	(36,050)
Forfeitures			(145)	
Non-vested end of period	348,385	321,875	348,385	321,875
Average per share value of non-vested shares (based on grant price)	$ 12.96	$ 13.33	$ 12.96	$ 13.33
Value of shares vested during the period (based on grant price)	$	$	$ 960,000	$ 687,000
Total charge to operations:				
Outstanding restricted stock grants	$ 227,000	$ 210,000	$ 476,000	$ 460,000
Outstanding restricted stock units	22,000		45,000	
	$ 249,000	$ 210,000	$ 521,000	$ 460,000

Note 14 - Fair Value of Financial Instruments

Financial Instruments Not Measured at Fair Value

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which adjustments to measure at fair value are not reported:

Cash and cash equivalents: The carrying amounts reported in the balance sheet for these instruments approximate their fair values.

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One Liberty Properties, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

June 30, 2011 (Continued)

Note 14 - Fair Value of Financial Instruments (Continued)

Mortgages payable: At June 30, 2011, the $201,819,000 estimated fair value of the Company s mortgages payable is more than their carrying value by approximately $3,645,000, assuming a blended market interest rate of 5.5% based on a five year weighted average remaining term of the mortgages.

Line of credit: The $4,500,000 carrying amount of the Company s line of credit approximates its fair value at June 30, 2011.

The fair value of the Company s mortgages and line of credit were estimated using observable inputs such as available market information and discounted cash flow analysis based on borrowing rates the Company believes it could obtain with similar terms and maturities.

Considerable judgment is necessary to interpret market data and develop estimated fair value. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Financial Instruments Measured at Fair Value

The Company measures the fair value of financial instruments based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, a fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity and the reporting entity s own assumptions about market participant assumptions. In accordance with the fair value hierarchy, Level 1 assets/liabilities are valued based on quoted prices for identical instruments in active markets, Level 2 assets/liabilities are valued based on quoted prices in active markets for similar instruments, on quoted prices in less active or inactive markets, or on other observable market inputs and Level 3 assets/liabilities are valued based significantly on unobservable market inputs. The Company does not currently own any financial instruments that are classified as Level 3.

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One Liberty Properties, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

June 30, 2011 (Continued)

Note 14 - Fair Value of Financial Instruments (Continued)

The fair values of the Company s financial instruments were determined using the following inputs as of June 30, 2011 (dollars in thousands):

	Carrying and Fair Value	Fair Value Measurements Using Fair Value Hierarchy Level 1	Level 2
Financial assets:			
Available-for-sale securities:			
Equity securities	$ 601	$ 601	$
Derivative financial instrument	65		65
Financial liabilities:			
Derivative financial instrument	368		368

Available-for-sale securities

The Company s available-for-sale securities have a total cost of $641,000. At June 30, 2011, unrealized gains on such securities were $120,000 and unrealized losses were $160,000. The aggregate net unrealized loss of $40,000 is included in accumulated other comprehensive loss on the balance sheet. Fair values are approximated based on current market quotes from financial sources that track such securities. All of the available-for-sale securities in an unrealized loss position are equity securities and amounts are not considered to be other than temporary impairment because the Company expects the value of these securities to recover and plans on holding them until at least such recovery occurs.

Derivative financial instruments

Fair values are approximated using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of the derivatives. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves, foreign exchange rates, and implied volatilities. At June 30, 2011 and December 31, 2010, these derivatives are included in other liabilities and other assets on the consolidated balance sheet.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with it utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparty. However, as of June 30, 2011, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the

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One Liberty Properties, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

June 30, 2011 (Continued)

Note 14 - Fair Value of Financial Instruments (Continued)

Company has determined that its derivative valuation is classified in Level 2 of the fair value hierarchy.

Note 15 - Derivative Financial Instruments

As of June 30, 2011, the Company had the following outstanding interest rate derivatives, all of which were designated as cash flow hedges of interest rate risk (dollars in thousands):

Interest Rate Derivative	Notional Amount		Fixed Interest Rate	Maturity Date
Interest Rate Swap	$	9,500	6.50%	December 2014
Interest Rate Swap	$	4,500	5.75%	November 2020
Interest Rate Swap (a)	$	2,000	5.81%	April 2018

(a) Represents the Company s 50% share of the $4,000 interest rate swap held by two of the Company s unconsolidated joint ventures.

The following table presents the fair value of the Company s derivatives designated as hedging instruments as of June 30, 2011 and December 31, 2010 (dollars in thousands):

Asset Derivatives						Liability Derivatives					
As of June 30, 2011			As of December 31, 2010			As of June 30, 2011			As of December 31, 2010		
Balance Sheet Location	Fair Value		Balance Sheet Location	Fair Value		Balance Sheet Location	Fair Value		Balance Sheet Location	Fair Value	
Other Assets	$	65	Other Assets	$	126	Other Liabilities	$	368	Other Liabilities	$	302

The Company s 50% share of the value of the interest rate swap held by two of the Company s unconsolidated joint ventures is $(73,000) as of June 30, 2011 and zero as of December 31, 2010 and is included in Investment in Unconsolidated Joint Ventures on the Company s balance sheet.

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One Liberty Properties, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

June 30, 2011 (Continued)

Note 15 - Derivative Financial Instruments (Continued)

The following table presents the effect of the Company s derivative financial instruments on the consolidated statement of income for the three and six months ended June 30, 2011 and June 30, 2010 (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
Amount of loss recognized on derivative in Other Comprehensive Income	$ (342)	$ (331)	$ (290)	$ (516)
Amount of loss reclassified from Accumulated Other Comprehensive Income into Interest Expense	$ (80)	$ (54)	$ (162)	$ (109)

For the interest rate swap held by two of the Company s unconsolidated joint ventures, the Company s 50% share of loss recognized in other comprehensive income was $63,000 and $87,000 for the three and six months ended June 30, 2011 and the amount of loss reclassified from accumulated other comprehensive income into equity in earnings of unconsolidated joint ventures was $14,000 for the three and six months ended June 30, 2011.

No gain or loss was recognized related to hedge ineffectiveness or to amounts excluded from effectiveness testing on the Company s cash flow hedges during the three and six months ended June 30, 2011 or June 30, 2010. During the twelve months ending June 30, 2012, the Company estimates an additional $308,000 will be reclassified from other comprehensive income as an increase to interest expense.

The derivative agreements in effect at June 30, 2011 provide that if the wholly-owned subsidiary of the Company which is a party to the agreement defaults or is capable of being declared in default on any of its indebtedness, then a default can be declared on such subsidiary s derivative obligation. In addition, the Company is a party to one of the derivative agreements and if there is a default by the subsidiary on the loan subject to the derivative agreement to which the Company is a party and if there are swap breakage losses on account of the derivative being terminated early, then the Company could be held liable for such swap breakage losses.

As of June 30, 2011, the fair value of the derivative in a liability position including adjustments for nonperformance risk was approximately $368,000. If the Company breaches any of the contractual provisions of this derivative contract, it would be required to settle its obligation under the derivative agreement at its termination value of $398,000.

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One Liberty Properties, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

June 30, 2011 (Continued)

Note 16 - New Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2011-05, Presentation of Comprehensive Income. This standard eliminates the current option to report other comprehensive income and its components in the statement of stockholders equity and instead requires the components of other comprehensive income to be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This standard is intended to enhance comparability between entities that report under GAAP and to provide a more consistent method of presenting other comprehensive income transactions that affect an entity s equity. This standard is effective for the Company on January 1, 2012 and is to applied retrospectively. The amendments in this update do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income but will change the way the information is presented in the Company s consolidated financial statements.

In May 2011, FASB issued ASU No. 2011-04, Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S GAAP and IFRS. This update defines fair value, clarifies a framework to measure fair value, and requires specific disclosures of fair value measurements. The guidance will be effective for the Company s interim and annual reporting periods beginning January 1, 2012, and applied prospectively. The Company does not expect adoption of this guidance to have a material impact on its financial condition, results of operations, or disclosures.

In January 2010, the FASB issued Accounting Standards Update No. 2010-06, Fair Value Measurements and Disclosures, Improving Disclosures about Fair Value Measurements which requires a number of additional disclosures regarding fair value measurements, including the amount of transfers between Level 1 and 2 of the fair value hierarchy, the reasons for transfers in or out of Level 3 of the fair value hierarchy and activity for recurring Level 3 measures.

In addition, the amendments clarify certain existing disclosure requirements related to the level at which fair value disclosures should be disaggregated and the requirement to provide disclosures about the valuation techniques and inputs used in determining the fair value of assets or liabilities classified as Level 2 or 3. These required disclosures were effective January 1, 2010, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures were effective for the Company on January 1, 2011. There were no transfers between Level 1, 2 and no significant transfers into or out of Level 3 of the fair value hierarchy during the three and six months ended June 30, 2011. The adoption did not have a material effect on the Company s consolidated financial condition, results of operations, or cash flows. See Note 14 for the related disclosures.

Note 17 - Subsequent Events

On July 29, 2011, the Company acquired a property, which is operated as a Federal Express shipping center and is located in Durham, North Carolina. The $3,975,000 purchase price was paid in cash.

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Item 2. Management s Discussion And Analysis Of Financial Condition And Results Of Operations

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. We intend such forward-looking statements to be covered by the safe harbor provision for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and include this statement for purposes of complying with these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, are generally identifiable by use of the words may, will, could, believe, expect, intend, anticipate, estimate, project, or similar expressions or variations thereof. Forward-looking statements should not be relied on since they involve known and unknown risks, uncertainties and other factors which are, in some cases, beyond our control and which could materially affect actual results, performance or achievements. Investors are encouraged to review the risk factors included in our Annual Report on Form 10-K for the year ended December 31, 2010 under the caption Item 1A. Risk Factors for a discussion of certain factors which may cause actual results to differ materially from current expectations and are cautioned not to place undue reliance on any forward-looking statements.

Overview

We are a self-administered and self-managed real estate investment trust, organized in Maryland in 1982. We acquire, own and manage a geographically diversified portfolio of retail (including furniture and office supply stores), industrial, office, flex, health and fitness and other properties, a substantial portion of which are under long-term net leases. As of June 30, 2011, we owned 84 properties, three of which are vacant, and one of which is a 50% tenancy in common interest. Our joint ventures owned a total of five properties. The 89 properties are located in 29 states.

We face a variety of risks and challenges in our business. Among other things, we face the possibility we will not be able to lease our properties on terms favorable to us or at all and that our tenants may not be able to pay their rental and other obligations owing under their leases. In particular, during the recent national economic recession, consumer confidence and retail spending declined, which negatively impacted certain of our retail tenants.

We seek to manage the risk of our real property portfolio by diversifying among types of properties and industries, tenant identity, geography and lease expiration dates. We monitor the risk of tenant non-payments through a variety of approaches tailored to the applicable situation. Generally, based on our assessment of the credit risk posed by our tenants, we monitor a tenant s financial condition through one or more of the following actions: reviewing tenant financial statements, obtaining other tenant related financial information, regular contact with tenant s representatives, tenant credit checks and regular management reviews of our tenants.

In acquiring properties, we balance an evaluation of the terms of the leases and the credit of the existing tenants with a fundamental analysis of the real estate to be acquired, which analysis takes into account, among other things, the estimated value of the property, local demographics and the ability to re-rent or dispose of the property on favorable terms upon lease expiration or early termination.

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During 2010, economic conditions began to improve and credit became more available. In 2010, we purchased 14 properties for an aggregate of $72.3 million and in 2011, we purchased a property for $2.3 million and a joint venture purchased a property for $3.2 million. We also sold two properties in 2010 and recognized an aggregate net gain of $235,000 and we sold one property in 2011, tenanted by Office Depot, and recognized a net gain of $932,000. Our occupancy rate at June 30, 2011 was approximately 95.6%.

We have elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended. To qualify as a REIT, we must meet a number of organizational and operational requirements, including a requirement that we distribute currently at least 90% of ordinary taxable income to our stockholders. We intend to comply with these requirements and to maintain our REIT status.

Results of Operations

The following table compares revenues and operating expenses of continuing operations for the three and six months ended June 30, 2011 and 2010:

	Three Months Ended June 30,				Six Months Ended June 30,			
(Dollars in thousands)	**2011**	**2010**	**Increase (Decrease)**	**Percent Change**	**2011**	**2010**	**Increase (Decrease)**	**Percent Change**
Revenues:								
Rental income	$ 11,241	$ 10,323	$ 918	8.9%	$ 22,343	$ 20,079	$ 2,264	11.3%
Operating expenses:								
Depreciation and amortization	2,323	2,091	232	11.1%	4,648	4,159	489	11.8%
General and administrative	2,053	1,913	140	7.3%	3,802	3,566	236	6.6%
Real estate acquisition costs	18	168	(150)	(89.3)%	45	514	(469)	(91.2)%
Real estate expenses	527	485	42	8.7%	988	665	323	48.6%
Leasehold rent	77	77			154	154		
Total operating expenses	4,998	4,734	264	5.6%	9,637	9,058	579	6.4%
Operating income	$ 6,243	$ 5,589	$ 654	11.7%	$ 12,706	$ 11,021	$ 1,685	15.3%

Revenues

Rental income. The increases are attributable to $1.2 million and $2.6 million earned during the three and six months ended June 30, 2011, respectively, from 15 properties we acquired since February 2010, of which $44,000 and $106,000, respectively, represents real estate tax and expense reimbursements from tenants. Partially offsetting the increases were decreases of approximately $35,000 and $262,000 in rental income in the three and six months ended June 30, 2011, respectively, resulting from Robb & Stucky s bankruptcy filing in February 2011. The current year periods include rental income from this tenant for the 4.5 months subsequent to its bankruptcy filing through June 30, 2011, whereas the three and six months ended June 30, 2010 includes rental income for the entire period. We will not be receiving any rental payments from Robb & Stucky in the future, as they vacated the premises at the end of June 2011.

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Operating Expenses

Depreciation and amortization. The increases are attributable to the 15 properties we acquired since February 2010.

General and administrative expenses. The increases in the three and six months ended June 30, 2011 are attributable primarily to a $250,000 estimated increase in the amount payable pursuant to the compensation and services agreement. Also affecting general and administration expenses in the three and six months ended June 30, 2011 is (i) a $25,000 quarterly fee paid to our vice-chairman effective January 1, 2011; (ii) increases of $35,000 and $65,000 in the three and six months ended June 30, 2011, respectively, in payroll and payroll related expenses; and (iii) the inclusion of $22,000 per quarter in non-cash compensation expense related to pay-for-performance restricted stock units awarded in September 2010. Partially offsetting these increases was a $138,000 decrease from 2010 in professional fees incurred in connection with an equity financing that was not pursued.

Real estate acquisition costs. These expenses decreased because of the inclusion in the corresponding prior year periods of expenses related to several acquisitions in such periods.

Real estate expenses. The three and six months ended June 30, 2011 includes approximately $86,000 and $184,000, respectively, of real estate taxes relating to the property previously leased by Robb & Stucky, whereas the corresponding periods in the prior year do not include real estate taxes as they were paid directly to the taxing authority by the tenant. The balance of the increase in the current six months is primarily attributable to the inclusion of real estate taxes and expenses that due to the timing of acquisitions in 2010, were either not included or not included in full in the six months ended June 30, 2010. The tenants are contractually obligated to, and have reimbursed us, for a substantial portion of these expenses.

Other Income and Expenses

The following table compares other income and expenses for the three and six months ended June 30, 2011 and 2010:

	Three Months Ended June 30,				Six Months Ended June 30,			
(Dollars in thousands)	**2011**	**2010**	**Increase (Decrease)**	**Percent Change**	**2011**	**2010**	**Increase (Decrease)**	**Percent Change**