UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2015

OR

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

For the period from _____ to _____

000-53673
(Commission file No.)

NetREIT, Inc.
(Exact name of registrant as specified in its charter)

Maryland	**33-0841255**
(State or other jurisdiction of incorporation or organization	*(I.R.S. employer identification no.)*

1282 Pacific Oaks Place, Escondido, California 92029
(Address of principal executive offices)

(760) 471-8536
(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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (check one):

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

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].

At August 14, 2015, registrant had issued and outstanding 17,011,108 shares of its common stock, $0.01 par value.

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CAUTIONARY STATEMENTS

Statements contained in this quarterly report on Form 10-Q that are not historical facts may be forward-looking statements. Such statements are subject to certain risks and uncertainties, which could cause actual results to materially differ from those projected. Some of the information presented is forward-looking in nature, including information concerning projected future occupancy rates, rental rate increases, project development timing and investment amounts. Although the information is based on our current expectations, actual results could vary from expectations stated in this report. Numerous factors will affect our actual results, some of which are beyond our control. These include the timing and strength of national and regional economic growth, the strength of commercial and residential markets, competitive market conditions, fluctuations in availability and cost of construction materials and labor resulting from the effects of worldwide demand, future interest rate levels and capital market conditions. You are cautioned not to place undue reliance on this information, which speaks only as of the date of this report. We assume no obligation to update publicly any forward-looking information, whether as a result of new information, future events or otherwise, except to the extent we are required to do so in connection with our ongoing requirements under federal securities laws to disclose material information. For a discussion of important risks related to our business, and an investment in our securities, including risks that could cause actual results and events to differ materially from results and events referred to in the forward-looking information.

NetREIT, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets

	June 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
Real estate assets and lease intangibles:		
Land	$ 40,867,782	$ 40,422,812
Buildings and improvements	131,425,970	128,719,410
Tenant improvements	15,509,400	13,164,998
Lease intangibles	9,380,711	9,793,814
Real estate assets and lease intangibles, cost	197,183,863	192,101,034
Accumulated depreciation and amortization	(26,072,295)	(23,011,006)
Real estate assets and lease intangibles, net	171,111,568	169,090,028
Real estate assets held for sale, net	-	29,107,675
Cash and cash equivalents	11,471,805	5,636,002
Restricted cash	8,956,326	4,086,498
Deferred leasing and financing costs, net	4,831,901	5,438,857
Goodwill	2,423,000	2,423,000
Other assets, net	6,370,127	4,842,878
TOTAL ASSETS	$ 205,164,727	$ 220,624,938
LIABILITIES AND EQUITY		
Liabilities:		
Mortgage notes payable	$ 108,615,615	$ 106,966,774
Mortgage notes payable related to assets held for sale	-	16,932,524
Accounts payable and accrued liabilities	5,926,568	6,631,804
Dividends payable	1,045,654	997,175
Below-market rent, net	908,231	960,328
Mandatorily redeemable Series B Preferred Stock, $0.01 par value, $1,000 liquidating preference; shares authorized: 40,000; 16,600 shares issued and outstanding at June 30, 2015 and December 31, 2014	16,600,000	16,600,000
Total liabilities	133,096,068	149,088,605
Commitments and contingencies		
Equity:		
Common stock series A, $0.01 par value, shares authorized: 100,000,000; 17,011,108 and 16,887,377 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively	170,112	168,874
Additional paid-in capital	144,971,664	143,715,876
Dividends in excess of accumulated losses	(85,556,159)	(83,150,866)
Total stockholders' equity before noncontrolling interest	59,585,617	60,733,884
Noncontrolling interest	12,483,042	10,802,449
Total equity	72,068,659	71,536,333
TOTAL LIABILITIES AND EQUITY	$ 205,164,727	$ 220,624,938

See Notes to Condensed Consolidated Financial Statements

NetREIT, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
(Unaudited)

	Three months Ended June 30, 2015	Three months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Revenues:				
Rental income	$ 5,396,700	$ 3,794,651	$ 10,740,383	$ 7,703,609
Fee and other income	195,192	48,128	223,709	58,422
	5,591,892	3,842,779	10,964,092	7,762,031
Costs and expenses:				
Rental operating costs	1,910,903	1,355,292	3,840,094	2,615,850
General and administrative	1,139,112	1,563,793	2,293,914	2,688,649
Depreciation and amortization	1,814,786	1,260,522	3,676,332	2,439,010
Total costs and expenses	4,864,801	4,179,607	9,810,340	7,743,509
Other income (expense):				
Interest expense-Series B preferred stock	(817,162)	-	(1,764,591)	-
Interest expense-mortgage notes	(1,458,860)	(1,149,972)	(2,891,023)	(2,199,055)
Interest and other income	21,153	41,790	35,757	60,159
Gain on sale of real estate and partnerships	1,116,258	936,030	1,194,754	1,663,807
Total other expense, net	(1,138,611)	(172,152)	(3,425,103)	(475,089)
Loss from continuing operations	(411,520)	(508,980)	(2,271,351)	(456,567)
Discontinued operations				
Gain on the sale of real estate	4,730,398	(156,651)	4,730,398	(156,651)
Income (loss) from discontinued operations, net	(161,679)	74,008	(131,375)	139,690
Income (loss) from discontinued operations	4,568,719	(82,643)	4,599,023	(16,961)
Net income (loss)	4,157,199	(591,623)	2,327,672	(473,528)
Less: Income attributable to noncontrolling interests	(1,186,012)	(504,797)	(1,318,526)	(982,905)
Net income (loss) attributable to NetREIT, Inc. common stockholders	$ 2,971,187	$ (1,096,420)	$ 1,009,146	$ (1,456,433)
Basic and diluted loss (income) per common share				
Continuing operations	$ (0.02)	$ (0.03)	$ (0.13)	$ (0.03)
Discontinued operations	$ (0.01)	$ 0.00	$ (0.01)	$ 0.01
Net (loss) income per common share	$ 0.18	$ (0.07)	$ 0.06	$ (0.09)
Weighted average number of common shares outstanding - basic and diluted	16,968,976	16,831,217	16,932,306	16,768,211

See Notes to Condensed Consolidated Financial Statements

NetREIT, Inc. and Subsidiaries
Condensed Consolidated Statement of Equity
Six Months Ended June 30, 2015
(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Dividends In Excess of Accumulated Losses	Total Stockholders' Equity	Non-controlling Interest	Total Equity
Balance, December 31, 2014	16,887,377	$ 168,874	$ 143,715,876	$ (83,150,866)	$ 60,733,884	$ 10,802,449	$ 71,536,333
Net income (loss)	-	-	-	1,009,146	1,009,146	1,318,526	2,327,672
Dividends declared/reinvested	69,662	697	661,280	(1,707,631)	(1,045,654)	-	(1,045,654)
Dividends paid	72,906	729	692,095	(1,706,808)	(1,013,984)	-	(1,013,984)
Common stock issued	2,163	22	49,977	-	49,999	-	49,999
Common stock repurchased - related party	(21,000)	(210)	(147,564)	-	(147,774)	-	(147,774)
Contributions received from noncontrolling interests, net of distributions paid	-	-	-	-	-	362,067	362,067
Balance, June 30, 2015	17,011,108	$ 170,112	$ 144,971,664	$ (85,556,159)	$ 59,585,617	$ 12,483,042	$ 72,068,659

See Notes to Condensed Consolidated Financial Statements

NetREIT, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Cash flows from operating activities:		
Net income (loss)	$ 2,327,672	$ (473,528)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization from continuing operations	3,676,332	2,908,793
Depreciation and amortization from discontinued operations	165,646	-
Stock compensation	237,547	258,996
Bad debt expense	-	67,924
Gain on sales of real estate assets and partnerships, net	(5,925,152)	(1,507,155)
Amortization of financing costs	621,036	230,054
Amortization of above-market rent	113,579	92,152
Amortization of below-market rent	(52,097)	(14,023)
Changes in operating assets and liabilities:		
Other assets	(1,567,699)	(705,427)
Accounts payable and accrued liabilities	(942,782)	(1,194,454)
Net cash used in operating activities	(1,345,918)	(336,668)
Cash flows from investing activities:		
Real estate acquisitions	(5,720,540)	(7,131,300)
Building and tenant improvements	(1,528,685)	(1,841,738)
Deferred leasing costs	(167,194)	(293,451)
Proceeds received from sale of real estate assets and partnerships	36,544,507	7,807,978
Increase in restricted cash	(4,869,828)	(368,172)
Net cash provided by (used) in investing activities	24,258,260	(1,826,683)
Cash flows from financing activities:		
Proceeds from mortgage notes payable, net of issuance costs	9,376,835	15,273,607
Repayment of mortgage notes payable	(24,706,507)	(9,668,951)
Proceeds from issuance of common stock	49,999	-
Contributions received from noncontrolling interests in excess of distributions paid	362,067	(965,407)
Repurchase of common stock	(147,774)	(174,122)
Dividends paid to stockholders	(2,011,159)	(2,526,840)
Net cash (used in) provided by financing activities	(17,076,539)	1,938,287
Net increase (decrease) in cash and cash equivalents	5,835,803	(225,064)
Cash and cash equivalents - beginning of period	5,636,002	10,207,001
Cash and cash equivalents - end of period	$ 11,471,805	$ 9,981,937
Supplemental disclosure of cash flow information:		
Interest paid Series B preferred stock	$ 971,334	$ -
Interest paid-mortgage notes payable	$ 2,823,935	$ 2,376,424
Non-cash investing and financing activities:		
Reinvestment of cash dividends	$ 1,354,801	$ 1,938,474
Accrual of dividends payable	$ 1,045,654	$ 1,293,866
Conversion of partnership interests into common stock	$ -	$ 165,018

See Notes to Condensed Consolidated Financial Statements

NetREIT, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

June 30, 2015

1. ORGANIZATION

Organization. NetREIT (the "Company") was incorporated in the State of California in January 1999 for the purpose of investing in real estate properties. Effective August 2010, NetREIT merged into NetREIT, Inc., a Maryland Corporation, with NetREIT, Inc. becoming the surviving Corporation. As a result of the merger, NetREIT is now incorporated in the State of Maryland. The Company qualifies and operates as a self-administered real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code"), and commenced operations with capital provided by its private placement offering of its equity securities in 1999. The Company's portfolio includes the following properties:

- Fourteen office buildings and one industrial building ("Office Properties") which total approximately 1,152,000 rentable square feet,
- Five retail shopping centers ("Retail Properties") which total approximately 230,000 rentable square feet,
- Four Model Homes owned by one limited liability company, and
- Sixty-three Model Homes owned by three affiliated limited partnerships. ("Residential Properties").

The Company sold all seven of its self-storage facilities ("Self-Storage Properties") which totaled approximately 652,000 rentable square feet on April 10, 2015.

The following partnership activity occurred during the periods covered by these consolidated financial statements:

- The Company is the sole General Partner in three limited partnerships (NetREIT Palm Self-Storage LP, NetREIT Casa Grande LP and NetREIT Garden Gateway LP), all with ownership in real estate income producing properties. The Company refers to these entities collectively, as the "NetREIT Partnerships".

- The Company is a limited partner in three partnerships that purchase and leaseback Model Homes from developers ("Dubose Model Home Investors #201, LP", "Dubose Model Homes Investors #202, LP", and "NetREIT Dubose Model Home REIT, LP"). The Company refers to these entities collectively, as the "Model Home Partnerships".

- The Company had previously been a limited partner in a number of Model Home partnerships, the last of which (Dubose Acquisition Partners II, Dubose Model Home Income Fund #3, LTD., Dubose Model Home Income Fund #4, LTD., and Dubose Model Home Investors Fund #113, LP) sold all of their Model Home assets and were dissolved before the end of 2014. These entities were referred to as the "Income Funds".

The Company has determined that the entities described above, where it owns less than 100%, should be included in the Company's consolidated financial statements as the Company directs their activities and believes that it controls these limited partnerships through NetREIT, the Parent Company.

The Company has elected to be taxed as a REIT under Sections 856 through 860 of the Code, for federal income tax purposes. To qualify as a REIT, the Company must distribute annually at least 90% of adjusted taxable income, as defined in the Code, to its stockholders and satisfy certain other organizational and operating requirements. As a REIT, no provision is made for federal income taxes on income resulting from those sales of real estate investments which have or will be distributed to stockholders within the prescribed limits. However, taxes are provided for those gains which are not anticipated to be distributed to stockholders unless such gains are deferred pursuant to Section 1031. In addition, the Company is subject to a federal excise tax which equals 4% of the excess, if any, of 85% of the Company's ordinary income plus 95% of the Company's capital gain net income over cash distributions, as defined. The Company believes that it has met all of the REIT distribution and technical requirements for the six months ended June 30, 2015 and 2014.

Earnings and profits that determine the taxability of distributions to stockholders differ from net income reported for financial reporting purposes due to differences in estimated useful lives and methods used to compute depreciation and the carrying value (basis) on the investments in properties for tax purposes, among other things. During the six months ended June 30, 2015 and 2014, because of net losses, all distributions were considered return of capital to the stockholders and therefore non-taxable.

The Company has concluded that there are no significant uncertain tax positions requiring recognition in its financial statements. Neither the Company nor its subsidiaries have been assessed any significant interest or penalties for tax positions by any major tax jurisdictions.

2. SIGNIFICANT ACCOUNTING POLICIES

There have been no significant changes to the Company's accounting policies since it filed its audited financial statements in its Annual Report on Form 10-K for the year ended December 31, 2014. During the six months ended June 30, 2015 we adopted guidance for reporting of discontinued operations. For further information about the Company's accounting policies, refer to the Company's consolidated financial statements and notes thereto for the year ended December 31, 2014 included in the Company's Annual Report on Form 10-K filed with the Securities Exchange Commission ("SEC").

Basis of Presentation . The accompanying condensed consolidated financial statements have been prepared by the Company's management in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial statement and the instructions to Form 10-Q and Article 10 of Regulation S-X. Certain information and footnote disclosures required for annual consolidated financial statements have been condensed or excluded pursuant to rules and regulations of the SEC. In the opinion of management, the accompanying condensed consolidated financial statements reflect all adjustments of a normal and recurring nature that are considered necessary for a fair presentation of our financial position, results of our operations, and cash flows as of and for the six months ended June 30, 2015 and 2014, respectively. However, the results of operations for the interim periods are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. These condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014. The condensed consolidated balance sheet at year ended December 31, 2014 has been derived from the audited consolidated financial statements included in the Form 10-K filed with the SEC on March 30, 2015.

Principles of Consolidation. The accompanying condensed consolidated financial statements include the accounts of the Company and its direct and indirect wholly-owned subsidiaries and entities the Company controls or of which it is the primary beneficiary. All significant intercompany balances and transactions have been eliminated in consolidation.

Real Estate Held for Sale and Discontinued Operations. Real estate sold during the current period is classified as "real estate held for sale" for all prior periods presented in the accompanying condensed consolidated financial statements. Mortgage notes payable related to the real estate sold during the current period is classified as "notes payable related to real estate held for sale" for all prior periods presented in the accompanying condensed consolidated financial statements. Additionally, the Company records the operating results related to real estate that has been disposed of as discontinued operations for all periods presented if the operations have been eliminated and the Company will not have any significant continuing involvement in the operations of the property following the sale.

Use of Estimates. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Significant estimates include the allocation of purchase price paid for property acquisitions between land, building and intangible assets acquired including their useful lives; valuation of long-lived assets, and the allowance for doubtful accounts, which is based on an evaluation of the tenants' ability to pay. Actual results may differ from those estimates.

Reclassifications. Certain reclassifications have been made to the previously presented consolidated financial statements and condensed consolidated financial statements to conform to the current period presentation. These reclassifications had no effect on previously reported results of consolidated operations or equity.

Recently Issued Accounting Pronouncements. In February 2015, the Financial Accounting Standards Board or "FASB" issued an Accounting Standards Update "ASU" which modifies the guidance for consolidations. The standard is effective for the Company's fiscal year beginning January 1, 2018. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company does not believe the adoption of this standard will have a material impact on its financial position, results of operations or related financial statement disclosures.

In April 2015, the FASB issued an ASU which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. For public business entities, the ASU is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Entities should apply the new guidance on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. Upon transition, entities are required to comply with the applicable disclosures for a change in an accounting principle. The adoption of this ASU is not expected to have a material impact on the Company's financial statements.

In January 2015, the FASB issued an ASU which eliminates the concept of extraordinary items. Extraordinary items are events and transactions that are distinguished by their unusual nature and by the infrequency of their occurrence. Eliminating the extraordinary classification simplifies income statement presentation by altogether removing the concept of extraordinary items from consideration. The standard is effective for the Company's fiscal year beginning January 1, 2016. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company does not believe the adoption of this standard will have a material impact on its financial position, results of operations or related financial statement disclosures

In May 2014, the FASB issued an ASU which supersedes or replaces nearly all GAAP revenue recognition guidance. The new guidance establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time and will expand disclosures about revenue. This guidance was originally effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 31, 2016, which for the Company is January 1, 2017; early adoption was not permitted. In April 2015, the FASB voted to propose a deferral of the effective date of the new standard by one year, but to permit companies to adopt one year earlier if they choose. The Company is assessing the impact of this ASU and date of adoption.

3. RECENT REAL ESTATE TRANSACTIONS

During the six months ended June 30, 2015, NetREIT Dubose and the other Model Home entities acquired seventeen Model Home properties in various states and leased them back to the homebuilders. The purchase price for the properties was $5.7 million. The purchase price paid was through cash payments of $2.3 million and promissory notes of $3.4 million.

The Company allocated the purchase price of the properties acquired during the six months ended June 30, 2015 as follows:

	Land	Buildings and other	Total Purchase Price
Model Homes Properties	$ 797,000	$ 4,923,000	$ 5,720,000

On April 10, 2015, the Company sold 100% of the Sparky's Self-Storage Portfolio. The net sales price was approximately $34 million and approximately $16.9 million in mortgage notes payable were repaid in connection the sale. The Company recognized a gain on sale of approximately $4.7 million.

On April 24, 2015, the Company sold a parcel of land and its building at the Yucca Valley Retail Center for approximately $1.5 million and recognized a gain of approximately $1.0 million.

During the six months ended June 30, 2015, NetREIT Dubose and the other Model Home entities disposed of four Model Home properties. The sales price, net of selling costs, aggregated to approximately $1.4 million and approximately $514,000 in mortgage notes payable were repaid in connection with these sales. The Company recognized a gain of $126,000 related to the sale of these Model Homes.

4. REAL ESTATE ASSETS AND LEASE INTANGIBLES

A summary of the properties owned by the Company as of June 30, 2015 is as follows:

Property Name	Date Acquired	Location	Real estate assets, net (in thousands)
Havana/Parker Complex	June 2006	Aurora, Colorado	$ 2,204
Garden Gateway Plaza	March 2007	Colorado Springs, Colorado	12,090
World Plaza	September 2007	San Bernardino, California	6,775
Regatta Square	October 2007	Denver, Colorado	1,888
Executive Office Park	July 2008	Colorado Springs, Colorado	8,282
Waterman Plaza	August 2008	San Bernardino, California	5,961
Pacific Oaks Plaza	September 2008	Escondido, California	4,273
Morena Office Center	January 2009	San Diego, California	5,414
Rangewood Medical Office Building	March 2009	Colorado Springs, Colorado	2,359
Genesis Plaza	August 2010	San Diego, California	8,512
Dakota Bank Buildings	May 2011	Fargo, North Dakota	10,369
Yucca Valley Retail Center	September 2011	Yucca Valley, California	7,846
Port of San Diego Complex	December 2011	San Diego, California	13,978
Shoreline Medical Building	May 2012	Half Moon Bay, California	5,959
The Presidio	November 2012	Aurora, Colorado	6,636
Bismarck	March 2014	Fargo, ND	4,855
Union Terrace Building	August 2014	Lakewood, CO	8,815
Centennial Tech Center	December 2014	Colorado Springs, Colorado	15,671
Arapahoe Service Center	December 2014	Centennial, CO	11,733
Union Town Center	December 2014	Colorado Springs, Colorado	11,297
NetREIT, Inc properties			154,917
Model Home properties	2009-2015	AZ, CA, NC, NJ, PA, SC, TX	16,195
	Total real estate assets and lease intangibles, net		$ 171,112

5. LEASE INTANGIBLES

The following table summarizes the net value of other intangible assets and the accumulated amortization for each class of intangible asset:

	June 30, 2015			December 31, 2014		
	Lease intangibles	Accumulated amortization	Lease Intangibles, net	Lease intangibles	Accumulated amortization	Lease Intangibles, net
In-place leases	$ 4,193,452	$ (2,184,641)	$ 2,008,811	$ 4,255,565	$ (1,842,782)	$ 2,412,783
Leasing costs	3,210,146	(1,445,810)	1,764,336	3,228,415	(1,214,967)	2,013,448
Above-market leases	1,977,113	(1,316,400)	660,713	1,977,113	(1,202,821)	774,292
Tenant relationships	-	-	-	332,721	(332,721)	-
	$ 9,380,711	$ (4,946,851)	$ 4,433,860	$ 9,793,814	$ (4,593,291)	$ 5,200,523

Aggregate approximate amortization expense for the Company's lease intangible assets is as follows: $ 543,000 (2015), $853,000 (2016), $688,000 (2017), $485,000 (2018), $435,000 (2019) and $1,430,000 (thereafter). The weighted average period for the intangible assets as of June 30, 2015 was 5.7 years.

6. REAL ESTATE HELD FOR SALE AND DISCONTINUED OPERATIONS

Discontinued operations for the three and six months ended June 30, 2015 and year ended December 31, 2014 include the operations of its Sparky's Self-Storage Portfolio located in Southern California. The following summary presents the major components of real estate held for sale and liabilities related to real estate held for sale as of June 30, 2015 and December 31, 2014:

	June 30, 2015	**December 31, 2014**
Real estate assets	$ -	$ 32,637,520
Less: accumulated depreciation	-	(3,529,845)
Real estate assets, net	-	29,107,675
Other assets	-	895,831
Total assets	$ -	$ 30,003,506
Mortgage notes payable	$ -	$ 16,923,524
Other liabilities	-	499,955
Total liabilities	$ -	$ 17,423,479

The following table summarizes certain revenue and expenses related to these properties for the three and six months ended June 30, 2015 and 2014:

	Three months ended June 30,		**Six months ended June 30,**	
	2015	**2014**	**2015**	**2014**
Rental revenues	$ 150,564	$ 761,768	$ 940,048	$ 1,545,475
Fee and other income	8,725	87,323	112,218	164,203
Rental operating expenses	(114,871)	(387,538)	(595,832)	(794,295)
Depreciation	-	(166,394)	(165,646)	(333,663)
Interest expense	(206,097)	(221,151)	(422,163)	(442,030)
Gain on sale of real estate	4,730,398	(156,651)	4,730,398	(156,651)
Discontinued operations before non-controlling interests	$ 4,568,719	$ (82,643)	$ 4,599,023	$ (16,961)

7. MORTGAGE NOTES PAYABLE

Mortgage notes payable consisted of the following:

		Principal as of		Loan	Interest	
		June 30,	December 31,			
Mortgage note property	**Notes**	**2015**	**2014**	**Type**	**Rate (1)**	**Maturity**
Havana/Parker Complex		$ 2,500,000	$ 2,500,000	Fixed	6.51%	7/1/16
Garden Gateway Plaza		6,882,329	6,963,381	Fixed	5.00%	4/5/20
Waterman Plaza		-	3,368,146	Fixed	6.50%	9/1/15
Sparky’s Thousand Palms	(2)	-	4,092,100	Variable	5.50%*	3/1/34
Sparky's Hesperia East	(3)	-	830,883	Variable	4.75%*	12/18/22
Sparky's Rialto	(4)	-	2,119,037	Fixed	4.75%*	5/3/18
Genesis Plaza		4,426,071	4,491,588	Fixed	4.65%	9/1/15
Executive Office Park	(5)	4,343,396	4,379,854	Fixed	5.80%	7/1/25
Dakota Bank Buildings		10,908,136	10,993,386	Fixed	4.74%	7/6/24
Yucca Valley Retail Center		6,000,000	2,982,411	Fixed	4.30%	4/11/25
Rangewood Medical Office Building		1,060,119	1,092,778	Fixed	4.95%	1/1/19
Regatta Square		1,199,085	1,214,799	Fixed	4.95%	1/1/19
Port of San Diego Complex		10,243,812	10,368,228	Fixed	4.75%	3/5/20
Morena Office Center	(6)	2,320,618	2,351,805	Fixed	4.50%	1/1/21
Pacific Oaks Plaza	(6)	1,577,992	1,599,204	Fixed	4.50%	6/1/21
Shoreline Medical Building	(6)	3,787,093	3,846,697	Fixed	5.10%	6/1/22
Sparky's Palm, Joshua and Sunrise		-	7,986,522	Fixed	4.70%*	12/6/22
The Presidio		6,000,000	6,000,000	Fixed	4.54%	12/1/24
Sparky's Lancaster		-	1,903,982	Fixed	5.00%*	6/1/20
Bismarck Office Building		3,286,301	3,321,198	Fixed	4.50%	9/5/24
Union Terrace Building		6,600,000	6,600,000	Fixed	4.34%	12/5/24
Centennial Tech Center		10,250,000	10,250,000	Fixed	4.34%	1/5/25
Arapahoe Service Center		8,500,000	8,500,000	Fixed	4.28%	1/5/25
Union Town Center		8,440,000	8,440,000	Fixed	4.28%	1/5/25
Subtotal, NetREIT, Inc. properties		98,324,952	116,195,999			
Model Home mortgage notes	(7)	10,290,663	7,703,299	Fixed		2015-19
Mortgage Notes Payable, total		$ 108,615,615	$ 123,899,298			

(1) Interest rates as of June 30, 2015
(2) Interest at variable rate ranging from 5.50%-10.50%.
(3) Interest at a variable rate indexed to the 5 year interest rate swap.
(4) Interest subject to reset; thereafter, monthly payments of $11,982, including interest at rate indexed to 5-year Treasury Rate + 3%.
(5) Interest rate is subject to reset on July 1, 2018.
(6) Interest rate subject to resetting on the 6th loan anniversary.
(7) Each Model Home has a standalone mortgage note at interest rates ranging from 4.9% to 5.8% (at June 30, 2015).

* Mortgage notes payable, aggregating $16,932,524 were paid off in connection with the sale of the self-storage facilities on April 10, 2015. Refer to Note 6.

The Company is in compliance with all conditions and covenants of its mortgage notes payable.

Scheduled principal payments of mortgage notes payable for the years ending December 31 were as follows as of June 30, 2015:

	NetREIT, Inc. Notes Payable	Model Homes Notes Payable	Principal Payments
Six months remaining in 2015	$ 5,003,011	$ 413,854	$ 5,416,865
Years ending December 31:			
2016	7,022,347	562,848	7,585,195
2017	1,456,439	1,214,340	2,670,779
2018	5,600,548	1,807,633	7,408,181
2019	2,455,970	1,190,745	3,646,715
Thereafter	76,786,637	5,101,243	81,887,880
Total	$ 98,324,952	$ 10,290,663	$ 108,615,615

8. SERIES B MANDATORILY REDEEMABLE PREFERRED STOCK

In August 2014, the Company closed on a private placement offering of its mandatorily redeemable Series B Preferred Stock. The financing, which will be funded in installments, was to be completed no later than the one year anniversary of the initial investment but was subsequently extended to November 2015. At the conclusion of the funding period, the Company expects to generate a total capital contribution of $40.0 million which is to be used for Series B Preferred investor approved property acquisitions. Certain specified management decisions must be approved in advance by the Series B Preferred investor and upon the occurrence of an event of default, the Preferred Stock investor has certain additional rights. As of June 30, 2015, the Company had issued 16,600 shares of its Series B Preferred Stock for $16,600,000. The Company has classified the Series B Preferred Stock as a liability in accordance with FASB Accounting Standards Codification ("ASC") Topic No. 480, "*Distinguishing Liabilities from Equity*," which states that mandatorily redeemable financial instruments should be classified as liabilities and the related dividend payments and amortization of issuance costs are treated as a component of interest expense in the accompanying consolidated statements of operations.

The Series B preferred stock has a $0.01 par value and a $1,000 liquidation preference. The Series B preferred stock shall be redeemed through a cash payment of the face value of the shares outstanding at redemption. The preferred return on the funds invested is 14% (10% shall be paid on a monthly basis and the remaining 4% shall accrue and compound monthly payable at the redemption date). The Series B Preferred Stock is scheduled to be redeemed by the third anniversary of the closing date; however, the Company has the right to extend the redemption for up to two additional years. The Company incurred approximately $2.7 million in legal and underwriting costs related to this transaction. These costs have been recorded as deferred financing costs on the accompanying consolidated balance sheets and will be amortized over the term of the agreement. Amortization expense totaling approximately $230,000 and $460,000 was included in interest expense-series B preferred stock for the three and six months ended June 30, 2015, respectively, in the accompanying condensed consolidated statement of operations. (See Note 12)

9. STOCKHOLDERS' EQUITY

Preferred Stock. The Company is authorized to issue up to 8,990,000 shares of preferred stock (the "Preferred Stock"). The Preferred Stock may be issued from time to time in one or more series. The Board of Directors is authorized to fix the number of shares of any series of the Preferred Stock, to determine the designation of any such series, and to determine or alter the rights granted to or imposed upon any wholly unissued series of preferred stock including the dividend rights, dividend rate, conversion rights, voting rights, redemption rights (including sinking fund provisions), redemption price, and liquidation preference.

Common Stock. The Company is authorized to issue up to 100,000,000 shares of Series A Common Stock ("Common Stock") $0.01 par value and 1,000 shares of Series B Common Stock $0.01 par value. The Common Stock and the Series B Common Stock have identical rights, preferences, terms and conditions except that the Series B Common Stockholders are not entitled to receive any portion of Company assets in the event of Company liquidation. There have been no Series B Common Stock shares issued. Each share of Common Stock entitles the holder to one vote. The Common Stock is not subject to redemption and it does not have any preference, conversion, exchange or pre-emptive rights. The articles of incorporation contain a restriction on ownership of the Common Stock that prevents one person from owning more than 9.8% of the outstanding shares of common stock.

In October 2006, the Company commenced a private placement offering of its common stock. Through December 31, 2011 when the offering was closed, the Company conducted a self-underwritten private placement offering and sale of 20,000,000 shares of its common stock at a price of $10 per share. This offering was made only to accredited investors (and up to thirty-five non-accredited investors) pursuant to an exemption from registration provided by Section 4(2) and Rule 506 of Regulation D under the Securities Act of 1933, as amended. No public or private market currently exists for the securities sold under this offering.

Cash Dividends. During the six months ended June 30, 2015 and 2014 the Company paid cash dividends, net of reinvested stock dividends, of $2,011,000 and $2,527,000, respectively, or at a rate $0.471 and $0.543 per share, respectively, on an annualized basis. As the Company reported net taxable losses in both of these periods, and on a cumulative basis, these cash dividends represent a return of capital to the stockholders rather than a distribution of earnings.

The Company did not pay any cash dividends on its Convertible Series 6.3% Preferred Stock during the three and six months ended June 30, 2015 as the preferred stock was redeemed in August 2014. The Company paid cash dividends on its Convertible Series 6.3% Preferred Stock of approximately $26,000 and $52,000 during the three and six months ended June 30, 2014, respectively. The dividends were paid to a subsidiary that is consolidated into the condensed consolidated financial statements of the Company and, as a result, have been eliminated in consolidation.

Dividend Reinvestment Plan. The Company has adopted a distribution reinvestment plan that allows stockholders to have dividends and other distributions otherwise distributable to them invested in additional shares of Company common stock. The Company has registered 1,500,000 shares of common stock pursuant to the dividend reinvestment plan. The dividend reinvestment plan became effective on January 23, 2012. The purchase price per share is 95% of the price the Company was formerly selling its shares or $9.50 per share. No sales commission or dealer manager fee will be paid on shares sold through the dividend reinvestment plan. The Company may amend, suspend or terminate the Plan at any time. Any such amendment, suspension or termination will be effective upon a designated dividend record date and notice of such amendment, suspension or termination will be sent to all Participants at least thirty (30) days prior to such record date. As of June 30, 2015, the third year under the plan, approximately $12.6 million or approximately 1,329,000 shares of common stock have been issued under the dividend reinvestment plan to date.

10. RELATED PARTY TRANSACTIONS

The Company leases a portion of its corporate headquarters at Pacific Oaks Plaza in Escondido, California to an entity 100% owned by the Company's Chairman and Chief Executive Officer and another related party. Rental income recorded for the three months ended June 30, 2015 and 2014 totaled $7,000 and $7,000, respectively and rental income recorded for the six months ended June 30, 2015 and 2014 totaled $14,000 and $14,000, respectively.

In January 2014, the former limited partner of NetREIT 01, LP, a consolidated subsidiary of the Company (the "Partnership") that owns the Presidio, exercised its option to convert approximately 52.8% of its ownership interests in the Partnership in exchange for approximately 21,000 shares of Company common stock. After conversion, the Company's interest in the Partnership increased to approximately 89%. The Company purchased these shares from the limited partner at a price that was determined when the Partnership was formed, which, adjusted for stock dividends, was $7.858 per share. The stock purchase transaction was subject to the Company's related party transaction policy, which required a review of the transaction by the non-interested parties of the Audit Committee and a subsequent vote by the Company's Board of Directors (and was formally approved in December 2013). Effective April 2014, the former limited partner elected to convert all of its remaining interest in the Partnership in exchange for 18,807 shares of Company common stock. The Company bought these shares back in January 2015 for an aggregate purchase price of approximately $148,000 at which time the Company's interest in the Partnership increased to 100%.

The limited partner of NetREIT 01, LP is the Allen Trust DTD 7-9-1999. William H. Allen, a Director of the Company and Chairman of the Audit Committee, is a beneficiary and a trustee of this trust. The Partnership was formed approximately one year before Mr. Allen became a Board Member.

11. SEGMENTS

The Company's reportable segments consist of the four types of commercial real estate properties for which the Company's decision-makers internally evaluate operating performance and financial results: Residential Properties, Industrial and Office Properties, Retail Properties; and Self-Storage Properties (sold on April 10, 2105). The Company also has certain corporate level activities including accounting, finance, legal administration and management information systems which are not considered separate operating segments. The accounting policies of the reportable segments are the same as those described in Note 2. There is no intersegment activity.

The Company evaluates the performance of its segments based upon net operating income ("NOI"), which is a non-GAAP supplemental financial measure. The Company defines NOI for its segments as operating revenues (rental income, tenant reimbursements and other operating income) less property and related expenses (property operating expenses, real estate taxes, insurance, asset management fees, impairments and provision for bad debt) less interest expense. NOI excludes certain items that are not considered to be controllable in connection with the management of an asset such as non-property income and expenses, depreciation and amortization, real estate acquisition fees and expenses and corporate general and administrative expenses. The Company uses NOI to evaluate the operating performance of the Company's real estate investments and to make decisions about resource allocations.

The following tables reconcile the Company's segment activity to its results of operations and financial position as of and for the three months ended June 30, 2015 and 2014.

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Office/Industrial Properties:				
Rental income	$ 4,085,110	$ 2,639,041	$ 8,175,946	$ 5,246,281
Property and related expenses	(1,564,983)	(1,102,117)	(3,135,551)	(2,141,203)
Net operating income, as defined	2,520,127	1,536,924	5,040,395	3,105,078
Residential Properties:				
Rental income	345,427	572,876	817,010	1,244,062
Property and related expenses	(23,609)	(38,108)	(34,847)	(44,843)
Net operating income, as defined	321,818	534,768	782,163	1,199,219
Retail Properties:				
Rental income	955,259	630,863	1,971,136	1,271,689
Property and related expenses	(322,311)	(215,072)	(669,696)	(429,804)
Net operating income, as defined	632,948	415,791	1,301,440	841,885
Self-Storage Properties (discontinued operations):				
Rental income	159,289	849,091	1,052,266	1,709,678
Property and related expenses	(114,872)	(775,083)	(1,183,641)	(1,569,988)
Gain on sale of real estate	4,730,398	(156,651)	4,730,398	(156,651)
Net operating income, as defined	4,774,815	(82,643)	4,599,023	(16,961)
Reconciliation to net income (loss):				
Total net operating income, as defined, for reportable segments	8,249,708	2,404,840	11,723,021	5,129,221
General and administrative expenses	(1,139,112)	(1,563,793)	(2,293,914)	(2,688,649)
Depreciation and amortization	(1,814,786)	(1,260,522)	(3,676,332)	(2,439,010)
Interest expense	(2,276,022)	(1,149,972)	(4,655,614)	(2,199,055)
Interest income	21,153	41,790	35,757	60,159
Gain on sales of real estate and partnerships, net	1,116,258	936,034	1,194,754	1,663,806
Net income (loss)	$ 4,157,199	$ (591,623)	$ 2,327,672	$ (473,528)

	June 30, 2015	December 31, 2014
Assets by Reportable Segment:		
Office/Industrial Properties:		
Land, buildings and improvements, net (1)	$ 120,020,629	$ 122,351,316
Total assets (2)	$ 128,948,541	$ 130,185,089
Residential Properties:		
Land, buildings and improvements, net (1)	$ 18,042,556	$ 13,133,827
Total assets (2)	$ 15,279,341	$ 13,588,922
Retail Properties:		
Land, buildings and improvements, net (1)	$ 33,039,886	$ 33,141,294
Total assets (2)	$ 35,103,181	$ 34,712,223
Self-Storage Properties (real estate held for sale):		
Land, buildings and improvements, net (1)	$ -	$ 29,107,675
Total assets (2)	$ -	$ 30,003,506
Reconciliation to Total Assets:		
Total assets for reportable segments	$ 179,331,063	$ 208,489,740
Other unallocated assets:		
Cash and cash equivalents	11,471,805	5,636,002
Other assets, net	14,361,859	6,499,196
Total Assets	$ 205,164,727	$ 220,624,938

(1) Includes lease intangibles and the land purchase option related to property acquisitions.

(2) Includes land, buildings and improvements, current receivables, deferred rent receivables and deferred leasing costs and other related intangible assets, all shown on a net basis.

Capital Expenditures by Reportable Segment	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Office/Industrial Properties:		
Acquisition of operating properties	$ -	$ 5,350,000
Capital expenditures and tenant improvements	1,481,102	1,387,057
Residential Properties:		
Acquisition of operating properties	5,720,540	1,781,300
Retail Properties:		
Capital expenditures and tenant improvements	41,333	378,473
Self-Storage Properties (real estate held for sale):		
Capital expenditures and tenant improvements	6,250	76,208
Totals:		
Acquisition of operating properties, net	5,720,540	7,131,300
Capital expenditures and tenant improvements	1,528,685	1,841,738
Total real estate investments	$ 7,249,225	$ 8,973,038

12. SUBSEQUENT EVENTS

In August 2015, the Company acquired the West Fargo Industrial office buildings for the purchase price of approximately $7.9 million plus closing costs. The Property consists of seven industrial buildings with approximately 152,154 rentable square feet located in Fargo, North Dakota. The Company acquired the property with a cash payment of approximately $3.4 million and fixed rate mortgage note $4.5 million and is due in August 2020.

In August 2015, the Company acquired the 300 N.P. office building for the purchase price of approximately $3.9 million plus closing costs. The Property consists of one office building with approximately 34,056 rentable square feet located in Fargo, North Dakota. The Company acquired the property with a cash payment of approximately $3.9 million.

The Company has executed three other purchase and sale contracts for three properties located in Colorado for a combined purchase price of approximately $22 million. They are expected to close during the third quarter of 2015.

In August 2015, the Company issued 13,400 shares of Series B mandatorily redeemable preferred stock for $13,266,000 net of offering costs of $134,000. In addition, the Company entered into an agreement to extend the funding period for the issuance of the remaining 10,000 shares to November 2015. Refer to footnote 8 for additional information on this offering.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion relates to our financial statements and should be read in conjunction with the financial statements, footnotes and to "Cautionary Statements appearing elsewhere in this report.

OVERVIEW

The Company operates as a self-managed and self-administered real estate investment trust, or REIT. The Company acquires, owns and manages a geographically diversified portfolio of real estate assets including industrial, office, retail and model home leased residential properties located throughout United States. As of June 30, 2015, the Company owned or had an equity interest in:

- Fourteen multi-tenant office buildings and one industrial building ("Office Properties") which total approximately 1,152,000 rentable square feet,
- Five retail shopping centers ("Retail Properties") which total approximately 230,000 rentable square feet,
- Four Model Homes owned by a limited liability company , and
- Sixty-three Model Homes owned by three affiliated limited partnerships ("Residential Properties").

NetREIT's office, retail and industrial properties are located primarily in Southern California and Colorado, with two properties located in North Dakota. Our geographical clustering of assets enables us to reduce our operating costs through economies of scale by servicing a number of properties with less staff, but it also makes us more susceptible to changing market conditions in these discrete geographic areas. We do not develop properties but acquire properties that are stabilized or that we anticipate will be stabilized within two or three years of acquisition. We consider a property to be stabilized once it has achieved an 80% occupancy rate for a full year as of January 1 of such year, or has been operating for three years.

Most of our office and retail properties are leased to a variety of tenants ranging from small businesses to large public companies, many of which do not have publicly rated debt. We have in the past entered into, and intend in the future to enter into, purchase agreements for real estate having net leases that require the tenant to pay all of the operating expense (Net, Net, Net Leases) or pay increases in operating expenses over specific base years. Decreased demand and other negative trends or unforeseeable events that impair our ability to timely renew or re-lease space could have a negative effect on our future financial condition, results of operations and cash flow.

Our Model Homes are typically leased for 2 to 3 years to the home developer on a triple net lease. Under a triple net lease, the tenant is required to pay all operating, maintenance and insurance costs and real estate taxes with respect to the leased property. We seek to diversify our portfolio by commercial real estate segments to reduce the adverse effect of a single under-performing segment, geographic market and/or tenant. We further supplement this at the tenant level through our credit review process, which varies by tenant class. For example, our commercial and industrial tenants tend to be corporations or individual owned businesses. In these cases, we typically obtain financial records, including financial statements and tax returns, and run credit reports for any prospective tenant to support our decision to enter into a rental arrangement. We also typically obtain security deposits from these commercial entities. Our Model Home business tenants are typically substantial home developers with established credit histories. These tenants are subject to financial review and analysis prior to entering into a sale-leaseback transaction. Our ownership of the underlying property provides a further means to avoiding significant credit losses.

SIGNIFICANT TRANSACTIONS IN 2015 AND 2014

Preferred Stock Financing - In August 2014, the Company closed on an offering of our Series B Preferred Stock. The financing, which will be funded in installments, should be completed no later than the one-year anniversary of the initial investment. We issued 16,600 shares of our Series B Preferred Stock for $16.6 million during 2014. These shares have a $0.01 par value and a $1,000 per share liquidation preference. The Series B Preferred Stock shall be redeemed through a cash payment equal to the face value of the shares outstanding at redemption. The return on these funds is 14%. Monthly payments are made on 10% of the outstanding balance and the remaining 4% are accrued and compounded monthly and will be paid at the redemption date. We received an additional capital contribution of $23.4 million from this financing on August 4, 2015. The proceeds of this financing are to be used for Series B Preferred investor approved property acquisitions. The Series B Preferred Stock is scheduled to be redeemed by the third anniversary of the closing date; however, we can extend the redemption date by up to two additional years.

Acquisitions - we acquired the following properties during the six months ended June 30, 2015 and the year ended December 31, 2014:

- On May 22, 2015, NetREIT acquired and leased back to the developer one (1) Model Home property located in Pennsylvania for a purchase price of $587,500, consisting of a cash payment of $244,500 and a promissory note of $343,000. On March 26, 2015, NetREIT acquired three (3) Model Home properties in Wisconsin, Illinois and Arizona on March 26, 2015 and lease them back to the home builder. The purchase price for the properties totaled $900,000, consisting of cash payments of $400,000 and promissory notes of $500,000.

- On May 18 and 22, 2015, NetREIT Dubose and Dubose Model Home Investors #202 LP acquired and leased back to the developer four (4) Model Home properties in South Carolina and Pennsylvania for an aggregate purchase price of $1,376,300, consisting of cash payments of $550,520 and promissory notes of $825,780. On March 26, 2015 these entities acquired nine (9) Model Home properties in Illinois, Florida, Wisconsin and Arizona on March 26, 2015 (and leased them back to the home builders). The purchase price for the properties totaled $2.8 million, consisting of cash payments of $1.1 million and promissory notes of $1.7 million.

- NetREIT acquired five office buildings totaling 410,000 square between April and December of 2014 that had a significant impact on the operations during the six months ended June 30, 2015 when compared to the six months ended June 30, 2014.

Dispositions - We review our portfolio of investment properties for value appreciation potential on an on-going basis, and dispose of any properties that no longer satisfy our requirements in this regard. The proceeds from any such property sale, after repayment of any associated mortgage, are available for investing in properties that we believe will have a much greater likelihood of future price appreciation.

- During the second quarter of 2015, NetREIT Dubose sold two Model Homes properties (upon the maturity of leases) for $747,000, resulting in gain on sales of $76,000. During the first quarter of 2015, NetREIT Dubose sold two Model Home properties (upon the maturity of leases) for $621,000, resulting in gain on sales of $73,500.

- On April 10, 2015, the Company sold all seven of the Sparky's Self Storage facilities as a package for a net sales price of $34 million that had been acquired during 2007 through 2013, resulting in a gain on sale of approximately $4.7 million. These properties were presented as discontinued operations on the condensed consolidated balance sheet as of December 31, 2014 and as discontinued operations on the condensed consolidated statements of operations for the three and six months ended June 30, 2015 and 2014. The net proceeds from the sale after selling costs and payment of associated mortgages were approximately $18 million. Approximately $3.3 million was used to pay off a loan, bearing an interest rate of 6.5%, on the Waterman property that was scheduled to mature on September 1, 2015 and the remainder is included in cash and restricted cash on the balance sheet as of June 30, 2015.

- In April 2015, the Company sold one building at the Yucca Valley Retail Center for approximately $1.5 million resulting in a gain on sale of $1.0 million.

Debt transactions – In addition to paying off the Waterman loan during the six months ended June 30, 2015, the Company refinanced approximately $3.0 million of existing debt with new debt of approximately $6.0 million, providing additional cash to invest in new acquisitions. The new debt bears interest at an average rate of 4.3%, compared to 5.6% on the old debt, and, due to a three year interest-only provision, the Company was able to only increase our debt service costs on the refinanced obligations by approximately $29,000 per year. Although our aggregate debt outstanding increased due to acquisitions of new properties and the refinancing of existing debt, the weighted average interest rate of our non-Model Home property mortgages decreased to 4.74% at June 30, 2015 from 5.44% at June 30, 2014.

ECONOMIC ENVIRONMENT

The United States continued to gain momentum from the recession that began in 2008. During 2015, existing home sales reached their highest level since November 2009 and housing prices have increased as demand outpaced supply. On the supply side there has been an increase in housing starts and building permits. Published unemployment rates have decreased over the last several years, however, meager wage and salary growth has been a determinate. Vacancy rates for commercial real estate have decreased and rent rates have increased. Corporate earnings and stock market investments have rebounded.

The significance of the U.S. Dollar in the global economy, the size of the U.S. debt and uncertainty of servicing such debt seems to be the biggest concern for continued economic recovery. The impact of the current global market instability and recent events in Europe with respect to the ability of certain European Union countries to continue to service their sovereign debt obligations are inherently unpredictable and could adversely affect the U.S. and global financial markets and economic conditions. The United States Federal Reserve Bank has confirmed their intent is to raise interest rates. The effect of increased interest rates on Real Estate Investment Trusts is a much debated topic at this time. However in the past when interest rates increased it has been a sign of a better economy that allowed for rental rates to increase mitigating the effect on REIT's. Adverse economic conditions could have a material adverse effect on our business, financial condition and results of operations.

Our ability to execute our business strategies, particularly to make new investments is highly dependent upon our ability to procure external financing. Our principal source of external financing includes the issuance of equity securities and mortgages secured by properties. The market for mortgages has improved although the interest rates may increase they are still low compared to pre-recessionary rates. We continue to obtain mortgages from the CMBS market, life insurance companies and regional banks. Even though we have been successful in procuring equity financing and secured mortgages financing we cannot be assured that we will be successful in the future.

CRITICAL ACCOUNTING POLICIES

There have been no material changes to our critical accounting policies as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014 filed with the SEC on March 30, 2015.

MANAGEMENT EVALUATION OF RESULTS OF OPERATIONS

Management's evaluation of operating results includes an assessment of our ability to generate cash flow necessary to pay operating expenses, general and administrative expenses, debt service and to fund distributions to our stockholders. As a result, Management's assessment of operating results gives less emphasis to the effects of unrealized gains and losses and other non-cash charges, such as depreciation and amortization and impairment charges, which may cause fluctuations in net income for comparable periods but have no impact on cash flows. Management's evaluation of our potential for generating cash flow includes assessments of our recently acquired properties, our non-stabilized properties, long-term sustainability of our real estate portfolio, our future operating cash flow from anticipated acquisitions, and the proceeds from the sales of our real estate assets.

In addition, Management evaluates our portfolio and individual properties results of operations with a primary focus on increasing and enhancing the value, quality and quantity of properties in our real estate holdings. Management focuses its efforts on improving underperforming assets through re-leasing efforts, including negotiation of lease renewals and rental rates. Properties that have reached goals in occupancy and rental rates are evaluated for potential added value appreciation and, if lacking such potential, are sold with the equity reinvested in properties that have better potential without foregoing cash flow. As an example of that is management's decision to sell the self-storage facilities that had appreciated in value but at the same time increased the price of facilities for sale limiting our ability to expand that segment of business in order to gain the benefits of size. Based on the properties we have in escrow now of $36.8 million with the same equity we will double the percentage return on equity by 50%.

The ability to increase assets under management is affected by our ability to raise borrowings and/or capital, coupled with our ability to identify appropriate investments.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2015 AND 2014.

Our results of operations for the three months ended June 30, 2015 and 2014 are not indicative of those expected in future periods as we expect that rental income, interest expense, rental operating expense, general and administrative expense and depreciation and amortization will significantly increase in future periods as a result of the assets acquired over the last year and as a result of anticipated growth through future acquisitions of real estate related investments.

The following discussion over our results of operations for all properties for the three months ended June 30, 2015, and 2014 relates to continuing operations.

Revenues. Total revenue was $5.6 million for the three months ended June 30, 2015 compared to $3.8 million for the same period in 2014, an increase of $1.8 million or 47.3 %. The increase in rental income as reported for the three month period in 2015 as compared to 2014 reflects:

- A net increase in industrial and office properties rental income of $1.5 million as a result of the four property acquisitions we made subsequent to the second quarter in 2014.

- A net increase in same store properties of $192,000 as a result of increases in rental rates and an overall increase in occupancy for three months ended June 30, 2015 when compared to June 30, 2014. Occupancy at June 30, 2015 and 2014 was 79.9% and 72.1%, respectively, and a rate increase of 3%.

- Revenues from Model Homes decreased $227,000 or 39.7% during the quarter ended June 30, 2015 compared to the quarter ended June 30, 2014. The decrease in rental revenues arose as a result of a 7% reduction in the number of Model Homes owned during the three month period compared to the same period in 2014. The remaining decrease is attributed to the decrease in transaction fees related to the sales of model homes.

Rental Operating Costs. Rental operating costs were $1.9 million for the three months ended June 30, 2015 compared to $1.4 million for the same period in 2014, an increase of approximately $500,000 or 35.7%. Costs associated with properties acquired subsequent to the second quarter of 2014 accounted for substantially all of this increase. Rental operating costs as a percentage of rental and fee income was 34.2% and 35.3% for the three months ended June 30, 2015 and 2014, respectively.

General and Administrative Expenses. General and administrative ("G&A") expenses decreased approximately $425,000 or 27.2% during the three months ended June 30, 2015, compared to the same period in 2014. The decrease relates to income taxes at our Taxable REIT Subsidiaries due to smaller gains on the sales of model homes during the second quarter of 2015. Otherwise these expenses are semi-fixed and do not necessarily correlate to total revenue. These expenses correlate more to the administrative functions required for the different types of properties. With the sale of the self-storage facilities, which segment was the most administrative intense, we anticipate that our general and administrative expenses will remain fairly constant as we acquire more office, retail and industrial properties in the future. As a percentage of total revenue, our general and administrative costs decreased from 41% to 20% due to the increased revenue and the decrease in these expenses.

Depreciation and Amortization. Depreciation and amortization expense totaled approximately $1.8 million for the three months ended June 30, 2015, compared to approximately $1.3 million for the same period in 2014, representing an increase of approximately $500,000 or 38.5%. Depreciation costs associated with properties acquired during 2014 accounted for substantially all of this increase.

Asset Impairments. We review the carrying value of each of our real estate properties quarterly to determine if circumstances indicate an impairment in the carrying value of these investments exists. During the three months ended June 30, 2015, management did not believe any impairment reserve was required.

Interest Expense-Series B preferred stock. The Series B Preferred Stock issued in August 2014 includes a mandatory redemption and therefore is treated as a liability for financial reporting purposes and the dividends paid and accrued and the amortization of the deferred offering costs are considered interest expense. Interest expense, including amortization of the deferred offering costs, totaled $817,000 for the three months ending June 30, 2015. There was no expense the same period in 2014 as the stock was not issued until August 2014. Dividends paid and accrued totaled $420,000 and $168,000, respectively, and the amortization of the deferred offering costs associated with that transaction totaled $229,000 for the three months ended June 30, 2015.

Interest Expense-mortgage notes. Interest expense, including amortization of deferred finance charges, increased by approximately $300,000, or 25%, to approximately $1.5 million for the three months ended June 30, 2015 compared to $1.2 million for the same period in 2014. Interest expenses associated with properties acquired subsequent to the second quarter of 2014 totaled $387,000 offset by a $80,000 decrease in interest related to the self-storage portfolio being sold in April. The weighted average interest rate on our outstanding debt was 4.9% as of June 30, 2015 compared to 5.2% as of June 30, 2014.

Gain on Sale of Real Estate Assets and Partnerships, net. For the three months ended June 30, 2015, we had gains from the sales of two Model Homes of approximately $76,000 and a gain on sale of one building of approximately $1.0 million. For the three months ended June 30, 2014, the Company had gains from the sales of twelve Model Homes totaling $936,000.

Discontinued Operations. Loss from discontinued operations for the three months ending June 30, 2015 only included 10 days of rental revenues. As we owned the Sparky's self-storage portfolio for the entire quarter of 2014 and only 10 days of the current quarter, a comparison of financial results is not attainable. During the three months ended June 30, 2015, the Company sold 100% of the Sparky's Self-Storage Portfolio and recognized a gain on sale of approximately $4.7 million. During the three months ended June 30, 2014, a parcel of land at one of the self-storage properties was sold resulting in a loss of $156,000.

Income from non-controlling interests. Income allocated to non-controlling interests for the three months ended June 30, 2015 totaled $1.2 million when compared to the three months ended June 30, 2014 of $504,000. The self-storage portfolio had two properties that were owned in limited partnerships and substantially all of the income allocated to non-controlling interests was due to the gain on sale of the two properties. Approximately $50,000 was attributable to the model home partnerships. For the three months ended June 30, 2014, $444,000 was attributed to gain on sales of model homes owned under three limited partnerships of which the Company has a minority interest.

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2015 AND 2014.

Our results of operations for the six months ended June 30, 2015 and 2014 are not indicative of those expected in future periods as we expect that rental income, interest expense, rental operating expense, general and administrative expense and depreciation and amortization will significantly increase in future periods as a result of the assets acquired over the last year and as a result of anticipated growth through future acquisitions of real estate related investments.

The following discussion over our results of operations for all properties for the six months ended June 30, 2015, and 2014 relates to continuing operations.

Revenues. Total revenue was $10.9 million for the six months ended June 30, 2015 compared to $7.8 million for the same period in 2014, an increase of $3.1 million or 39.7 %. The increase in rental income as reported in 2015 as compared to 2014 reflects:

- A net increase in industrial and office properties rental income of $3.3 million as a result of the five property acquisitions we made during 2014.

- A net increase in same store rental income of $400,000 due to a 3% increase in occupancy during the six months ended June 30, 2015 compared to the same period in 2014 along with a 3% increase in rental rates.

- Revenues from Model Homes decreased to $540,000 and 43% during the six month ended June 30, 2015 compared to the same period in 2014. The decrease in rental revenues arose as a result of a 12% reduction in the number of Model Homes owned during the six month period compared to the same period in 2014. The remaining decrease is attributed to the decrease in transaction fees related to the sales of model homes.

Rental Operating Costs. Rental operating costs were $3.8 million for the six months ended June 30, 2015 compared to $2.6 million for the same period in 2014, an increase of approximately $1.2 million or 46.2%. Costs associated with properties acquired during 2014 accounted for substantially all of this increase. Rental operating costs as a percentage of rental and fee income was 35.0% and 33.7% for the six months ended June 30, 2015 and 2014, respectively.

General and Administrative Expenses. General and administrative ("G&A") expenses decreased approximately $395,000 or 14.7% during the six months ended June 30, 2015, compared to the same period in 2014. The decrease relates to income taxes at our Taxable REIT Subsidiaries due to the decrease in gains on the sales of model homes during the six months ended June 30, 2015. Otherwise these expenses are semi-fixed and do not necessarily correlate to total revenue. These expenses correlate more to the administrative functions required for the different types of properties. With the sale of the self-storage facilities, which segment was the most administrative intense, we anticipate that our general and administrative expenses will remain fairly constant as we acquire more office, retail and industrial properties in the future. As a percentage of total revenue, our general and administrative expenses decreased from 34% to 20%.

Depreciation and Amortization. Depreciation and amortization expense totaled approximately $3.7 million for the six months ended June 30, 2015, compared to approximately $2.4 million for the same period in 2014, representing an increase of approximately $1.3 million or 54.1%. Depreciation costs associated with properties acquired during 2014 resulted in an increase in 2015 of $1.4 million offset by a $200,000 decrease in depreciation for the self-storages properties sold on April 10, 2015.

Asset Impairments. We review the carrying value of each of our real estate properties annually to determine if circumstances indicate an impairment in the carrying value of these investments exists. During the six months ended June 30, 2015, management did not believe any impairment reserve was required.

Interest Expense-Series B preferred stock. The Series B Preferred Stock issued in August 2014 includes a mandatory redemption and therefore is treated as a liability for financial reporting purposes and the dividends paid and accrued and the amortization of the deferred offering costs are considered interest expense. Interest expense, including amortization of the deferred offering costs, totaled $1.8 million for the six months ending June 30, 2015. There was no expense in the same period in 2014 as the stock was not issued until August 2014. Dividends paid and accrued totaled $971,000 and $334,000, respectively, and the amortization of the deferred offering costs associated with that transaction totaled $458,000 for the six months ended June 30, 2015.

Interest Expense-mortgage notes. Interest expense, including amortization of deferred finance charges, increased by approximately $700,000, or 31.8%, to approximately $2.9 million for the six months ended June 30, 2015 compared to $2.2 million for the same period in 2014. Interest expenses associated with properties acquired subsequent to the second quarter of 2014 totaled $880,000 offset by a $20,000 decrease in interest related to the self-storage portfolio being sold in April. The remaining decrease was attributed to the loans that were refinanced during 2015 and 2014 at lower interest rates The weighted average interest rate on our outstanding debt was 4.9% as of June 30, 2015 compared to 5.2% as of June 30, 2014.

Gain on Sale of Real Estate Assets and Partnerships, net. For the six months ended June 30, 2015, we had gains from the sales of four Model Homes of approximately $126,000 and a gain on sale of one parcel of land and its building of approximately $1.0 million.

Discontinued Operations. Loss from discontinued operations for the six month period ended June 30, 2015 included only one quarter of activity as the Sparky's self-storage portfolio was sold on April 10, 2015. As we owned the division for the entire period in 2014, a comparison of financial results is not attainable. During the six months ended June 30, 2015, the Company sold 100% of the Sparky's Self-Storage Portfolio and recognized a gain on sale of approximately $4.7 million. During the six months ended June 30, 2014, a parcel of land at one of the self-storage properties was sold resulting in a loss of $156,000.

Income from non-controlling interests. Income from non-controlling interests for the six months ended June 30, 2015 totaled $1.3 million when compared to the loss from non-controlling interests for the three months ended June 30, 2014 of $983,000. The self-storage portfolio had two properties that were owned in limited partnerships and substantially all of the income allocated to non-controlling interests was due to the gain on sale of the two properties. Approximately $150,000 was attributable to the model home partnerships for the six month period ended June 30, 2015. For the six months ended June 30, 2014, $871,000 was attributed to the gain on sales of the model homes that are owned under three limited partnerships of which the Company has a minority interest.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Our available liquidity at June 30, 2015 included cash and cash equivalents of $11.5 million, $23.4 million available from sale of Series B Preferred shares, mortgages on unencumbered properties and refinancing of mortgages with low debt to value. We currently do not have a revolving line of credit. We cannot guarantee that we will be able to consummate a line of credit in the near future, but we have been exploring the possibilities of obtaining such a line of credit. We also do not have any commitments or other arrangements with any financial institution to borrow any amounts in the form of mortgages on currently unencumbered properties or through refinancing existing mortgages and we cannot be certain that a financial institution would ultimately provide such financing.

Based on our financing success during late 2014 and 2015, we believe that mortgage financing is available for future cash needs. During 2014, we refinanced approximately $10.9 million of existing debt with new debt of approximately $17.1 million. The new debt bears interest at an average rate of 4.7% compared to 5.7% on the old debt. During 2015, we refinanced an existing mortgage with an outstanding principal balance of approximately $3.0 million with interest at 5.6% with a new mortgage of $6.0 million with interest at 4.31%.

Our future capital needs include paying down existing borrowings, maintaining our existing properties, funding tenant improvements, paying leasing commissions and the payment of a competitive distribution to our stockholders. We also are actively seeking investments that are likely to produce income in order to pay distributions and long-term gains for our stockholders. To ensure that we are able to effectively execute these objectives, we routinely review our liquidity requirements and continually evaluate all potential sources of liquidity.

Our short term liquidity requirements include paying our current operating costs, satisfying the debt service requirements of our existing mortgages, general and administrative expenses, capital expenditures for tenant improvements, leasing commissions and distributions to stockholders. We expect to meet our short-term liquidity requirements through available cash on hand and cash flows from operations. As of June 30, 2015, our cash and cash equivalents totaled approximately $11.5 million, and our estimated borrowings on unencumbered properties is approximately $10 million. We believe that the cash flow from our existing portfolio, and our anticipated acquisitions (when operational for the full term) will be sufficient to fund our near term operating costs, fund the debt service costs on our existing mortgages, and fund the cash portion of distribution to stockholders at the current rate. However, if our cash flow from operating activities is not sufficient to fund our short term liquidity needs, including the payment of cash dividends at current rates to our stockholders, we will fund a portion of these needs from additional borrowings of secured or unsecured indebtedness or we will reduce the rate of distribution to the stockholders.

Our long-term liquidity needs include funds necessary to grow our portfolio of investments by acquisitions, recurring and non-recurring capital expenditures and scheduled debt maturities. We currently have $36.8 million in acquisitions in escrow which we expect to close in the third quarter. We intend to satisfy our long-term liquidity needs through long-term secured borrowings, issuance of preferred shares, restricted cash held by 1031 facilitators, cash from operations and cash available. To meet our long-term liquidity needs, we are continually reviewing our existing portfolio for properties that have met maximized short and long term potential with the intent of selling those properties and reinvesting the proceeds in properties that have equivalent or better short term benefits and better long term potential. We expect to obtain additional cash in connection with refinancing of maturing mortgages and assumption of existing debt collateralized by some or all of our real property in the future to meet our long-term liquidity needs. If we are unable to arrange a line of credit, borrow on unencumbered properties, or sell securities to the public we may not be able to acquire additional properties to meet our long-term objectives.

Cash and Cash Equivalents

At June 30, 2015, we had approximately $11.5 million in cash and cash equivalents compared to approximately $10.0 million at June 30, 2014. Our cash and cash equivalents are held in bank accounts at third party institutions and consist of invested cash and cash in our operating accounts. During 2015 and 2014, we did not experience any loss or lack of access to our cash or cash equivalents. Approximately $2.0 million of our cash balance is intended for capital expenditures on existing properties. We intend to use the remainder of our existing cash and cash equivalents for acquisitions, general corporate purposes and distributions to our stockholders.

Series B Preferred Stock

In August 2014, the Company closed on an offering of our Series B Preferred Stock. We expect to receive a total capital contribution of $40.0 million from this financing by the conclusion of the funding period. An initial investment of $16.6 million was made during 2014, an additional investment of $13.4 million was made on August 4, 2015 and the remaining $10 million investment is available until November 4, 2015. We will continue to seek acquisitions or properties for equity in a DownREIT structure. Our ability to access equity markets is dependent on a number of factors including general market conditions for the REIT industry and market perception of our Company.

Secured Debt

As of June 30, 2015, NetREIT had mortgage notes payable in the aggregate principal amount of $98.3 million, collateralized by a total of 18 properties with loan terms at issuance ranging from 3 to 30 years. The weighted-average interest rate on the mortgage notes payable as of June 30, 2015 was approximately 4.7%, and our debt to book value and estimated market value on these properties was approximately 64% and 55%, respectively.

As of June 30, 2015, NetREIT Dubose, and related entities, had 63 fixed-rate mortgage notes payable in the aggregate principal amount of $10.3 million, collateralized by a total of 67 Model Home properties. These loans generally have a term at issuance of three to five years. The average loan balance outstanding and the weighted-average interest rate on these mortgage loans are approximately $154,000 and 5.5%, respectively, as of June 30, 2015. Our debt to net book value on these properties is approximately 56%. The Company has guaranteed these promissory notes. The balloon principal payments on the notes payable are die in 2016 and 2019, and are typically tied to the end of the lease and the sale of the Model Home properties securing the debt.

Despite the disruptions in the debt market discussed in "Overview" above, we have been able to refinance maturing debts before scheduled maturity dates and we have also not experienced any unusual difficulties financing our acquisitions.

Cash Flows for the six months ended June 30, 2015 and June 30, 2014.

Operating Activities: Net cash used in operating activities for the six months ended June 30, 2015 increased by approximately $1.0 million to $1.3 million, primarily due to the an increase in working capital for such items as receivables, prepaids and acquisition deposits. Net cash used also increased approximately $1 million for dividends paid on the preferred stock issued in August 2014 that was treated as interest expense for GAAP reporting purposes. However the five properties acquired after June 2014 generated cash flow of approximately $970,000 offsetting the interest expense.

Investing Activities: Net cash provided from investing activities during the six months ended June 30, 2015 was $24.3 million compared to the amount used in investing activities $1.8 million in the same period in 2014.The sale of all of our self-storage facilities for $36 million was the main reason for that increase. Approximately $5 million of the proceeds from sale of real estate were owned under limited liability partnerships that elected to do a 1031 exchange. The cash was deposited with a third party exchange facilitator resulting in the increase in restricted cash.

We do not expect that sales of real estate involving a total segment of our business are in the near future, however, we do continue assessing the value of our individual properties that could lead to the sale of individual properties. We anticipate that the acquisitions of both the non-Model Home properties and of Model Homes will increase during 2015 and thereafter. Future acquisitions by the Company will depend on funds available from cash on hand, the proceeds from the issuance of our Series B Preferred Stock and from the sale of existing properties. Future acquisitions of Model Homes will depend on the availability of Model Homes from developers at acceptable prices.

We currently project that we could spend up to $2.0 million on capital improvements, tenant improvements and leasing costs for properties within our portfolio on an annual basis. Capital expenditures may fluctuate in any given period subject to the nature, extent, and timing of improvements required to the properties. We may spend more on capital expenditures during 2015 as compared to 2014 due to rising construction costs and the anticipated increase in property acquisitions . Tenant improvements and leasing costs may also fluctuate in any given year depending upon factors such as the property, the term of the lease, the type of lease, the involvement of external leasing agents and overall market conditions.

Financing Activities: Net cash used by financing activities during the six months ended June 30, 2015 was $17.1 million compared to cash provided of $1.9 million for the same period in 2014. The fluctuation between the six months ended June 30, 2015 and the same period in 2014 was the payoff of approximately $17 million in mortgages in connection with the sale of all the self-storage facilities and a decrease in proceeds from refinancing mortgages. Also during 2015, $1.4 million of new capital was contributed to model home entities by non-controlling interests compared to none in 2014.

We anticipate mortgaging two unencumbered property and increasing mortgages balances in connection with refinancing debt maturing in 2015 to provide additional funds for financing activities. These properties have an estimated market value of approximately $25.3 million and mortgage obligations of $4.4 million, which we believe will allow us to increase our net borrowings by approximately $10.4 million. In addition, we will receive $13.4 million from issuance of Series B Preferred Stock during the third quarter of 2015 and use it to increase our portfolio by approximately $34 million. We are also pursuing other sources of capital either through a line of credit facility or the possible sale of additional equity/debt securities to provide resources to pursue future acquisitions.

Off-Balance Sheet Arrangements

As of June 30, 2015, we do not have any off-balance sheet arrangements or obligations, including contingent obligations.

Non-GAAP Supplemental Financial Measures:

Funds From Operations ("FFO")

Management believes that FFO is a useful supplemental measure of our operating performance. We compute FFO using the definition outlined by the National Association of Real Estate Investment Trusts ("NAREIT"). NAREIT defines FFO as net income (loss) in accordance with GAAP, plus depreciation and amortization of real estate assets (excluding amortization of deferred financing costs and depreciation of non-real estate assets) reduced by gains and losses from sales of depreciable operating property and extraordinary items, as defined by GAAP. Other REITs may use different methodologies for calculating FFO and, accordingly, our FFO may not be comparable to other REITs. Because FFO excludes depreciation and amortization, gains and losses from property dispositions that are available for distribution to stockholders and extraordinary items, it provides a performance measure that, when compared year over year, reflects the impact to operations from trends in occupancy rates, rental rates, operating costs, development activities, general and administrative expenses and interest costs, providing a perspective not immediately apparent from net income. In addition, Management believes that FFO provides useful information to the investment community about our financial performance when compared to other REITs since FFO is generally recognized as the industry standard for reporting the operations of REITs. However, FFO should not be viewed as an alternative measure of our operating performance since it does not reflect either depreciation and amortization costs or the level of capital expenditures and leasing costs necessary to maintain the operating performance of our properties which are significant economic costs and could materially impact our results from operations.

The following table presents our FFO and MFFO for the three and six months ended June 30, 2015 and 2014:

	Three Months Ended June		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income (loss)	$ 2,971,187	$ (1,096,419)	$ 1,009,146	$ (1,456,433)
Adjustments:				
Income attributable to noncontrolling interests	1,186,012	504,797	1,318,526	982,905
Depreciation and amortization (including discontinued operations)	1,814,786	1,426,916	3,841,978	2,772,672
Gain on sale of real estate assets and partnerships	(5,846,656)	(779,378)	(5,925,152)	(1,507,156)
FFO	$ 125,329	$ 55,916	$ 244,498	$ 791,988
Straight line rent adjustment	(116,474)	(34,390)	(184,261)	(113,430)
Above and below market rents	33,907	(39,064)	67,231	(78,129)
Amortization of restricted stock compensation	118,774	129,998	237,547	259,996
Amortization of finance charge	480,721	146,003	954,880	230,054
Acquisition costs	56,616	37,646	86,887	53,239
MFFO	$ 698,873	$ 296,109	$ 1,406,782	$ 1,143,718

No conclusion or comparisons should be made from the presentation of these figures.

Modified Funds From Operations ("MFFO")

We define MFFO, a non-GAAP measure, consistent with the Investment Program Association's ("IPA") Guideline 2010-01, *Supplemental Performance Measure for Publicly Registered, Non-Listed REIT* ***Modified Funds From Operations,*** or the Practice Guideline, issued by the IPA in November 2010. The Practice Guideline defines MFFO as FFO further adjusted for the following items, as applicable, included in the determination of GAAP net income: acquisition fees and expenses; amounts relating to deferred rent receivables and amortization of above-market and below-market leases and liabilities (which are adjusted in order to reflect such payments from a GAAP accrual basis to a cash basis of disclosing the rent and lease payments); accretion of discounts and amortization of premiums on debt investments; nonrecurring impairments of real estate-related investments (i.e., infrequent or unusual, not reasonably likely to recur in the ordinary course of business); mark-to-market adjustments included in net income; nonrecurring gains or losses included in net income from the extinguishment or sale of debt, hedges, foreign exchange, derivatives or securities holdings where trading of such holdings is not a fundamental attribute of the business plan, unrealized gains or losses resulting from consolidation from, or deconsolidation to, equity accounting, and after adjustments for consolidated and unconsolidated partnerships and joint ventures, with such adjustments calculated to reflect MFFO on the same basis. The accretion of discounts and amortization of premiums on debt investments, nonrecurring unrealized gains and losses on hedges, foreign exchange, derivatives or securities holdings, unrealized gains and losses resulting from consolidations, as well as other listed cash flow adjustments are adjustments made to net income in calculating the cash flows provided by operating activities and, in some cases, reflect gains or losses which are unrealized and may not ultimately be realized.

Our MFFO calculation complies with the IPA's Practice Guideline described above. In calculating MFFO, we exclude acquisition related expenses, amortization of above-market and below-market leases, deferred rent receivables and the adjustments of such items related to noncontrolling interests. Under GAAP, acquisition fees and expenses are characterized as operating expenses in determining operating net income. These expenses are paid in cash by us. All paid and accrued acquisition fees and expenses will have negative effects on returns to investors, the potential for future distributions, and cash flows generated by us, unless earnings from operations or net sales proceeds from the disposition of other properties are generated to cover the purchase price of the property, these fees and expenses and other costs related to such property. The acquisition of properties, and the corresponding acquisition fees and expenses, is the key operational feature of our business plan to generate operational income and cash flow to fund distributions to our stockholders. Further, under GAAP, certain contemplated non-cash fair value and other non-cash adjustments are considered operating non-cash adjustments to net income in determining cash flow from operating activities. In addition, we view fair value adjustments of impairment charges and gains and losses from dispositions of assets as non-recurring items or items which are unrealized and may not ultimately be realized, and which are not reflective of on-going operations and are therefore typically adjusted for when assessing operating performance. In particular, we believe it is appropriate to disregard impairment charges, as this is a fair value adjustment that is largely based on market fluctuations and assessments regarding general market conditions which can change over time. An asset will only be evaluated for impairment if certain impairment indications exist and if the carrying, or book value, exceeds the total estimated undiscounted future cash flows (including net rental and lease revenues, net proceeds on the sale of the property, and any other ancillary cash flows at a property or group level under GAAP) from such asset. Investors should note, however, that determinations of whether impairment charges have been incurred are based partly on anticipated operating performance, because estimated undiscounted future cash flows from a property, including estimated future net rental and lease revenues, net proceeds on the sale of the property, and certain other ancillary cash flows, are taken into account in determining whether an impairment charge has been incurred. While impairment charges are excluded from the calculation of MFFO as described above, investors are cautioned that due to the fact that impairments are based on estimated future undiscounted cash flows and the relatively limited term of our operations, it could be difficult to recover any impairment charges.

Same-Property Operating Results For the three and six months ending June 30, 2015 and 2014.

The table below presents the 2015 and 2014 operating results for the Company's commercial rental properties owned as of January 1, 2014, thereby excluding the impact on our results of operations from the real estate properties acquired subsequently. The table below excludes model home operations as the rental rates do not fluctuate during the term of the lease and there are no operating expenses. Income from discontinued operations from the self-storage portfolio are not included. The Company believes that this type of non-GAAP financial measure, when considered with our financial statements prepared in accordance with GAAP, is useful to investors to better understand the Company's operating results. Properties are included in this analysis if they were owned and operated for the entirety of both periods being compared. Further, same-property operating results is a measure for which there is no standard definition and, as such, it is not consistently defined or reported on among the Company's peers, and thus may not provide an adequate basis for comparison between REITs.

	Three months ended June 30,		Variance		Six months ended June 30,		Variance	
	2015	2014	$		2015	2014	$	%
Rental revenues	$ 2,606,167	2,452,848	$ 153,319	6.3%	$ 5,148,106	4,901,562	$ 246,544	5.0%
Tenant reimbursements	706,798	519,588	187,210	36.0%	1,420,798	1,205,088	215,710	17.9%
Other operating income	14,140	28,983	(14,843)	-51.2%	27,262	50,343	(23,081)	-
Total rental revenues	3,327,105	3,001,419	325,686	10.9%	6,596,166	6,156,993	439,173	7.1%
Rental operating costs	1,208,144	1,237,614	(29,470)	-2.4%	2,495,377	2,512,559	(17,182)	-0.7%
Net operating income	$ 2,118,961	1,763,805	$ 355,156	20.1%	$ 4,100,789	3,644,434	$ 456,355	12.5%
Operating Ratios:								
Number of same properties	15	15			15	15		
Same-property occupancy, end of period	79.9%	78.0%		1.9%	79.9%	76.9%		3.0%
Same-property renewed leases in 2015	$265,905	$256,529	$9,376	3.7%	$403,065	$389,920	$13,144	3.4%
Same-properties operating costs as a percentage of total revenues	36.3%	41.2%		-4.9%	37.8%	40.8%		-3.0%

Overview

Property net operating income ("NOI") basis began to improve during 2015 as evidenced by the increase in rental revenues of 5% and NOI of 12.5% for the six months ended June 30, 2015, respectively, as compared to the corresponding periods in 2014. The improvement in rental rates was almost equally due to the occupancy increase and rental rate increases that correspond to the overall increase in net absorption and the small increase in rental rates or reduction in rent abatements in the geographical areas of our portfolio. Any absorption of currently vacated space in the portfolio due to new leasing activity could favorably impact our leased percentage, total NOI, and possibly our same property NOI comparisons once any associated periods expire.

Leased Percentage

As of June 30, 2015, scheduled expirations for the portfolio as a whole for the remainder of 2015 and 2016 represented 9.51% and 10.52%, respectively, of our annualized lease revenue; therefore, our current leasing efforts are primarily focused on leasing currently vacant space. To the extent we are able to execute new leases for currently vacant space, offset by scheduled expirations, such new leasing should favorably impact our leased percentage, total NOI, and possibly our same property NOI comparison once any associated abatement periods expire.

Impact of Downtime and Rental Rate Changes

The downtime between a lease expiration and a new lease commencement, typically ranging from 6-24 months, can negatively impact total NOI and same property NOI. In addition, office leases, both new and lease renewals typically contain upfront rental and /or operating expense abatement periods which delay the cash flow benefits of the lease even after the new lease or renewal has commenced. If we are unable to replace expiring leases with new or renewal leases at rental rates equal to or greater than the expiring rates, rental rate roll downs can also negatively impact total NOI and same property NOI comparisons. This was the case for all leases entered into prior to 2008 the start of the recession. Most of our leases were less than seven years and therefore the rental rate roll downs should not have a significant effect on future years. Our geographically diverse portfolio model results in rent roll ups that can fluctuate widely on a market by market basis; however, given the large volume of leasing activity over the last several years, we estimate that our portfolio, taken as a whole, is currently at market. Total NOI and same property NOI comparisons for any given period may still fluctuate as a result of rent roll ups and roll downs, however, depending on the leasing activity in individual geographic markets during the respective period.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required

ITEM 4. CONTROLS AND PROCEDURES

NetREIT maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based closely on the definition of "disclosure controls and procedures" in Rule 13a-14(c). In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the fiscal quarter ended June 30, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 1A. Risk Factors

Not Required

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

1. The Company does not have a formal policy with respect to a stock repurchase program and typically restricts repurchases to hardship cases only.
2. See note 5 to the condensed consolidated financial statements for a description of the related party transaction.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information.

None.

Item 6. EXHIBITS.

Exhibit Number	Description
31.1	Certificate of the Company's Chief Executive Officer (Principal Executive Officer) pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015.
31.2	Certification of the Company's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015.
31.3	Certification of the Company's Principal Financial and Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015.
32.1	Certification of principal executive officer and principal financial officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Instance Document

XBRL Taxonomy Extension Schema Document

XBRL Taxonomy Extension Calculation Linkbase Document

XBRL Taxonomy Extension Definition Linkbase Document

XBRL Taxonomy Extension Label Linkbase Document

XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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

Date: August 13, 2015

NetREIT, Inc.

By: */s/ Jack K. Heilbron*
Name: Jack K. Heilbron
Title: Chief Executive Officer

By: */s/ Kenneth W. Elsberry*
Name: Kenneth W. Elsberry
Title: Chief Financial Officer

By: */s/ Heather L. Pittard*
Name: Heather L. Pittard
Title: Principal Accounting Officer