

VARIAN MEDICAL SYSTEMS INC

Form 11-K

March 26, 2003

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, DC 20549

FORM 11-K

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

(Mark One):

- ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the fiscal year September 27, 2002.

OR

- TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from _____ to _____.

Commission file number 1-7598

VARIAN MEDICAL SYSTEMS, INC.

RETIREMENT PLAN
(Full title of the plan)

Varian Medical Systems, Inc.

(Name of issuer of the securities held pursuant to the plan)

3100 Hansen Way
Palo Alto, California 94304-1129
(Address of principal executive offices)

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Report of Independent Accountants

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Schedule of Assets Held for Investment Attachment to 2001 Form 5000 Schedule H item 4(i)

SIGNATURE

EXHIBIT INDEX

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**VARIAN MEDICAL SYSTEMS INC.
RETIREMENT PLAN**

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September 30, 2002 and 2001**

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Report of Independent Accountants

To the Participants and Retirement Committee of Varian Medical Systems, Inc.
Retirement Plan - Pension Element:

In our opinion, the accompanying statements of net assets available for benefits and the related statements of changes in net assets available for benefits present fairly, in all material respects, the net assets available for benefits of Varian Medical Systems, Inc. Retirement Plan - Pension Element (the Pension Element) at September 30, 2002 and 2001, and the changes in net assets available for benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Pension Element's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

January 31, 2003

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**Varian Medical Systems, Inc. Retirement Plan - Pension Element
Statements of Net Assets Available For Benefits**

	September 30, 2002	2001
	(in thousands)	
Interest in the Varian Associates, Inc. Retirement and Profit Sharing Program Trust (Note 5)	\$ 188,075	\$ 224,796
	<u> </u>	<u> </u>
Net assets available for benefits	\$ 188,075	\$ 224,796
	<u> </u>	<u> </u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

Table of Contents**Varian Medical Systems, Inc. Retirement Plan - Pension Element
Statements of Changes In Net Assets Available For Benefits**

	For the Year Ended September 30,	
	2002	2001
	(in thousands)	
Additions to net assets attributed to:		
Contributions:		
Participant	\$ 323	\$ 270
Employer	5,392	4,643
	<u> </u>	<u> </u>
Total contributions	5,715	4,913
	<u> </u>	<u> </u>
Total additions	5,715	4,913
	<u> </u>	<u> </u>
Deductions from net assets attributed to:		
Interest in Varian Associates, Inc. Retirement and Profit		
Sharing Program Trust investment loss	16,112	56,115
Benefits paid to participants	26,232	24,247
Administrative expenses	92	100
	<u> </u>	<u> </u>
Total deductions	42,436	80,462
	<u> </u>	<u> </u>
Net decrease in net assets	(36,721)	(75,549)
Net assets available for benefits:		
Beginning of year	224,796	300,345
	<u> </u>	<u> </u>
End of year	\$ 188,075	\$ 224,796
	<u> </u>	<u> </u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

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**Varian Medical Systems, Inc. Retirement Plan - Pension Element
Notes to Financial Statements**

1. Description of the Plan

The following brief description of the Varian Medical Systems, Inc. Retirement Plan (the Plan) is provided for general information purposes only. Participants should refer to the Plan and the Summary Plan Description/Prospectus document for more detailed information.

The Plan was established to provide benefits to those employees of Varian Medical Systems, Inc., formerly Varian Associates, Inc. (the Company) who elect to participate. The Plan consists of two distinct defined contribution plan elements, the Varian Medical Systems, Inc. Retirement Plan - Pension Element (the Pension Element) and the Varian Medical Systems, Inc. Retirement Plan - Profit Sharing Element (the Profit Sharing Element). The Plan is intended to comply with the applicable requirements of the Internal Revenue Code and the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended. Contributions to the Pension Element can come from participant after-tax contributions, Company matching contributions, matching Employee Incentive Plan (EIP) bonus contributions and matching Management Incentive Plan (MIP) bonus contributions. Contributions to the Profit Sharing Element can come from participant before-tax contributions, EIP bonus contributions, MIP bonus contributions, retirement profit-sharing contributions and rollover contributions. Employees are eligible to join the Plan immediately after they are hired by the Company.

Fiscal year

The Plan's fiscal year ends on the Friday closest to September 30. For presentation purposes, the financial statements are shown as ending September 30 although the fiscal years ended on September 27, 2002 and September 28, 2001, respectively.

Administration

The Company is the designated administrator of the Plan. The Company has contracted with Fidelity Institutional Retirement Services Company (Fidelity) to maintain the Plan's individual participant accounts and with Fidelity Management Trust Company (Fidelity Trust) to act as the custodian and trustee. The Company currently pays certain administrative expenses on behalf of the Plan, except for loan fees paid by Plan participants who elect to receive a Plan loan. Brokerage commissions and other charges incurred in connection with investment transactions are paid from Plan assets. The Pension Element's investments, as well as the investments of the Profit Sharing Element, are maintained in the Varian Associates, Inc. Retirement and Profit Sharing Program Trust (Master Trust), a trust established pursuant to a trust agreement between the Company and Fidelity Trust.

Contributions and participants' accounts

Participants in the Plan may make a minimum contribution of 1% of their base pay (as defined) up to a maximum of 15% of their base pay, subject to statutory annual limitations. Employees of the Company may elect to have their EIP bonus paid out in cash or deposited directly to their Plan accounts in 10% increments, subject to statutory annual limitations. All participant contributions may be made on either a before-tax or after-tax basis and are subject to statutory annual limitations and Plan rules. New Plan participants must complete one year of service before making any after-tax contributions to the Plan.

Upon completion of one year of service with the Company, participants are entitled to receive Company contributions. The Company's matching contribution is 100% of participants' before or

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**Varian Medical Systems, Inc. Retirement Plan - Pension Element
Notes to Financial Statements (Continued)**

after tax deposits, up to a maximum of 6% of participants' eligible base pay. Contributions for Company EIP matching contributions are 6% of participants' EIP allocations. The Company may make a discretionary retirement profit-sharing contribution to the Profit Sharing Element for participants who have completed one year of service and were employed on the last day of the fiscal year or died during the fiscal year. Participants' portions of the Company's retirement profit-sharing contributions are based on the percentages of their eligible base salary to the total eligible base pay for all participants during the Profit Sharing Element year. No discretionary Company retirement profit-sharing contributions were made in fiscal year 2002 and 2001.

Each participant's account is credited with the participant's contributions and allocations of the Company's contributions and Plan earnings and charged with an allocation of certain administrative expenses. Allocations are based on participant earnings or account balances, as defined.

Participants are immediately fully vested in their contributions and Company contributions.

Contributions made to the Plan are allocated among twenty-two investment funds, including the Varian Medical Systems Stock Fund, offered by the Plan in 1% increments according to the participant's direction. Participants may transfer account balances and the investment of their future contributions among these funds.

Participant loans

Loans are available to participants who are either active employees or on a leave of absence. Participants are eligible to request a loan from the Plan ranging from \$1,000 to the lesser of 50% of the participant's Plan assets or \$50,000. Loan balances are also subject to certain other limitations as provided by the Plan. Loan balances are collateralized by the balance in the participant's account and bear interest at a fixed rate of prime plus 1% at the date requested. The interest rates on loans outstanding at September 30, 2002 and 2001 range from 5.75% to 10.5% and 7.75% to 10.5%, respectively. Principal and interest is paid ratably through payroll deductions, generally over five years. Upon employment termination, the entire loan balance becomes immediately due and payable.

Payment of benefits

Upon termination of service on account of death, disability or retirement, a participant or beneficiary may elect to receive either a lump sum amount equal to the value of their account or annual installments over a period of years.

Hardship distributions

Participants are allowed to withdraw funds from the Profit Sharing Element in case of hardship. Withdrawals may be made no more than once a month and must be at least \$500 (or such lesser amount as is available for withdrawal).

Withdrawals are subject to restrictions as to amount, frequency and intended use of the proceeds. The normal form of payment is cash.

Plan termination

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA.

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**Varian Medical Systems, Inc. Retirement Plan - Pension Element
Notes to Financial Statements (Continued)**

2. Summary of Significant Accounting Policies

Basis of accounting

The financial statements of the Pension Element are prepared utilizing the accrual basis of accounting.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the administrator and trustee to make estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements. Such estimates include those regarding fair value. Actual results may differ from those estimates.

Risks and uncertainties

The Plan provides participants with various investment options in mutual funds which are invested in a combination of stocks, bonds, fixed income securities and other investment securities. Investment securities are exposed to various risks, such as those associated with interest rates, market conditions and credit worthiness of the securities issuers. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in risks in the near term could materially affect participants' account balances and the amounts reported in the financial statements.

Investments

Investments of the Plan are held by Fidelity Trust and are invested in the investment options available in the Plan based solely upon instructions received from Plan participants.

Investments of the Master Trust held in money market and mutual funds are valued at fair value as determined by quoted market prices. Investments of the Master Trust held in the Interest Income Fund and the Varian Medical Systems Stock Fund are stated at net asset value, as determined by the investment manager, based on the fair value of the underlying securities. The carrying amounts of the investments approximate fair value. Purchases and sales of securities held in the Master Trust are recorded on a trade-date basis. Participant loans are valued at cost which approximate fair value. The Master Trust presents in its investment income (loss) the net appreciation (depreciation) in the fair value of its investments, which consists of the realized gains or losses and the unrealized appreciation (depreciation) on these investments.

Payment of benefits

Benefits are recorded when paid.

3. Income Taxes

The Pension Element obtained its current determination letter on December 4, 2001, in which the Internal Revenue Service stated that the Pension Element design is in compliance with the applicable requirements of the Internal Revenue Code. The Pension Element has been subsequently

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**Varian Medical Systems, Inc. Retirement Plan - Pension Element
Notes to Financial Statements (Continued)**

amended; however, the Company believes that the Pension Element is designed and is currently being operated in compliance with the applicable requirements of the Internal Revenue Code and that the Master Trust, which forms a part of the Plan, is exempt from tax. Therefore, no provision for income taxes has been included in the Pension Element's financial statements.

The December 4, 2001 letter supersedes the determination letter received in August 1996 in which the Internal Revenue Service stated the Pension Element design was in compliance with the applicable requirements of the Internal Revenue Code.

4. Reconciliation of Financial Statements to Form 5500

There were no reconciling items between the financial statements and the Form 5500 relating to net assets available for benefits as of September 30, 2002 and 2001.

The following is a reconciliation of benefits paid to participants per the financial statements to the Form 5500 (in thousands):

	Year Ended September 30,	
	2002	2001
Benefits paid to participants per the financial statements	\$ 26,232	\$ 24,247
Less: Amounts allocated to withdrawing participants at September 30, 2000		(323)
	<u> </u>	<u> </u>
Benefits paid to participants per the Form 5500	<u>\$ 26,232</u>	<u>\$ 23,924</u>

Amounts allocated to withdrawing participants are recorded on the Form 5500 for benefit claims that have been processed and approved for payment prior to September 30 but not yet paid as of that date.

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**Varian Medical Systems, Inc. Retirement Plan - Pension Element
Notes to Financial Statements (Continued)**

5. Investment in the Varian Associates, Inc. Retirement and Profit Sharing Program Trust

The Pension Element's investments are in the Master Trust which was established for the investment of assets of the Pension Element and the Profit Sharing Element. Each participating element has a specific interest in the Master Trust. Investment income and administrative expenses relating to the Master Trust are allocated to the individual elements based upon participant balances.

A summary of the net assets available for benefits of the Master Trust and significant Master Trust investments at September 30, 2002 and 2001 is as follows:

Table of Contents**Varian Medical Systems, Inc. Retirement Plan - Pension Element
Notes to Financial Statements (Continued)****STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
SEPTEMBER 30, 2002 AND 2001**

	(in thousands)					
	2002			2001		
	Pension Element	Profit Sharing Element	Total	Pension Element	Profit Sharing Element	Total
Assets						
Master Trust investments:						
Mutual funds	\$ 162,834	\$ 190,045	\$ 352,879	\$ 197,031	\$ 228,301	\$ 425,332
Money market funds	22,422	26,293	48,715	26,465	28,974	55,439
Stock fund	2,266	3,595	5,861	822	1,355	2,177
Participant loans	80	2,111	2,191	140	2,273	2,413
Total Master Trust investments	187,602	222,044	409,646	224,458	260,903	485,361
Receivables:						
Company contributions	495		495	363		363
Participant contributions	14	677	691	10	592	602
Total receivables	509	677	1,186	373	592	965
Total assets	188,111	222,721	410,832	224,831	261,495	486,326
Liabilities						
Accrued expenses	(36)	(42)	(78)	(35)	(40)	(75)
Total liabilities	(36)	(42)	(78)	(35)	(40)	(75)
Net assets available for benefits	\$ 188,075	\$ 222,679	\$ 410,754	\$ 224,796	\$ 261,455	\$ 486,251
Element s participating interest	46%	54%	100%	46%	54%	100%

Investment income (loss) for the Master Trust is as follows (in thousands):

Table of Contents**Varian Medical Systems, Inc. Retirement Plan - Pension Element
Notes to Financial Statements (Continued)**

	For the Year Ended September 30, 2002			For the Year Ended September 30, 2001		
	Pension Element	Profit Sharing Element	Total	Pension Element	Profit Sharing Element	Total
Net appreciation (depreciation) in fair value of investments:						
Mutual funds	\$(18,511)	\$(28,232)	\$(46,743)	\$(67,784)	\$(98,182)	\$(165,966)
Stock fund	400	627	1,027	147	182	329
	<u>(18,111)</u>	<u>(27,605)</u>	<u>(45,716)</u>	<u>(67,637)</u>	<u>(98,000)</u>	<u>(165,637)</u>
Interest	1,999	2,580	4,579	11,522	15,426	26,948
	<u>1,999</u>	<u>2,580</u>	<u>4,579</u>	<u>11,522</u>	<u>15,426</u>	<u>26,948</u>
Total	<u>\$(16,112)</u>	<u>\$(25,025)</u>	<u>\$(41,137)</u>	<u>\$(56,115)</u>	<u>\$(82,574)</u>	<u>\$(138,689)</u>

Master Trust investments in excess of 5% of net assets were as follows (in thousands):

	September 30,	
	2002	2001
Fidelity Growth Company Fund	\$ 62,467	\$ 92,632
Fidelity Growth and Income Portfolio	\$ 56,112	\$ 76,917
Fidelity Balanced Fund	\$ 30,993	\$ 36,548
Fidelity Retirement Money Market Portfolio	\$ 48,715	\$ 55,439
Spartan U.S. Equity Index Portfolio	\$ 49,020	\$ 70,407
Interest Income Fund	\$ 116,855	\$ 120,676

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**Varian Medical Systems, Inc. Retirement Plan - Pension Element
Notes to Financial Statements (Continued)**

6. Party-In-Interest and Related Party Transactions

As allowed by the Plan, participants may elect to invest up to 25% of their contributions in the Varian Medical Systems Stock Fund. Investments in the Company's common stock at September 30, 2002 and 2001 consisted of 125,802 shares and 61,623 shares, with fair market values of \$2,203,000 and \$809,000, respectively. The Varian Medical Systems Stock Fund invests primarily in the Company's common stock. The remainder of the Varian Medical Systems Stock Fund, approximately \$63,000 and \$13,000 at September 30, 2002 and 2001, respectively, is invested in the Fidelity Institutional Cash Portfolio Money Market to allow for timely handling of exchanges, withdrawals and distributions.

Certain Master Trust investments are shares of mutual funds managed by an affiliate of Fidelity, and therefore these transactions qualify as party-in-interest. Any purchases and sales of these funds are open market transactions at fair market value. Consequently, such transactions are permitted under the provisions of the Plan and are exempt from the prohibition of party-in-interest transactions under ERISA. Administrative fees paid by the Plan to Fidelity for the years ended September 30, 2002 and 2001 were \$92,000 and \$100,000, respectively.

7. Subsequent Event

In December 2002, the Plan was amended to adopt the necessary changes for the Economic Growth and Tax Relief and Reconciliation Act of 2001 (EGTRRA), to change the Plan year-end from September 30th to December 31st and to merge the Pension Element into the Profit Sharing Element. The Plan's amendments are effective January 1, 2003 with the exception of some of the changes necessary to be in compliance with EGTRRA, which were effective October 1, 2002. Although the Plan has been amended since receiving the determination letter, the Plan administrator and the Plan's tax counsel believe that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC.

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**Varian Medical Systems, Inc.
Retirement Plan -
Profit Sharing Element
Financial Statements
September 30, 2002 and 2001**

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Report of Independent Accountants

To the Participants and Retirement Committee of Varian Medical Systems, Inc.
Retirement Plan - Profit Sharing Element:

In our opinion, the accompanying statements of net assets available for benefits and the related statements of changes in net assets available for benefits present fairly, in all material respects, the net assets available for benefits of Varian Medical Systems, Inc. Retirement Plan - Profit Sharing Element (the Profit Sharing Element) at September 30, 2002 and 2001, and the changes in net assets available for benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Profit Sharing Element's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

January 31, 2003

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**Varian Medical Systems, Inc. Retirement Plan -Profit Sharing Element
Statements of Net Assets Available for Benefits**

	September 30, 2002	2001
	(in thousands)	
Interest in the Varian Associates, Inc. Retirement and Profit Sharing Program Trust (Note 5)	\$ 222,679	\$ 261,455
	<u> </u>	<u> </u>
Net assets available for benefits	\$ 222,679	\$ 261,455
	<u> </u>	<u> </u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

Table of Contents**Varian Medical Systems, Inc. Retirement Plan - Profit Sharing Element
Statements of Changes in Net Assets Available for Benefits**

	For the Year Ended September 30, 2002 2001 (in thousands)	
	<u>2002</u>	<u>2001</u>
Additions to net assets attributed to:		
Contributions:		
Participant	\$9,474	\$8,289
Employer	297	335
Total contributions	<u>9,771</u>	<u>8,624</u>
Total additions	<u>9,771</u>	<u>8,624</u>
Deductions from net assets attributed to:		
Louis C. Grassi Chair*		
Gary Hurand Chair		
Jeffrey Rubin Chair		
Jonathan H. Simon		
Elie Weiss Chair		
Number of		
Meetings	5 1	1 —

* Audit committee financial expert.

Audit Committee

This committee is responsible for assisting the board in overseeing, among other things, (i) the integrity of our financial statements, (ii) our compliance with legal and regulatory requirements, (iii) our independent registered public accounting firm's qualification and independence, (iv) the performance of the accounting firm performing our internal control audit function, and (v) for the preparation of the audit committee report required by the Securities and Exchange Commission for inclusion in this proxy statement. This committee is also responsible for the selection and engagement of our independent registered public accounting firm and for approving related party transactions.

Compensation Committee

This committee reviews and makes recommendations and/or determinations with respect to the salaries, bonuses and stock awards of our trustees and named executive officers.

Nominating and Corporate Governance Committee

This committee's principal responsibilities include proposing to the board of trustees a slate of nominees for election to the board of trustees at the annual meeting of shareholders, making a recommendation to the board of trustees with respect to the independence of each trustee, identifying and recommending candidates to fill vacancies on the board of trustees or committees thereof between annual meetings of shareholders, proposing a slate of officers to the trustees for election at the annual meeting of the board and monitoring corporate governance matters, including overseeing our corporate governance guidelines.

Special Committee

This committee was established in March 2011 to, among other things, review, analyze, monitor and make recommendations with respect to our management structure and the advisory agreement pursuant to which we make payments to our advisor, REIT Management Corp., which is wholly-owned by Fredric H. Gould, a Trustee and former Chairman of the Board. In March 2014, the Board determined that this committee was no longer necessary and ended its term. See Executive Compensation—Compensation Discussion and Analysis—Analysis—Advisor Fees.

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Trustee Qualifications

The board believes that it should be comprised of trustees with complementary backgrounds, and that trustees should, at a minimum, have expertise that may be useful to us. Our nominating and corporate governance committee has not adopted a formal diversity policy in connection with the consideration of trustee nominations or the selection of nominees. It considers the personal and professional attributes and the business experience of each trustee candidate to promote diversity of expertise and experience among our trustees. Additionally, trustees should possess the highest personal and professional ethics and should be willing and able to devote the required amount of time to our business.

When considering candidates for trustee, the nominating and corporate governance committee will take into account a number of factors, including the following:

- Independence from management;
- Whether the candidate has relevant business experience;
- Judgment, skill, integrity and reputation;
- Financial and accounting background, to enable the committee to determine whether the candidate would be suitable for audit committee membership;
- Executive compensation background, to enable the committee to determine whether the candidate would be suitable for compensation committee membership; and
- The size and composition of the existing board.

The nominating and corporate governance committee will consider candidates for trustee suggested by shareholders, applying the criteria for candidates described above, considering the additional information referred to below and evaluating such nominees in the same manner as other candidates. Shareholders wishing to suggest a candidate for trustee should write to our Secretary and include:

- A statement that the writer is a shareholder and is proposing a candidate for consideration by the committee;
- The name of and contact information for the candidate;
- A statement of the candidate's business and educational experience;
- Information regarding each of the factors listed above sufficient to enable the committee to evaluate the candidate;
- A statement detailing any relationship between the candidate and any of our competitors;
- Detailed information about any relationship or understanding between the proposing shareholder and the candidate; and
- A statement that the candidate is willing to be considered and willing to serve as a trustee if nominated and elected.

Before nominating a sitting trustee for re-election at an annual meeting of shareholders, the nominating and corporate governance committee will consider:

- The trustee's performance on the board; and
- Whether the trustee's re-election would be consistent with our corporate governance guidelines.

When seeking candidates for trustee, the nominating and corporate governance committee may solicit suggestions from management, incumbent trustees or others. The committee or its chairman will interview a candidate if it is believed the candidate might be suitable to be a trustee. The nominating and corporate governance committee may also ask the candidate to meet with management. If the nominating and corporate governance committee believes a candidate would be a valuable addition to the board, it will recommend the candidate's election to the full board.

The nominating and corporate governance committee generally intends to recommend that the board nominate incumbent trustees whom the committee believes will continue to make important contributions to us.

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The committee believes that the continuing service of qualified incumbents promotes stability and continuity, giving us the benefit of the familiarity and insight into our affairs that its trustees have accumulated during their tenure, while contributing to the board's ability to work as a collective body.

Independence of Trustees

In determining whether our trustees are independent, we apply the New York Stock Exchange's corporate governance listing standards. Such standards provide:

- No trustee qualifies as independent unless the board affirmatively determines that the trustee has no material relationship with us or any of our subsidiaries (either directly or as a partner, shareholder or officer of an organization that has a relationship with us or any of our subsidiaries);
- A trustee who is an employee, or whose immediate family member is an executive officer, of ours or any of our subsidiaries is not independent until three years after the end of such relationship;
- A trustee who received, or whose immediate family member received, during any twelve-month period within the last three years, more than \$120,000 in direct compensation from us or any of our subsidiaries, other than director and committee fees and pension or other forms of deferred compensation for prior services (provided such compensation is not contingent in any way on continued service), is not independent until three years after he or she ceases to receive more than \$120,000 in any twelve-month period;
- A trustee who is, or who has an immediate family member who is, a current partner of our internal or external auditor, a trustee who is a current employee of our internal or external auditor, a trustee who has an immediate family member who is a current employee of our internal or external auditor and who personally participates in our audit, or a trustee who was, or whose immediate family member was, within the last three years, a partner or employee of our internal or external auditor and personally worked on our audit within that time, cannot be considered independent;
- A trustee who is employed, or whose immediate family member is employed, as an executive officer of another company where any of our or any of our subsidiaries' present executive officers serve on that company's compensation committee is not independent until three years after the end of such service or employment relationship; and
- A trustee who is a current employee, or whose immediate family member is a current executive officer, of a company that has made payments to, or received payments from, us or any of our subsidiaries for property or services in an amount which, in any single fiscal year, exceeds the greater of \$1 million, or 2% of such other company's consolidated gross revenues, is not independent until the commencement of the third fiscal year following the fiscal year in which such payments fall below such threshold.

The board has affirmatively determined that each of Kenneth F. Bernstein, Alan H. Ginsburg, Louis C. Grassi, Gary Hurand, Jeffrey Rubin, Jonathan H. Simon and Elie Weiss, constituting approximately 64% of our trustees, is independent for the purposes of Section 303A of the Listed Company Manual of the New York Stock Exchange, and all of the members of our committees are independent for the purposes of Section 303A. The board based these determinations primarily on a review of the responses of our trustees to questions regarding employment and compensation history, affiliations and family and other relationships, discussions with trustees and relevant facts and circumstances provided to management of any relationships bearing on the independence of a trustee.

In determining the independence of each of the foregoing trustees, the board considered that Gary Hurand owns approximately a 40% beneficial interest in a family entity which owns a preferred limited partnership interest in Gould Investors L.P., an affiliate of our company, that is primarily engaged in the ownership and operation of real estate properties held for investment. See Certain Relationships and Related Transactions. The preferred limited partnership interest owned by the Hurand family entity had, as of December 31, 2014, a deemed value of approximately \$11.7 million (the redemption price of the interest) and limited voting rights, and no member of the Hurand family, including Mr. Hurand, has any management involvement in Gould Investors. For 2014, distributions of approximately

\$675,000 were accrued and paid on the interests owned by the Hurand family entity. In October 2014, the family entity and Gould Investors agreed that the family entity would defer

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its right to require Gould Investors to purchase, and Gould Investors would defer its right to redeem, (i) until the 12 months beginning October 1, 2018, up to 25% of the outstanding preferred interest that would otherwise be subject to potential redemption or repurchase during the six months beginning October 1, 2014 and (ii) until the 12 months beginning October 1, 2019, up to 25% of the outstanding preferred interest, which we refer to as the 2019 partnership interest, that would otherwise be subject to potential or repurchase during the 12 months beginning October 1, 2014. In connection therewith, the parties agreed to reduce the annual distribution rate on the 2019 partnership interest from 8% to 5%. Each 25% preferred interest has a redemption value of approximately \$2.9 million.

The board concluded that the foregoing did not disqualify Mr. Hurand from being independent.

Compensation Committee Interlocks and Insider Participation

None of the members of the compensation committee has ever been an officer or employee of our company or any of our subsidiaries or has had any relationship with the Trust that would require disclosure under Item 404 of Regulation S-K (Certain Relationships and Related Party Transactions).

Compensation of Trustees

The following table sets forth the cash compensation payable to the non- management members of our board of trustees for service on our board and the committees thereof:

	Committee				
	Board	Audit	Compensation	Nominating	Special
Annual retainer	\$ 20,000	\$ 5,000	\$ 4,000	\$ 3,000	—
Presence in-person at meeting	1,200	1,000	1,000	1,000	1,000
Presence by telephone at meeting	750	750	750	750	1,000
Chairman's annual retainer	200,000 (1)	10,000	8,000	4,000	—

(1) See Executive Compensation—Compensation Discussion and Analysis—Chairman of the Board's Compensation.

In addition, in each of 2013 and 2014, each non-management member of our board of trustees was awarded 3,250 restricted common shares under the 2012 Incentive Plan. The restricted shares have a five year vesting period, subject to acceleration upon the occurrence of specified events, during which the registered owner is entitled to vote and receive distributions, if any, on such shares. Non-management trustees who reside outside of the local area in which our executive office is located are reimbursed for travel expenses incurred in attending board and committee meetings.

The following table sets forth the cash and non-cash compensation of trustees for 2014:

Name(1)	Fees	Stock	Total
	Earned or Paid in Cash		
	(\$)	(\$)(2)	(\$)
Kenneth F. Bernstein*	24,500	23,140	47,640
Alan H. Ginsburg*	28,250	23,140	51,390
Fredric H. Gould	—	80,100	80,100

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Matthew J. Gould	—	104,130	104,130
Louis C. Grassi*	47,250	23,140	70,390
Gary Hurand*	39,750	23,140	62,890
Israel Rosenzweig	200,000 (3)	37,024	237,024
Jeffrey Rubin*	38,000	23,140	61,140
Jonathan H. Simon*	30,000	23,140	53,140
Elie Weiss*	36,250	23,140	59,390

* Independent trustee

(1) This table does not reflect: (a) the compensation received by Jeffrey A. Gould, our President, Chief Executive Officer and Trustee; or (b) compensation paid to Fredric H. Gould, Matthew J.

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Gould and Israel Rosenzweig by REIT Management Corp., our advisor and Majestic Property Management Corp., each of which is wholly-owned by Fredric H. Gould. See Executive Compensation—Summary Compensation Table and Certain Relationships and Related Transactions for information regarding Jeffrey A. Gould’s compensation and Certain Relationships and Related Transactions for information regarding payments to Fredric H. Gould, Matthew J. Gould and Israel Rosenzweig.

(2) Represents the aggregate grant date fair value computed in accordance with ASC Topic 718.

(3) Reflects the retainer paid for serving as our Chairman of the Board.

The table below shows the aggregate number of unvested restricted shares awarded to and held by the named trustees and the value thereof as of September 30, 2014:

Name	Unvested Restricted Shares	Market Value of Unvested Restricted Stock (\$)
Kenneth F. Bernstein(1)	15,700	117,750
Alan H. Ginsburg(1)	15,700	117,750
Fredric H. Gould(2)	48,675	365,063
Matthew J. Gould(2)	55,225	414,188
Louis C. Grassi(1)	15,700	117,750
Gary Hurand(1)	15,700	117,750
Israel Rosenzweig(2)	36,650	274,875
Jeffrey Rubin(1)	15,700	117,750
Jonathan H. Simon(1)	15,700	117,750
Elie Weiss(1)	15,700	117,750

(1) On January 29, 2010, we awarded 3,000 restricted shares with a grant date fair value of \$13,320. On January 15, 2011, we awarded 3,100 restricted shares with a grant date fair value of \$22,351. On January 16, 2012, we awarded 3,100 restricted shares with a grant date fair value of \$19,840. On January 10, 2013, we awarded 3,250 restricted shares, with a grant date fair value of \$20,475. On January 6, 2014, we awarded 3,250 restricted shares with a grant date fair value of \$23,140. Each share of restricted stock vests five years after the date of grant.

(2) On January 29, 2010, we awarded 8,000 restricted shares, with a grant date fair value of \$35,520. On January 15, 2011, we awarded 9,750 restricted shares with a grant date fair value of \$70,298. On January 16, 2012, we awarded 9,125 restricted shares with a grant date fair value of \$58,400. On January 10, 2013, we awarded Matthew J. Gould 13,725 restricted shares with a grant date fair value of \$86,468, Fredric H. Gould 10,550 restricted shares with a grant date fair value of \$66,465 and Israel Rosenzweig 4,575 restricted shares with a grant date fair value of \$28,823. On January 6, 2014, we awarded Matthew J. Gould 14,625 restricted shares with a grant date fair value of \$104,130, Fredric H. Gould 11,250 restricted shares with a grant date fair value of \$80,100 and Israel Rosenzweig 5,200 restricted shares with a grant date fair value of \$37,024. Each share of restricted stock vests five years after the date of grant.

Non-Management Trustee Executive Sessions

In accordance with New York Stock Exchange listing standards, our non-management trustees meet regularly in executive sessions without management. Non-management trustees are all those trustees who are not employees or officers of our company and include trustees, if any, who are not employees or officers but who were not determined to be independent by our board of trustees. The person who presides over executive sessions of non-management trustees is one of the committee chairmen. To the extent practicable, the presiding trustee at the executive sessions is rotated among the chairmen of the board's committees.

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Communications with Trustees

Shareholders and interested persons who want to communicate with our board or any individual trustee can write to:

BRT Realty Trust
60 Cutter Mill Road, Suite 303
Great Neck, NY 11021
Attention: Secretary

Your letter should indicate that you are a shareholder of BRT Realty Trust. Depending on the subject matter, the Secretary will:

- Forward the communication to the trustee or trustees to whom it is addressed;
- Attempt to handle the inquiry directly; for example where it is a request for information about our company or it is a stock-related matter; or
- Not forward the communication if it is primarily commercial in nature or if it relates to an improper or irrelevant topic.

At each board meeting, the Secretary will present a summary of communications received, if any, since the last meeting and make those communications available to the trustees on request.

In the event that a shareholder, employee or other interested person would like to communicate with our non-management trustees confidentially, they may do so by sending a letter to Non-Management Trustees at the address set forth above. Please note that the envelope should contain a clear notation that it is confidential.

TABLE OF CONTENTS**INFORMATION REGARDING BENEFICIAL OWNERSHIP OF PRINCIPAL SHAREHOLDERS, TRUSTEES AND MANAGEMENT**

The following table sets forth information concerning our common shares owned as of January 15, 2015 by (i) each person beneficially owning five percent or more of our common shares, (ii) each trustee, (ii) each executive officer named in the Summary Compensation Table, and (iii) all trustees and executive officers as a group.

Name of Beneficial Owner	Number of Shares Beneficially Owned(1)	Percent of Class	
Kenneth F. Bernstein(2)	29,748		*
Alan H. Ginsburg(2)	27,280		*
Fredric H. Gould(2)(3)	3,497,314	24.8	%
Jeffrey A. Gould(2)(4)	3,342,926	23.7	%
Matthew J. Gould(2)(5)	3,265,051	23.2	%
Mitchell Gould	124,729		*
Louis C. Grassi(2)	31,843		*
Gary Hurand(2)(6)	370,046	2.6	%
David W. Kalish(7)	465,933	3.3	%
Mark H. Lundy(8)	143,319	1.0	%
Israel Rosenzweig(2)	405,102	2.9	%
Jeffrey Rubin(2)	29,748		*
Jonathan H. Simon(2)	27,280		*
Elie Weiss(2)(9)	44,621		*
George Zweier	52,990		*
Gould Investors L.P.(10)	2,871,637	20.4	%
Greenwood Investments, Inc.(11)	1,124,075	8.0	%
All trustees and executive officers as a group (18 persons)	5,727,050	40.6	%

* Less than 1%

Shares are listed as beneficially owned by a person who directly or indirectly holds or shares the power (1) to vote or to dispose of the shares. The percentage of beneficial ownership is based on 14,101,056 shares outstanding on January 15, 2015.

(2) A trustee.

(3) Includes (i) 271,440 shares owned by the pension and profit sharing trusts of BRT Realty Trust and REIT Management Corp. of which Fredric H. Gould is a trustee, as to which shares he has shared voting and investment power, (ii) 23,469 shares owned by a charitable foundation, of which he is a director, as to which shares he has shared voting and investment power, (iii) 33,259 shares owned by a trust for the benefit of his grandchildren of which he is a trustee (as to which shares he disclaims beneficial interest), (iv) 25,260 shares owned by a partnership in which an entity wholly owned by him is the managing general partner, and (v) 2,468 shares held by him as custodian for his grandson (as to which shares he disclaims beneficial interest). Also includes 2,871,637 shares owned by Gould Investors L.P., of which

an entity wholly owned by him is the managing general partner. Does not include 7,512 shares owned by his spouse, as to which shares she has sole voting and investment power and as to which he disclaims beneficial ownership.

(4) Includes 73,055 shares owned by Jeffrey A. Gould as custodian for his children (as to which shares he disclaims beneficial ownership), 23,469 shares owned by a charitable foundation of which he is a director, as to which shares he has shared voting and investment power and 33,259 shares owned by a trust for the benefit of his children and other relatives of which he is a trustee, and 2,871,637 shares owned by Gould Investors. He is a director and senior vice president of the managing general partner of Gould Investors and a member of a limited liability company which is the other general partner of Gould Investors.

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- (5) Includes 47,633 shares owned by Matthew J. Gould as custodian for his children (as to which shares he disclaims beneficial ownership), 23,469 shares owned by a charitable foundation of which he is a director, as to which shares he has shared voting and investment power, 33,259 shares owned by a trust for the benefit of his children and other relatives, of which he is a trustee (as to which he disclaims beneficial ownership), and 2,871,637 shares owned by Gould Investors. Matthew J. Gould is Chairman of the Board of the managing general partner of Gould Investors and is a trustee of a trust which is a member of a limited liability company which is the other general partner of Gould Investors. Does not include 1,140 shares owned by his children, as which he disclaims beneficial ownership.
- (6) Includes 101,945 shares owned by limited liability companies in which Mr. Hurand is a member and 161,479 shares owned by a corporation in which Mr. Hurand is an officer and shareholder. Mr. Hurand shares voting and investment power with respect to the shares owned by the limited liability companies and the corporation.
- (7) Includes 312,634 shares owned by the pension and profit sharing trusts of BRT Realty Trust, REIT Management Corp. and Gould Investors as to which Mr. Kalish has shared voting and investment power. Does not include 4,870 shares owned by his spouse, as to which shares she has sole voting and investment power and as to which he disclaims beneficial ownership.
- (8) Includes 69,268 shares held in a margin account and which therefore may be deemed to be pledged. Does not include 1,221 shares owned by his spouse, as custodian for their children, as to which shares she has sole voting and investment power and as to which he disclaims beneficial ownership.
- (9) Includes 23,578 pledged shares and excludes 271 shares owned by his spouse, as to which shares he disclaims beneficial ownership.
- (10) Such person's address is: 60 Cutter Mill Road, Suite 303, Great Neck, NY 11021.
- (11) Such information is as of December 30, 2014. The reporting person's address is 200 Clarendon Street, 25th floor, Boston, MA 02116

**ELECTION OF TRUSTEES
(Proposal 1)**

The board of trustees is divided into three classes, each of which is elected for a staggered term of three years. Our Third Amended and Restated Declaration of Trust provides for the number of trustees to be between five and fifteen, the exact number to be determined by our board of trustees. The board has fixed the number of trustees at eleven. The board may, following the meeting, increase or decrease the size of the board and fill any resulting vacancy or vacancies.

At the annual meeting of shareholders, three Class I Trustees (Alan Ginsburg, Jeffrey A. Gould, and Jonathan Simon) are standing for election to our board of trustees. Each nominee has been recommended to our board of trustees by the nominating and corporate governance committee for election at the annual meeting and each nominee has been nominated by our board of trustees to stand for election at the annual meeting, to hold office until our 2018 annual meeting and until his successor is elected and qualified. Class II Trustees will be considered for election at our 2016 annual meeting and Class III Trustees will be considered for election at our 2017 annual meeting. Proxies will not be voted for a greater number of persons than the number of nominees named in the proxy statement.

We expect each nominee to be able to serve if elected. However, if any nominee is unable to serve as a trustee, unless a shareholder withholds authority, the persons named in the proxy card may vote for any substitute nominee proposed by the board of trustees. Each nominee, if elected, will serve until the annual meeting of shareholders to be held in 2018. Each other trustee whose current term will continue after the date of our 2015 annual meeting will serve until the annual meeting of shareholders to be held in 2016 with respect to the Class II Trustees and 2017 with respect to the Class III Trustees.

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The following table sets forth certain information regarding each nominee for election to the board of trustees:

Nominees for Election as Class I Trustees Whose Term will Expire in 2018

Name and Age	Principal Occupation for the past Five Years and other Directorships or Significant Affiliations
Alan H. Ginsburg 76 years	Trustee since 2006. Chief Executive Officer since 1987 of The CED Companies, a private company which develops, builds and manages multi-family apartment communities. His more than 20 years' experience as chief executive officer of a real estate developer/manager provides our board with a long-term perspective on the real estate industry.
Jeffrey A. Gould 49 years	Trustee since 1997, President and Chief Executive Officer since 2002 and President and Chief Operating Officer from 1996 to 2001. Senior Vice President and Director since 1999 of One Liberty Properties. Senior Vice President of Georgetown Partners, Inc., since 1996. He is the son of Fredric H. Gould and the brother of Matthew J. Gould. Mr. Jeffrey A. Gould's experience in a broad range of real estate activities, including real estate evaluation and management, real estate acquisitions and dispositions, mortgage lending and his 13 years as our President enables him to provide key insights on strategic, operational and financial matters related to our business.
Jonathan H. Simon 49 years	Trustee since 2006. President and Chief Executive Officer since 1994 of The Simon Baron Development Group (f/k/a The Simon Development Group), a private company which develops, owns and manages a diverse portfolio of residential, retail and commercial real estate, primarily in New York City. His background in the real estate industry and in particular, his experience in real estate development, affords him an understanding of the challenges faced in real estate development activities which is helpful to us in connection with our Newark Joint Ventures development activities and our multi-family property acquisition activities.

THE BOARD OF TRUSTEES RECOMMENDS A VOTE FOR THE ELECTION OF ALAN GINSBURG, JEFFREY A. GOULD, AND JONATHAN SIMON AS CLASS I TRUSTEES. THE PERSONS NAMED IN THE PROXY CARD INTEND TO VOTE SUCH PROXY FOR THE ELECTION OF SUCH PERSONS AS TRUSTEES.

The following table sets forth certain information regarding trustees whose terms will continue after the date of the annual meeting:

Class II Trustees Whose Term Will Expire in 2016

Name and Age	Principal Occupation for the past Five Years and other Directorships or Significant Affiliations
Matthew J. Gould 55 years	Trustee since 2001 and a Senior Vice President since 1993. Vice President of REIT Management Corp., advisor to the Trust, since 1986. President from 1989 through 1999, Director and Senior Vice President from 1999 through 2011, Vice Chairman from 2011 through 2013 and since 2013, Chairman of the Board of Directors of One Liberty Properties. President, from 1996 through 2012, Chairman of the Board and Chief Executive Officer, since 2012, of Georgetown Partners, Inc. He is the son of Fredric H. Gould and brother of Jeffrey A. Gould. His experience in real estate matters, including the acquisition and sale of real property, mortgage financing and real estate management, makes him a valuable participant in our Board's deliberations.

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Principal Occupation for the past Five Years and other Directorships or Significant Affiliations

Name and Age

<p>Louis C. Grassi 59 years</p>	<p>Trustee since 2003; Managing partner of Grassi & Co. CPAs, P.C. since 1980; Director of Flushing Financial Corp. since 1998. Mr. Grassi has been involved for more than 27 years in accounting and auditing issues. His knowledge of financial and accounting matters and his experience as a director and member of the audit committee of a publicly traded financial institution provides him with the accounting and governance background and the skill needed as the chairman and financial expert of our audit committee.</p>
<p>Israel Rosenzweig 67 years</p>	<p>Chairman of the Board of Trustees since 2013, Trustee and Vice Chairman of the Board of Trustees from 2012 through 2013 and Senior Vice President from 1998 through 2012. Vice President of Georgetown Partners, Inc., since 1997. President of GP Partners, Inc., an affiliate of Gould Investors L.P., which provided advisory services in the real estate and financial services industries to an investment advisor from 2000 to 2009. Senior Vice President of One Liberty Properties, Inc. since 1989. His experience as a lending officer at a major financial institution, his knowledge and experience in business, finance and accounting matters and his approximately 32 years of experience in the real estate industry provides the Board with a strong leader in its deliberations.</p>
<p>Jeffrey Rubin 46 years</p>	<p>Trustee since 2004. President and Chief Executive Officer of The JR Group, which provides consulting services to the electronic payment processing industry, since 2009. President and Director of Newtek Business Services, Inc., a provider of business services and financial products to small and medium sized businesses, from 1999 to 2008. Mr. Rubin's experience as the President and a Director of a public company and his experience in business and financial matters are valuable to our company as the chairman of our compensation committee and in his activities as a Trustee.</p>

Class III Trustees Whose Term Will Expire in 2017

Principal Occupation for the past Five Years and other Directorships or Significant Affiliations

Name and Age

<p>Kenneth F. Bernstein 53 years</p>	<p>Trustee since 2004. President and Chief Executive Officer of Acadia Realty Trust, a real estate investment trust focused primarily on the ownership, acquisition, redevelopment and management of retail properties, since 2001. Director of Golub Capital BDC, Inc. since 2010 and a member of its audit committee. His experience as president and chief executive officer of a New York Stock Exchange listed REIT for approximately 14 years, his leadership positions with various real estate industry associations and his background as a practicing attorney make him a valuable member of our board.</p>
<p>Fredric H. Gould 79 years</p>	<p>Trustee since 1983 and Chairman of our Board from 1984 through 2013. Chairman of the Board of Directors from 1989 to 2013, Vice Chairman of the Board since 2013, Chief Executive Officer from 2005 to 2007, and President from 2005 to 2006, of One Liberty Properties. Chairman of the Board of Georgetown Partners, Inc., managing general partner of Gould Investors, from 1997 to 2012 and Director since 2013. Sole member of Gould General LLC, a general partner of Gould Investors, from 2001 through 2014. President, since 1986, of REIT Management Corp., advisor to the Trust. Director of East Group Properties, Inc. since 1998. He is the father of Matthew J. Gould and Jeffrey A. Gould. Mr. Gould has been involved in the real estate industry for more than 50 years, as an investor, owner, manager, and as the chief executive officer of publicly traded real estate entities and real estate investment trusts. He has also served as a director of four real estate investment</p>

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Name and Age	Principal Occupation for the past Five Years and other Directorships or Significant Affiliations
Gary Hurand 68 years	trusts, and as a director and a member of the loan committee of two savings and loan associations. His knowledge and experience in business, finance, tax, accounting and legal matters and his knowledge of our company's business and history makes him an important member of our board of trustees.
Gary Hurand 68 years	Trustee since 1990. President of Dawn Donut Systems, Inc. since 1971. President of Management Diversified, Inc., a real property management and development company, since 1987; Director of Citizens Republic Bancorp Inc. and its predecessor from 1990 through 2013. He is the father-in-law of Elie Weiss. Mr. Hurand brings valuable business and leadership skills to the board in light of his extensive experience in commercial real estate and in business operations and as a former director and member of the audit committee of a publicly traded financial institution.
Elie Weiss 42 years	Trustee since 2007. Executive Vice President of Robert Stark Enterprises, Inc., a company engaged in the development and management of retail, office and multi-family residential properties from 1997 to 2007; President of Real Estate for American Greetings since 2013. Mr. Weiss is a principal in two restaurant development and operating groups, Paladar Latin Kitchen and Rum Bar with restaurants in Ohio, Florida, Maryland and Virginia. He has also been engaged in real estate development since 1997. He is the son-in-law of Gary Hurand. His entrepreneurial and extensive real estate experience makes him a valuable member of our board.

**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
(Proposal 2)**

General

The audit committee and the board of trustees is seeking ratification of the appointment of BDO USA, LLP (BDO) as our independent registered public accounting firm for the year ending September 30, 2015. Representatives of BDO, our auditors for 2014, are expected to be present at the annual meeting and will have the opportunity to make a statement if such representatives desire to do so and will be available to respond to appropriate questions.

We are not required to have our shareholders ratify the selection of BDO as our independent registered public accounting firm. We are doing so because we believe it is good corporate practice. If our shareholders do not ratify the selection, the audit committee will reconsider whether or not to retain BDO, but may, after reconsidering, still decide to retain such firm. Even if the selection is ratified, the audit committee, in its discretion, may change the appointment at any time during the year if it determines that such a change would be in our best interests.

TABLE OF CONTENTS**THE BOARD OF TRUSTEES UNANIMOUSLY RECOMMENDS THAT SHAREHOLDERS VOTE FOR RATIFICATION OF THE APPOINTMENT OF BDO AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE YEAR ENDING SEPTEMBER 30, 2015.****Audit and Other Fees**

The following table presents, except as otherwise indicated, BDO's fees (including expenses) for the services indicated for 2014 and 2013:

	2014	2013
Audit fees(1)	\$ 556,820	\$ 525,964
Audit-related fees	—	—
Tax fees	—	—
All other fees	—	—
Total fees	\$ 556,820	525,964

- Includes fees for the audit of our annual consolidated financial statements, the annual audit of internal controls over financial reporting, the review of the consolidated financial statements included in our (1) quarterly reports on Form 10-Q, the review in 2013 of a Registration Statement on Form S-3, and in 2013 and 2014, the audits of the statements of revenue and certain expenses performed in connection with multi-family property acquisitions in accordance with Rule 3-14 of Regulation S-X.

Approval Policy for Audit and Non-Audit Services

The audit committee annually reviews and approves the retention of our independent registered public accounting firm for each fiscal year and the audit of our financial statements for such fiscal year, including the fee associated with the audit. In addition, the audit committee approves the provision of tax related and other non-audit services. Any fees for the audit and any fees for non-audit services in excess of those approved by the audit committee must receive the prior approval of the audit committee.

Proposals for any non-audit services to be performed by our independent registered public accounting firm must be approved in advance by the audit committee.

For 2014, the audit committee pre-approved all of the audit, tax and non-audit services rendered by our independent registered public accounting firm.

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REPORT OF THE AUDIT COMMITTEE

The audit committee of the board of trustees is comprised of three independent trustees and operates under a written charter adopted by the board of trustees. The board of trustees has determined that each member of the audit committee was independent during his service on the committee.

The role of the audit committee is to, among other things, select and engage our independent registered public accounting firm and to oversee and monitor our financial reporting process, the independence and performance of the independent registered public accounting firm and the functioning of our internal controls. It is management's responsibility to prepare financial statements in accordance with generally accepted accounting principles and of the independent registered public accounting firm to perform an independent audit of the financial statements and to express an opinion on the conformity of those financial statements with generally accepted accounting principles.

In performing its duties, the audit committee:

- met and held discussions with management, the independent registered public accounting firm and the accounting firm performing the internal control audit function on our behalf;
- discussed with the independent registered public accounting firm the overall scope and plan for its activities and reviewed with the accounting firm performing the internal control function its work plan and the scope of its activities;
- obtained representations from management to the effect that the year-end consolidated financial statements were prepared in accordance with generally accepted accounting principles;
- was advised by the independent registered public accounting firm that it would render an unqualified opinion with respect to the year-end consolidated financial statements;
- reviewed and discussed the year end consolidated financial statements with management and the independent registered public accounting firm;
- discussed and evaluated our internal control procedures with management, the independent registered public accounting firm and the accounting firm performing the internal control audit function;
- reviewed with management the process used for the certifications under the Sarbanes-Oxley Act of 2002 of our filings with the Securities and Exchange Commission;
- reviewed the unaudited quarterly financial statements prior to filing each Form 10-Q with the Securities and Exchange Commission and reviewed the related quarterly earnings press releases prior to issuance of same;
- discussed with the independent registered public accounting firm matters required to be discussed by the PCAOB Auditing Standard No. 16, *Communications with Audit Committee*;
- discussed with the independent registered public accounting firm such firm's independence from the Trust and management, and received the written disclosures and the letter from such firm required by PCAOB Ethics and Independence Rule 3526 (*Communication with Audit Committees Concerning Independence*); and reviewed and approved the independent registered public accounting firm's fees, both for performing audit and non-audit services, and considered whether the provision of non-audit services by the independent registered public accounting firm was compatible with maintaining the independent registered public accounting firm's independence and concluded that it was compatible.

The audit committee meets with the independent registered public accounting firm and the accounting firm performing the internal control audit function, with and without management present, to discuss the results of their examinations, their evaluations of the internal controls, and the overall quality of our financial reporting.

Based on the reviews and discussions referred to above, the audit committee recommended that the Trust's audited consolidated financial statements for the year ended September 30, 2014 be included in the Trust's Annual Report on Form 10-K for the year ended September 30, 2014 for filing with the Securities and Exchange Commission.

Louis C. Grassi (Chairman)
Gary Hurand
Elie Weiss

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EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Highlights

The following are highlights of our compensation practices; we encourage you to read the more detailed information set forth herein:

- all of our named executive officers (as defined herein) are employees at will—none of these officers have employment agreements with us;
- there are no severance or similar arrangements for our named executive officers, other than the accelerated vesting of restricted share awards upon the occurrence of specified events as described herein and the amounts which have vested under our qualified defined contribution plan.
- there are no excise tax gross ups or similar arrangements for our executive officers;
- the restricted shares awarded to our full-time named executive officers generally vest five years after the grant date on a cliff-vesting basis—the shares do not vest incrementally on an annual basis;
- the compensation we pay our named executive officers takes into account, among other things, our financial performance, a subjective evaluation of the individual performance of such officer and our progress in transitioning from the business of short-term real estate lending to an owner, operator and developer of multi-family properties; and
- because our executive officers and trustees beneficially own in the aggregate approximately 5.73 million shares or 40.6% of our outstanding shares, we do not have and do not believe a formal policy requiring a minimum level of ownership of our shares by our executive officers and trustees is necessary.

General

This compensation discussion and analysis describes our compensation objectives and policies as applied to our chief executive officer, chief financial officer and our three other most highly compensated officers (collectively, the named executive officers) in 2014. This discussion and analysis focuses on the information contained in the compensation tables that follow this discussion and analysis. We also describe compensation actions taken historically to the extent it enhances an understanding of our executive compensation disclosure. Generally, our compensation committee oversees our compensation program, recommends the compensation of executive officers employed by us on a full-time basis to our board of trustees for its approval, and our audit committee reviews the appropriateness of the allocation to us under a shared services agreement of the compensation of executive officers who perform services for us on a part time basis. Another element of our compensation program is the fee paid by us to our advisor, REIT Management Corp., pursuant to the advisory agreement, and the related payments by our advisor of compensation to certain of our executive officers.

Historically, we have used the following compensation structure with respect to the compensation paid by us to our executive officers:

- executive officers who devote all, or substantially all, their business time to our affairs are compensated directly by us. The named executive officers who fit into this category are Jeffrey A. Gould, our President and Chief Executive Officer, Mitchell Gould, our Executive Vice President and George Zweier, our Vice President and Chief Financial Officer. These named executive officers have been involved in 2014 in varying degrees to our multi-family property activities, management of our real estate assets (including the Newark Joint Venture), real estate lending business and financial reporting;
- executive officers who devote their time to us on a part-time as needed basis, whose annual compensation (base salary, bonus, if any, and perquisites) is allocated to us under a shared services agreement based upon

the estimated time each devotes to us and to the other entities which are parties to the shared services agreement. These executive officers perform services to us related primarily to legal, accounting and tax matters, corporate governance, Securities and Exchange Commission and New York Stock Exchange reporting and other regulatory matters, and consult with our executives and

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employees in areas involving multi-family property acquisitions, property management and capital raising. David W. Kalish, Senior Vice President, Finance and Mark H. Lundy, Senior Vice President and General Counsel, are the only named executive officers who fit into this category;

executive officers who devote their time to us on a part-time basis, who receive compensation from our advisor, but do not receive annual compensation from us and whose annual compensation is not allocated to us under the shared services agreement. We pay a fee to our advisor for the services it performs for us pursuant to the advisory agreement. None of our named executive officers fit into this category in 2014.

Jeffrey A. Gould, David W. Kalish and Mark H. Lundy, named executive officers, receive compensation from our advisor. Of the named executive officers who receive compensation from the advisor, Jeffrey A.

- Gould is the only one who receives direct compensation from us. The basic annual compensation of David W. Kalish and Mark H. Lundy, both of whom receive compensation from our advisor, is allocated to us under the shared services agreement. The services the advisor performs for us include, among other services, participating in our multi-family property acquisition analysis (which includes executives of our advisor serving on our investment committee), developing and maintaining banking and financing relationships, providing investment advice, long-term planning and consulting with our executives and employees in other aspects of our business, as required.

Say-on-Pay

In reviewing our compensation practices and determinations and in approving base salaries for calendar 2014, the compensation committee was aware of the results of our March 2011 say-on-pay vote in which approximately 96% of the shares that voted on such proposal voted to approve our executive compensation practices. In approving the bonuses paid for services rendered in 2014, the compensation committee was aware of the results of our March 2014 say-on-pay vote in which approximately 99% of the shares that voted on such proposal voted to approve our executive compensation determination and practices. The committee viewed such results as generally supportive of our compensation practices and determinations.

Objectives of our Executive Compensation Program

A principal objective of our compensation program for full-time officers is to ensure that the total compensation paid to them is fair and competitive. The compensation committee believes that relying on this principle permits us to retain and motivate these officers.

With respect to senior executive officers whose compensation is allocated to us under the shared services agreement (*i.e.*, part-time officers), it is our objective that the compensation which is allocated to us with respect to each of these officers is reasonable for the services they perform on our behalf, and that those executives provide us with sufficient time and attention to meet our needs and to perform their duties on our behalf. The compensation committee believes that:

- our part-time executive officers perform valuable services on our behalf, devote sufficient time and attention to our business needs, are able to fully meet our needs and perform their duties effectively; and
- utilizing part-time executive officers pursuant to the shared services agreement and the advisory agreement enables us to benefit from access to, and the services of, a group of senior executives with experience and knowledge in real estate transactions, real estate management, finance, banking, legal (including SEC reporting), accounting and tax matters that an organization our size could not otherwise afford.

Compensation Setting Process

Since we have only seven full-time employees, we determine compensation for our full-time employees, including our executive officers, on a case-by-case basis and our compensation decisions are subjective. We have not to date used

specific performance targets though it is anticipated that performance goals will be established in connection with the grant in the future of performance based awards to our senior executives.

Full-Time Officers

For our full-time executive officers, other than the president and chief executive officer, the recommendations of our president and chief executive officer plays a significant role in the compensation-setting process, since the president and chief executive officer is aware of each executive officer's duties and

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responsibilities and is most qualified to assess the level of each officer's performance in carrying out his duties and responsibilities. The president and chief executive officer, prior to making recommendations to the compensation committee concerning each executive officer's compensation, consults with other senior executive officers. During this process, the compensation committee considers our overall performance for the preceding year including, without limitation, the progress of our business in general, our multi-family property acquisition activities, progress made at the Teachers Village project, our revenues, results of operations and the management of our real estate and loan portfolios. Since executive officers have different responsibilities, no performance criteria is given more weight than any other. In considering base compensation, the president and chief executive officer, chairman of the board and other senior executive officers assess an individual's performance, which assessment is highly subjective. After this process, the president and chief executive officer proposes to the compensation committee with respect to each full-time executive officer, a base salary for the next year, a cash bonus applicable to the preceding year (which is paid in the following calendar year), and the number of shares of restricted stock to be awarded to each individual executive officer. At its annual compensation committee meeting, the compensation committee reviews these recommendations. The compensation committee has discretion to accept, reject or modify the recommendations. The final decision by the compensation committee on compensation matters related to executive officers is reported to the board of trustees, which can approve or modify the action of the committee.

With respect to our president and chief executive officer, after the compensation committee has considered our overall performance for the preceding year, the chairman of the committee meets with the president and chief executive officer to discuss and review his total compensation, including the compensation he receives from our advisor and from the other parties to the shared services agreement. The compensation committee then determines annual base compensation, and bonus, if any, for the president and chief executive officer and reports its determinations to the board of trustees. The number of shares of restricted stock to be awarded to the president and chief executive officer is considered and determined by the committee annually, at the same time the committee considers and approves all restricted stock awards to be made for that year.

Part-Time Officers

Fredric H. Gould, the former Chairman of our Board, is an executive and/or sole owner of each private entity which participates with us in the shared services agreement. In such capacity, he, in consultation with our president and chief executive officer and others, determines the annual base compensation of our part-time executive officers to be paid in the aggregate by one or more of the entities which are parties to the shared services agreement and the profit participation, if any, of part-time executive officers in the earnings of the private entities which are parties to the shared services agreement. The annual base compensation, bonus, if any, pension contribution, and perquisites of certain of our part-time executive officers is allocated to us and other parties to the shared services agreement, pursuant to the shared services agreement. Our audit committee reviews the allocations made under the shared services agreement to determine that the allocations have been made in accordance with the terms of the shared services agreement.

The compensation committee is apprised of the compensation paid to our advisor. Since the compensation we pay the advisor is pursuant to an agreement approved by our board of trustees, the compensation committee does not approve such compensation. In addition, our compensation committee is apprised of the compensation paid by our advisor and other affiliates to each of our part-time executive officers.

Components of Executive Compensation

The principal elements of our compensation program for executive officers in 2014 were:

- base salaries;

- commissions, which are provided only to full-time executive officers and employees involved in loan origination activities;
- annual cash bonuses, which are available only to full-time executive officers and are provided in the form of a cash payment;
- long-term equity based compensation in the form of restricted stock; and
- special benefits and perquisites.

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In determining 2014 compensation, the compensation committee did not have a specific allocation goal between cash and equity-based compensation.

Base Salary

Full-Time Executive Officers

Base salary is the basic, least variable form of compensation for the job an executive officer performs and provides each full-time executive officer with a guaranteed annual income. Base salaries of executive officers compensated by us directly are generally targeted to be competitive with the salaries paid to executives performing substantially similar functions at other REITs with a market capitalization similar to ours, taking into consideration the region in which our executive officers are located. Any increase in base salary is determined on a case by case basis, is not based upon a structured formula and is based upon, among other considerations, (i) such executive's current base salary, (ii) the recommendation of the president and chief executive officer and other senior executive officers, (iii) our performance in the preceding year (*e.g.*, acquisitions, revenues, net income, funds from operations, adjusted funds from operations and share price performance), (iv) the individual's performance, (v) years of service, and (vi) job responsibilities.

Part-Time Executive Officers

In setting the annual base salary for these officers, Fredric H. Gould, and others with whom he consults in determining annual base salary, consider the executive's responsibilities to all parties to the shared services agreement, the executive's performance, years of service, current annual base salary and the performance of the companies which participate in the shared services agreement. The annual base salary is allocated to the entities which are parties to the shared services agreement, including us, based on the estimated time devoted to each of the entities.

Commissions

While we were engaged in the real estate lending business, we provided the opportunity for some of our full-time executive officers involved in such activities to earn a commission on each loan originated. The commission was provided to incentivize our executives engaged in loan origination activities. The commission, which in 2014 and 2013 was an aggregate of 12-basis points of the loans originated, was divided among some of our full-time executive officers and employees engaged in those activities. Fifty percent of the commission was paid at the time the loan was originated and the balance at loan payoff. As we are no longer engaged in real estate lending, no commissions will be paid by us in the future.

Bonus

We provide the opportunity for our full-time executive officers and other full-time employees to earn an annual cash bonus. We provide this opportunity both to reward our officers and employees for past performance and to motivate and retain talented people. We recognize that annual bonuses are almost universally provided by other companies with which we might compete for talent. Annual cash bonuses for our executive officers (including the three named executive officers who devote substantially all of their business time to our affairs) are determined on a case-by-case basis and are determined subjectively. In determining annual cash bonuses, consideration is given to both an executive's performance and to our overall performance in the applicable year. Once our compensation committee has approved the annual bonus to be paid to each executive officer, the compensation committee presents its recommendations to the board of trustees for approval. Based on our present structure and our small number of full-time executive officers, our compensation committee has not established formulas or performance goals to determine cash bonuses for our executive officers.

Long-Term Equity Awards

We provide the opportunity for our executive officers to receive long-term equity incentive awards. Our long-term equity incentive compensation program is designed to recognize responsibilities, reward performance, motivate future performance, align the interests of our executive officers with our shareholders' and retain our executive officers. The compensation committee reviews annually management's recommendations for long-term equity awards for all our officers, trustees and employees and makes recommendations to our board of trustees

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for the grant of equity awards. In determining the long- term equity compensation component, the compensation committee considers the factors it considers relevant, including our performance and individual performance. Existing ownership levels are not a factor in award determinations.

We do not have a formal policy with respect to whether equity compensation should be paid in the form of stock options or restricted stock. For approximately the past nine years, we have awarded only restricted stock. The compensation committee believes restricted stock awards are more effective in achieving our compensation objectives, as restricted stock has a greater retention value. In addition, because fewer shares are normally awarded, it is potentially less dilutive. Executive officers realize value upon the vesting of the restricted stock, with the value potentially increasing if our stock performance increases.

All the outstanding restricted stock awards provide for five-year cliff vesting. The compensation committee believes that restricted stock awards with five-year cliff vesting provide a strong retention incentive for executives, and aligns the interests of our executive officers with our shareholders. We view our capital stock as a valuable asset that should be awarded judiciously. For that reason, it has been our policy that the aggregate restricted stock awards granted each year to our executive officers, employees, trustees and consultants should not exceed approximately 1% of our issued and outstanding common shares.

We do not have a formal policy on timing equity compensation grants in connection with the release of material non-public information. Generally, equity awards are granted in January of each year. In January 2015, we awarded 142,950 shares of restricted stock (including an aggregate of 22,750 shares awarded to non-management trustees and an aggregate of 55,750 shares to our named executive officers). The aggregate restricted stock authorized for awards by us on such date represents approximately 1.1% of our issued and outstanding shares.

Our compensation committee retained FPL Associates to assist with implementing a new performance-based long-term incentive program which takes into account our transformation from a real estate lender to an owner, operator and developer of multi-family properties. Although the new program has not yet been finalized, it is currently contemplated that it will contain a multi-year performance period, that is likely to be in excess of three years, with one or more interim measurement periods during the performance period. The performance measures may consist of metrics relating to funds from operations, adjusted funds from operations, total shareholder return and the achievement of objectives relating to our multi-family property activities. We contemplate that performance based awards will be granted in 2015. The maximum number of shares with respect to which any participant may be granted performance based awards in any calendar year is 60,000 shares.

Executive Benefits and Perquisites

We provide our executive officers and our employees with a competitive benefits and perquisites program. For 2014, the executive benefits and perquisites we provided to executive officers accounted for a small percentage of the compensation provided by, or allocated to, us for our executive officers. The executive benefits and perquisites we provided to certain of our full-time executive officers, in addition to the benefits and perquisites we provided to all our full-time employees, consisted of automobile allowances (including payments for automobile maintenance and repairs), the payment of certain educational expenses and the payment of premiums for additional disability insurance and/or long-term care insurance. The cost of the executive benefits and perquisites provided to our part-time executive officers, which benefits are similar to those provided to our full-time executive officers, was allocated among us and other entities pursuant to the shared services agreement.

Employment and Severance Agreements; Post-Employment Benefits; Change of Control

None of our named executive officers has employment or severance agreements with us. They are at will employees who serve at the pleasure of our board of trustees.

We do not provide for any post-employment benefits to our named executive officers other than their right to the vested portion of the defined contribution plan in which they participate and accelerated vesting of our restricted stock awards.

Generally, in the event of death, disability (*i.e.*, the inability to engage in gainful activity due to a life threatening or long lasting mental or physical impairment), retirement (having reached the age of 65 and worked for us for at least ten consecutive years) or a change of control (as described below), such person's shares of restricted stock vest fully. Subject to the specific terms and conditions of the applicable plan and award

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agreement, a change of control is generally deemed to occur if (i) any person, with specified exceptions, becomes the beneficial owner of securities representing 20% or more of the combined voting power of our then outstanding securities, (ii) a business combination or sale of all or substantially all of our assets is completed or (iii) there is a change in the composition of a majority of our board of trustees, other than changes approved by incumbent trustees.

We provide for accelerated vesting upon a change in control (on a single trigger basis) because, depending on the structure of the transaction, continuing such awards may unnecessarily complicate a potentially beneficial transaction.

Among other things, it may not be possible to replace these awards with comparable awards of the acquiring company's stock and it would not be fair to our executives to lose the benefit of these awards. In addition, the acceleration of vesting aligns the interests of executives in a potential change in control transaction with those of our shareholders, by motivating them to work towards the completion of the transaction.

Chairman of the Board's Compensation

We pay our chairman of the board an annual fee of \$200,000, payable in quarterly installments. Our chairman does not receive any additional direct compensation from us, other than any long-term equity awards granted to him by our board of trustees based upon our compensation committee's recommendation. Our chairman may also receive compensation from our advisor and its affiliates. For additional information regarding payments to our chairman, see Certain Relationships and Related Transactions.

Deductibility of Executive Compensation

Section 162(m) of the Internal Revenue Code of 1986, as amended, imposes a limitation on the deductibility of certain compensation in excess of \$1 million earned by each of the chief executive officer and the four other most highly compensated officers of publicly held companies. In 2014, all compensation paid to our full-time executives is deductible by us. The compensation committee generally intends to preserve the deductibility of compensation payments and benefits to the extent reasonably practicable but has not adopted a formal policy that requires all such compensation to be fully deductible.

Analysis*Base Salary and Bonus*Full-Time Executive Officers

In accordance with the compensation setting process described above, base salary and cash bonuses for 2014 were approved as follows for the named executive officers compensated directly by us:

	2014 Base Salary (\$)	2013 Base Salary (\$)	2014 Bonus \$(1)	2013 Bonus \$(2)	Percentage Increase (Decrease) of Salary and Bonus Combined
Jeffrey A. Gould President and Chief Executive Officer	520,472	488,677	50,000	40,000	7.9
Mitchell Gould Executive Vice President	355,366 (3)	390,893 (3)	50,000	42,000	(6.4)

George Zweier	241,864	228,849	28,000	28,000	5.1
Vice President and Chief Financial Officer					

(1) Represents the bonus applicable to 2014 which was paid in calendar 2015.

(2) Represents the bonus applicable to 2013 which was paid in calendar 2014.

(3) Includes commissions earned on loan originations of \$13,810 in 2014 and \$65,970 in 2013.

In setting Jeffrey A. Gould's base salary for 2014, the compensation committee took into account our profitability in 2013 and that his base salary for 2014 represented a 6.5% increase from his 2013 base salary. In determining his 2014 bonus, the compensation committee considered Mr. Gould's efforts with respect to our multi-family property activities (particularly, our acquisition of 13 properties with an aggregate of 3,824 units for an aggregate purchase price of approximately \$205 million) and the activities of the Newark Joint Venture (in

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particular, its construction of two buildings at the Teachers Village site and the successful \$30.2 million debt and New Markets Tax Credit financing transaction)). The increases in 2014 base salary for Messrs. Mitchell Gould (excluding the impact of the \$52,160 decrease in commissions he earned on loan originations) and George Zweier are attributable to our profitability in 2013 and their individual performances. Mitchell Gould's 2014 bonus was based on his performance and his efforts with respect to our multi-family property activities. George Zweier's 2014 bonus was based on his individual performance and his increased responsibilities with respect to financial and accounting matters relating to our multi-family property acquisitions and the Newark Joint Venture.

The base salary and bonus of Jeffrey A. Gould, our President and Chief Executive Officer, in 2014 was equal to 1.4x Mitchell Gould's base salary and bonus and 2.1x George Zweier's base salary and bonus. We have not adopted a policy with regard to the relationship of compensation among named executive officers or other employees. The compensation committee was aware of the differential in compensation among these executive officers and concluded that the differential was appropriate because, among other things, both Mitchell Gould and George Zweier have responsibilities primarily related to a specific activity, whereas Jeffrey A. Gould's responsibilities cover all our business activities including, among other things, sourcing, negotiating and finalizing property acquisitions, negotiating joint venture agreements, property sales, capital raising and investor relations.

Part-Time Executive Officers

Mark H. Lundy serves as our Senior Vice President. His responsibilities include legal matters relating to multi-family property transactions, joint ventures (and in particular, our Newark Joint Venture), litigation and agreements entered into by us. In addition, he reviews, as necessary, our filings under the Securities Exchange Act of 1934, as amended, and our public disclosures. David W. Kalish serves as our senior vice president, finance. He has overall responsibility for implementation and enforcement of our internal controls, performs oversight and guidance in connection with our annual audit and our quarterly reports, performs oversight and guidance related to tax matters, is involved in banking relationships, chairs our disclosure controls and procedures committee and participates in the preparation and review of our disclosures under the Securities Exchange Act of 1934, as amended, and press releases. The compensation committee determined that based on the value of such person's services on our behalf, the compensation of Messrs. Lundy and Kalish, which is allocated to us, was reasonable.

Long-Term Equity Awards

We believe that our long-term equity compensation program, using restricted stock awards with five-year cliff vesting provides motivation for our executives and employees and is a beneficial retention tool. We are mindful of the potential dilution and compensation cost associated with awarding shares of restricted stock. Our policy remains to limit dilution and compensation costs. In January 2015 and 2014 we issued 142,950 and 140,100 restricted share awards, respectively, representing approximately 1.1% and 0.99% of our outstanding shares, respectively. In the past five fiscal years, we have awarded an average of 139,275 shares each year, representing an average of 0.99 % per annum of our outstanding shares.

Advisor Fees

We and our advisor, REIT Management Corp., are parties to an amended and restated advisory agreement, as amended, pursuant to which our advisor performs the services described under Executive Compensation—Compensation Discussion and Analysis—General and for which we paid the advisor the fees described below. Our advisor in turn compensates certain of our executive officers. See Certain Relationships and Related Transactions. Fredric H. Gould, the former Chairman of our Board, is the sole shareholder of our advisor.

Pursuant to this agreement, we pay our advisor the following annual fees, which are paid on a quarterly basis:

- 0.45% of the average book value of all real estate properties, excluding depreciation (BVRE);
- 0.25% of the average amount of the fair market value of marketable securities;
- 0.15% of the average amount of cash and cash equivalents;

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- 1.0% of the average principal amount of earning loans; and
- 0.35% of the average amount of the fair market value of non-earning loans;

The agreement contemplates that in certain cases, we may own real estate assets or hold loans with another person or entity (a co-venturer) pursuant to a joint venture, participation or other form of joint ownership arrangement. With respect to real estate assets held by us and a co-venturer, the agreement provides for the payment of the following fees:

- for real estate assets that we manage: $(0.45\% \times \text{our percentage interest in the venture} \times \text{BVRE}) + (0.4\% \times \text{investor's percentage interest in the venture} \times \text{BVRE})$; and
- for real estate assets we do not manage: $(0.45\% \times \text{our percentage interest in the venture} \times \text{BVRE})$.

With respect to loans held by us and a co-venturer, the agreement provides for the payment of the following fees:

- for earning loans held by a venture we manage: $(1.0\% \times \text{our percentage interest in the venture} \times \text{the average amount of the loan}) + (0.4\% \times \text{our co-venturer's percentage interest in the venture} \times \text{the average amount of such loan})$; and
- for non-earning loans held by a venture we manage: $(0.35 \times \text{the average amount of such loan} \times \text{our percentage interest in the venture}) + (0.35\% \times \text{our co-venturer's percentage interest in the venture} \times \text{the average amount of such loan})$.
- for earning loans held by ventures we do not manage: $(1.0 \times \text{our percentage interest in the venture} \times \text{the average amount of such loans})$; and
- for non-earning loans held by ventures we do not manage: $(0.35\% \times \text{our percentage interest in the venture} \times \text{the average amount of such loans})$.

The agreement further provides: (i) that the minimum and maximum fees payable in a fiscal year to our advisor is \$750,000 and \$4 million, respectively, subject to adjustment for any fiscal year of less than twelve months; and (ii) renews automatically on July 1st of each year, provided that either party may terminate the agreement for any reason whatsoever effective as of the last day of any quarter if notice is given at least 75 days prior to the end of such quarter.

Since the fee paid by us to the advisor under the advisory agreement is based on an agreement which was approved by our board of trustees, the compensation committee does not review the fee nor the determinations made by Fredric H. Gould as to the payment of compensation by the advisor to any of our senior executive officers.

Three of our named executive officers (Jeffrey A. Gould, David W. Kalish and Mark H. Lundy) receive compensation from our advisor. The compensation committee is advised of such payments. The compensation committee has determined that if the compensation paid by us to our executive officers is reasonable, then the amounts paid to them by the advisor should not be considered as a factor in the determination of compensation relating to such executive's performance for us as long as these persons are satisfactorily performing their duties on our behalf. The compensation committee has determined that all persons who receive compensation from us and also from our advisor satisfactorily performed their duties on our behalf.

Stock Ownership Policy

In view of the fact that our executive officers and trustees beneficially own in the aggregate 40.6% of our common shares, we do not have nor do we believe there is a need to adopt a policy regarding ownership of our shares by executive officers and trustees since their extensive ownership interest aligns their interest with the interests of our shareholders.

Perquisites

The perquisites we provide to our executive officers, which are in addition to the benefits we provide to all our employees, account for a small percentage of the compensation paid by us to or allocated to us for our executive officers. We believe that such perquisites are competitive and appropriate.

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The following table sets forth the value (based on the closing price of our stock on September 30, 2014 of \$7.50 per share) and the number of shares subject to restricted stock awards held by our named executive officers that would vest upon death, disability or a change in control as of September 30, 2014:

Name	Number of Shares of Unvested Restricted Stock Held as of September 30, 2014	Value of Outstanding Shares of Unvested Restricted Stock at September 30, 2014 (\$)
Jeffrey A. Gould	55,225	414,188
George Zweier	25,400	190,500
Mitchell Gould	47,750	358,125
David W. Kalish	47,000	352,500
Mark H. Lundy	55,225	414,188

Summary Compensation Table

The following summary compensation table discloses the compensation paid and accrued for services rendered in all capacities to us during the years indicated for our named executive officers:

Name and Principal Position	Year	Salary (\$)(1)(2)	Bonus (\$)(1)(3)	Stock Awards (\$)(4)	All Other Compensation (\$)(5)	Total (\$)
Jeffrey A. Gould President and Chief Executive Officer	2014	520,472	50,000	104,130	608,403 (6)	1,283,005
	2013	488,677	40,000	86,468	459,135	1,074,280
	2012	471,718	35,000	58,400	219,280	784,398
George Zweier, Vice President and Chief Financial Officer	2014	241,864	28,000	46,280	44,769 (7)	360,913
	2013	228,849	28,000	37,800	43,345	337,994
	2012	212,765	27,500	28,800	41,266	310,331
Mitchell Gould Executive Vice President	2014	355,366	50,000	76,540	45,466 (8)	527,372
	2013	390,893	42,000	63,788	49,079	545,760
	2012	362,629	40,000	58,400	46,502	507,531
David W. Kalish, Senior Vice President, Finance	2014	155,968	—	68,174	260,725 (9)	484,867
	2013	170,657	—	66,465	229,969	466,691
	2012	160,094	—	58,400	117,496	335,990
Mark H. Lundy, Senior Vice President	2014	56,912	—	104,130	341,450 (10)	502,492
	2013	122,507	—	86,468	300,866	509,841
	2012	196,389	—	58,400	170,734	425,523

(1) The salary and bonus for each of Jeffrey A. Gould, George Zweier and Mitchell Gould is paid directly by us. The salary of Mitchell Gould includes commissions of \$13,810, \$65,970 and \$66,475 in 2014, 2013 and 2012, respectively, based on loan originations. Messrs. Kalish and Lundy do not receive salary or bonus directly from

us. They receive an annual salary and bonus from Gould Investors L.P. and related companies and their respective salaries and bonuses, if any, are allocated to us pursuant to the shared services agreement. The salaries of Kalish and Lundy that are allocated to us are set forth in the above Summary Compensation Table. See Certain Relationships and Related Transactions for a discussion of additional compensation paid to Jeffrey A. Gould, David W. Kalish and Mark H. Lundy by entities owned by Fredric H. Gould, a trustee and the former chairman of our board.

(2) The annual base salaries in calendar 2015 for each of Jeffrey A. Gould, George Zweier and Mitchell Gould are \$550,000, \$255,650 and \$357,000, respectively.

(3) The table sets forth the year in which the bonus was earned, not the year it was paid. The bonus for 2014, 2013 and 2012 reflects our performance and the performance of our named executive officers for such years and was paid in 2015, 2014 and 2013, respectively.

(4) Represents the aggregate grant date fair value computed in accordance with FASB ASC 718. Excludes the following restricted share awards granted in January 2015: 14,625 shares to each of Messrs. J. Gould and Lundy, 8,000 shares to Mr. Kalish, 6,500 shares to Mr. Zweier and 12,000 shares to Mr. Mitchell Gould.

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We maintain a tax qualified defined contribution plan for all of our officers and employees, and entities which are parties with us to a shared services agreement (including Gould Investors) maintain substantially similar defined contribution plans for their officers and employees. We make an annual contribution to the plan for each officer and employee whose base salary is paid directly by us (and entities which are parties to the shared services agreement make annual contributions to its plan for each of its officers and employees) equal to 15% of such person's annual earnings, not to exceed \$39,000 for any person in calendar 2014. The estimated amount payable as of September 30, 2014 to Messrs. J. Gould, Zweier and M. Gould pursuant to this plan upon the termination of their employment was \$1,721,400, \$555,900 and \$711,300, respectively. The method of payment upon termination of employment is determined solely by the participant who may elect a lump sum payment, the purchase of an annuity or a rollover into an individual retirement account.

(6) Includes \$485,386 paid to him by REIT Management, our contribution of \$38,813 paid for his benefit to our defined contribution plan and perquisites totaling \$84,204, of which \$17,405 represents an automobile allowance, \$7,393 represents a premium paid for additional disability insurance, \$6,676 represents a premium paid for long-term care insurance and \$52,730 represents an education benefit.

(7) Includes our contribution of \$38,813 paid for his benefit to our defined contribution plan and a \$5,956 automobile allowance.

(8) Includes our contribution of \$38,813 paid for his benefit to our defined contribution plan and a \$6,650 automobile allowance.

(9) Includes \$246,936 paid to him by REIT Management, our contribution of \$7,679 paid for his benefit to the Gould Investors L.P. defined contribution plan, and perquisites of \$6,110. The amounts reflected as contributions to the defined contribution plan and as perquisites were allocated to us pursuant to the shared services agreement.

(10) Includes \$328,426 paid to him by REIT Management, contributions of \$539 paid for his benefit to the Gould Investors L.P. defined contribution plan, and perquisites of \$12,485, of which \$951, \$760, \$8,862 and \$1,912 represents amounts incurred by Gould Investors for additional disability insurance, long-term care insurance, an education benefit and an automobile allowance, respectively. The amounts reflected as contributions to the defined contribution plan and as perquisites are allocated to us pursuant to the shared services agreement.

Grants of Plan-Based Awards

The following table discloses the grants of plan-based awards during 2014 to our named executive officers:

Name	Grant Date	All Other Stock Awards: Number of Shares of Stock or Units #(1)	Grant Date Fair Value of Stock Awards (\$)
Jeffrey A. Gould	1/6/14	14,625	104,130
George Zweier	1/6/14	6,500	46,280
Mitchell Gould	1/6/14	10,750	76,540
David W. Kalish	1/6/14	9,575	68,174
Mark H. Lundy	1/6/14	14,625	104,130

(1) Represents the grant in 2014 of restricted shares which generally vest in 2019.

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The following table discloses the outstanding equity awards at September 30, 2014 for our named executive officers:

Name	Stock Awards	
	Number of Shares or Units of Stock that Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)
Jeffrey A. Gould(1)(3)	55,225	414,188
George Zweier(2)	25,400	190,500
Mitchell Gould(1)(4)	47,750	358,125
David W. Kalish(1)(4)	47,000	352,500
Mark H. Lundy(1)(3)	55,225	414,188

(1) On January 29, 2010, January 15, 2011 and January 16, 2012, we awarded this individual 8,000, 9,750 and 9,125 restricted shares, respectively. Each share generally vests five years after the grant date.

(2) On January 29, 2010, January 15, 2011, January 16, 2012, January 10, 2013 and January 6, 2014, we awarded this individual 4,200, 4,200, 4,500 and 6,500 restricted shares, respectively. Each share generally vests five years after the grant date.

(3) On January 10, 2013 and January 6, 2014, we awarded this individual 13,725 and 14,625 shares of restricted stock, respectively.

(4) On January 10, 2013, we awarded Mitchell Gould and David Kalish, 10,125 and 10,550 shares of restricted stock, respectively, and on January 6, 2014, we awarded Mitchell Gould and David Kalish, 10,750 and 9,575 shares of restricted stock, respectively.

Option Exercises and Stock Vested

The following table discloses stock vested during 2014 for our named executive officers:

Name	Stock Awards	
	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
Jeffrey A. Gould	8,000	59,200
George Zweier	4,200	31,080

Mitchell Gould	8,000	59,200
David W. Kalish	8,000	59,200
Mark H. Lundy	8,000	59,200

COMPENSATION COMMITTEE REPORT

We have reviewed and discussed the foregoing Compensation Discussion and Analysis with management. Based on our review and discussions with management, we recommended to the Board of Trustees that the Compensation Discussion and Analysis be included in this proxy statement.

The Compensation Committee

Jeffrey Rubin (Chairman)

Alan Ginsburg

Jonathan H. Simon

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CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Introduction

Fredric H. Gould, a trustee and former chairman of our board of trustees, is vice chairman of the board of directors of One Liberty Properties, Inc. a real estate investment trust listed on the New York Stock Exchange that is engaged in the ownership of a diversified portfolio of income-producing real properties that are net leased to tenants, generally under long-term leases. He is also a director and sole stockholder of the managing general partner of Gould Investors, and through December 31, 2014, was a member of a limited liability company which is the other general partner of Gould Investors. Gould Investors, a limited partnership that owns and operates a diversified portfolio of real estate and invests in other companies active in the real estate and finance industries, owns approximately 20.4% of our outstanding common shares. In addition, Mr. Gould is an officer and sole shareholder of REIT Management, our advisor.

Israel Rosenzweig, Chairman of our Board of Trustees, is a Senior Vice President of One Liberty Properties and a Senior Vice President of the managing general partner of Gould Investors. Jeffrey A. Gould, a Trustee and our President and Chief Executive Officer, is a Senior Vice President and a Director of One Liberty Properties, a Senior Vice President and Director of the managing general partner of Gould Investors and, commencing January 1, 2015, a member of a limited liability company which is the other general partner of Gould Investors. Matthew J. Gould, a Trustee and Senior Vice President, is the Chairman of the Board of Directors of One Liberty Properties, Chairman of the Board of the managing general partner of Gould Investors and, commencing January 1, 2015, serves as trustee of a trust that is a member of a limited liability company which is the other general partner of Gould Investors. He is also an executive officer of REIT Management and of Majestic Property Management Corp. In addition, David W. Kalish, Isaac Kalish, Simeon Brinberg and Mark H. Lundy, each of whom is an executive officer of our company, are executive officers of One Liberty Properties and of the corporate managing general partner of Gould Investors. Messrs. D. Kalish and Lundy are also officers of Majestic Property Management.

Related Party Transactions

We and certain related entities, including Gould Investors, One Liberty Properties, Inc., Majestic Property Management and REIT Management, occupy common office space and share certain services and personnel in common. In 2014, we reimbursed Gould Investors L.P. \$474,000 for common general and administrative expenses, including telecommunication services, computer services, bookkeeping, secretarial and other clerical services and legal and accounting services. This sum includes amounts allocated to us for services performed by certain executive officers who are engaged by us on a part-time basis, including the amounts allocated for the salary and benefits of David W. Kalish and Mark H. Lundy as set forth in the Summary Compensation Table and \$93,326, and \$67,312 allocated for the salary of Simeon Brinberg, and Isaac Kalish, respectively. The allocation of general and administrative expenses is computed in accordance with a shared services agreement, and is based on the estimated time devoted by executive, administrative and clerical personnel to the affairs of each participating entity to the shared services agreement. The amount of general and administrative expenses allocated to us represents approximately 24% of the total expenses allocated to all entities which are parties to the shared services agreement. In addition, we also lease from a subsidiary of Gould Investors, 4,300 square feet of office space at an annual rental of \$149,000 (including real estate tax increases) which is a competitive rent for comparable office space in the area in which the building is located.

In 2014, pursuant to the Advisory Agreement between us and REIT Management, a company wholly-owned by Fredric H. Gould, we paid REIT Management fees of \$2,016,000. See Executive Compensation— Compensation Disclosure and Analysis—Advisor Fees. The total compensation received in 2014 from REIT Management by Messrs. Fredric H. Gould and Matthew J. Gould, each an executive officer of REIT Management, is \$174,468 and \$466,742,

respectively. The compensation received in 2014 by Jeffrey A. Gould, David W. Kalish and Mark H. Lundy from REIT Management is set forth in the Summary Compensation Table and the notes thereto. Simeon Brinberg, Israel Rosenzweig and Isaac Kalish received compensation from REIT Management in 2014 of \$19,934, \$38,128 and \$39,152, respectively.

Majestic Property Management, which is wholly-owned by Fredric H. Gould, provides real property management services and construction supervisory fees, real estate brokerage, mortgage brokerage and construction supervision services for affiliated entities, as well as companies that are non-affiliated entities. In

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2014, we paid Majestic Property Management fees totaling \$28,000, representing, in the aggregate, less than 0.5% of the 2014 revenues of Majestic Property. Each of Fredric H. Gould, Jeffrey A. Gould, Matthew J. Gould, David W. Kalish, Simeon Brinberg, Mark H. Lundy, Israel Rosenzweig and Isaac Kalish, received compensation from Majestic Property, which compensation is not included in the Summary Compensation Table. The fees paid by us to REIT Management and Majestic Property Management and the expenses reimbursed to Gould Investors under the shared services agreement were reviewed by our audit committee. The fees paid to REIT Management were paid pursuant to the advisory agreement. The expenses reimbursed to Gould Investors are reimbursed pursuant to the shared services agreement. The fees to Majestic Property Management are based on fees which would have been charged by unaffiliated persons for comparable services. Simeon Brinberg, Fredric H. Gould, Jeffrey A. Gould, Matthew J. Gould, David W. Kalish, Mark H. Lundy, Israel Rosenzweig and Isaac Kalish also receive compensation from other entities wholly-owned by Fredric H. Gould and parties to the shared services agreement, none of which provided services to us or received compensation from us in 2014.

Policies and Procedures

Our code of business conduct and ethics provides in the Conflicts of Interest section that our board of trustees is aware of certain transactions between us and affiliated entities, including the sharing of services pursuant to the terms of a shared services agreement and the provision of services by affiliated entities to us. The provision states that the board has determined that the services provided by affiliated entities to us are beneficial and that we may enter into a contract or transaction with an affiliated entity provided that any such transaction is approved by the audit committee which is satisfied that the fees, charges and other payments made to the affiliated entities are at no greater cost or expense to us than would be incurred if we were to obtain substantially the same services from unrelated and unaffiliated entities. The term affiliated entities is defined in the code of business conduct and ethics as all parties to the shared services agreement and other entities in which our officers and trustees have an interest.

Our audit committee is advised of related party transactions which occurred in the prior quarter at each quarterly meeting, reviews the transactions and, except to the extent such transaction is effectuated pursuant to an agreement previously approved by such committee, either approves/ratifies or disapproves the transactions. If a transaction relates to a member of our audit committee, such member does not participate in the audit committee's deliberations.

Our audit committee reports our related party transactions to our board of trustees on at least an annual basis.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our executive officers, trustees and persons who beneficially own more than 10% of our common shares to file Initial Reports of Ownership and Reports of Changes in Ownership with the SEC. Executive officers, trustees and greater than 10% beneficial owners are required by the rules and regulations promulgated pursuant to the Securities Exchange Act of 1934, as amended, to furnish us with copies of all Section 16(a) forms they file.

Based, among other things, on our review of copies of these reports filed with the SEC, we believe that none of our trustees, executive officers and greater than 10% beneficial owners have failed to file on a timely basis reports required by Section 16(a) during 2014.

OTHER MATTERS

As of the date of this proxy statement, we do not know of any matter other than those stated in this proxy statement which are to be presented at the annual meeting of shareholders. If any other matter should properly come before the meeting, the persons named in the proxy card will vote the common shares represented by it in accordance with their best judgment. Discretionary authority to vote on other matters is included in the proxy.

By order of the Board of Trustees

S. Asher Gaffney, *Secretary*

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