



FORM 10-Q

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

(Mark One)

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

For the quarter ended September 30, 2012

OR

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

For the transition period from _____ to _____

Commission file number 0-17686

DIVALL INSURED INCOME PROPERTIES 2 LIMITED PARTNERSHIP

(Exact name of registrant as specified in its charter)

Wisconsin
(State or other jurisdiction of
incorporation or organization)

39-1606834
(I.R.S. Employer
Identification No.)

1100 Main Street, Suite 1830 Kansas City, Missouri 64105
(Address of principal executive offices, including zip code)

(816) 421-7444
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Limited Partnership Interests

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 such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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



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Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller Reporting Company

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



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PART I - FINANCIAL INFORMATION
Item 1. Financial Statements

DIVALL INSURED INCOME PROPERTIES 2 LIMITED PARTNERSHIP

CONDENSED BALANCE SHEETS

September 30, 2012 and December 31, 2011

ASSETS

	September 30, 2012 <u>(Unaudited)</u>	December 31, 2011 <u>(Audited)</u>
INVESTMENT PROPERTIES: (Note 3)		
Land	\$ 2,956,118	\$ 2,956,118
Buildings	5,028,699	5,028,699
Accumulated depreciation	<u>(3,797,354)</u>	<u>(3,684,775)</u>
Net investment properties	<u>\$ 4,187,463</u>	<u>\$ 4,300,042</u>
OTHER ASSETS:		
Cash	\$ 489,845	\$ 771,250
Cash held in Indemnification Trust (Note 9)	451,783	451,961
Property tax cash escrow	29,204	28,130
Rents and other receivables	219,200	430,048
Property held for sale (Note 3)	183,053	185,664
Deferred rent receivable	3,270	1,767
Prepaid insurance	491	4,910
Deferred charges, net	200,251	221,789
Note Receivable (Note 11)	<u>234,879</u>	<u>253,247</u>
Total other assets	<u>\$ 1,811,976</u>	<u>\$ 2,348,766</u>
Total assets	<u>\$ 5,999,439</u>	<u>\$ 6,648,808</u>

The accompanying notes are an integral part of these condensed financial statements.



DIVALL INSURED INCOME PROPERTIES 2 LIMITED PARTNERSHIP

CONDENSED BALANCE SHEETS

September 30, 2012 and December 31, 2011

LIABILITIES AND PARTNERS' CAPITAL

	September 30, 2012 (Unaudited)	December 31, 2011 (Audited)
LIABILITIES:		
Accounts payable and accrued expenses	\$ 34,868	\$ 14,586
Property tax payable	29,208	28,134
Due to General Partner (Note 6)	1,102	1,757
Unearned rental income	5,000	5,000
Security deposits	70,440	70,440
Total liabilities	<u>\$ 140,618</u>	<u>\$ 119,917</u>
CONTINGENT LIABILITIES: (Note 8 and 9)		
PARTNERS' CAPITAL: (Notes 1, 4 and 10)		
General Partner		
Cumulative net income	\$ 318,985	\$ 315,120
Cumulative cash distributions	(133,498)	(131,952)
	<u>\$ 185,487</u>	<u>\$ 183,168</u>
Limited Partners (46,280.3 interests outstanding) At September 30, 2012 and December 31, 2011		
Capital contributions, net of offering costs	\$ 39,358,468	\$ 39,358,468
Cumulative net income	\$ 37,945,363	37,562,752
Cumulative cash distributions	(70,790,268)	(69,735,268)
Reallocation of former general partners' deficit capital	(840,229)	(840,229)
	<u>\$ 5,673,334</u>	<u>\$ 6,345,723</u>
Total partners' capital	<u>\$ 5,858,821</u>	<u>\$ 6,528,891</u>
Total liabilities and partners' capital	<u>\$ 5,999,439</u>	<u>\$ 6,648,808</u>

The accompanying notes are an integral part of these condensed financial statements.



DIVALL INSURED INCOME PROPERTIES 2 LIMITED PARTNERSHIP

CONDENSED STATEMENTS OF INCOME (LOSS)

For the Three and Nine Month Periods Ended September 30, 2012 and 2011

	Three Months ended September 30,		Nine Months ended September 30,	
	2012 (Unaudited)	2011 (Unaudited)	2012 (Unaudited)	2011 (Unaudited)
OPERATING REVENUES:				
Rental income (Note 5)	\$449,225	\$ 427,874	\$985,775	\$ 962,752
TOTAL OPERATING REVENUES	449,225	427,874	985,775	962,752
OPERATING EXPENSES				
Partnership management fees (Note 6)	63,420	61,466	188,924	183,507
Restoration fees (Note 6)	0	10	40	259
Insurance	1,473	1,641	4,419	4,922
General and administrative	11,709	14,552	66,207	54,216
Advisory Board fees and expenses	2,625	2,625	7,875	7,875
Professional services	45,356	35,454	182,654	177,454
Other property expenses	820	820	820	820
Depreciation	37,527	37,527	112,579	112,579
Amortization	7,137	7,262	21,538	21,759
TOTAL OPERATING EXPENSES	170,067	161,357	585,056	563,391
OTHER INCOME				
Interest income	477	557	1,243	1,894
Note receivable interest income (Note 11)	4,338	4,767	13,336	14,612
Recovery of amounts previously written off (Note 2)	0	250	1,000	6,464
Other income	1,702	80	3,242	220
TOTAL OTHER INCOME	6,517	5,654	18,821	23,190
INCOME FROM CONTINUING OPERATIONS	285,675	272,171	419,540	422,551
LOSS FROM DISCONTINUED OPERATIONS (Notes 1 and 3)	(10,144)	(110,530)	(33,064)	(623,179)
NET INCOME (LOSS)	\$275,531	\$ 161,641	\$386,476	\$(200,628)
NET INCOME (LOSS)- GENERAL PARTNER	\$ 2,755	\$ 1,616	\$ 3,865	\$ (2,006)
NET INCOME (LOSS)- LIMITED PARTNERS	272,776	160,025	382,611	(198,622)
	<u>\$275,531</u>	<u>\$ 161,641</u>	<u>\$386,476</u>	<u>\$(200,628)</u>
PER LIMITED PARTNERSHIP INTEREST, Based on 46,280.3 interests outstanding:				
INCOME FROM CONTINUING OPERATIONS	\$ 6.11	\$ 5.82	\$ 8.97	\$ 9.04
LOSS FROM DISCONTINUED OPERATIONS	(0.22)	(2.36)	(0.71)	(13.33)
NET INCOME (LOSS) PER LIMITED PARTNERSHIP INTEREST	<u>\$ 5.89</u>	<u>\$ 3.46</u>	<u>\$ 8.26</u>	<u>\$ (4.29)</u>

The accompanying notes are an integral part of these condensed financial statements.

**DIVALL INSURED INCOME PROPERTIES 2 LIMITED PARTNERSHIP****CONDENSED STATEMENTS OF CASH FLOWS****For the Nine Month Periods Ended September 30, 2012 and 2011**

	Nine Months ended September 30,	
	2012 (Unaudited)	2011 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 386,476	\$(200,628)
Adjustments to reconcile net income (loss) to net cash from operating activities -		
Depreciation and amortization	134,117	159,078
Recovery of amounts previously written off	(1,000)	(6,464)
Interest paid (applied) to Indemnification Trust account	178	(485)
Property impairment write-downs	0	644,823
Decrease in rents and other receivables	211,255	208,125
(Increase) Decrease in property tax cash escrow	(1,074)	7,304
Increase in repair fund cash escrow	0	(6,400)
Decrease in prepaid insurance	3,721	2,298
(Increase) Decrease in deferred rent receivable	(1,503)	8,617
Increase in accounts payable and accrued expenses	19,399	5,012
Increase (Decrease) in property tax payable	4,859	(14,740)
Increase in repair fund payable	0	6,400
Decrease in due to General Partner	(655)	(307)
Decrease in security deposits	(0)	(18,000)
Net cash from operating activities	<u>755,773</u>	<u>794,633</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payment of leasing commission	0	(5,346)
Note receivable, principal payment received	18,368	17,087
Recoveries from former General Partner affiliates	1,000	6,464
Net cash from investing activities	<u>19,368</u>	<u>18,205</u>
Cash distributions to Limited Partners	(1,055,000)	(800,000)
Cash distributions to General Partner	(1,546)	(1,777)
Net cash used in financing activities	<u>(1,056,546)</u>	<u>(801,777)</u>
NET INCREASE (DECREASE) IN CASH	(281,405)	11,061
CASH AT BEGINNING OF YEAR	771,250	427,973
CASH AT END OF PERIOD	<u>\$ 489,845</u>	<u>\$ 439,034</u>

The accompanying notes are an integral part of these financial statements.



DIVALL INSURED INCOME PROPERTIES 2 LIMITED PARTNERSHIP

NOTES TO CONDENSED FINANCIAL STATEMENTS

These unaudited interim condensed financial statements should be read in conjunction with DiVall Insured Income Properties 2 Limited Partnership's (the "Partnership") 2011 annual audited financial statements within its Form 10-K filed with the Securities and Exchange Commission (the "SEC") on April 16, 2012.

These unaudited condensed financial statements and notes have been prepared on the same basis as the annual audited financial statements and include all normal and recurring adjustments, which are in the opinion of management, necessary to present a fair statement of the Partnership's financial position, results of operations and of cash flows as of and for the interim periods presented. The results of operations for the nine month period ended September 30, 2012 are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2012, for any other interim period, or for any other future year.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Limited Partnership was formed on November 20, 1987, pursuant to the Uniform Limited Partnership Act of the State of Wisconsin. The initial capital, contributed during 1987, consisted of \$300, representing aggregate capital contributions of \$200 by the former general partners and \$100 by the initial limited partner.

The Partnership is currently engaged in the business of owning and operating its investment portfolio of commercial real estate properties (the "Properties"). The Properties are leased (with the exception of the vacant Phoenix, AZ property- See Note 3 to the condensed financial statements) on a triple net basis primarily to, and operated by, franchisors or franchisees of national, regional, and local retail chains under primarily long-term leases. The lessees are fast food, family style, and casual/theme restaurants. As of September 30, 2012, the Partnership owned thirteen Properties, which are located in a total of six states.

The Partnership will be dissolved on November 30, 2020 (extended ten years per the results of the 2009 Consent, as defined below), or earlier upon the prior occurrence of any of the following events: (a) the disposition of all properties of the Partnership; (b) the written determination by The Provo Group, Inc., the general partner of the Partnership (the "General Partner", or "TPG", or "Management"), that the Partnership's assets may constitute "plan assets" for purposes of ERISA; (c) the agreement of Limited Partners owning a majority of the outstanding interests to dissolve the Partnership; or (d) the dissolution, bankruptcy, death, withdrawal, or incapacity of the last remaining General Partner, unless an additional General Partner is elected previously by a majority of the Limited Partners. During the second quarters of 2001, 2003, 2005 and 2007, consent solicitations were circulated (the "2001, 2003, 2005 and 2007 Consents, respectively"), which if approved would have authorized the sale of all of the Partnership's Properties and the dissolution of the Partnership. A majority of the Limited Partners did not vote in favor of any of the Consents. Therefore, the Partnership had continued to operate as a going concern. On July 31, 2009, the Partnership mailed a consent solicitation (the "2009 Consent") to Limited Partners to determine whether the Limited Partners wished to extend the term of the Partnership for ten years to November 30, 2020 (the "Extension Proposition"), or wished the Partnership to sell its assets, liquidate, and dissolve by November 30, 2010. A majority of the Partnership Interests voted "FOR" the Extension Proposition and, therefore, the Partnership continued to operate as a going concern. During the second



quarter of 2011, Consent solicitations were circulated (“2011 Consent”), which if approved would have authorized the sale of all of the Partnership’s Properties and the dissolution of the Partnership. A majority of the Limited Partners did not vote in favor of the 2011 Consent, and the General Partner declared the 2011 Consent solicitation process concluded on June 30, 2011. Therefore, the Partnership continues to operate as a going concern.

Significant Accounting Policies

Rental revenue from the Properties is recognized on the straight-line basis over the term of the respective lease. Percentage rents are only accrued when the tenant has reached the sales breakpoint stipulated in the lease.

Rents and other receivables are comprised of billed but uncollected amounts due for monthly rents and other charges, and amounts due for scheduled rent increases for which rentals have been earned and will be collected in the future under the terms of the leases. Receivables are recorded at Management’s estimate of the amounts that will be collected.

Based on an analysis of specific accounts and historical experience, as of September 30, 2012, and December 31, 2011, there were no recorded values for allowance for doubtful accounts.

The Partnership considers its operations to be in only one segment, the operation of a portfolio of commercial real estate leased on a triple net basis, and therefore no segment disclosure is made.

Depreciation of the Properties are provided on a straight-line basis over the estimated useful lives of the buildings and improvements.

Deferred charges represent leasing commissions paid when the Properties are leased and upon the negotiated extension of a lease. Leasing commissions are capitalized and amortized over the term of the lease. As of September 30, 2012 and December 31, 2011, accumulated amortization amounted to \$93,966 and \$72,428, respectively.

Property taxes, general maintenance, insurance and ground rent on the Partnership's Properties are the responsibility of the tenant. However, when a tenant fails to make the required tax payments or when a property becomes vacant (such as the vacant Phoenix, AZ property which formerly operated as China Super Buffet restaurant (“China Buffet”) or the formerly owned vacant Park Forest, IL (“Park Forest”) property) the Partnership makes the appropriate property tax payments to avoid possible foreclosure of the property. In a property vacancy the Partnership pays for the insurance, maintenance and any utilities related to the vacant property.

Such taxes, insurance and ground rent are expensed in the period in which the liability is incurred. The Partnership leases property to one restaurant, which is located on a parcel of land where the Partnership holds a long-term ground lease, as lessee, which is set to expire in 2018. The Partnership has the option to extend the lease for two additional ten year periods. The Partnership owns all improvements constructed on the land (including the building and improvements) until the termination of the ground lease, at which time all constructed improvements will become the land owner’s property. The tenant, a Kentucky Fried Chicken restaurant franchisee (“KFC”), is responsible for the \$3,400 per month ground lease payment per the terms of its lease with the Partnership.

The Partnership generally maintains cash in federally insured accounts in a bank that is participating in the FDIC’s Transaction Account Guarantee Program (“TAGP”). Under TAGP, through December 31,



2010, all non-interest bearing transaction accounts were fully guaranteed by the FDIC for the entire amount in the account. Pursuant to Section 343 of the Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), all funds in a non-interest bearing transaction account are insured in full by the FDIC from December 31, 2010 through December 31, 2012. This temporary unlimited coverage is in addition to and separate from, the coverage of at least \$250,000 available to depositors under the FDIC’s general deposit insurance rules. Cash maintained in these accounts may exceed federally insured limits after the expiration of the period established by the Dodd-Frank Act. The Partnership has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk.

Financial instruments that potentially subject the Partnership to significant concentrations of credit risk consist primarily of cash investments and leases. Additionally, as of September 30, 2012, nine of the Partnership’s thirteen Properties are leased to three significant tenants, Wendgusta, LLC (“Wendgusta”), Wendcharles I, LLC (“Wendcharles I”) and Wendcharles II, LLC (“Wendcharles II”), all three of whom are Wendy’s restaurant franchisees. The property lease(s) for the three tenants comprised approximately 53%, 14% and 7%, respectively, of the total operating base rents reflected as of September 30, 2012.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities (and disclosure of contingent assets and liabilities) at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Assets disposed of or deemed to be classified as held for sale require the reclassification of current and previous years’ operations to discontinued operations in accordance with GAAP applicable to “Accounting for the Impairment or Disposal of Long Lived Assets”. As such, prior year operating results for those properties considered as held for sale or properties no longer considered for sale have been reclassified to conform to the current year presentation without affecting total income. When properties are considered held for sale, depreciation of the properties is discontinued, and the properties are valued at the lower of the depreciated cost or fair value, less costs to dispose. If circumstances arise that were previously considered unlikely, and, as a result, the property previously classified as held for sale is no longer to be sold, the property is reclassified as held and used. Such property is measured at the lower of its carrying amount (adjusted for any depreciation and amortization expense that would have been recognized had the property been continuously classified as held and used) or fair value at the date of the subsequent decision not to sell.

Assets are classified as held for sale, generally, when all criteria within GAAP applicable to “Accounting for the Impairment or Disposal of Long Lived Assets” have been met.

The Partnership periodically reviews its long-lived assets, primarily real estate, for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The Partnership’s review involves comparing current and future operating performance of the assets, the most significant of which is undiscounted operating cash flows, to the carrying value of the assets. Based on this analysis, a provision for possible loss is recognized, if any. There were no adjustments to carrying values for the three and nine month periods ended September 30, 2012. The carrying amount of the vacant Phoenix, AZ property was reduced by \$540,118 during the second quarter of 2011.

The Financial Accounting Standards Board (“FASB”) guidance on “Fair Value Measurements and Disclosure”, defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measures required under other accounting pronouncements, but does not change existing



guidance as to whether or not an instrument is carried at fair value. The adoption of the provisions of this FASB issuance, with respect to nonrecurring fair value measurements of nonfinancial assets and liabilities, including (but not limited to) the valuation of reporting units for the purpose of assessing goodwill impairment and the valuation of property and equipment when assessing long-lived asset impairment, did not have a material impact on how the Partnership estimated its fair value measurements but did result in increased disclosures about fair value measurements in the Partnership's financial statements as of and for the three and nine month periods ended September 30, 2012 and the year ended December 31, 2011. See Note 12 for further disclosure.

GAAP applicable to Disclosure About Fair Value of Financial Instruments, requires entities to disclose the fair value of all financial assets and liabilities for which it is practicable to estimate. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The General Partner believes that the carrying value of the Partnership's assets (exclusive of the Properties) and liabilities approximate fair value due to the relatively short maturity of these instruments.

No provision for federal income taxes has been made, as any liability for such taxes would be that of the individual partners rather than of the Partnership.

The Partnership is not subject to federal income tax because its income and losses are includable in the tax returns of its partners, but may be subject to certain state taxes. FASB has provided guidance for how uncertain tax positions should be recognized, measured, disclosed and presented in the financial statements. This requires the evaluation of tax positions taken or expected to be taken in the course of preparing the entity's tax returns to determine whether the tax positions are more-likely-than-not of being sustained when challenged or when examined by the applicable taxing authority. Management has determined that there were no material uncertain income tax positions. Tax returns filed by the Partnership generally are subject to examination by U.S. and state taxing authorities for the years ended after December 31, 2008.

2. REGULATORY INVESTIGATION:

A preliminary investigation during 1992 by the Office of Commissioner of Securities for the State of Wisconsin and the Securities and Exchange Commission (the "Investigation") revealed that during at least the four years ended December 31, 1992, the former general partners of the Partnership, Gary J. DiVall ("DiVall") and Paul E. Magnuson ("Magnuson"), had transferred substantial cash assets of the Partnership and two affiliated publicly registered limited partnerships, DiVall Insured Income Fund Limited Partnership ("DiVall 1"), which was dissolved December of 1998, and DiVall Income Properties 3 Limited Partnership ("DiVall 3"), which was dissolved December of 2003, (collectively, the "three original partnerships") to various other entities previously sponsored by or otherwise affiliated with Gary J. DiVall and Paul E. Magnuson. The unauthorized transfers were in violation of the respective partnership agreements and resulted, in part, from material weaknesses in the internal control system of the three original partnerships.

Subsequent to discovery, and in response to the regulatory inquiries, TPG was appointed Permanent Manager (effective February 8, 1993) to assume responsibility for daily operations and assets of the three original partnerships as well as to develop and execute a plan of restoration for the three original partnerships. Effective May 26, 1993, the Limited Partners, by written consent of a majority of interests, elected TPG as General Partner. TPG terminated the former general partners by accepting their tendered resignations.



In 1993, the General Partner estimated an aggregate recovery of \$3 million for the three original partnerships. At that time, an allowance was established against amounts due from former general partners and their affiliates reflecting the estimated \$3 million receivable. This net receivable was allocated among the three original partnerships based on their pro rata share of the total misappropriation, and restoration costs and recoveries have been allocated based on the same percentage. Through September 30, 2012, approximately \$5,919,000 of recoveries have been received which exceeded the original estimate of \$3 million. As a result, from January 1, 1996 through September 30, 2012, the Partnership has recognized a total of approximately \$1,229,000 as recovery of amounts previously written off in the statements of income, which represents its share of the excess recovery. The General Partner continues to pursue recoveries of the misappropriated funds; however, no further significant recoveries are anticipated.

3. INVESTMENT PROPERTIES and PROPERTIES HELD FOR SALE:

The total cost of the Properties includes the original purchase price plus acquisition fees and other capitalized costs paid to an affiliate of the former general partners.

As of September 30, 2012, the Partnership owned property leased to thirteen fully constructed fast-food restaurants, which includes one vacant property in Phoenix, AZ that was reclassified to properties held for sale during the third quarter of 2011 (formerly operated as China Buffet). The twelve tenants are composed of the following: nine Wendy’s restaurants, an Applebee’s restaurant, a KFC restaurant, and a Daytona’s All Sports Café (“Daytona’s”). The thirteen properties are located in a total of six states.

Vacant Phoenix, AZ Property

The China Super Buffet restaurant ceased operations and vacated the Phoenix, AZ property in late June of 2011. Management regained possession of the property in July and lease obligation charges ceased as of June 30, 2011. The property was reclassified to properties held for sale during the third quarter of 2011 upon the execution of a Marketing Agreement on September 28, 2011 with an unaffiliated party. The vacant, Phoenix, AZ property did not sell at an October 18, 2011 auction; however, Management continued to market the property to potential buyers.

The carrying amount of the vacant Phoenix, AZ property was reduced by \$390,117 during the fiscal year 2011, to its estimated fair value of \$150,000. The net book value of the vacant, Phoenix, AZ property at September 30, 2012, classified as property held for sale in the condensed financial statements, was approximately \$149,000, which included \$123,000 related to land, \$27,000 related to building, net of accumulated depreciation, \$9,300 related to a security deposit, \$300 related to rents and other receivables, \$2,300 related to prepaid insurance, \$1,400 related to accounts payable and accrued expenses and \$11,400 related to property tax payable.

A contract (“Contract”) to sell the vacant Phoenix, AZ property to an unaffiliated party was executed on February 14, 2012 for the sale price of \$325,000. The potential buyer provided an earnest money deposit (“Deposit”) of \$25,000, which is held by an independent escrow company. Per the First Amendment to the Contract (“Amendment”) dated April 23, 2012, a non-refundable feasibility 30-day extension fee of \$2,500 was released from the \$25,000 earnest money deposit (“Deposit”) and paid to the Partnership. Per the Amendment, the potential Buyer replenished the \$2,500 to the Deposit prior to the expiration of the feasibility period (May 22, 2012).

Per the Contract, closing was anticipated to occur prior to and up to 210 days out from the Contract execution date. Closing costs were estimated to be approximately \$30,000.



The sales Contract has various due diligence and feasibility periods, as well as additional extensions and Management had no measure of certainty that the Contract would close or if a specific and unique re-use of the now vacant property would materialize. Therefore, the \$150,000 net book value for the vacant property at September 30, 2012, was its estimated fair value based on income capitalization calculations using historical capitalization rates (used by Management in relation to the property for annual Partnership Net Unit Valuations) applied to independently identified market rents, less known re-leasing costs such as estimated roof, parking lot and miscellaneous repairs, as well as leasing commissions.

Wendy's- 361 Highway 17 Bypass, Mt. Pleasant, SC Property

On November 30, 2010, the County of Charleston made a purchase offer ("Initial Offer") of approximately \$177,000 to the Partnership in connection with an eminent domain (condemnation) land acquisition of approximately 5,000 square feet of the approximately 44,000 square feet of the Wendy's- Mt. Pleasant, SC ("Wendy's- Mt. Pleasant") property. In October of 2011, the Partnership received Notice ("Condemnation Notice") that the County of Charleston filed condemnation proceedings on October 12, 2011, which in effect permits the County of Charleston to take possession of approximately 5,000 square feet of the Wendy's- Mt. Pleasant property and to begin construction of the planned road improvements. The Partnership had until November 11, 2011, to reject the Initial Offer for the purchase of the property and rejected the tender of payment. However, the Initial Offer remains valid during the period the Partnership disputes the County of Charleston's position that the \$177,000 reflects just compensation for the taking of the property. Management will continue to actively work with legal counsel and Wendcharles I to facilitate a settlement with the County of Charleston and the re-engineering of the County's plans to preserve the viability of the site for Wendy's-Mt. Pleasant's operational use. The net book value of the land to be purchased is \$33,991 and was reclassified to a property held for sale during the fourth quarter of 2010.

Discontinued Operations

During the three month periods ended September 30, 2012 and 2011, the Partnership recognized losses from discontinued operations of approximately \$10,000 and \$111,000, respectively. During the nine month period ended September 30, 2012 and 2011, the Partnership recognized losses from discontinued operations of approximately \$33,000 and \$623,000, respectively. The 2012 and 2011 losses from discontinued operations were attributable to the third quarter of 2011 reclassifications of the vacant Phoenix, AZ property and the formerly owned Denny's, Phoenix, AZ property (sold in November of 2011) to properties held for sale upon the execution of an Agency and Marketing Agreement with an unaffiliated party in September of 2011 to sell both of the properties.

The components of properties held for sale in the balance sheets as of September 30, 2012 and December 31, 2011 are outlined below:

	September 30, 2012 (Unaudited)	December 31, 2011
Balance Sheet:		
Land	\$ 157,360	\$ 157,360
Buildings, net	26,631	26,631
Rents and other receivables	278	686
Utilities security deposit	9,260	9,260
Prepaid insurance	2,291	1,593
Accounts payable and accrued expenses	(1,411)	(2,295)
Property tax payable	(11,356)	(7,571)
Properties held for sale	<u>\$ 183,053</u>	<u>\$ 185,664</u>



The components of discontinued operations included in the condensed statement of income (loss) for the three and nine month periods ended September 30, 2012 and 2011 are outlined below:

	Three Month Period ended September 30, 2012 (Unaudited)	Three Month Period ended September 30, 2011 (Unaudited)	Nine Month Period ended September 30, 2012 (Unaudited)	Nine Month Period ended September 30, 2011 (Unaudited)
Statements of Income (Loss):				
Revenues:				
Rental income	\$ 0	\$ 11,758	\$ 0	\$ 64,241
Other income	0	0	2,500	1,176
Total Revenues	0	11,758	2,500	65,417
Expenses:				
Insurance expense	698	152	2,078	152
Professional services	20	456	2,060	1,482
Property tax expense	3,785	2,887	11,356	6,199
Other property expenses	5,640	3,500	20,070	3,500
Marketing Expense	0	7,700	0	7,700
Property impairment write-downs	0	104,705	0	644,823
Depreciation	0	2,888	0	14,361
Amortization	0	0	0	10,379
Total Expenses	10,144	122,288	35,564	688,596
Net Loss from Discontinued Operations	\$ (10,144)	\$ (110,530)	\$ (33,064)	\$ (623,179)

4. PARTNERSHIP AGREEMENT:

The Amended Agreement of Limited Partnership (as amended, supplemented or modified, the "Partnership Agreement") extends the term of the Partnership to November 30, 2020, or until dissolution prior thereto pursuant to the consent of the majority of the outstanding Limited Partnership Interests.

On May 26, 1993, pursuant to the results of a solicitation of written consents from the Limited Partners, the Partnership Agreement was amended to replace the former general partners and amend various sections of the agreement. The former general partners were replaced by the General Partner. Under the terms of the amendment, net profits or losses from operations are allocated 99% to the Limited Partners and 1% to the current General Partner. Additionally, the total compensation paid to all persons for the sale of the investment properties is limited to commissions customarily charged by other brokers in arm's-length sales transactions involving comparable properties in the same geographic area, not to exceed six percent of the contract price for the sale of the property. The General Partner may receive up



to one-half of the competitive real estate commission, not to exceed three percent, provided that the General Partner provides a substantial amount of services, as defined by the General Partner, in the sales effort. It is further provided that a portion of the amount of such fees payable to the General Partner is subordinated to its success in recovering the funds misappropriated by the former general partners. See Note 6 for further information.

The Partnership Agreement provides that (i) the "Distribution Quarter" is defined as the calendar quarter, and (ii) the distribution provisions are subordinate to the General Partner's share of distributions from Net Cash Receipts and Net Proceeds to the extent necessary for the General Partner to pay its federal and state income taxes on Partnership income allocated to the General Partner. Because these amendments do not adversely affect the rights of the Limited Partners, pursuant to section 10.2 of the Partnership Agreement, the General Partner can modify these provisions without a vote of the Limited Partners.

5. LEASES:

Original lease terms for the majority of the Properties are generally five to twenty years from their inception. The leases generally provide for minimum rents and additional rents based upon percentages of gross sales in excess of specified breakpoints. The lessee is responsible for occupancy costs such as maintenance, insurance, real estate taxes, and utilities. Accordingly, these amounts are not reflected in the statements of income except in circumstances where, in Management's opinion, the Partnership will be required to pay such costs to preserve its assets (i.e., payment of past-due real estate taxes). Management has determined that the leases are properly classified as operating leases; therefore, rental income is reported when earned on a straight-line basis and the cost of the property, excluding the cost of the land, is depreciated over its estimated useful life.

As of September 30, 2012, the aggregate minimum operating lease payments (including the aggregate total of the first through third quarters of 2012 collected revenues of \$765,072) to be received under the current operating leases for the Partnership's properties are as follows:

Year ending December 31,	
2012	\$1,002,830
2013	892,500
2014	856,500
2015	826,500
2016	813,882
Thereafter	3,399,543
	<u>\$7,791,755</u>

Operating percentage rents included in operating rental income for the three month periods ended September 30, 2012 and 2011 were approximately \$194,000 and \$172,000, respectively. Operating percentage rents included in operating rental income for the nine month periods ended September 30, 2012 and 2011 were approximately \$219,000 and \$193,000, respectively. The percentage rents for 2012 and 2011 included percentage rent accruals for tenants who had reached their sales breakpoints. The 2011 percentage rents also included the amount related to the formerly owned Denny's, Phoenix, AZ property, which was sold in November of 2011. Total operating percentage rents included in rental income from operations in 2011 were approximately \$431,000. At September 30, 2012 and December 31, 2011, rents and other receivables included approximately \$219,000 and \$404,000, respectively, of unbilled percentage rents. As of September 30, 2012, all of the 2011 percentage rents had been billed and collected.



At September 30, 2012, six of the Properties are leased to Wendgusta, two of the Properties are leased to Wendcharles I, and one of the properties is leased to Wendcharles II. As of September 30, 2012, the three tenants' operating base rents have accounted for approximately 53%, 14%, and 7%, respectively, of the total 2012 operating base rents to-date.

6. TRANSACTIONS WITH GENERAL PARTNER AND ITS AFFILIATES:

Pursuant to the terms of the Permanent Manager Agreement ("PMA") executed in 1993 and renewed for an additional two year term as of January 1, 2011, the General Partner receives a Base Fee for managing the Partnership equal to four percent of gross receipts, subject to an initial annual minimum amount of \$159,000. The PMA also provides that the Partnership is responsible for reimbursement of the General Partner for office rent and related office overhead ("Expenses") up to an initial annual maximum of \$13,250. Both the Base Fee and Expense reimbursement are subject to annual Consumer Price Index based adjustments. Effective March 1, 2012, the minimum annual Base Fee and the maximum Expense reimbursement increased by 3.16% from the prior year, which represents the allowable annual Consumer Price Index adjustment per the PMA. Therefore, as of March 1, 2012, the minimum monthly Base Fee paid by the Partnership was raised to \$21,140 and the maximum monthly Expense reimbursement was increased to \$1,705.

For purposes of computing the four percent overall fee paid to the General Partner, gross receipts include amounts recovered in connection with the misappropriation of assets by the former general partners and their affiliates. To date, TPG has received fees from the Partnership totaling \$59,729 on the amounts recovered, which includes restoration fees received for 2012 and 2011 of \$40 and \$259, respectively. The fee received from the Partnership on the amounts recovered reduces the minimum monthly Base Fee by that same amount.

Amounts paid and/or accrued to the General Partner and its affiliates for the three and nine month periods ended September 30, 2012 and 2011 are as follows:

	Incurring for the Three Month Period ended September 30, 2012 (Unaudited)	Incurring for the Three Month Period ended September 30, 2011 (Unaudited)	Incurring for the Nine Month Period ended September 30, 2012 (Unaudited)	Incurring for the Nine Month Period ended September 30, 2011 (Unaudited)
General Partner				
Management fees	\$ 63,420	\$ 61,466	\$ 188,924	\$ 183,507
Restoration fees	0	10	40	259
Overhead allowance	5,115	4,959	15,241	14,823
Other outsourced administrative fees	0	0	6,200	0
Lease Commissions	0	0	0	5,346
Reimbursement for out-of-pocket expenses	1,369	1,293	5,237	4,312
Cash distribution	1,102	1,065	1,546	1,777
	<u>\$ 71,006</u>	<u>\$ 68,793</u>	<u>\$ 217,188</u>	<u>\$ 210,024</u>



At September 30, 2012 and December 31, 2011, \$1,102 and \$1,757, respectively, was payable to the General Partner.

As of September 30, 2012 and December 31, 2011, TPG Finance Corp. owned 200 limited partnership units of the Partnership. The President of the General Partner, Bruce A. Provo, is also the President of TPG Finance Corp., but he is not a shareholder of TPG Finance Corp.

As of September 30, 2012, the General Partner did not own any Limited Partnership Interests in the Partnership. The following chart identifies the security ownership of the Partnership's principal executive officer and principal financial officer as the sole named executive officer:

<u>Title of Class</u>	<u>Name of Beneficial Owner(1)</u>	<u>Amount and Nature of Beneficial Ownership</u>	<u>Percentage of Interests Outstanding(4)</u>
Limited Partnership Interest	Bruce A. Provo	200(2)(3)	0.43%

- (1) A beneficial owner of a security includes a person who, directly or indirectly, has or shares voting or investment power with respect to such security. Voting power is the power to vote or direct the voting of the security and investment power is the power to dispose or direct the disposition of the security.
- (2) Bruce A. Provo is deemed to have beneficial ownership of all of TPG Finance Corp.'s Limited Partnership interests in the Partnership due to his control as President of TPG Finance Corp.
- (3) Bruce A. Provo may be deemed to beneficially own with such voting and investment power the Interests listed above.
- (4) Based on 46,280.3 Limited Partnership Interests outstanding as of September 30, 2012.



7. TRANSACTIONS WITH OWNERS WITH GREATER THAN TEN PERCENT BENEFICIAL INTERESTS:

As of September 30, 2012, Advisory Board Member, Jesse Small, owned beneficially greater than ten percent of the Partnership's Units. Amounts paid to Mr. Small for his services as a member of the Advisory Board for the three and nine month periods ended September 30, 2012 and 2011 are as follows:

	Incurring for the Three Month Period ended September 30, 2012 (Unaudited)	Incurring for the Three Month Period ended September 30, 2011 (Unaudited)	Incurring for the Nine Month Period ended September 30, 2012 (Unaudited)	Incurring for the Nine Month Period ended September 30, 2011 (Unaudited)
Advisory Board Fees paid	\$ 875	\$ 875	\$ 2,625	\$ 2,625

At September 30, 2012 and December 31, 2011 there were no outstanding Advisory Board Fees accrued and payable to Jesse Small.

8. CONTINGENT LIABILITIES:

According to the Partnership Agreement, the General Partner, may receive a disposition fee not to exceed three percent of the contract price on the sale of the three original partnerships' properties (See Note 2 for further information as to the original partnerships). In addition, fifty percent of all such disposition fees earned by TPG were to be escrowed until the aggregate amount of recovery of the funds misappropriated from the partnerships by the former general partners was greater than \$4,500,000. Upon reaching such recovery level, full disposition fees would thereafter be payable and fifty percent of the previously escrowed amounts would be paid to TPG. At such time as the recovery exceeded \$6,000,000 in the aggregate, the remaining escrowed disposition fees were to be paid to TPG. If such levels of recovery were not achieved, TPG would contribute the amounts escrowed toward the recovery until the three original partnerships were made whole. In lieu of a disposition fee escrow, the fifty percent of all such disposition fees previously discussed were paid directly to a restoration account and then distributed among the three original partnerships; whereby the three original partnerships recorded the recoveries as income (Note 2). After the recovery level of \$4,500,000 was exceeded, fifty percent of the total disposition fee amount paid to the three original partnerships' recovery through the restoration account (in lieu of the disposition fee escrow) was refunded to TPG during March 1996. The remaining fifty percent amount allocated to the Partnership through the restoration account, and which was previously reflected as Partnership recovery income, may be owed to TPG if the \$6,000,000 recovery level is met. As of September 30, 2012, the Partnership may owe TPG \$16,296 if the \$6,000,000 recovery level is achieved. TPG does not expect any future payment, as it is uncertain that such a \$6,000,000 recovery level will be achieved.

9. PMA INDEMNIFICATION TRUST:

The PMA provides that TPG will be indemnified from any claims or expenses arising out of or relating to TPG serving in such capacity or as substitute general partner, so long as such claims do not arise from fraudulent or criminal misconduct by TPG. The PMA provides that the Partnership fund this indemnification obligation by establishing a reserve of up to \$250,000 of Partnership assets which would not be subject to the claims of the Partnership's creditors. An Indemnification Trust ("Trust") serving such purposes has been established at United Missouri Bank, N.A. The corpus of the Trust has been fully funded with Partnership assets. Funds are invested in U.S. Treasury securities. In addition, \$201,783 of earnings has been credited to the Trust as of September 30, 2012. The rights of TPG to the Trust shall be terminated upon the earliest to occur of the following events: (i) the written release by TPG of any and all



interest in the Trust; (ii) the expiration of the longest statute of limitations relating to a potential claim which might be brought against TPG and which is subject to indemnification; or (iii) a determination by a court of competent jurisdiction that TPG shall have no liability to any person with respect to a claim which is subject to indemnification under the PMA. At such time as the indemnity provisions expire or the full indemnity is paid, any funds remaining in the Trust will revert back to the general funds of the Partnership.

10. FORMER GENERAL PARTNERS' CAPITAL ACCOUNTS:

The capital account balance of the former general partners as of May 26, 1993, the date of their removal as general partners pursuant to the results of a solicitation of written consents from the Limited Partners, was a deficit of \$840,229. At December 31, 1993, the former general partners' deficit capital account balance in the amount of \$840,229 was reallocated to the Limited Partners.

11. NOTE RECEIVABLE:

A sales contract was executed on September 30, 2009 for the installment sale of the Panda Buffet property to the tenant for \$520,000 (sales amount was to be reduced to \$450,000 if closing occurred on or before November 15, 2009). The closing date on the sale of the property was November 12, 2009 at a sales price of \$450,000. The buyer paid \$150,000 at closing with the remaining balance of \$300,000 being delivered in the form of a promissory note ("Buyers Note") to the Partnership. A net gain on the sale of approximately \$29,000 was recognized in the Fourth Quarter of 2009. The Buyers Note reflects a term of three years, an interest rate of 7.25%, and principal and interest payments paid monthly and principal amortized over a period of ten years beginning December 1, 2009 with a balloon payment due November 1, 2012. Pursuant to the Buyers Note, there will be no penalty for early payment of principal. The Buyers Note also requires the buyer to escrow property taxes with the Partnership beginning January of 2010 at \$1,050 per month (lowered to \$900 beginning February 1, 2011 and \$700 beginning February 1, 2012). The property tax escrow cash balance held by the Partnership amounted to approximately \$9,000 at September 30, 2012, and is included in the property tax payable in the condensed balance sheets.

Per the Buyer's Note amortization schedule, the monthly payments are to total approximately \$3,522 per month. The amortized principal payments yet to be received under the Buyer's Note amounted to \$253,247 as of December 31, 2011. During the nine month period ended September 30, 2012, nine note payments were received by the Partnership and totaled \$18,368 in principal and \$13,331 in interest.

12. FAIR VALUE DISCLOSURES

The Partnership has determined the fair value based on hierarchy that gives the highest priority to quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy under the accounting principle are described below:

Level 1. Quoted prices in active markets for identical assets or liabilities.

Level 2. Quoted prices for similar investments in active markets, quoted prices for identical or similar investments in markets that are not active, and inputs other than quoted prices that are observable for the investment.



Level 3. Unobservable inputs for which there is little, if any, market activity for the investment. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation and the use of discounted cash flow models to value the investment.

The fair value hierarchy is based on the lowest level of input that is significant to the fair value measurements. The Partnership's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

The Partnership assesses the levels of the investments at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer in accordance with the Partnership's accounting policy regarding the recognition of transfers between levels of the fair value hierarchy. For the three and nine month periods ended September 30, 2012 and 2011, there were no such transfers.

Fair Value on a Nonrecurring Basis- Vacant, Phoenix, AZ Property

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table presents the assets and liabilities carried on the balance sheet by caption and by level within the fair valuation hierarchy (as described above) as of September 30, 2012 and December 31, 2011, for which a nonrecurring change in fair value was recorded during the fiscal year 2011 for the vacant Phoenix, AZ property.

	Carrying Value at September 30, 2012 and December 31, 2011			
	Total	Level 1	Level 2	Level 3
Vacant Phoenix, AZ Property	\$150,000	\$ —	\$ —	\$150,000
Total properties	\$150,000	\$ —	\$ —	\$150,000

Investment property measured at fair value on a nonrecurring basis relates to land, building and improvements that were held for investment or held for sale. The fair value of these assets was determined by Management and incorporates Management's knowledge of comparable properties, past experience and future expectations.

There were no fair value adjustments in the three and nine month periods ended September 30, 2012. During the three and nine month periods ended September 30, 2011, losses of \$644,823 were recorded and represented property impairment charges related to the vacant Phoenix, AZ property and formerly owned Denny's, Phoenix, AZ property (sold in November 2011).



13. SUBSEQUENT EVENTS

Vacant Property, Phoenix, AZ

The sale was closed on October 22, 2012, resulting in net cash proceeds of \$288,000, after third party commissions and other selling expenses, which is greater than the Property's estimated fair value of \$150,000 as of September 30, 2012.

Note Receivable, Panda Buffet

The Partnership amended the Note Receivable, dated November 12, 2009 with a balloon payment scheduled for November 12, 2012 in the amount of \$232,777, to \$200,000 after a principal payment of \$32,777 was received on October 19, 2012 under the following extended terms: The principal balance of \$200,000 will be amortized over five years at an interest rate of 7.25% per annum with a full balloon payment of \$133,396 due November 1, 2014. Per the Loan amortization schedule, the monthly payments are to total \$3,916 per month through October 2014.

Applebee's Property, Columbus, OH

The Partnership waived the current 90 day notice period and allowed the tenant to exercise the first option to renew its lease for an additional two year period, effective November 1, 2012. The base rent will increase to \$138,716 in the first year of the renewal period and to \$141,490 in the second year. There are four remaining options to renew the lease for an additional two years, with the base rent to increase by 2% for each year of each option. The percentage rent breakpoint does not change.



Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

CAUTIONARY STATEMENT

Item 2 of this Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements, other than statements of historical facts, included in this section and located elsewhere in this Quarterly Report on Form 10-Q regarding the prospects of our industry as well as the Partnership’s prospects, plans, financial position and business strategy may constitute forward-looking statements. These forward-looking statements are not historical facts but are the intent, belief or current expectations of Management based on its knowledge and understanding of the business and industry. Words such as “may,” “anticipates,” “expects,” “intends,” “plans,” “believes,” “seeks,” “estimates,” “would,” “could,” “should” and variations of these words and similar expressions are intended to identify forward-looking statements. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that these expectations will prove to have been correct. These statements are not guarantees of the future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control, are difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements.

Forward-looking statements that were true at the time made may ultimately prove to be incorrect or false. The Partnership cautions readers not to place undue reliance on forward-looking statements, which reflect Management’s view only as of the date of this Form 10-Q. All subsequent written and oral forward-looking statements attributable to the Partnership, or persons acting on the Partnership’s behalf, are expressly qualified in their entirety by this cautionary statement. Management undertakes no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results. Factors that could cause actual results to differ materially from any forward-looking statements made in this Form 10-Q include, without limitation, changes in general economic conditions, changes in real estate conditions, including without limitation, decreases in valuations of real properties, increases in property taxes and lack of buyers should the Partnership want to dispose of a property, lease-up risks, ability of tenants to fulfill their obligations to the Partnership under existing leases, sales levels of tenants whose leases include a percentage rent component, adverse changes to the restaurant market, entrance of competitors to the Partnership’s lessees in markets in which the Properties are located, inability to obtain new tenants upon the expiration of existing leases, the potential need to fund tenant improvements or other capital expenditures out of operating cash flows and our inability to realize value for Limited Partners upon disposition of the Partnership’s assets.

Critical Accounting Policies and Estimates

Management’s discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The preparation of these financial statements requires our management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On a regular basis, we evaluate these estimates, including investment impairment. These estimates are based on Management’s historical industry experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The Partnership believes that its most significant accounting policies deal with:

Depreciation methods and lives- Depreciation of the Properties is provided on a straight-line basis over the estimated useful life of the buildings and improvements. While the Partnership believes these are the appropriate lives and methods, use of different lives and methods could result in different impacts on net income. Additionally, the value of real estate is typically based on market conditions and property performance, so depreciated book value of real estate may not reflect the market value of real estate assets.

Revenue recognition- Rental revenue from investment properties is recognized on the straight-line basis over the life of the respective lease when collectability is assured. Percentage rents are accrued only when the tenant has reached the sales breakpoint stipulated in the lease.

Impairment-The Partnership periodically reviews its long-lived assets, primarily real estate, for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The Partnership’s review involves comparing current and future operating performance of the assets, the most significant of which is undiscounted operating cash flows, to the carrying value of the assets. Based on this analysis, if deemed necessary, a provision for possible loss is recognized.



Investment Properties

As of September 30, 2012, the Partnership owned property leased to thirteen fully constructed fast-food restaurants, which includes one vacant property in Phoenix, AZ that was reclassified to properties held for sale during the third quarter of 2011 (formerly operated as a China Super Buffet restaurant (“China Buffet”). In addition, one property is located on a parcel of land that is subject to a ground lease. The twelve tenants are composed of the following: nine Wendy's restaurants, an Applebee's restaurant, a KFC restaurant, and a Daytona's All Sports Café (“Daytona's”). The thirteen properties are located in a total of six states.

Property taxes, general maintenance, insurance and ground rent on the Partnership's Properties are the responsibility of the tenant. However, when a tenant fails to make the required tax payments or when a property becomes vacant (such as the Phoenix, AZ property, which formerly operated as China Buffet), the Partnership makes the appropriate property tax payments to avoid possible foreclosure of the property. In a property vacancy the Partnership pays for insurance and maintenance related to the vacant property.

Such taxes, insurance and ground rent are accrued in the period in which the liability is incurred. The Partnership leases property to one restaurant, which is located on a parcel of land where the Partnership holds a long-term ground lease, as lessee, which is set to expire in 2018. The Partnership has the option to extend the lease for two additional ten year periods. The Partnership owns all improvements constructed on the land (including the building and improvements) until the termination of the ground lease, at which time all constructed improvements will become the land owner's property. The tenant, KFC, is responsible for the \$3,400 per month ground lease payment per the terms of its lease with the Partnership.

There were no building improvements capitalized during the three month period ending September 30, 2012.

In accordance with Financial Accounting Standards Board (“FASB”) guidance for “Accounting for the Impairment or Disposal of Long-Lived Assets”, current and historical results from operations for disposed properties and assets classified as held for sale are reclassified separately as discontinued operations. The guidance also requires the adjustment to carrying value of properties due to impairment in an attempt to reflect appropriate market values.

The following summarizes significant developments as of September 30, 2012, by property, for Properties with such developments.

Vacant Phoenix, AZ Property

The China Buffet restaurant ceased operations and vacated the Phoenix, AZ property in late June of 2011. Management regained possession of the property in July and lease obligation charges ceased as of June 30, 2011.

The vacant property was reclassified to properties held for sale during the third quarter of 2011 upon the execution of the Agreement.

The carrying amount of the vacant Phoenix, AZ property was reduced by \$390,117 during the fiscal year 2011, to its estimated fair value of \$150,000. The net book value of the vacant, Phoenix, AZ property at September 30, 2012, classified as property held for sale in the condensed financial statements, was approximately \$149,000, which included \$123,000 related to land, \$27,000 related to building, net of accumulated depreciation, \$9,300 related to a utilities security deposit, \$300 related to rents and other receivables, \$2,300 related to prepaid insurance, \$1,400 related to accounts payable and accrued expenses and \$11,400 related to property tax payable.



A contract ("Contract") to sell the vacant Phoenix, AZ property to an unaffiliated party was executed on February 14, 2012 for the sale price of \$325,000. The potential buyer provided an earnest money deposit of \$25,000, which is held by an independent escrow company. Per the First Amendment to the Contract ("Amendment") dated April 23, 2012, a non-refundable feasibility 30-day extension fee of \$2,500 was released from the \$25,000 earnest money deposit ("Deposit") and paid to the Partnership. Per the Amendment, the potential Buyer replenished the \$2,500 to the Deposit prior to the expiration of the feasibility period (May 22, 2012).

Per the Contract, closing is anticipated to occur prior to and up to 210 days out from the Contract execution date. Closing costs are estimated to be approximately \$30,000, which includes commissions totaling approximately \$23,000 in the aggregate, which are anticipated to be paid to two unaffiliated brokers.

The sales Contract has various due diligence and feasibility periods, as well as additional extensions and Management has no measure of certainty that the Contract will close or if a specific and unique re-use of the now vacant property will materialize. Therefore, the \$150,000 net book value for the vacant property at September 30, 2012, is its estimated fair value based on income capitalization calculations using historical capitalization rates (used by Management in relation to the property for annual Partnership Net Unit Valuations) applied to independently identified market rents, less known re-leasing costs such as estimated roof, parking lot and miscellaneous repairs, as well as leasing commissions. The estimated fair value is not necessarily what the Partnership will settle (sales price net of closing costs), within an actual arms length sales transaction of the vacant property.

The vacated use (China Buffet) was already deemed the lowest use remaining to occupy the space originally occupied by a national chain. Based on Management's prior experience incurring significant carrying costs on vacant properties, the current strategy for distressed property is cost containment with an accelerated disposition motivation being the elimination of future carrying costs of uncertain duration and amounts. Management does recognize the exposures of continuing carrying costs of a vacant property to operations. Management does not believe it is in the best interest of the Limited Partners to hold the property and incur carrying costs, such as property tax, utilities, maintenance and repair, security, and other unknown liabilities for an uncertain and prolonged period. Management believes the greatest benefit to the overall value of the remaining portfolio would be the elimination of uncertainties surrounding a troubled asset by aggressive disposition. Management's primary objective is to limit the earnings impairment from continued carrying costs related to the vacant property.

Applebee's, Columbus, OH Property

An Amendment and Extension of Lease ("Amendment") was executed with the Applebee's restaurant occupying the property located in Columbus, OH on November 4, 2009. The Amendment, effective as of November 1, 2009, provides for an annual base rent of \$135,996 and is set to expire on October 31, 2012. The Amendment also provides Applebee's five options to renew the lease for an additional two years (base rent is to increase by 2% percent for each year of each option). The Amendment also increased the percentage rent sales breakpoint from \$1,500,000 to \$2,300,000 and decreased the additional percentage rent from 7% to 5%.



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Formerly Owned Panda Buffet Restaurant- Grand Forks, ND Property

A sales contract was executed on September 30, 2009 for the installment sale of the Panda Buffet restaurant property ("Panda Buffet") located in Grand Forks, ND to the owner tenant. The Partnership completed the sale of the Panda Buffet property on November 12, 2009 for \$450,000. The buyer paid \$150,000 at closing with the remaining balance of \$300,000 being delivered in the form of a Promissory note ("Buyers Note") to the Partnership. The Buyers Note reflects a term of three years, an interest rate of 7.25%, and principal and interest payments paid monthly. Principal is amortized over a period of ten years beginning December 1, 2009 with a balloon payment due on November 1, 2012. Pursuant to the Buyers Note, there will be no penalty for early payment of principal. The Buyers Note also requires the buyer to escrow property taxes with the Partnership beginning January of 2010 at \$1,050 per month (lowered to \$900 beginning February 1, 2011 and \$700 beginning January 1, 2012). As of September 30, 2012, the buyer was current on its 2012 monthly property tax escrow obligations and escrow payments. The property tax escrow cash balance held by the Partnership amounted to approximately \$9,000 at September 30, 2012, and is included in the property tax payable in the condensed balance sheets.

Per the Buyer's Note amortization schedule, the monthly payments are to total approximately \$3,522 per month through October of 2012 and the balloon payment in November of 2012 is to total \$232,777. The amortized principal payments yet to be received under the Buyer's Note amounted to \$253,247 as of December 31, 2011. During the nine month period ended September 30, 2012, nine note payments were received by the Partnership and totaled \$18,368 in principal and \$13,331 in interest.

Net Income

Net income for the three month periods ended September 30, 2012 and 2011 were approximately \$276,000 and \$162,000, respectively. Net income (loss) for the nine month periods ended September 30, 2012 and 2011 were approximately \$386,000 and (\$201,000), respectively. Net income per Limited Partnership Interest for the three month periods ended September 30, 2012 and 2011 were approximately \$5.89 and \$3.46 respectively. Net income (loss) per Limited Partnership Interest for the nine month periods ended September 30, 2012 and 2011 were approximately \$8.26 and \$(4.29), respectively.

The variance is primarily due to: (i) the write-down of the vacant Phoenix, AZ property to its estimated fair market value during the second quarter of 2011; (ii) lower rental income in 2012 due to the vacancy of the former China Buffet, Phoenix, AZ property as of June 30, 2011, and the November of 2011 sale of the Denny's, Phoenix, AZ property; (iii) lower depreciation expense in 2012 due to the reclassification of the vacant and former Denny's, Phoenix, AZ properties to properties held for sale during the third quarter of 2011; and (iv) higher property tax and other property expenses in 2012 (included in discontinued operations) in relation to the vacant Phoenix, AZ property.

Net income for the three and nine month periods ended September 30, 2012 and 2011 included the results from both operations and discontinued operations. Assets disposed of or deemed to be classified as held for sale require the reclassification of current and previous years' operations to discontinued operations in accordance with GAAP applicable to "Accounting for the Impairment or Disposal of Long Lived Assets". As such, prior year operating results for those properties considered as held for sale or properties no longer considered for sale have been reclassified to conform to the current year presentation without effecting total net income. When properties are considered held for sale, depreciation of the properties is discontinued, and the properties are valued at the lower of the depreciated cost or fair value, less costs to dispose.



Results of Operations

Income from continuing operations for the three month periods ended September 30, 2012 and 2011 was \$286,000 and \$272,000, respectively. Income from continuing operations for the nine month periods ended September 30, 2012 and 2011 was \$420,000 and \$423,000, respectively.

Three month period ended September 30, 2012 as compared to the three month period ended September 30, 2011:

Operating Rental Income: Rental income for the three month periods ended September 30, 2012 and 2011 was approximately \$449,000 and \$428,000, respectively. The rental income was comprised primarily of monthly lease obligations and included adjustments for straight-line rent.

General and Administrative Expense: General and administrative expenses for the three month periods ended September 30, 2012 and 2011 were approximately \$12,000 and \$15,000, respectively. General and administrative expenses were comprised of management expense, state/city registration and annual report filing fees, XBRL outsourced fees, office supplies, printing costs, outside storage expenses, copy/fax costs, postage and shipping expenses, long-distance telephone expenses, website fees, bank fees and state income tax expenses. The variance is due primarily to an increase in management fees and state estimated income tax expenditures for 2012.

Professional services: Professional services expenses for the three month periods ended September 30, 2012 and 2011 were approximately \$45,000 and \$35,000, respectively. Professional services expenses were primarily comprised of investor relations data processing, investor mailings processing, website design, legal, auditing and tax preparation fees, and SEC report conversion and processing fees. The variance in professional services expenses is due primarily to increased professional and data processing fees related to the new XBRL requirements.

Recovery of Amounts Previously Written-off: Recovery of amounts previously written-off for the three month periods ended September 30, 2012 and 2011 was approximately \$0 and \$250, respectively, and was comprised of small recoveries from former general partners.

Nine month period ended September 30, 2012 as compared to the nine month period ended September 30, 2011:

Operating Rental Income: Rental income for the nine month periods ended September 30, 2012 and 2011 was approximately \$986,000 and \$963,000, respectively. The rental income was comprised primarily of monthly lease obligations and included adjustments for straight-line rent.

Insurance Expenses: Insurance expenses for the nine month periods ended September 30, 2012 and 2011 were approximately \$4,000 and \$5,000 respectively. The 2012 and 2011 insurance expenses were related to a general liability policy.

General and Administrative Expenses: General and administrative expenses for the nine month periods ended September 30, 2012 and 2011 were approximately \$66,000 and \$54,000, respectively. General and administrative expenses were comprised of management expense, state/city registration and annual report filing fees, office supplies, printing costs, outside storage expenses, copy/fax costs, postage and shipping expenses, long-distance telephone expenses, website fees, bank fees and state income tax expenses.

Professional Services: Professional services expenses for the nine month periods ended September 30, 2012 and 2011 were approximately \$183,000 and \$177,000, respectively. Professional



services expenses were primarily comprised of investor relations data processing, investor mailings processing, website design, legal, auditing and tax preparation fees, and SEC report conversion and processing fees. The variance in professional services expenses is due primarily due to the timing of services performed related to audit and tax preparation (audit and tax preparation fees can only be accrued and expensed when incurred).

Recovery of Amounts Previously Written-off: Recovery of amounts previously written-off for the nine month periods ended September 30, 2012 and 2011 were approximately \$1,000 and \$6,000, respectively, and were comprised of small recoveries from former general partners. Management anticipates that such revenue type may continue to be generated until Partnership dissolution; however, no significant recoveries are anticipated.

Results of Discontinued Operations

In accordance with FASB guidance for “Accounting for the Impairment or Disposal of Long Lived Assets”, discontinued operations represent the operations of properties disposed of or classified as held for sale as well as any gain or loss recognized in their disposition. During the three month period ended September 30, 2012 and 2011, the Partnership recognized a loss from discontinued operations of approximately \$10,000 and \$111,000, respectively. During the nine month period ended September 30, 2012 and 2011, the Partnership recognized a loss from discontinued operations of approximately \$33,000 and \$623,000, respectively. The 2012 and 2011 loss from discontinued operations was attributable to the third quarter of 2011 reclassifications of the vacant Phoenix, AZ property and the formerly owned Denny’s, Phoenix, AZ property (sold in November of 2011) to properties held for sale upon the execution of the Agency and Marketing Agreement with an unaffiliated party in September of 2011 to sell both of the properties.

Management anticipates that discontinued operating expenditures in 2012 may approximate at least \$3,000 per month in relation to security and patrol, property tax and insurance, maintenance, and utilities for the vacant Phoenix, AZ property which is classified as property held for the sale in the balance sheets as of September 30, 2012. A summary of significant developments as of September 30, 2012, for the vacant Phoenix, AZ property can be found in Item 2, Properties.

Cash Flow Analysis

Net cash flows provided by operating activities for the nine month periods ended September 30, 2012 and 2011 were approximately \$756,000 and \$795,000, respectively. The variance in cash provided by operating activities from 2012 to 2011 is primarily due to: (i) the 2011 percentage rents collected in the first quarter of 2012 were higher than the 2010 percentage rents collected in the first quarter of 2011 due to higher tenant sales reported and recorded for 2011 as compared to 2010; (ii) the timing of payment of vendor invoices; (iii) lower rental income collections in 2012 due to the vacancy of the Phoenix, AZ property (formerly operated as the Chinese Buffet) as of June 30, 2011, and the sale of the former Denny’s, Phoenix, AZ property in November of 2011; and (iv) higher property expense disbursements in 2012 (included in discontinued operations) in relation to the vacant Phoenix, AZ property.

Cash flows provided from (used in) investing activities for the nine month periods ended September 30, 2012 and 2011 were approximately \$19,000 and \$18,000, respectively. The 2012 and 2011 amounts were comprised of the receipt of note receivable principal payments from the Buyer’s Note in relation to the 2009 sale of the Panda Buffet property, and small recoveries from former general partners. An additional \$241,113 in principal payments under the Buyer’s Note was scheduled to be received during 2012, however, the Partnership extended the Note Receivable for an additional two years (see Note 13 to condensed financial statements). Management anticipates that small recoveries from former general partners may continue to be generated until Partnership dissolution; however, no significant recoveries are anticipated.



For the nine month period ended September 30, 2012, cash flows used in financing activities was \$1,057,000 and consisted of aggregate Limited Partner distributions of \$1,055,000, which included approximately \$444,000 in net sale proceeds from the November of 2011 sale of the Denny's, Phoenix, AZ property and approximately \$18,000 in Buyer's Note principal payments received in relation to the 2009 sale of the Panda Buffet property, and General Partner distributions of \$1,546. For the nine month period ended September 30, 2011, cash used in financing activities was \$802,000 and consisted of aggregate Limited Partner distributions of \$800,000, which included net sale proceeds of approximately \$7,000 from the December of 2010 sale of the vacant Park Forest, IL property and approximately \$17,000 in Buyer's Note principal payments received in relation to the 2009 sale of the Panda Buffet property, and General Partner distributions of \$1,777. Distributions have been and will continue to be made in accordance with the Partnership Agreement.

Liquidity and Capital Resources

The Partnership's cash balance was \$490,000 at September 30, 2012. Cash of \$230,000, including approximately \$6,000 in Buyer's Note principal and interest payments received, is anticipated to be used to fund the anticipated third quarter of 2012 aggregate distribution to Limited Partners in November of 2012, and cash of approximately \$35,000 is anticipated to be used for the payment of quarter-end accrued liabilities, net of property tax cash escrow, which are included in the balance sheets. The remainder represents amounts deemed necessary to allow the Partnership to operate normally.

The Partnership's principal demands for funds are expected to be for the payment of operating expenses and distributions. Management anticipates that cash generated through the operations of the Partnership's Properties and sales of Properties will primarily provide the sources for future fund liquidity and Limited Partner distributions. During the process of leasing the Properties, the Partnership may experience competition from owners and managers of other properties. As a result, in connection with negotiating tenant leases, along with recognizing market conditions, Management may offer rental concessions, or other inducements, which may have an adverse impact on the results of the Partnership's operations. The Partnership is also in competition with sellers of similar properties to locate suitable purchasers for its Properties. The two primary liquidity risks in the absence of mortgage debt are the Partnership's inability to collect rent receivables and near or chronic property vacancies. The amount of cash to be distributed to our Limited Partners is determined by the General Partner and is dependent on a number of factors, including funds available for payment of distributions, capital expenditures, and taxable income recognition matching, which is primarily attributable to percentage rents and property sales.

As of September 30, 2012, the current twelve operating Properties were leased 100 percent. In addition, the Partnership collected 100% of its base rent from current operating tenants for the period ended September 30, 2012 and the fiscal year ended December 31, 2011, which we believe is a good indication of overall tenant quality and stability. Only the Applebee's, Columbus, OH lease is due to expire within 2012. The vacant Phoenix, AZ property (China Buffet ceased operations and vacated the Phoenix, AZ property in late June of 2011) rent charges ceased as of June 30, 2011. The property was reclassified to properties held for sale during the third quarter of 2011. See Item 2, Investment Properties for further information regarding properties with significant developments.

Nine of the Partnership's thirteen properties operate as Wendy's fast food restaurants and are franchises of the international Wendy's Company. Operating base rents from the nine Wendy's leases comprised



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approximately 75% of the total 2012 operating base rents to-date. As of September 30, 2012 there was approximately \$219,000 in additional 2012 percentage rents recognized in operating rental income in relation to the Wendy's properties, all of which were unbilled as of September 30, 2012. At December 31, 2011, additional 2011 percentage rents totaled approximately \$419,000, of which \$417,000 were unbilled and accrued in relation to the Wendy's properties. Therefore, during the fiscal year 2011, the Partnership generated approximately 81% of its total operating revenues from the nine properties. Additionally, as of September 30, 2012, the nine Properties exceeded 69% of the Partnership's total properties, both by asset value and number. Eight of the nine Wendy's leases are set to expire in November of 2021, with the remaining lease set to expire in November of 2016.

Since more than 69% of the Partnership's Properties, both by historical asset value and number, are leased to Wendy's franchises, the financial status of the three tenants may be considered relevant to investors. At the request of the Partnership, Wendgusta, Wendcharles I and Wendcharles II provided the Partnership with a copy of their reviewed financial statements for the fiscal years ended December 25, 2011 and December 26, 2010. Those reviewed financial statements prepared by Wendgusta's, Wendcharles I's and Wendcharles II's accountants are attached as Exhibit 99.0, 99.1 and 99.2, respectively, to the Partnership's December 31, 2011 Annual Report on Form 10-K, filed with the SEC on April 16, 2012. The Partnership has no rights to audit or review Wendgusta's or Wendcharles I's or Wendcharles II's financial statements and the Partnership's independent registered public accounting firm has not audited or reviewed the financial statements received from Wendgusta, Wendcharles I or Wendcharles II.

Disposition Policies

Management intends to hold the Partnership Properties until such time as a sale or other disposition appears to be advantageous to achieve the Partnership's investment objectives or until it appears that such objectives will either currently not be met or not be met in the future. In deciding whether to sell properties, Management considers factors such as potential capital appreciation or depreciation, cash flow and federal income tax considerations, including possible adverse federal income tax consequences to the Limited Partners. The General Partner may exercise its discretion as to whether and when to sell a property, and there is no obligation to sell properties at any particular time, except upon Partnership termination on November 30, 2020 or if Limited Partners holding a majority of the units vote to liquidate and dissolve the Partnership in response to a formal consent solicitation to liquidate the Partnership.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

As a smaller reporting company, the Partnership is not required to provide the information required by Item 305 of Regulation S-K.



Item 4. Controls and Procedures

Controls and Procedures

As of September 30, 2012, the Partnership's Management, and the Partnership's principal executive officer and principal financial officer have concluded that the Partnership's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15 (e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report were effective based on the evaluation of these controls and procedures as required by paragraph (b) of Rule 13a-15 or Rule 15d-15 under the Securities Exchange Act of 1934, as amended.

Changes in Internal Control over Financial Reporting

There has been no change in the Partnership's internal control over financial reporting (as such term is defined in Rules 13a - 15 (f) and 15d - 15(f) under the Exchange Act) that occurred during the fiscal quarter ending September 30, 2012 that has materially affected, or is reasonably likely to materially affect, the Partnership's internal control over financial reporting.



PART II - OTHER INFORMATION

Item 1. Legal Proceedings

There are no material pending legal proceedings, other than ordinary routine litigation incidental to the Partnership's business to which the Partnership is a party.

Item 1a. Risk Factors

Not Applicable.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

(a) Listing of Exhibits

- 4.1 Agreement of Limited Partnership dated as of November 20, 1987, amended as of November 25, 1987, and February 20, 1988, filed as Exhibit 3A to Amendment No. 1 to the Partnership's Registration Statement on Form S-11 as filed on February 22, 1988, and incorporated herein by reference.
- 4.2 Amendments to Amended Agreement of Limited Partnership dated as of June 21, 1988, included as part of Supplement dated August 15, 1988, filed under Rule 424(b)(3), Commission File 0-17686, and incorporated herein by reference.
- 4.3 Amendment to Amended Agreement of Limited Partnership dated as of February 8, 1993, filed as Exhibit 3.3 to the Partnership's 10-K for the year ended December 31, 1992, Commission File 0-17686, and incorporated herein by reference.
- 4.4 Amendment to Amended Agreement of Limited Partnership dated as of May 26, 1993, filed as Exhibit 3.4 to the Partnership's 10-K for the year ended December 31, 1993, Commission File 0-17686, and incorporated herein by reference.



- 4.5 Amendment to Amended Agreement of Limited Partnership dated as of June 30, 1994, filed as Exhibit 3.5 to the Partnership's 10-K for the year ended December 31, 1994, Commission File 0-17686, and incorporated herein by reference.
- 4.6 Amendment to Amended Agreement of Limited Partnership dated as of November 9, 2009, filed as Exhibit 4.1 to the Partnership Quarterly Report on Form 10-Q filed November 12, 2009, Commission File 0-17686, and incorporated herein by reference.
- 4.7 Certificate of Limited Partnership dated November 20, 1987, filed as Exhibit 4.7 to the Partnership Annual Report on Form 10-K filed April 16, 2012, Commission File 0-17686, and incorporated herein by reference.
- 31.1 302 Certifications
- 32.1 Certification of Periodic Financial Report Pursuant to 18 U.S.C. Section 1350.
- 99.1 Correspondence to the Limited Partners, scheduled to be mailed November 15, 2012, regarding the third quarter of 2012 distribution.
- 101 The following materials from the Partnership's Quarterly Report on Form 10-Q for the quarter ended, formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Balance Sheets at September 30, 2012 and December 31, 2011, (ii) Condensed Statements of Income for the three and nine month periods ended September 30, 2012 and 2011, (iii) Condensed Statement of Cash Flows for the nine month periods ended September 30, 2012 and 2011, and (v) Notes to the Condensed Financial Statements.¹

¹ In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 (the "Exchange Act"), or otherwise subject to the liability of that section, and shall not be part of any registration statement or other document filed under the Securities Act of 1933 or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.



SIGNATURES

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

DIVALL INSURED INCOME PROPERTIES 2 LIMITED PARTNERSHIP

By: The Provo Group, Inc., General Partner

By: /s/ Lynette L. DeRose
Lynette L. DeRose, Controller
(principal executive officer, principal financial officer and principal accounting officer of the Partnership)

Date: November 13, 2012



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Exhibit 31.1

DIVALL INSURED INCOME PROPERTIES 2
LIMITED PARTNERSHIPCERTIFICATIONS

I, Bruce A. Provo, certify that:

1. I have reviewed this quarterly report on Form 10-Q of DiVall Insured Income Properties 2 Limited Partnership;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and



5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 13, 2012

By: /s/ Bruce A. Provo
President, Chief Executive Officer and
Chief Financial Officer of the
Provo Group, Inc., the General Partner
of the Partnership
(principal executive officer and principal
financial officer of the registrant)



Exhibit 32.1

**DIVALL INSURED INCOME PROPERTIES 2
LIMITED PARTNERSHIP**

**Certification of Periodic Financial Report
Pursuant to 18 U.S.C. Section 1350**

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned principal executive officer and principal financial officer of Divall Insured Income Properties 2 Limited Partnership (the "Company") certifies that the Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2012 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the periodic report fairly presents, in all material respects, the financial condition and results of operations of the Company.

THE PROVO GROUP, INC., General Partner

Dated: November 13, 2012

By: /s/ Bruce A. Provo

President, Chief Executive Officer and
Chief Financial Officer of the
Provo Group, Inc., the General Partner
of the Partnership
(principal executive officer and principal
financial officer of the registrant)

This certification is made solely for the purpose of 18 U.S.C. Section 1350, subject to the knowledge standard contained therein, and not for any other purpose.



Exhibit 99.1

DiVall Insured Income Properties 2, L.P.

QUARTERLY NEWS

November 15, 2012

A Publication of The Provo Group, Inc.

THIRD QUARTER 2012

THIRD QUARTER OF 2012 DISTRIBUTION...

The Partnership is distributing \$230,000 for the Third Quarter of 2012, which is \$4.97 per unit. This is \$20,000 (\$.43 per unit) higher than planned due to higher than budgeted net income as a result of lower property expenses and higher than planned miscellaneous revenue sources. We only distribute “actual” adjusted net cash flow.

The 2012 Fourth Quarter distribution, which is anticipated to be mailed in February 2013, is now estimated to be \$520,000 (\$11.24 per Unit), to reflect the net proceeds of the successful sale of our Phoenix Property (see Property Held for Sale section). Prior Projections of \$440,000 (\$9.51 per Unit) included an estimated balloon payment on a mortgage note of \$232,000. However, we extended the repayment terms two years with a principal reduction in November of only \$32,000.

ADDITIONAL FINANCIAL INFORMATION CAN BE ACCESSED...

For further Quarterly 2012 unaudited financial information, see the Partnership’s interim financial reports filed on Form 10-Q. A copy of the First and Second Quarter 2012 10-Q and other public reports can be viewed and printed free of charge at the Partnership’s website at www.divallproperties.com or at the SEC’s website at www.sec.gov. The Partnership’s 2012 Third Quarter Report on Form 10-Q is anticipated to be filed with the SEC on or before November 13, 2012, at which time the report can also be accessed via the websites.

DISTRIBUTION HIGHLIGHTS

- **\$230,000 (\$4.97 per unit)** distributed for the **Third Quarter** of 2012, (see **Adjusted Condensed Statements of Cash Flows attached**)
- **\$645,000 (\$13.94 per unit)** in aggregate distributions for the First through Third Quarters of 2012.
- **Between \$1,600.69 and \$1,451.51** is the range of cumulative total distributions per unit from the *first* unit sold to the *last* unit sold before the offering closed (3/90), respectively. (Distributions are from both adjusted cash flow from operations and “net” cash activity from financing and investing activities).

FORWARD LOOKING STATEMENTS

Forward-looking statements that were true at the time made may ultimately prove to be incorrect or false. Investors are cautioned not to place undue reliance on forward-looking statements, which reflect the Partnership’s management’s view only as of August 1, 2012, the date this newsletter was sent for printing and mail assembly. The Partnership undertakes no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results. Factors that could cause actual results to differ materially from any forward-looking statements made in this newsletter include changes in general economic conditions, changes in real estate conditions and markets, inability of current tenants to meet financial obligations, inability to obtain new tenants upon the expiration of existing leases, and the potential need to fund tenant improvements or other capital expenditures out of operating cash flow.

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PROPERTY HELD FOR SALE

Vacant Phoenix, AZ property:

The carrying amount of the vacant Phoenix, AZ property was reduced by \$390,117 during the fiscal year 2011, to its estimated fair value of \$150,000.

A contract to sell the vacant Phoenix, Arizona property for \$325,000 was executed in February 2012. The sale was closed on October 22, 2012, resulting in net cash proceeds of \$288,000, after third party commissions and other selling expenses. This is greater than the Property's estimated fair value of \$150,000 as of September 30, 2012. We did not budget the closing of this transaction in 2012 and accordingly, the net proceeds were not projected in prior distribution estimates.

QUESTIONS & ANSWERS

• ***When can I expect to receive my next distribution mailing?***

Your distribution correspondence for the fourth quarter of 2012 is scheduled to be mailed on February 15, 2013.

• ***What was the estimated December 31, 2011 Net Unit Value ("NUV")?***

Management had estimated the December 31, 2011 Net Unit Value of each interest of the Partnership to approximate \$305, as noted in the letter mailed to investors on February 15, 2012. Please note that the estimated year-end NUV should be adjusted (reduced) for any subsequent property sale(s) or applicable impairment write-downs during the following year. As with any valuation methodology, the General Partner's methodology is based upon a number of estimates and assumptions that may not be accurate or complete. Different parties with different assumptions and estimates could derive a different estimated NUV. Accordingly, with respect to the estimated NUV, the Partnership can give no assurance that:

- an investor would be able to resell his or her units at this estimated NUV;
- an investor would ultimately realize distributions per unit equal to the Partnership's estimated NUV per unit upon the liquidation of all of the Partnership's assets and settlement of its liabilities;
- the Partnership's units would trade at the estimated NUV per unit in a secondary market; or
- the methodology used to estimate the Partnership's NUV per unit would be acceptable to FINRA or under ERISA for compliance with their respective reporting requirements.

• ***How can I obtain hard copies of Quarterly and Annual Reports or other SEC filings?***

Please visit the Investor Relations page at the Partnership website at www.divallproperties.com or the SEC website at www.sec.gov to print a copy of the report(s) or contact Investor Relations.

• ***How do I have a question answered in the next Newsletter?***

Please e-mail your specific question to Lynette DeRose at lderos@tpgsystems.com or visit our Investor Relations page at www.divallproperties.com.

• ***I've moved. How do I update my account registration?***

Please mail or fax to DiVall Investor Relations a signed letter stating your new address and telephone number. Updates cannot be accepted over the telephone or via voicemail messages.

• ***If I have questions or comments, how can I reach DiVall Investor Relations?***

You can reach DiVall Investor Relations at the address and/or number(s) listed below.

CONTACT INFORMATION

MAIL:	DiVall Investor Relations c/o Phoenix American Financial Services, Inc. 2401 Kerner Blvd. San Rafael, CA 94901	PHONE: 1-800-547-7686
		FAX: 1-415-485-4553



DIVALL INSURED INCOME PROPERTIES 2 L.P.
ADJUSTED CONDENSED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2012
ACTUAL VS BUDGET

(Unaudited)

	2012 ACTUAL	2012 BUDGET
Net Cash Flows Provided by Operating Activities	\$ 756,582*	\$ 511,623
Adjustments:		
Changes in working capital (a)	694	247,957
Net Cash flows advanced from past or current cash flows (reserved for future) (b)	(130,820)	(104,364)
Net Adjusted Cash Flows Provided by Operating Activities	\$ 626,456	\$ 655,216
Cash Flows provided by Investing Activities	\$ 18,545*	\$ 9,661
Total Adjusted Cash Flows Provided by Operating Activities and Cash Flows Provided by Investing Activities	\$ 645,000	\$ 664,877
	2012 ACTUAL	2012 BUDGET
3rd Quarter Cash Distribution	\$ 230,000*	\$ 210,000
3rd Quarter Cash Distribution per Limited Partner Unit	\$ 4.97	\$ 4.54
Date Mailed	11/15/2012	11/15/2011
2nd Quarter Cash Distribution	\$ 180,000*	\$ 210,000
2nd Quarter Cash Distribution per Limited Partner Unit	\$ 3.89	\$ 4.54
Date Mailed	8/15/2012	8/15/2011
1st Quarter Cash Distribution	\$ 235,000*	\$ 210,000
1st Quarter Cash Distribution per Limited Partner Unit	\$ 5.08	\$ 4.54
Date Mailed	5/15/2012	5/13/2011
Total Cash Distributions for 1st thru 3rd Quarters	\$ 645,000	\$ 630,000
Total Cash Distributions per Limited Partner unit	\$ 13.94	\$ 13.61
Number of outstanding Limited Partner units*	46,280.30	46,280.30

* As reported

- (a) Timing differences arising from the payment of certain liabilities in a period other than that in which the expense is recognized in determining net income may distort the actual cash flow that operations generate. Therefore, Management adjusts the Partnership's GAAP cash flow provided by operations to record such amounts in the period in which the liability was actually incurred and reserved for payment.
- (b) In order to provide for the normal operation of the Partnership, Management adjusts the Partnership's GAAP cash flow as deemed necessary when payment of certain liabilities cause timing differences that distort the actual cash flow that operations generate.

Non-GAAP Financial Disclosure

Adjusted cash flow provided by operating activities is a non-GAAP financial measure that represents cash flow provided by operating activities on a GAAP basis adjusted for certain timing differences and cash flow advances (deferrals) as described above. Management believes that adjusted cash flow from operating activities is a useful supplemental measure for assessing the cash flow generated from the Partnership's period and is used in evaluating quarterly cash distributions to limited partners. Adjusted cash flow provided by operating activities should not be considered as an alternative for cash flow provided by operating activities computed on a GAAP basis as a measure of our liquidity.

We believe that adjusted cash flow provided by operating activities is a useful supplemental measure for assessing the cash flow generated from our core operations as it gives investors important information about our liquidity that is not provided within cash flow provided by operating activities as defined by GAAP, and we use this measure when evaluating distributions to Limited Partners.