



ONE LIBERTY PROPERTIES, INC.

2012  
Annual Report

# About Us

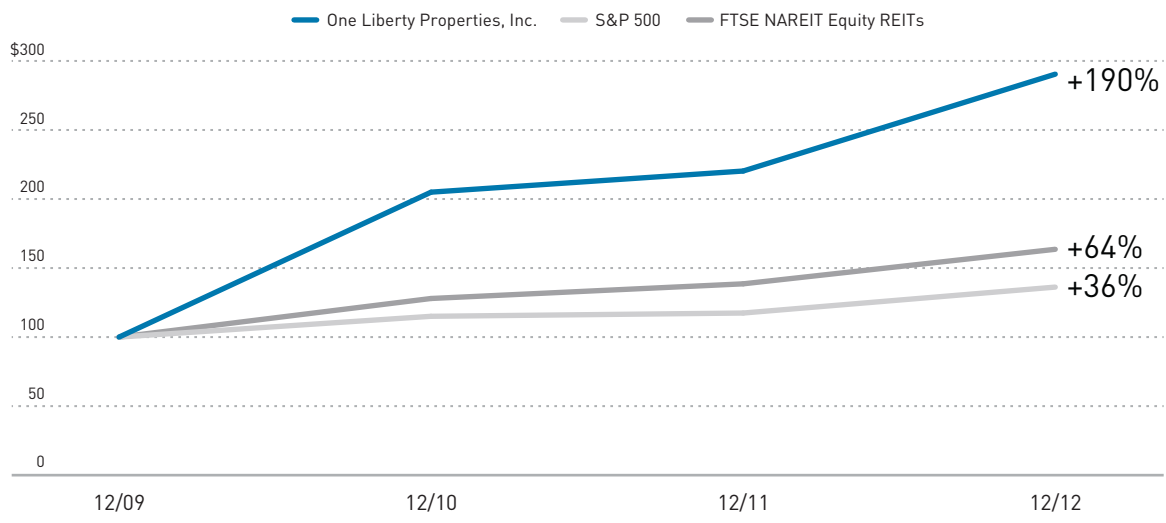
One Liberty Properties, Inc. is a self-administered and self-managed real estate investment trust incorporated under the laws of Maryland in December 1982. The primary business of the company is to acquire, own and manage a geographically diversified portfolio of retail, industrial, health and fitness, office, flex and other properties under long term leases. Substantially all of our leases are “net leases” and ground leases, under which the tenant is responsible for real estate taxes, insurance and ordinary maintenance and repairs.

We acquired our portfolio of properties by balancing fundamental real estate analysis with tenant credit evaluation. Our analysis focuses on the value of a property, determined primarily by its location, use, and by local demographics. We also evaluate a tenant’s financial ability to meet operational needs and lease obligations. We believe that our emphasis on property value enables us to achieve better returns on our acquired properties and also enhances our ability to re-rent or dispose of a property on favorable terms upon the expiration or early termination of a lease. Consequently, we believe that the weighting of these factors in our analysis enables us to achieve attractive current returns with potential growth through contractual rent increases and property appreciation.



## Comparison of 3 Year Cumulative Total Return

Among One Liberty Properties, Inc., the S&P 500 Index, and the FTSE NAREIT Equity REITs Index



## Dear Stockholders,

Reflecting on the past year, we are proud to have effectively executed on our strategy of selective and accretive growth. We continue to enhance our real estate portfolio through the acquisition of properties that will contribute to our cashflow and through the profitable divestiture of properties for which we believe that value has been maximized. Together, these strategies combine to improve the quality of our cashflow and support sustainable growth in our dividend.

2012 Highlights include:

- acquiring eleven properties for approximately \$45 million.
- profitably selling five properties for approximately \$36.1 million, net of closing costs, realizing a gain of \$19.4 million.
- increasing revenues by 7% to nearly \$45 million compared to approximately \$42 million in 2011.
- growing net income attributable to One Liberty by 136% to \$32.3 million, or \$2.16 per diluted share, from \$13.7 million, or \$0.96 per diluted share in 2011. The increase is due primarily to an increase in gains from strategic dispositions of properties.
- increasing adjusted funds from operations, or AFFO, by over 5% to \$22.6 million compared to \$21.4 million in 2011. For a description of the calculation of AFFO and a reconciliation of net income determined in accordance with GAAP to AFFO, we refer you to pages 27-29 of our Form 10-K, which is included with this Annual Report.
- achieving portfolio occupancy of 98.4% at year end for our properties and 100% at properties owned by our unconsolidated joint ventures.
- raising the quarterly dividend by 6% to \$0.35 per share.

We owned 93 properties at the end of 2012 and owned interests in unconsolidated joint ventures that owned seven properties. The properties owned by us and our unconsolidated joint ventures are located in 29 states.

As we look to 2013, our goals remain to continue to improve the portfolio through acquisitions of strong value properties and selective dispositions; to sustain our high occupancy; to maintain a balance sheet that has the financial flexibility and capacity to support our efforts; and to increase our AFFO.

We are in the process of selling our interest in one of our unconsolidated joint ventures to our partner, and will consider additional sales going forward as we look to capture value for our stockholders. As always, we continue to pursue opportunities to acquire accretive assets, but are committed to remaining disciplined in our approach.

Our continued success is due to the hard work of our entire team, and we would like to thank the entire organization for its dedication and effort. Furthermore, our board of directors continues to provide valuable insight, guidance and perspective, helping us drive value for our stockholders.

Sincerely yours,



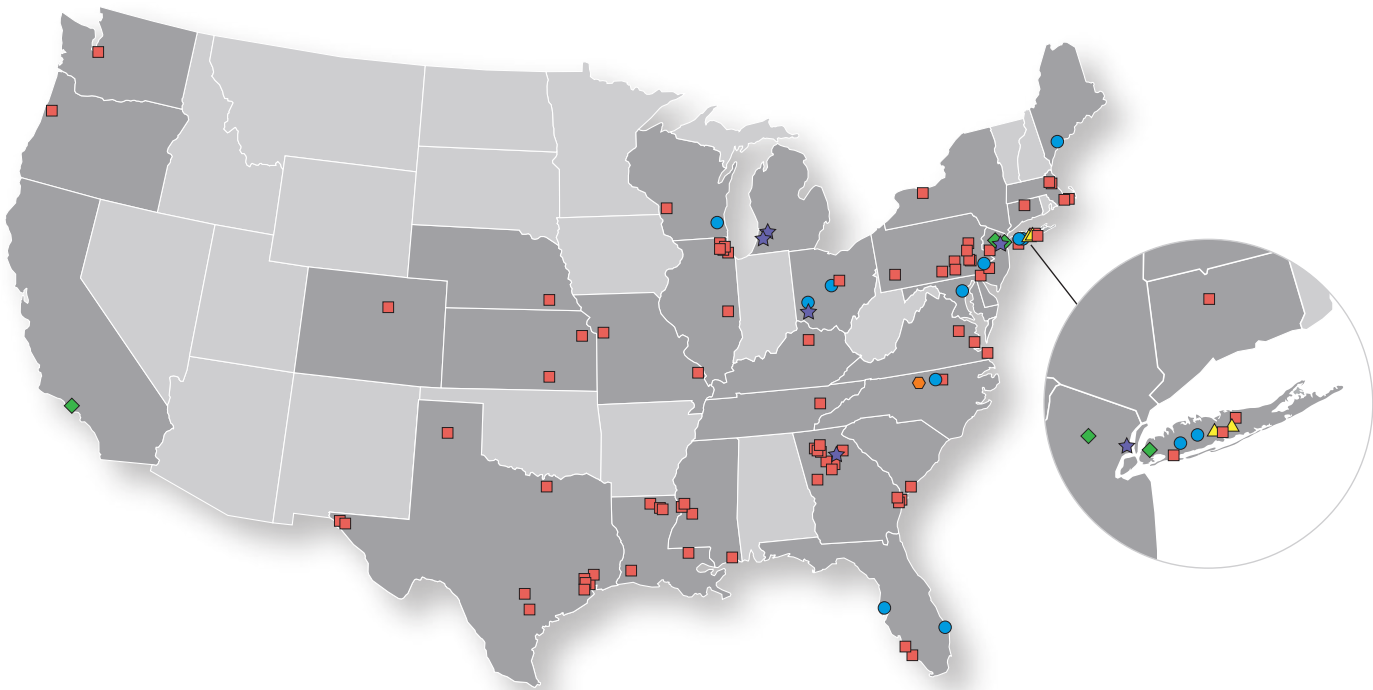
**Fredric H. Gould**  
Chairman



**Patrick J. Callan, Jr.**  
President and Chief Executive Officer

April 8, 2013

# A Look at Our Properties



100 Properties in 29 States

★ Health & Fitness   ■ Retail   ◆ Office   ● Industrial   ▲ Flex   ⬡ Other

# Recent Acquisitions



LA Fitness—Secaucus, NJ



FedEx—Pinellas Park, FL



Applebee's—Kennesaw, GA

## More Properties from our Portfolio



(left to right) Ferguson—Baltimore, MD; Whole Foods—West Hartford, CT; CVS—Marstons Mills, MA; Giant Supermarket—Royersford, PA

# Financial Highlights

(Amounts in Thousands, Except Per Share Data)

	Year Ended December 31,	
	2012	2011
Total revenues	\$ 44,750	\$ 41,805
Depreciation and amortization	9,706	8,934
Real estate expenses including acquisition costs	3,445	2,544
Other expenses	8,082	7,325
Total operating expenses	21,233	18,803
Operating income	\$ 23,517	\$ 23,002
Income from continuing operations	\$ 11,856	\$ 11,572
Income from discontinued operations	20,452	2,148
Net income	32,308	13,720
Plus net loss attributable to noncontrolling interests	12	4
Net income attributable to One Liberty Properties, Inc.	\$ 32,320	\$ 13,724
Net income per common share—diluted:		
Income from continuing operations	\$ .79	\$ .80
Income from discontinued operations	1.37	.16
Net income	\$ 2.16	\$ .96
Weighted average number of common shares—diluted	14,527	13,851

	December 31,	
	2012	2011
Real estate investments, net	\$410,525	\$376,123
Property contributed to joint venture (including related assets of \$84)	—	11,842
Properties held for sale (including related assets of \$968)	—	16,975
Investment in unconsolidated joint ventures	19,485	7,170
Cash and cash equivalents	14,577	12,668
Total assets	481,166	452,821
Mortgages payable	225,971	190,967
Mortgages payable—property held for sale	—	6,970
Line of credit—outstanding	—	20,000
Total liabilities	243,107	233,874
Total equity	238,059	218,947

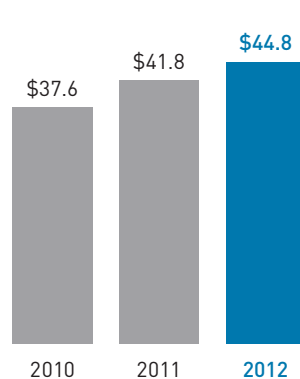
## Total Assets

(Dollars in Millions)



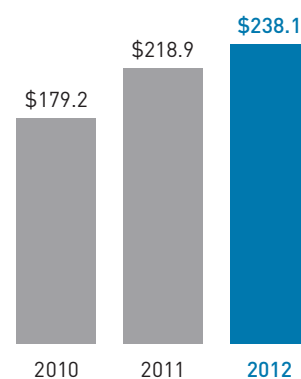
## Total Revenues

(Dollars in Millions)



## Total Equity

(Dollars in Millions)



A grayscale image of the torch of the Statue of Liberty, showing the flame and the crown's top, enclosed within a diamond-shaped border.

ONE LIBERTY PROPERTIES, INC.

2012

Form 10-K



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

**FORM 10-K**

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

For the fiscal year ended December 31, 2012

Or

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

Commission File Number 001-09279

**ONE LIBERTY PROPERTIES, INC.**

(Exact name of registrant as specified in its charter)

**MARYLAND**  
(State or other jurisdiction of  
Incorporation or Organization)

**13-3147497**  
(I.R.S. employer  
Identification No.)

**60 Cutter Mill Road, Great Neck, New York**  
(Address of principal executive offices)

**11021**  
(Zip Code)

Registrant's telephone number, including area code: **(516) 466-3100**

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of exchange on which registered</u>
Common Stock, par value \$1.00 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **NONE**

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes  No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

As of June 30, 2012 (the last business day of the registrant's most recently completed second quarter), the aggregate market value of all common equity held by non-affiliates of the registrant, computed by reference to the price at which common equity was last sold on said date, was approximately \$217.6 million.

As of March 5, 2013, the registrant had 15,176,068 shares of common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the proxy statement for the 2013 annual meeting of stockholders of One Liberty Properties, Inc., to be filed pursuant to Regulation 14A not later than April 30, 2013, are incorporated by reference into Part III of this Annual Report on Form 10-K.



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## PART I

### Item 1. Business

#### General

We are a self-administered and self-managed real estate investment trust, also known as a REIT. We were incorporated in Maryland on December 20, 1982. We acquire, own and manage a geographically diversified portfolio of retail, industrial, health and fitness, office, flex and other properties, a substantial portion of which are under long-term leases. Substantially all of our leases are “net leases” and ground leases under which the tenant is typically responsible for real estate taxes, insurance and ordinary maintenance and repairs. As of December 31, 2012, we owned 93 properties and participated in joint ventures that own seven properties. Our properties and the properties owned by our joint ventures are located in 29 states and have an aggregate of approximately 5.5 million square feet of space (including approximately 1.4 million square feet of space at properties owned by our joint ventures).

As of December 31, 2012:

- our 2013 contractual rental income (as described below) is approximately \$45.8 million;
- the occupancy rate of properties owned by us is approximately 98.4% based on square footage;
- the occupancy rate of properties owned by our joint ventures is 100% based on square footage; and
- the weighted average remaining term of the leases generating our 2013 contractual rental income and for the leases at properties owned by our joint ventures is 7.9 years and 5.9 years, respectively.

Our 2013 contractual rental income includes, after giving effect to any abatements, concessions or adjustments, rental income that is payable to us in 2013 under leases existing at December 31, 2012. Contractual rental income excludes approximately \$679,000 of straight-line rent, amortization of approximately \$6,000 of intangibles and our share of the rental income payable to our joint ventures, which, in 2013, will be approximately \$3.1 million.

#### 2012 Highlights and Recent Developments

- Our total revenues increased by \$2.95 million, or 7%, from 2011.
- We acquired eleven properties for an aggregate of \$44.6 million. Four properties are in Georgia, two properties are in New Jersey and the other properties are in Kansas, Florida, Missouri, Texas and Ohio. The acquired properties account for approximately \$3.8 million, or 8.3%, of our 2013 contractual rental income.
- We sold five properties for an aggregate of \$36.1 million and a net gain of \$19.41 million. The properties sold accounted for \$1.04 million of income from operations of discontinued operations in 2012.
- We refinanced the approximately \$22.85 million of mortgage debt secured by the eleven properties leased to Haverty Furniture Companies, Inc. and bearing interest of 6.87% per year. The new mortgage debt, in the aggregate principal amount of \$25 million, matures September 1, 2032 (subject to the lender’s option to call the debt for any reason on 90 days’ notice at any time after September 1, 2022) and bears interest of 5.125% per year.
- We amended our credit facility to, among other things, reduce our interest rate floor from 5.5% to 4.75%, increase our permitted borrowings from \$55 million to \$75 million and extend the

facility's maturity from March 31, 2013 to March 31, 2015. As of December 31, 2012 and March 13, 2013, no borrowings were outstanding thereunder.

- In the first quarter of 2013, we elected not to participate in the redevelopment of a 6.2 acre joint venture property in Plano, Texas (the "Plano Property") proposed by our partner and thereafter, our partner exercised its right to purchase our 90% interest in the venture for approximately \$13.5 million. We anticipate that this transaction will be completed in 2013.

In the narrative portion of this report, information with respect to our consolidated joint ventures is generally described as if such ventures were our wholly owned subsidiaries and information with respect to unconsolidated joint ventures, which includes a tenant-in-common interest, is generally separately described. Except as otherwise expressly indicated, all references to joint ventures refer to unconsolidated joint ventures.

### **Acquisition Strategies**

We seek to acquire properties throughout the United States that have locations, demographics and other investment attributes that we believe to be attractive. We believe that long-term leases provide a predictable income stream over the term of the lease, making fluctuations in market rental rates and in real estate values less significant to achieving our overall investment objectives. Our goal is to acquire single-tenant properties that are subject to long-term net or ground leases that include periodic contractual rental increases or rent increases based on increases in the consumer price index. Periodic contractual rental increases provide reliable increases in future rent payments and rent increases based on the consumer price index provide protection against inflation. Historically, long-term leases have made it easier for us to obtain longer-term, fixed-rate mortgage financing with principal amortization, thereby moderating the interest rate risk associated with financing or refinancing our property portfolio by reducing the outstanding principal balance over time. We may, however, acquire a property that is subject to a short-term lease when we believe the property represents a good opportunity for recurring income and residual value. Although the acquisition of single-tenant properties subject to net and ground leases is the focus of our investment strategy, we will also consider investments in, among other things, (i) properties that can be re-positioned or re-developed, (ii) community shopping centers anchored by national or regional tenants and (iii) multi-tenant properties. We pay substantially all the operating expenses at community shopping centers, a significant portion of which are reimbursed by the tenants pursuant to their leases.

Generally, we hold the properties we acquire for an extended period of time. Our investment criteria are intended to identify properties from which increased asset value and overall return can be realized from an extended period of ownership. Although our investment criteria favor an extended period of ownership, we will dispose of a property if we regard the disposition of the property as an opportunity to realize the overall value of the property sooner or to avoid future risks by achieving a determinable return from the property.

We identify properties through the network of contacts of our senior management and our affiliates, which includes real estate brokers, private equity firms, banks and law firms. In addition, we attend industry conferences and engage in direct solicitations.

Our charter documents do not limit the number of properties in which we may invest, the amount or percentage of our assets that may be invested in any specific property or property type, or the concentration of investments in any region in the United States. We do not intend to acquire properties located outside of the United States. We will continue to form entities to acquire interests in real properties, either alone or with other investors, and we may acquire interests in joint ventures or other entities that own real property.

It is our policy, and the policy of our affiliated entities, that any investment opportunity presented to us or to any of our affiliated entities that involves primarily the acquisition of a net leased property, a ground lease or a community shopping center, will first be offered to us and may not be pursued by any of our affiliated entities unless we decline the opportunity.

### **Investment Evaluation**

In evaluating potential investments, we consider, among other criteria, the following:

- the ability of a tenant, if a net leased property, or major tenants, if a shopping center, to meet operational needs and lease obligations recognizing the current economic climate;
- the current and projected cash flow of the property;
- the estimated return on equity to us;
- an evaluation of the property and improvements, given its location and use;
- local demographics (population and rental trends);
- the terms of tenant leases, including the relationship between current rents and market rents;
- the projected residual value of the property;
- the potential to finance or refinance the property;
- potential for income and capital appreciation;
- occupancy of and demand for similar properties in the market area; and
- alternate uses or tenants for the property.

### **Our Business Objective**

Our business objective is to maintain and increase, over time, the cash available for distribution to our stockholders by:

- identifying opportunistic and strategic property acquisitions consistent with our portfolio and our acquisition strategies;
- obtaining mortgage indebtedness on favorable terms and maintaining access to capital to finance property acquisitions;
- monitoring and maintaining our portfolio, including tenant negotiations and lease amendments with tenants having financial difficulty; and
- managing assets effectively, including lease extensions and opportunistic and strategic property sales.

### **Typical Property Attributes**

The properties in our portfolio and owned by our joint ventures typically have the following attributes:

- *Net or ground leases.* Substantially all of the leases are net and ground leases under which the tenant is typically responsible for real estate taxes, insurance and ordinary maintenance and repairs. We believe that investments in net and ground leased properties offer more predictable returns than investments in properties that are not net or ground leased;
- *Long-term leases.* Substantially all of our leases are long-term leases. Excluding leases relating to properties owned by our joint ventures, leases representing approximately 22.7% of our 2013

contractual rental income expire between 2018 and 2021, and leases representing approximately 47.5% of our 2013 contractual rental income expire after 2021; and

- *Scheduled rent increases.* Leases representing approximately 81.3% of our 2013 contractual rental income and leases representing 67.9% of our share of the rental income payable in 2013 with respect to properties owned by our joint ventures provide for either periodic contractual rent increases or a rent increase based on the consumer price index.

## Our Tenants

The following table sets forth information about the diversification of our tenants by industry sector as of December 31, 2012:

Type of Property	Number of Tenants	Number of Properties	2013 Contractual Rental Income	Percentage of 2013 Contractual Rental Income
Retail—various . . . . .	65	51	\$19,331,200	42.2%
Industrial . . . . .	8	10	6,426,121	14.0
Retail—furniture(1) . . . . .	3	13	5,510,828	12.0
Health & fitness . . . . .	3	5	3,786,980	8.3
Retail—office supply(2) . . . . .	2	9	3,373,041	7.4
Office . . . . .	2	2	3,324,901	7.3
Flex . . . . .	2	2	2,623,637	5.7
Movie theater . . . . .	1	1	1,401,846	3.1
	<u>86</u>	<u>93</u>	<u>\$45,778,554</u>	<u>100%</u>

- (1) Eleven properties are net leased to Haverty Furniture pursuant to a master lease covering all such properties.
- (2) Includes seven properties which are net leased to Office Depot pursuant to seven separate leases. Five of these leases contain cross-default provisions.

Most of our retail tenants (including franchisees of national chains) operate on a national basis and include, among others, Applebees, Barnes & Noble, Best Buy, Burlington Coat Factory, CarMax, CVS, Kohl's, Marshalls, Mens' Wearhouse, Office Depot, Office Max, Party City, PetSmart, The Sports Authority, Urban Outfitters, Walgreens, Wendy's and Whole Foods and some of our tenants operate on a regional basis, including hhgregg, Giant Food Stores and Haverty Furniture.

## Our Leases

Substantially all of our leases are net or ground leases (including the leases entered into by our joint ventures) under which the tenant, in addition to its rental obligation, typically is responsible for expenses attributable to the operation of the property, such as real estate taxes and assessments, water and sewer rents and other charges. The tenant is also generally responsible for maintaining the property and for restoration following a casualty or partial condemnation. The tenant is typically obligated to indemnify us for claims arising from the property and is responsible for maintaining insurance coverage for the property it leases and naming us an additional insured. Under some net leases, we are responsible for structural repairs, including foundation and slab, roof repair or replacement and restoration following a casualty event, and at several properties we are responsible for certain expenses related to the operation and maintenance of the property.

Our typical lease provides for contractual rent increases periodically throughout the term of the lease or for rent increases pursuant to a formula based on the consumer price index. Some of our leases provide for minimum rents supplemented by additional payments based on sales derived from

the property subject to the lease. Such additional payments were not a material part of our 2012 rental revenues and are not expected to be a material part of our 2013 rental revenues.

Our policy has been to acquire properties that are subject to existing long-term leases or to enter into long-term leases with our tenants. Our leases generally provide the tenant with one or more renewal options.

The following table sets forth scheduled lease expirations of leases for our properties as of December 31, 2012:

Year of Lease Expiration(1)	Number of Expiring Leases	Approximate Square Footage Subject to Expiring Leases	2013 Contractual Rental Income Under Expiring Leases	Percent of 2013 Contractual Rental Income Represented by Expiring Leases
2013	8	120,086	\$ 1,164,086	2.5%
2014	13	675,961	5,813,066	12.7
2015	8	181,060	1,784,140	3.9
2016	13	356,731	3,116,726	6.8
2017	8	89,718	1,780,043	3.9
2018	13	259,784	4,486,578	9.8
2019	3	66,322	906,333	2.0
2020	6	167,606	4,044,929	8.8
2021	5	108,012	941,235	2.1
2022 and Thereafter	26	1,948,753	21,741,418	47.5
	<u>103</u>	<u>3,974,033</u>	<u>\$45,778,554</u>	<u>100%</u>

(1) Lease expirations assume tenants do not exercise existing renewal options.

### Financing, Re-Renting and Disposition of Our Properties

Our charter documents do not limit the level of debt we may incur. Our revolving credit facility matures on March 31, 2015 and, among other things, limits total debt that we may incur to 70% of the value of our properties (as determined pursuant to the credit agreement). We borrow funds on a secured and unsecured basis and intend to continue to do so in the future.

We also mortgage specific properties on a non-recourse basis subject to the standard carve-outs described under “Item 2. Properties—Mortgage Debt”, to enhance the return on our investment in a specific property. The proceeds of mortgage loans may be used for property acquisitions, investments in joint ventures or other entities that own real property, to reduce bank debt and for working capital purposes. The proceeds of our credit facility may be used to payoff existing mortgages, fund the acquisition of additional properties, and to a more limited extent, invest in joint ventures and for working capital. Net proceeds received from the sale, financing or refinancing of properties are generally required to be used to repay amounts outstanding under our credit facility.

With respect to properties we acquire on a free and clear basis, we usually seek to obtain long-term fixed-rate mortgage financing, when available at acceptable terms, shortly after the acquisition of such property to avoid the risk of movement of interest rates and fluctuating supply and demand in the mortgage markets. We also will acquire a property that is subject to (and will assume) a fixed-rate mortgage. Substantially all of our mortgages provide for amortization of part of the principal balance during the term, thereby reducing the refinancing risk at maturity. Some of our properties may be financed on a cross-defaulted or cross-collateralized basis, and we may collateralize a single financing with more than one property.

After termination or expiration of any lease relating to any of our properties, we will seek to re-rent or sell such property in a manner that will maximize the return to us, considering, among other factors, the income potential and market value of such property. We acquire properties for long-term investment for income purposes and do not typically engage in the turnover of investments. We will consider the sale of a property if a sale appears advantageous in view of our investment objectives. We may take back a purchase money mortgage as partial payment in lieu of cash in connection with any sale and may consider local custom and prevailing market conditions in negotiating the terms of repayment. If there is a substantial tax gain, we may seek to enter into a tax deferred transaction and reinvest the proceeds in another property. It is our policy to use any cash realized from the sale of properties, net of any distributions to stockholders, to pay down amounts due under our credit facility, if any, and for the acquisition of additional properties.

### **Our Joint Ventures**

As of December 31, 2012, we participated in seven joint ventures that own an aggregate of seven properties, with approximately 1.4 million rentable square feet of space. Five of the properties are retail properties, one is an office property, and one is an industrial property. We own 50% of the equity interest in six of these joint ventures and subject to the sale to be completed in 2013, a 90% equity interest in a joint venture that owns the Plano Property. At December 31, 2012, our investment in joint ventures was approximately \$19.5 million.

Based on the leases in effect at December 31, 2012, we anticipate that our share of rental income payable to our joint ventures in 2013 will be approximately \$3.1 million. The leases for three properties are expected to contribute 87.6% of the aggregate projected rental income payable to all of our joint ventures in 2013 and expire in 2017, 2021 and 2022.

### **Competition**

We face competition for the acquisition of properties from a variety of investors, including domestic and foreign corporations and real estate companies, financial institutions, insurance companies, pension funds, investment funds, other REITs and individuals, some of which have significant advantages over us, including a larger, more diverse group of properties and greater financial and other resources than we have.

### **Our Structure**

Seven employees, including Patrick J. Callan, Jr., our president and chief executive officer, Lawrence G. Ricketts, Jr., our executive vice president and chief operating officer, Justin Clair, our assistant vice-president and four others, devote substantially all of their business time to our company. Our other executive, administrative, legal, accounting and clerical personnel share their services on a part-time basis with us and other affiliated entities that share our executive offices.

We entered into a compensation and services agreement with Majestic Property Management Corp., effective as of January 1, 2007. Majestic Property is wholly-owned by our chairman of the board and it provides compensation to certain of our executive officers. Pursuant to this agreement, we pay an annual fee to Majestic Property and Majestic Property assumed our obligations under a shared services agreement, and provides us with the services of all affiliated executive, administrative, legal, accounting and clerical personnel that we use on a part time basis, as well as certain property management services, property acquisition, sales and leasing and mortgage brokerage services. The annual fees we pay to Majestic Property are negotiated each year by us and Majestic Property and are approved by our audit committee and independent directors.

In 2012, pursuant to the compensation and services agreement, we paid Majestic Property a fee of approximately \$2.725 million and \$175,000 for our share of all direct office expenses, including, among



other expenses, rent, telephone, postage, computer services and internet usage. See Note 10 to our consolidated financial statements for information regarding equity awards to individuals performing services on our behalf.

We believe that the compensation and services agreement allows us to benefit from access to, and from the services of, a group of senior executives with significant knowledge and experience in the real estate industry and our company and its activities. If not for this agreement, we believe that a company of our size would not have access to the skills and expertise of these executives at the cost that we have incurred and will incur in the future. For a description of the background of our management, please see the information under the heading “Executive Officers” in Part I of this Annual Report.

### **Available Information**

Our Internet address is [www.onelibertyproperties.com](http://www.onelibertyproperties.com). On the Investor Information page of our web site, we post the following filings as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission (the “SEC”): our annual report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended. All such filings on our Investor Information Web page, which also includes Forms 3, 4 and 5 filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, as amended, are available to be viewed free of charge.

On the Corporate Governance page of our web site, we post the following charters and guidelines: Audit Committee Charter, Compensation Committee Charter, Nominating and Corporate Governance Committee Charter, Corporate Governance Guidelines and Code of Business Conduct and Ethics, as amended and restated. All such documents on our Corporate Governance Web page are available to be viewed free of charge.

Information contained on our web site is not part of, and is not incorporated by reference into, this Annual Report on Form 10-K or our other filings with the SEC. A copy of this Annual Report on Form 10-K and those items disclosed on our Investor Information Web page and our Corporate Governance Web page are available without charge upon written request to: One Liberty Properties, Inc., 60 Cutter Mill Road, Suite 303, Great Neck, New York 11021, Attention: Secretary.

### **Forward-Looking Statements**

This Annual Report on Form 10-K, together with other statements and information publicly disseminated by us, contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We intend such forward-looking statements to be covered by the safe harbor provision for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and include this statement for purposes of complying with these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, are generally identifiable by use of the words “may,” “will,” “could,” “believe,” “expect,” “intend,” “anticipate,” “estimate,” “project,” or similar expressions or variations thereof. You should not rely on forward-looking statements since they involve known and unknown risks, uncertainties and other factors which are, in some cases, beyond our control and which could materially affect actual results, performance or achievements. Factors which may cause actual results to differ materially from current expectations include, but are not limited to:

- the financial condition of our tenants and the performance of their lease obligations;
- general economic and business conditions, including those currently affecting our nation’s economy and real estate markets;

- the availability of and costs associated with sources of liquidity;
- accessibility of debt and equity capital markets;
- general and local real estate conditions, including any changes in the value of our real estate;
- compliance with credit facility covenants;
- more competition for leasing of vacant space due to current economic conditions;
- changes in governmental laws and regulations relating to real estate and related investments;
- the level and volatility of interest rates;
- competition in our industry; and
- the other risks described under “Risks Related to Our Business” and “Risks Related to the REIT Industry.”

Any or all of our forward-looking statements in this report and in any other public statements we make may turn out to be incorrect. Actual results may differ from our forward looking statements because of inaccurate assumptions we might make or because of the occurrence of known or unknown risks and uncertainties. Many factors mentioned in the discussion below will be important in determining future results. Consequently, no forward-looking statement can be guaranteed and you are cautioned not to place undue reliance on these forward- looking statements. Actual future results may vary materially.

Except as may be required under the United States federal securities laws, we undertake no obligation to publicly update our forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make in our reports that are filed with or furnished to the SEC.

#### **Item 1A. Risk Factors.**

*Set forth below is a discussion of certain risks affecting our business. The categorization of risks set forth below is meant to help you better understand the risks facing our business and is not intended to limit your consideration of the possible effects of these risks to the listed categories. Any adverse effects arising from the realization of any of the risks discussed, including our financial condition and results of operation, may, and likely will, adversely affect many aspects of our business.*

*In addition to the other information contained or incorporated by reference in this Form 10-K, readers should carefully consider the following risk factors:*

#### **Risks Related to Our Business**

***If we are unable to re-rent properties upon the expiration of our leases or if our tenants default, our revenues will be reduced and we would incur additional costs.***

Substantially all of our revenues are derived from rental income paid by our tenants. From 2013 through 2015, leases with respect to 27 tenants that account for 18.9% of our 2012 rental revenue and 19.1% of our 2013 contractual rental income, expire. One tenant, whose lease expires in 2014, accounts for 3.9% of our 2012 rental revenue and 4.3% of 2013 contractual rental income. If our tenants, and in particular, our significant tenants, (i) do not renew their leases upon the expiration of same, (ii) default on their obligations or (iii) seek rent relief, lease renegotiation or other accommodations, our revenues could decline. At the same time, we would remain responsible for the payment of the mortgage obligations with respect to the related properties and would become responsible for the operating expenses related to these properties, including, among other things, real estate taxes, maintenance and insurance. In addition, we may incur expenses in enforcing our rights as landlord. Even if we find

replacement tenants or renegotiate leases with current tenants, the terms of the new or renegotiated leases, including the cost of required renovations or concessions to tenants, or the expense of the reconfiguration of a single tenancy property for use by multiple tenants, may be less favorable than current lease terms and could reduce the amount of cash available to meet expenses and pay distributions.

***Approximately 64% of our 2012 rental revenue and 61.6% of our 2013 contractual rental income is derived from tenants operating in the retail industry and the inability of those tenants to pay rent would significantly reduce our revenues.***

Approximately 64% of our rental revenues for 2012 was derived from retail tenants and approximately 61.6% of our 2013 contractual rental income is expected to be derived from retail tenants, including 12% and 7.4%, from tenants engaged in retail furniture and office supply operations, respectively.

Difficult economic conditions could cause our retail tenants to fail to meet their lease obligations, including rental payment delinquencies, which would have an adverse effect on our results of operations, liquidity and financial condition, including making it more difficult for us to satisfy our operating and debt service requirements, make capital expenditures and make distributions to our stockholders.

***Approximately 31.6% of our 2012 revenues and 32.1% of our 2013 contractual rental income is derived from five tenants. The default, financial distress or failure of any of these tenants could significantly reduce our revenues.***

Haverty Furniture, Office Depot, DSM Nutritional Products, Inc., Ferguson Enterprises, Inc., and LA Fitness International LLC, accounted for approximately 10.8%, 6.0%, 5.4%, 5.3% and 4.1%, respectively, of our rental revenues for 2012, and account for 10.0%, 5.7%, 4.8%, 5.4% and 6.2%, respectively, of our 2013 contractual rental income. The default, financial distress or bankruptcy of any of these tenants could cause interruptions in the receipt of, or the loss of, a significant amount of rental revenues and would require us to pay operating expenses currently paid by the tenant. This could also result in the vacancy of the property or properties occupied by the defaulting tenant, which would significantly reduce our rental revenues and net income until the re-rental of the property or properties, and could decrease the ultimate sale value of the property.

***Declines in the value of our properties could result in impairment charges.***

If we are presented with indications of an impairment in the value of a particular property or group of properties, we will be required to evaluate any such property or properties. If we determine that any of our properties at which indicators of impairment exist have a value which is below the net book value of such property, we may be required to recognize an impairment charge for the difference between the fair value and the book value during the quarter in which we make such determination. In addition, we may incur losses from time to time if we dispose of properties for sales prices that are less than our book value.

***Competition that traditional retail tenants face from on-line retail sales could adversely affect our business.***

Our retail tenants face increasing competition from online retailers. Online retailers may be able to provide customers with better pricing and the ease and comfort of shopping from their home or office. Internet sales have been obtaining an increasing percentage of retail sales over the past few years and this trend is expected to continue. The continued growth of online sales could decrease the need for traditional retail outlets and reduce retailers' space and property requirements. This could adversely impact our ability to rent space at our retail properties and increase competition for retail

tenants thereby reducing the rent we would receive at these properties and adversely affecting our results of operations and financial condition.

***If we are unable to refinance our mortgage loans at maturity, we may be forced to sell properties at disadvantageous terms, which would result in the loss of revenues and in a decline in the value of our portfolio.***

We had, as of December 31, 2012, \$226 million in mortgage debt outstanding, all of which is non-recourse (subject to standard carve-outs) and our ratio of mortgage debt to total assets was 47%. Our joint ventures had \$25.9 million in total mortgage indebtedness (all of which is non-recourse, subject to standard carve-outs). The risks associated with our mortgage debt and the mortgage debt of our joint ventures include the risk that cash flow from properties securing the indebtedness and our available cash and cash equivalents and short-term investments will be insufficient to meet required payments of principal and interest.

Generally, only a small portion of the principal of our mortgage indebtedness will be repaid prior to maturity and we do not plan to retain sufficient cash to repay such indebtedness at maturity. Accordingly, to meet these obligations if they cannot be refinanced at maturity, we will have to use funds available under our credit facility, if any, and our available cash and cash equivalents to pay our mortgage debt or seek to raise funds through the financing of unencumbered properties, sale of properties or the issuance of additional equity. From 2013 through 2017, approximately \$132.9 million of our mortgage debt matures—specifically, \$8 million, \$37.4 million, \$13.2 million, \$31.2 million and \$43.1 million in 2013, 2014, 2015, 2016 and 2017, respectively. With respect to our joint ventures, approximately \$22.44 million of mortgage debt matures from 2013 through 2017—specifically, \$940,000, \$1 million, \$20.3 million, \$95,000 and \$101,000 in 2013, 2014, 2015, 2016 and 2017, respectively. If we (or our joint ventures) are not successful in refinancing or extending existing mortgage indebtedness or financing unencumbered properties, selling properties on favorable terms or raising additional equity, our cash flow (or the cash flow of a joint venture) will not be sufficient to repay all maturing mortgage debt when payments become due, and we (or a joint venture) may be forced to dispose of properties on disadvantageous terms or convey properties secured by mortgages to the mortgagees, which would lower our revenues and the value of our portfolio.

Additionally, we may find that the value of a property could be less than the mortgage secured by such property. In such instance, we may seek to renegotiate the terms of the mortgage, or to the extent that our loan is non-recourse and the terms of the mortgage cannot be satisfactorily renegotiated, forfeit the property by conveying it to the mortgagee and writing off our investment.

***If our borrowings increase, the risk of default on our repayment obligations and our debt service requirements will also increase.***

The terms of our revolving credit facility limit our ability to incur indebtedness, including limiting the total indebtedness that we may incur to an amount equal to 70% of the value (as defined in the credit agreement) of our properties. Increased leverage could result in increased risk of default on our payment obligations related to borrowings and in an increase in debt service requirements, which could reduce our net income and the amount of cash available to meet expenses and to make distributions to our stockholders.

***If a significant number of our tenants default or fail to renew expiring leases, or we take impairment charges against our properties, a breach of our revolving credit facility could occur.***

Our revolving credit facility includes financial covenants that require us to maintain certain financial ratios and requirements. If our tenants default under their leases with us or fail to renew expiring leases, generally accepted accounting principles may require us to recognize impairment

charges against our properties, and our financial position could be adversely affected causing us to be in breach of the financial covenants contained in our credit facility.

Failure to meet interest and other payment obligations under our revolving credit facility or a breach by us of the covenants to maintain the financial ratios would place us in default under our credit facility, and, if the banks called a default and required us to repay the full amount outstanding under the credit facility, we might be required to rapidly dispose of our properties, which could have an adverse impact on the amounts we receive on such disposition. If we are unable to dispose of our properties in a timely fashion to the satisfaction of the banks, the banks could foreclose on that portion of our collateral pledged to the banks, which could result in the disposition of our properties at below market values. The disposition of our properties at below our carrying value would adversely affect our net income, reduce our stockholders' equity and adversely affect our ability to pay distributions to our stockholders.

***Impairment charges against owned real estate may not be adequate to cover actual losses.***

Impairment charges are based on an evaluation of known risks and economic factors. The determination of an appropriate level of impairment charges is an inherently difficult process and is based on numerous assumptions. The amount of impairment charges of real estate is susceptible to changes in economic, operating and other conditions that are largely beyond our control. Any impairment charges that we may take may not be adequate to cover actual losses and we may need to take additional impairment charges in the future. Actual losses and additional impairment charges in the future could materially affect our results of operations.

***If credit markets tighten, it may be more difficult for us to secure financing, which may limit our ability to finance or refinance our real estate properties, reduce the number of properties we can acquire, and adversely affect your investment.***

Reduced access to credit markets may make it difficult for us to secure mortgage debt, limiting the mortgage debt available on properties we wish to acquire and possibly limiting the properties we can acquire. Even in the event that we are able to secure mortgage debt on, or otherwise finance our real estate properties, due to increased costs associated with securing financing and other factors beyond our control, we may be unable to refinance the entire outstanding loan balance or be subject to unfavorable terms (such as higher loan fees, interest rates and periodic payments) if we do refinance the loan balance. Either of these results could reduce income from those properties and reduce cash available for distribution, which may adversely affect the investment goals of our stockholders.

***Certain of our net leases and our ground leases require us to pay property related expenses that are not the obligations of our tenants.***

Under the terms of substantially all of our net leases, in addition to satisfying their rent obligations, our tenants are responsible for the payment of real estate taxes, insurance and ordinary maintenance and repairs. However, under the provisions of certain net and ground leases, we are required to pay some expenses, such as the costs of environmental liabilities, roof and structural repairs, insurance, certain non-structural repairs and maintenance. If our properties incur significant expenses that must be paid by us under the terms of our leases, our business, financial condition and results of operations will be adversely affected and the amount of cash available to meet expenses and to make distributions to holders of our common stock may be reduced.

***Uninsured and underinsured losses may affect the revenues generated by, the value of, and the return from a property affected by a casualty or other claim.***

Substantially all of our tenants obtain, for our benefit, comprehensive insurance covering our properties in amounts that are intended to be sufficient to provide for the replacement of the improvements at each property. However, the amount of insurance coverage maintained for any property may not be sufficient to pay the full replacement cost of the improvements at the property following a casualty event. In addition, the rent loss coverage under the policy may not extend for the full period of time that a tenant may be entitled to a rent abatement as a result of, or that may be required to complete restoration following, a casualty event. In addition, there are certain types of losses, such as those arising from earthquakes, floods, hurricanes and terrorist attacks, that may be uninsurable or that may not be economically insurable. Changes in zoning, building codes and ordinances, environmental considerations and other factors also may make it impossible or impracticable for us to use insurance proceeds to replace damaged or destroyed improvements at a property. If restoration is not or cannot be completed to the extent, or within the period of time, specified in certain of our leases, the tenant may have the right to terminate the lease. If any of these or similar events occur, it may reduce our revenues, the value of, or our return from, an affected property.

***Our revenues and the value of our portfolio are affected by a number of factors that affect investments in real estate generally.***

We are subject to the general risks of investing in real estate. These include adverse changes in economic conditions and local conditions such as changing demographics, retailing trends and traffic patterns, declines in the rental rates, changes in the supply and price of quality properties and the market supply and demand of competing properties, the impact of environmental laws, security concerns, prepayment penalties applicable under mortgage financings, changes in tax, zoning, building code, fire safety and other laws and regulations, the type of insurance coverage available in the market, and changes in the type, capacity and sophistication of building systems. Approximately 61.6%, 14% and 8.3% of our 2013 contractual rental income is expected to come from retail, industrial, and health and fitness tenants, respectively, and we are vulnerable to economic declines that negatively impact these sectors of the economy, which could have an adverse effect on our results of operations, liquidity and financial condition.

***Our revenues and the value of our portfolio are affected by a number of factors that affect investments in leased real estate generally.***

We are subject to the general risks of investing in leased real estate. These include the non-performance of lease obligations by tenants, leasehold improvements that will be costly or difficult to remove should it become necessary to re-rent the leased space for other uses, covenants in certain retail leases that limit the types of tenants to which available space can be rented (which may limit demand or reduce the rents realized on re-renting), rights of termination of leases due to events of casualty or condemnation affecting the leased space or the property or due to interruption of the tenant's quiet enjoyment of the leased premises, and obligations of a landlord to restore the leased premises or the property following events of casualty or condemnation. The occurrence of any of these events could adversely impact our results of operations, liquidity and financial condition.

***Real estate investments are relatively illiquid and their values may decline.***

Real estate investments are relatively illiquid. Therefore, we will be limited in our ability to reconfigure our real estate portfolio in response to economic changes. We may encounter difficulty in disposing of properties when tenants vacate either at the expiration of the applicable lease or otherwise. If we decide to sell any of our properties, our ability to sell these properties and the prices



we receive on their sale may be affected by many factors, including the number of potential buyers, the number of competing properties on the market and other market conditions, as well as whether the property is leased and if it is leased, the terms of the lease. As a result, we may be unable to sell our properties for an extended period of time without incurring a loss, which would adversely affect our results of operations, liquidity and financial condition.

***The concentration of our properties in certain regions may make our revenues and the value of our portfolio vulnerable to adverse changes in local economic conditions.***

The properties we own may be located in the same or a limited number of geographic regions. Approximately 35% of our 2012 rental income was, and approximately 36% of our 2013 contractual rental income will be, derived from properties located in New York, Pennsylvania and New Jersey (excluding properties located in multiple states but leased pursuant to a master lease (*i.e.*, our Haverty Furniture and Pantry Pride properties)). At December 31, 2012, approximately 42.8% of the net book value of our real estate investments were located in four states—New Jersey (13.1%), Texas (11.3%), Pennsylvania (9.7%), and New York (8.7%). As a result, a decline in the economic conditions in these regions, or in regions where our properties may be concentrated in the future, may have an adverse effect on the rental and occupancy rates for, and the property values of, these properties, which could lead to a reduction in our rental income and in the results of operations.

***We have been, and in the future will be, subject to significant competition and we may not be able to compete successfully for investments.***

We have been, and in the future will be, subject to significant competition for attractive investment opportunities from other real estate investors, many of which have greater financial resources than us, including publicly-traded REITs, non-traded REITs, insurance companies, commercial and investment banking firms, private institutional funds, hedge funds, private equity funds and other investors. We have observed increased competition in 2012 and expect that to continue into 2013. We may not be able to compete successfully for investments. If we pay higher prices for investments, our returns may be lower and the value of our assets may not increase or may decrease significantly below the amount we paid for such assets. If such events occur, we may experience lower returns on our investments.

***We cannot assure you of our ability to pay dividends in the future.***

We intend to pay quarterly dividends and to make distributions to our stockholders in amounts such that all or substantially all of our taxable income in each year is distributed. This, along with other factors, will enable us to qualify for the tax benefits accorded to a REIT under the Internal Revenue Code of 1986, as amended. We have not established a minimum dividend payment level and our ability to pay dividends may be adversely affected by the risk factors described in this Annual Report on Form 10-K. All distributions will be made at the discretion of our board of directors and will depend on our earnings, our financial condition, maintenance of our REIT status and such other factors as our board of directors may deem relevant from time to time.

***If we reduce our dividend, the market value of our common stock may decline.***

The level of our common stock dividend is established by our board of directors from time to time based on a variety of factors, including our cash available for distribution, funds from operations and maintenance of our REIT status. Various factors could cause our board of directors to decrease our dividend level, including insufficient income to cover our dividends, tenant defaults or bankruptcies resulting in a material reduction in our funds from operations or a material loss resulting from an adverse change in the value of one or more of our properties. If our board of directors determines to reduce our common stock dividend, the market value of our common stock could be adversely affected.



***Our current and future investments in joint ventures could be adversely affected by the lack of sole decision making authority, reliance on joint venture partners' financial condition, and any dispute that may arise between our joint venture partners and us.***

A number of properties in which we have an interest are owned through joint ventures. We may continue to acquire properties through joint ventures and/or contribute some of our properties to joint ventures. Investments in joint ventures may, under certain circumstances, involve risks not present when a third party is not involved, including the possibility that joint venture partners might file for bankruptcy protection, or fail to fund their share of required capital contributions. Further, joint venture partners may have conflicting business interests or goals, and as a result there is the potential risk of impasses on decisions, such as a sale. Any disputes that may arise between joint venture partners and us may result in litigation or arbitration that would increase our expenses and prevent our officers and/or directors from focusing their time and effort on our business. Consequently, actions by or disputes with joint venture partners might result in subjecting properties owned by the joint venture to additional risk.

***Compliance with environmental regulations and associated costs could adversely affect our results of operations and liquidity.***

Under various federal, state and local laws, ordinances and regulations, an owner or operator of real property may be required to investigate and clean up hazardous or toxic substances or petroleum product releases at the property and may be held liable to a governmental entity or to third parties for property damage and for investigation and cleanup costs incurred in connection with contamination. The cost of investigation, remediation or removal of hazardous or toxic substances may be substantial, and the presence of such substances, or the failure to properly remediate a property, may adversely affect our ability to sell or rent the property or to borrow money using the property as collateral. In connection with our ownership, operation and management of real properties, we may be considered an owner or operator of the properties and, therefore, potentially liable for removal or remediation costs, as well as certain other related costs, including governmental fines and liability for injuries to persons and property, not only with respect to properties we own now or may acquire, but also with respect to properties we have owned in the past.

We cannot provide any assurance that existing environmental studies with respect to any of our properties reveal all potential environmental liabilities, that any prior owner of a property did not create any material environmental condition not known to us, or that a material environmental condition does not otherwise exist, or may not exist in the future, as to any one or more of our properties. If a material environmental condition does in fact exist, or exists in the future, the remediation of costs could have a material adverse impact upon our results of operations, liquidity and financial condition.

***Compliance with the Americans with Disabilities Act could be costly.***

Under the Americans with Disabilities Act of 1990, all public accommodations must meet Federal requirements for access and use by disabled persons. A determination that our properties do not comply with the Americans with Disabilities Act could result in liability for both governmental fines and damages. If we are required to make unanticipated major modifications to any of our properties to comply with the Americans with Disabilities Act, which are determined not to be the responsibility of our tenants, we could incur unanticipated expenses that could have an adverse impact upon our results of operations, liquidity and financial condition.

***Our senior management and other key personnel are critical to our business and our future success depends on our ability to retain them.***

We depend on the services of Fredric H. Gould, chairman of our Board of Directors, Patrick J. Callan, Jr., our president and chief executive officer, Lawrence G. Ricketts, Jr., our executive vice president and chief operating officer, and other members of our senior management to carry out our business and investment strategies. Only two of our senior officers, Messrs. Callan and Ricketts, devote substantially all of their business time to our company. The remainder of our senior management provide services to us on a part-time, as-needed basis. The loss of the services of any of our senior management or other key personnel, or our inability to recruit and retain qualified personnel in the future, could impair our ability to carry out our business and investment strategies.

***Our transactions with affiliated entities involve conflicts of interest.***

From time to time we have entered into transactions with persons and entities affiliated with us and with certain of our officers and directors. Our policy for transactions with affiliates is to have these transactions approved by our audit committee and by a majority of our board of directors, including a majority of our independent directors. We entered into a compensation and services agreement with Majestic Property effective as of January 1, 2007. Majestic Property is wholly-owned by the chairman of our Board of Directors and it provides compensation to certain of our part-time senior executive officers. Pursuant to the compensation and services agreement, we pay an annual fee to Majestic Property and it assumes our obligations under a shared services agreement, and provide us with the services of all affiliated executive, administrative, legal, accounting and clerical personnel that we use on a part time basis, as well as certain property management services, property acquisition, sales and leasing and mortgage brokerage services. In 2012, pursuant to the compensation and services agreement, we paid Majestic Property a fee of \$2,725,000 and an additional \$175,000 for our share of all direct office expenses, including rent, telephone, postage, computer services, and internet usage. See Note 10 to our consolidated financial statements for information regarding equity awards to individuals performing services on our behalf.

***The failure of any bank in which we deposit our funds could have an adverse impact on our financial condition.***

We have diversified our cash and cash equivalents between several banking institutions in an attempt to minimize exposure to any one of these entities. However, the Federal Deposit Insurance Corporation, or "FDIC," only insures accounts in amounts up to \$250,000 per depositor per insured bank. We currently have cash and cash equivalents deposited in certain financial institutions significantly in excess of federally insured levels. If any of the banking institutions in which we have deposited funds ultimately fails, we may lose our deposits over \$250,000. The loss of our deposits may have an adverse effect on our financial condition.

### **Risks Related to the REIT Industry**

***Failure to qualify as a REIT would result in material adverse tax consequences and would significantly reduce cash available for distributions.***

We operate so as to qualify as a REIT under the Internal Revenue Code of 1986, as amended. Qualification as a REIT involves the application of technical and complex legal provisions for which there are limited judicial and administrative interpretations. The determination of various factual matters and circumstances not entirely within our control may affect our ability to qualify as a REIT. In addition, no assurance can be given that legislation, new regulations, administrative interpretations or court decisions will not significantly change the tax laws with respect to qualification as a REIT or the federal income tax consequences of such qualification. If we fail to qualify as a REIT, we will be

subject to federal, certain additional state and local income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates and would not be allowed a deduction in computing our taxable income for amounts distributed to stockholders. In addition, unless entitled to relief under certain statutory provisions, we would be disqualified from treatment as a REIT for the four taxable years following the year during which qualification is lost. The additional tax would reduce significantly our net income and the cash available for distributions to stockholders.

***We are subject to certain distribution requirements that may result in our having to borrow funds at unfavorable rates.***

To obtain the favorable tax treatment associated with being a REIT, we generally are required, among other things, to distribute to our stockholders at least 90% of our ordinary taxable income (subject to certain adjustments) each year. To the extent that we satisfy these distribution requirements, but distribute less than 100% of our taxable income we will be subject to federal corporate tax on our undistributed taxable income. In addition, we are, in 2012, subject to a 4% nondeductible excise tax on the amount by which distributions paid by us with respect to 2012 are less than the sum of 85% of our ordinary income, 95% of our capital gain net income and 100% of our undistributed income from prior years.

As a result of differences in timing between the receipt of income and the payment of expenses, and the inclusion of such income and the deduction of such expenses in arriving at taxable income, and the effect of nondeductible capital expenditures, the creation of reserves and the timing of required debt service (including amortization) payments, we may need to borrow funds in order to make the distributions necessary to retain the tax benefits associated with qualifying as a REIT, even if we believe that then prevailing market conditions are not generally favorable for such borrowings. Such borrowings could reduce our net income and the cash available for distributions to holders of our common stock.

***Compliance with REIT requirements may hinder our ability to maximize profits.***

In order to qualify as a REIT for Federal income tax purposes, we must continually satisfy tests concerning, among other things, our sources of income, the amounts we distribute to our stockholders and the ownership of our stock. We may also be required to make distributions to stockholders at disadvantageous times or when we do not have funds readily available for distribution. Accordingly, compliance with REIT requirements may hinder our ability to operate solely on the basis of maximizing profits.

In order to qualify as a REIT, we must also ensure that at the end of each calendar quarter, at least 75% of the value of our assets consists of cash, cash items, government securities and real estate assets. Any investment in securities cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, no more than 5% of the value of our assets can consist of the securities of any one issuer, other than a qualified REIT security. If we fail to comply with these requirements, we must dispose of such portion of these securities in excess of these percentages within 30 days after the end of the calendar quarter in order to avoid losing our REIT status and suffering adverse tax consequences. This requirement could cause us to dispose of assets for consideration that is less than their true value and could lead to an adverse impact on our results of operations and financial condition.

**Item 1B. Unresolved Staff Comments.**

None.

## EXECUTIVE OFFICERS

Set forth below is a list of our executive officers whose terms expire at our 2013 annual board of directors' meeting. The business history of our officers, who are also directors, will be provided in our proxy statement to be filed pursuant to Regulation 14A not later than April 30, 2013.

NAME	AGE	POSITION WITH THE COMPANY
Fredric H. Gould*	77	Chairman of the Board
Patrick J. Callan, Jr.	50	President, Chief Executive Officer, and Director
Lawrence G. Ricketts, Jr.	36	Executive Vice President and Chief Operating Officer
Matthew J. Gould*	53	Vice Chairman of the Board
Jeffrey A. Gould*	47	Senior Vice President and Director
David W. Kalish***	65	Senior Vice President and Chief Financial Officer
Mark H. Lundy**	50	Senior Vice President and Secretary
Israel Rosenzweig	65	Senior Vice President
Simeon Brinberg**	79	Senior Vice President
Karen Dunleavy	54	Vice President, Financial
Alysa Block	52	Treasurer
Richard M. Figueroa	45	Vice President and Assistant Secretary
Isaac Kalish***	37	Assistant Treasurer
Justin Clair	30	Assistant Vice President

\* Matthew J. Gould and Jeffrey A. Gould are Fredric H. Gould's sons.

\*\* Mark H. Lundy is Simeon Brinberg's son-in-law.

\*\*\* Isaac Kalish is David W. Kalish's son.

**Lawrence G. Ricketts, Jr.** Mr. Ricketts has been our Chief Operating Officer since January 2008, Vice President from December 1999 through June 2006, Executive Vice President since June 2006, and employed by us since January 1999.

**David W. Kalish.** Mr. Kalish has served as our Senior Vice President and Chief Financial Officer since June 1990 and as Senior Vice President, Finance of BRT Realty Trust since August 1998. Since June 1990, he has served as Vice President and Chief Financial Officer of the managing general partner of Gould Investors L.P., a master limited partnership involved primarily in the ownership and operation of a diversified portfolio of real estate assets. Mr. Kalish is a certified public accountant.

**Israel Rosenzweig.** Mr. Rosenzweig has served as our Senior Vice President since June 1997, as Vice Chairman of the Board of Trustees of BRT Realty Trust since September 2012 and as Senior Vice President of BRT Realty since March 1998. He has been a Vice President of the managing general partner of Gould Investors since May 1997.

**Mark H. Lundy.** Mr. Lundy has served as our Secretary since June 1993 and as our Vice President since June 2000 (Senior Vice President since June 2006). Mr. Lundy has been a Vice President of BRT Realty Trust since April 1993 (Senior Vice President since March 2005) and a Vice President of the managing general partner of Gould Investors July 1990. He is an attorney-at-law and a member of the bars of New York and the District of Columbia.

**Simeon Brinberg.** Mr. Brinberg has served as our Senior Vice President since 1989. He has been Secretary of BRT Realty Trust since 1983, a Senior Vice President of BRT Realty Trust since 1988 and a Vice President of the managing general partner of Gould Investors since 1988. Mr. Brinberg is an attorney-at-law and a member of the bar of the State of New York.

**Karen Dunleavy.** Ms. Dunleavy has been our Vice President, Financial since 1994. She has served as Treasurer of the managing general partner of Gould Investors since 1986. Ms. Dunleavy is a certified public accountant.

**Alysa Block.** Ms. Block has been our Treasurer since 2007, and served as Assistant Treasurer from June 1997 to June 2007. Ms. Block also serves as the Treasurer of BRT Realty Trust since March 2008, and served as its Assistant Treasurer from March 1997 to March 2008.

**Richard M. Figueroa.** Mr. Figueroa has served as our Vice President and Assistant Secretary since 2001 and as Vice President and Assistant Secretary of BRT Realty Trust since 2002. He joined the managing general partner of Gould Investors in 1999, and serves as its Vice President. Mr. Figueroa is an attorney-at-law and a member of the bar of the State of New York.

**Isaac Kalish.** Mr. Kalish has served as our Assistant Treasurer since 2007, as Assistant Treasurer of the managing general partner of Gould Investors since 2012, and as Assistant Treasurer of BRT Realty Trust since 2009. He joined the managing general partner of Gould Investors in 2004. Prior thereto, he worked in public accounting for Buchbinder Tunick & Co. and Ernst & Young. Mr. Kalish is a certified public accountant.

**Justin Clair.** Mr. Clair has served as our Assistant Vice President since 2010 and has been employed by us since 2006. His responsibilities include sourcing new acquisition opportunities, managing the portfolio, underwriting of investments and marketing.

## Item 2. Properties.

As of December 31, 2012, we owned 93 properties with an aggregate net book value of \$410.5 million and participated in joint ventures that own seven properties. Our occupancy rate based on total rentable square footage was 98.4% and 97.5% as of December 31, 2012 and 2011, respectively. The occupancy rate of our joint venture properties, based on total rentable square footage, was 100% as of December 31, 2012 and 2011. The properties owned by us and our joint ventures are suitable and adequate for their current uses.

### Our Properties

The following table summarizes the specified information about the properties owned by us and our consolidated subsidiaries:

<u>Location</u>	<u>Type of Property</u>	<u>Percentage of 2013 Contractual Rental Income</u>	<u>Approximate Square Footage of Building</u>	<u>2013 Contractual Rental Income per Square Foot</u>
Haverty Furniture portfolio(1) . . . . .	Retail(7)	10.0%	612,130	\$ 7.46
Baltimore, MD . . . . .	Industrial	5.4	367,000	6.72
Parsippany, NJ . . . . .	Office	4.8	106,680	20.58
Royersford, PA . . . . .	Retail(2)	4.5	194,600	10.60(2)
Hauppauge, NY . . . . .	Flex	4.3	149,870	13.28
El Paso, TX . . . . .	Retail	3.2	110,179	13.21
Greensboro, NC . . . . .	Theater	3.1	61,213	22.90
Pantry Pride portfolio(3) . . . . .	Retail	3.0	25,197	54.10
W. Hartford, CT . . . . .	Retail	3.0	47,174(4)	28.85
Secaucus, NJ . . . . .	Health & Fitness	2.7	44,863	27.63
Brooklyn, NY . . . . .	Office	2.5	66,000	17.12
Knoxville, TN . . . . .	Retail	2.4	35,330	30.55

<u>Location</u>	<u>Type of Property</u>	<u>Percentage of 2013 Contractual Rental Income</u>	<u>Approximate Square Footage of Building</u>	<u>2013 Contractual Rental Income per Square Foot</u>
Cherry Hill, NJ . . . . .	Retail	2.2	115,500	14.33(5)
Philadelphia, PA . . . . .	Industrial	2.2	166,000	6.06
Tucker, GA . . . . .	Health & Fitness	2.0	58,800	15.46
Kansas City, MO . . . . .	Retail	1.6	88,807	8.32
Wendy's portfolio, PA(6) . . . . .	Retail	1.5	16,753	42.34
Hamilton, OH . . . . .	Health & Fitness	1.5	38,000	17.88
Columbus, OH . . . . .	Retail(7)	1.5	96,924	6.85
Columbus, OH . . . . .	Industrial	1.4	100,220	6.41
Ronkonkoma, NY . . . . .	Flex	1.4	89,500	8.50(8)
Grand Rapids, MI . . . . .	Health & Fitness	1.4	130,000	4.72
Ft. Myers, FL . . . . .	Retail	1.3	29,993	20.17
Houston, TX . . . . .	Retail	1.2	42,446	14.26(9)
Lake Charles, LA . . . . .	Retail(10)	1.2	54,229	10.45
Chicago, IL . . . . .	Retail(11)	1.2	23,939	22.94
Morrow, GA . . . . .	Retail	1.2	50,400	10.75
Saco, ME . . . . .	Industrial	1.2	91,400	5.82
Naples, FL . . . . .	Retail(11)	1.2	15,912	33.00
Kennesaw, GA . . . . .	Retail(11)	1.1	32,052	16.16
Athens, GA . . . . .	Retail(12)	1.1	41,280	11.60
Greenwood Village, CO . . . . .	Retail	1.0	45,000	10.50
Champaign, IL . . . . .	Retail(13)	1.0	50,530	9.30
New Hyde Park, NY . . . . .	Industrial	1.0	38,000	11.70
Cary, NC . . . . .	Retail(11)	1.0	33,490	13.04
Onalaska, WI . . . . .	Retail	1.0	63,919	6.75
Melville, NY . . . . .	Industrial	.9	51,351	8.33
Niles, IL . . . . .	Retail	.9	33,089	12.09
Houston, TX . . . . .	Retail	.9	25,005	15.70
Selden, NY . . . . .	Retail	.8	14,550	26.05
Deptford, NJ . . . . .	Retail	.8	25,358	14.90
Eugene, OR . . . . .	Retail(11)	.8	24,978	14.60
Grand Rapids, MI . . . . .	Health & Fitness	.8	72,000	4.79
El Paso, TX . . . . .	Retail(11)	.7	25,000	13.55
Newark, DE . . . . .	Retail	.7	23,547	14.00
Durham, NC . . . . .	Industrial	.7	46,181	6.89
Houston, TX . . . . .	Retail	.7	20,087	15.50
Hyannis, MA . . . . .	Retail	.6	9,750	29.36
Hauppauge, NY . . . . .	Retail	.6	7,000	40.73
Gurnee, IL . . . . .	Retail(7)	.6	22,768	12.21
Pinellas Park, FL . . . . .	Industrial	.6	53,064	5.03
Crystal Lake, IL . . . . .	Retail	.6	32,446	8.00
Somerville, MA . . . . .	Retail	.6	12,054	21.36
Batavia, NY . . . . .	Retail(11)	.5	23,483	10.63
Carrollton, GA . . . . .	Retail	.5	6,012	41.22
Cartersville, GA . . . . .	Retail	.5	5,635	41.50
Island Park, NY . . . . .	Retail	.5	6,125	37.55
Bolingbrook, IL . . . . .	Retail	.4	33,111	6.10
W. Hartford, CT . . . . .	Retail(14)	.4	—(14)	—(14)



<u>Location</u>	<u>Type of Property</u>	<u>Percentage of 2013 Contractual Rental Income</u>	<u>Approximate Square Footage of Building</u>	<u>2013 Contractual Rental Income per Square Foot</u>
Cape Girardeau, MO . . . . .	Retail	.4	13,502	14.71
Kennesaw, GA . . . . .	Retail	.4	4,051	47.40
Miamisburg, OH . . . . .	Industrial	.4	35,707	5.18
Lawrenceville, GA . . . . .	Retail	.4	4,025	45.71
Everett, MA . . . . .	Retail	.4	18,572	9.45
Marston Mills, MA . . . . .	Retail	.3	8,775	18.00
Houston, TX . . . . .	Retail	.3	12,000	12.83
Monroeville, PA . . . . .	Retail	.3	6,051	23.00
West Palm Beach, FL . . . . .	Industrial	.3	10,361	13.17
Lawrence, KS . . . . .	Retail	.2	8,600	12.21
Seattle, WA . . . . .	Retail	.1	3,038	21.40
Rosenberg, TX . . . . .	Retail	.1	8,000	7.99
		<u>100%</u>	<u>4,038,606</u>	

(1) See “—Significant Tenants” for information about the Haverty Furniture properties. The Haverty Furniture portfolio consists of the following properties:

<u>City and State</u>	<u>Approximate Square Footage of Building</u>
Wichita, KS . . . . .	88,108
Amarillo, TX . . . . .	72,227
Tyler, TX . . . . .	72,000
Fayetteville, GA . . . . .	65,951
Virginia Beach, VA . . . . .	58,937
Cedar Park, TX . . . . .	50,810
Duluth, GA . . . . .	50,260
Newport News, VA . . . . .	49,865
Richmond, VA . . . . .	38,788
Bluffton, SC . . . . .	35,011
Lexington, KY . . . . .	30,173

(2) This property is leased to twelve tenants. Contractual rental income per square foot excludes 2,200 vacant square feet.

(3) The Pantry Pride portfolio consists of the following properties:

<u>City and State</u>	<u>Approximate Square Footage of Building</u>
Flowood, MS . . . . .	4,505
Vicksburg, MS . . . . .	4,505
Monroe, LA . . . . .	2,806
Vicksburg, MS . . . . .	2,790
Monroe, LA . . . . .	2,756
D’Iberville, MS . . . . .	2,650
Bastrop, LA . . . . .	2,607
Kentwood, LA . . . . .	2,578



- (4) The property is a supermarket. Additional parking for such property is identified in note 14 below.
- (5) Contractual rental income per square foot excludes 45,000 vacant square feet.
- (6) The Wendy's portfolio consists of the following locations:

<u>City and State</u>	<u>Approximate Square Footage of Building</u>
Trexlerstown, PA .....	3,004
Gettysburg, PA .....	2,944
Palmyra, PA .....	2,798
Reading, PA .....	2,754
Hanover, PA .....	2,702
Reading, PA .....	2,551

- (7) This property is leased to a retail furniture operator.
- (8) Contractual rental income per square foot excludes 15,000 vacant square feet.
- (9) This property has 15 tenants. Contractual rental income per square foot excludes 2,373 vacant square feet.
- (10) This property has three tenants. Approximately 43% of the square footage is leased to a retail office supply operator.
- (11) This property is leased to a retail office supply operator.
- (12) This property has two tenants. Approximately 48% of the square footage is leased to a retail office supply operator.
- (13) This property has two tenants.
- (14) This property is the additional parking lot for the property identified in note 4 above.

#### **Properties Owned by Joint Ventures**

The following table summarizes the specified information about the properties owned by joint ventures in which we are a venture partner. Except as otherwise indicated, we own a 50% economic interest in each joint venture:

<u>Location</u>	<u>Type of Property</u>	<u>Percentage of our Share of Rent Payable in 2013 to our Joint Ventures</u>	<u>Approximate Square Footage of Building(1)</u>	<u>2013 Contractual Rental Income per Square Foot</u>
Los Angeles, CA .....	Office	49.6%	106,262	\$28.74
Lincoln, NE .....	Retail	19.7	112,260	10.75
Milwaukee, WI .....	Industrial	18.3	927,685	1.21
Savannah, GA .....	Retail	5.3	45,973	7.05
Savannah, GA .....	Retail	4.0	101,550	2.44
Savannah, GA .....	Retail	.2	7,959	1.78
Plano, TX(2) .....	Retail	2.9	112,389	.89
		<u>100%</u>	<u>1,414,078</u>	

- (1) Approximate square footage indicated represents the total rentable square footage of the property owned by the joint venture.
- (2) We own a 90% equity interest in this venture. In March 2013, our venture partner exercised its right to purchase our interest for approximately \$13.5 million.

As of December 31, 2012, the 93 properties owned by us and the seven properties owned by our joint ventures were located in 29 states. The following tables set forth certain information, presented by state, related to our properties as of December 31, 2012:

<u>State</u>	<u>Number of Properties</u>	<u>2013 Contractual Rental Income(1)</u>	<u>Approximate Building Square Feet</u>
New York . . . . .	9	\$ 5,770,025	445,879
New Jersey . . . . .	4	4,822,700	292,401
Pennsylvania . . . . .	9	3,894,904	383,404
Georgia . . . . .	10	3,305,535	318,466
Texas . . . . .	10	3,287,696	437,754
Maryland . . . . .	1	2,466,630	367,000
Ohio . . . . .	4	2,170,600	270,851
Illinois . . . . .	6	2,158,392	195,883
North Carolina . . . . .	3	2,156,518	140,884
Connecticut . . . . .	2	1,561,013	47,174
Florida . . . . .	4	1,533,235	109,330
Tennessee . . . . .	1	1,079,367	35,330
Michigan . . . . .	2	958,892	202,000
Louisiana . . . . .	5	566,693	64,976
Virginia . . . . .	3	—	147,590
Other . . . . .	20	4,114,585	579,684
	<u>93</u>	<u>\$39,846,785</u>	<u>4,038,606</u>

(1) Because each of our Haverty Furniture and Pantry Pride properties are leased pursuant to one master lease which does not allocate revenue between the various properties, this column excludes (i) \$4,568,723 of 2013 contractual rental income related to our eleven Haverty's properties that are located in six states and (ii) \$1,363,046 of 2013 contractual rental income for our eight Pantry Pride properties which are located in Mississippi and Louisiana. See “—Significant Tenants.”

The following tables set forth certain information, presented by state, related to the properties owned by our joint ventures as of December 31, 2012:

<u>State</u>	<u>Number of Properties</u>	<u>Our Share of Rent Payable in 2013 to Our Joint Ventures</u>	<u>Approximate Building Square Feet</u>
California . . . . .	1	\$1,527,167	106,262
Nebraska . . . . .	1	603,594	112,260
Wisconsin . . . . .	1	562,500	927,685
Georgia . . . . .	3	292,921	155,482
Texas . . . . .	1	90,000	112,389
	<u>7</u>	<u>\$3,076,182</u>	<u>1,414,078</u>

### Mortgage Debt

At December 31, 2012, we had:

- 45 first mortgages on 67 of our 93 properties; and

- \$226 million of mortgage debt outstanding with a weighted average interest rate of 5.25%. Substantially all of such mortgage debt bears fixed interest at rates ranging from 3.75% to 8.8% and contains prepayment penalties.

The following table sets forth scheduled principal mortgage payments due for our properties as of December 31, 2012, and assumes no payment is made on principal on any outstanding mortgage in advance of its due date:

<u>YEAR</u>	<u>PRINCIPAL PAYMENTS DUE</u> <u>(Amounts in Thousands)</u>
2013 .....	\$ 8,039
2014 .....	37,393
2015 .....	13,216
2016 .....	31,187
2017 .....	43,089
Thereafter .....	<u>93,047</u>
Total .....	<u>\$225,971</u>

At December 31, 2012, our joint ventures had first mortgages on five properties with outstanding balances aggregating approximately \$25.9 million, bearing interest at rates ranging from 5.8% to 6.2% with a weighted average interest rate of 5.9%. Substantially all of these mortgages contain prepayment penalties. The following table sets forth the scheduled principal mortgage payments due for properties owned by our joint ventures as of December 31, 2012, and assumes no payment is made on principal on any outstanding mortgage in advance of its due date:

<u>YEAR</u>	<u>PRINCIPAL PAYMENTS DUE</u> <u>(Amounts in Thousands)</u>
2013 .....	\$ 940
2014 .....	1,031
2015 .....	20,318
2016 .....	95
2017 .....	101
Thereafter .....	<u>3,428</u>
Total .....	<u>\$25,913</u>

The mortgages on our properties are generally non-recourse, subject to standard carve-outs. The term “standard carve-outs” refers to recourse items to an otherwise non-recourse mortgage and are customary to mortgage financing. While carve-outs vary from lender to lender and transaction to transaction, the carve-outs may include, among other things, environmental liabilities, the sale, financing or encumbrance of the property in violation of loan documents, damage to property as a result of intentional misconduct or gross negligence, failure to pay valid taxes and other claims which could create liens on property and the conversion of security deposits, insurance proceeds or condemnation awards.

### **Significant Tenants**

Set forth below is certain information about the properties tenanted by certain significant tenants.

#### *Haverty Furniture Companies, Inc.*

As of December 31, 2012, we owned a portfolio of eleven properties net leased under a master lease to Haverty Furniture Companies, Inc., a New York Stock Exchange listed company (NYSE:HVT).

At such date, these properties had an aggregate net book value equal to 11.7% of the depreciated book value of our real estate investments, and in 2012 accounted for 10.8% of our rental income. Three properties are located in each of Texas and Virginia, two properties are located in Georgia, and one property is located in each of Kansas, Kentucky and South Carolina. The properties contain buildings with an aggregate of approximately 612,130 square feet.

The master lease provides for a current base rent of \$4,568,723 per annum (which accounts for 10% of our 2013 contractual rental income), increasing by 6% on August 15, 2017 and, subject to the tenant's renewal options, expires August 14, 2022. Pursuant to the master lease, the tenant is responsible for maintenance and repairs, and for real estate taxes and assessments on the properties. The 2012 annual real estate taxes on the properties aggregated \$781,000.

The mortgage loan is secured by mortgages/deeds of trust on all such properties in the principal amount of approximately \$24.8 million at December 31, 2012. The loan bears interest at 5.125% per annum, matures on September 1, 2032 (subject to the lenders right to call the loan on 90 days' written notice at any time after September 1, 2022) and is being amortized based on a 20-year amortization schedule. Assuming only contractual payments are made on the principal amount of the mortgage loan, there will be no principal balance due on the maturity date.

#### *Office Depot, Inc.*

As of December 31, 2012, we owned a portfolio of seven properties, each of which is subject to a lease with Office Depot, Inc., a New York Stock Exchange listed company (NYSE: ODP). These properties have an aggregate net book value equal to 6.6% of the depreciated book value of our real estate investments, accounted for 6.0% of our 2012 rental income (excluding two properties sold in 2012) and accounts for 5.7% of our 2013 contractual rental income. Two properties are located in Georgia and one is located in each of Illinois, Louisiana, North Carolina, Oregon and Texas. The properties contain buildings with an aggregate of approximately 183,000 square feet.

Each property is subject to a separate lease. Five of the leases contain cross-default provisions, expire on September 30, 2018, and provide the tenant with four five-year renewal options. One lease expires on June 30, 2013 and provides the tenant with three five-year renewal options, and one lease expires on February 28, 2014 and provides the tenant with four five-year renewal options. The five leases provide for an aggregate current base rent of \$2,153,000. The rent for five of the properties increases every five years by 10%. The rent for one property increases by 5% every five years and the rent for one property increases by \$20,000 every five years. Pursuant to the leases, the tenant is responsible for maintenance and repairs, and for real estate taxes and assessments on the properties. The 2012 annual real estate taxes on these seven properties aggregated \$515,000.

### **Item 3. Legal Proceedings**

Not applicable.

### **Item 4. Mine Safety Disclosures**

Not applicable.

## Part II

### Item 5. Market for the Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchase of Equity Securities.

Our common stock is listed on the New York Stock Exchange under the symbol “OLP.” The following table sets forth for the periods indicated, the high and low prices for our common stock as reported by the New York Stock Exchange and the per share distributions declared on our common stock.

Quarter Ended	2012			2011		
	High	Low	Dividend Per Share(1)	High	Low	Dividend Per Share(1)
March 31 . . . . .	\$19.44	\$16.25	\$.33	\$17.43	\$14.51	\$.33
June 30 . . . . .	19.99	16.87	.33	16.09	14.77	.33
September 30 . . . . .	20.36	18.15	.33	16.33	11.52	.33
December 31 . . . . .	20.88	17.52	.35	17.71	14.00	.33

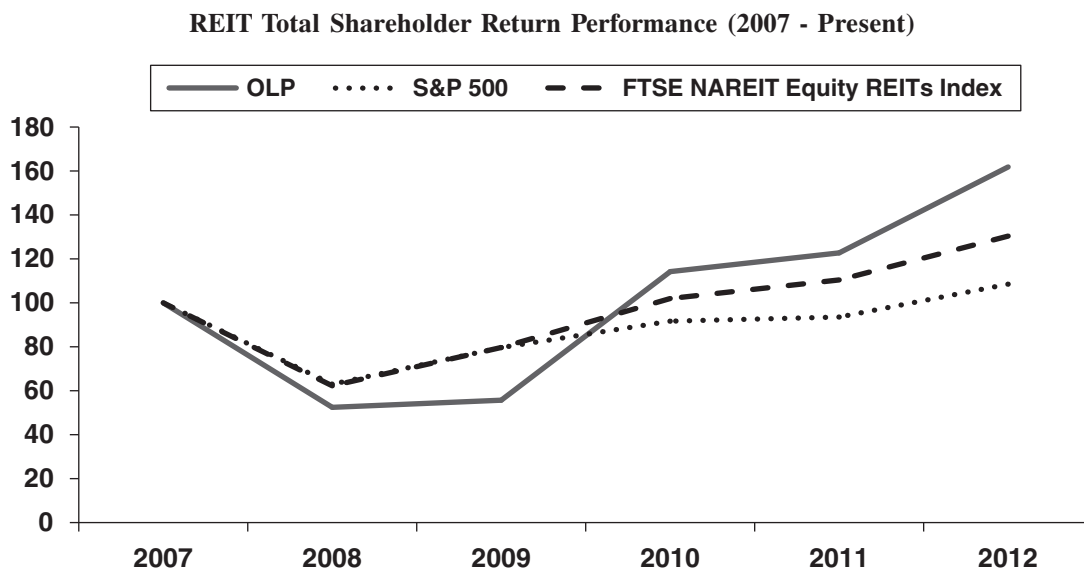
(1) The dividends in the fourth quarter of 2012 and 2011 were distributed on January 4, 2013 and January 4, 2012, respectively.

As of March 4, 2013, there were approximately 328 holders of record of our common stock.

We qualify as a REIT for federal income tax purposes. In order to maintain that status, we are required to distribute to our stockholders at least 90% of our annual ordinary taxable income. The amount and timing of future distributions will be at the discretion of our board of directors and will depend upon our financial condition, earnings, business plan, cash flow and other factors. We intend to make distributions in an amount at least equal to that necessary for us to maintain our status as a real estate investment trust for Federal income tax purposes.

## Stock Performance Graph

The following graph compares the performance of our common stock with the Standard and Poor's 500 Index and a peer group index of publicly traded equity real estate investment trusts prepared by the National Association of Real Estate Investment Trusts. As indicated, the graph assumes \$100 was invested on December 31, 2007 in our common stock and assumes the reinvestment of dividends.



	December 31,					
	2007	2008	2009	2010	2011	2012
<b>OLP</b> .....	100.00	52.47	55.72	114.22	122.74	161.84
<b>S&amp;P 500</b> .....	100.00	63.00	79.67	91.67	93.55	108.51
<b>FTSE NAREIT Equity REITs Index</b> . . . . .	100.00	62.27	79.70	101.98	110.44	130.38

### Issuer Purchases of Equity Securities

We did not repurchase any shares of our outstanding common stock in October, November or December 2012.

### Item 6. Selected Financial Data.

The following table sets forth the selected consolidated statement of operations data for each of the periods indicated, all of which are derived from our audited consolidated financial statements and related notes. The selected financial data for each of 2012, 2011 and 2010 should be read together with our consolidated financial statements and related notes appearing elsewhere in this Annual Report on

Form 10-K and in “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” below, where this data is discussed in more detail.

	<b>As of and for the Year Ended December 31,</b> (Amounts in thousands, except per share data)				
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
<i>OPERATING DATA</i> (1)					
Total revenues . . . . .	\$ 44,750	\$ 41,805	\$ 37,630	\$ 36,068(2)	\$ 32,442
Real estate acquisition costs . . . . .	823	213	1,010	59	—
Equity in earnings of unconsolidated joint ventures . . . . .	1,368	914	992	1,085	1,113
Income from continuing operations . . . . .	11,856	11,572	7,438	10,574	8,905
Income (loss) from discontinued operations . . . . .	20,452	2,148	1,868	9,067	(4,013)
Net income attributable to One Liberty Properties, Inc. . . . .	32,320	13,724	9,306	19,641	4,892
Weighted average number of common shares outstanding:					
Basic . . . . .	14,427	13,801	11,465	10,651	10,183
Diluted . . . . .	14,527	13,851	11,510	10,812	10,183
Net income per common share—basic					
Income from continuing operations . . . . .	\$ .80	\$ .81	\$ .65	\$ .99	\$ .87
Income (loss) from discontinued operations . . . . .	1.38	.15	.16	.85	(.39)
Net income . . . . .	<u>\$ 2.18</u>	<u>\$ .96</u>	<u>\$ .81</u>	<u>\$ 1.84</u>	<u>\$ .48</u>
Net income per common share—diluted					
Income from continuing operations . . . . .	\$ .79	\$ .80	\$ .65	\$ .98	\$ .87
Income (loss) from discontinued operations . . . . .	1.37	.16	.16	.84	(.39)
Net income . . . . .	<u>\$ 2.16</u>	<u>\$ .96</u>	<u>\$ .81</u>	<u>\$ 1.82</u>	<u>\$ .48</u>
Cash distributions per share of common stock . . . . .	\$ 1.34	\$ 1.32	\$ 1.23	\$ .08	\$ 1.30
Stock distributions per share of common stock . . . . .	—	—	—	\$ .80	—
<i>BALANCE SHEET DATA</i> (1)					
Real estate investments, net . . . . .	\$410,525	\$376,123	\$366,428	\$306,018	\$312,780
Properties held for sale and related assets . . . . .	—	16,975	28,180	32,677	69,746
Investment in unconsolidated joint ventures . . . . .	19,485	7,170	6,769	7,635	7,554
Cash and cash equivalents . . . . .	14,577	12,668	7,732	28,036	10,947
Total assets . . . . .	481,166	452,821	436,362	400,097	420,209
Mortgages and loan payable . . . . .	225,971	190,967	199,989	177,767	194,495
Mortgages payable—properties held for sale . . . . .	—	6,970	7,058	4,162	22,123
Due under line of credit . . . . .	—	20,000	36,200	27,000	27,000
Total liabilities . . . . .	243,107	233,874	257,179	219,969	256,233
Total equity . . . . .	238,059	218,947	179,183	180,128	163,975
<i>OTHER DATA</i> (3)(4)					
Funds from operations . . . . .	\$ 23,775	\$ 22,825	\$ 18,160	\$ 23,501	\$ 19,935
Funds from operations per common share:					
Basic . . . . .	\$ 1.60	\$ 1.61	\$ 1.58	\$ 2.21	\$ 1.96
Diluted . . . . .	\$ 1.59	\$ 1.61	\$ 1.58	\$ 2.17	\$ 1.96
Adjusted funds from operations . . . . .	\$ 22,577	\$ 21,430	\$ 17,030	\$ 22,293	\$ 18,441
Adjusted funds from operations per common share:					
Basic . . . . .	\$ 1.52	\$ 1.51	\$ 1.49	\$ 2.09	\$ 1.81
Diluted . . . . .	\$ 1.51	\$ 1.51	\$ 1.48	\$ 2.06	\$ 1.81

(1) Certain amounts reported in prior years have been reclassified to conform to the current year’s presentation. Specifically, amounts for prior years have been reclassified (i) for discontinued operations



and (ii) with respect to our tenant-in-common interest, from an investment in real estate to an investment in an unconsolidated joint venture. See note 2 to our consolidated financial statements.

- (2) Includes a lease termination fee of \$1.78 million.
- (3) See “—Funds from Operations and Adjusted Funds from Operations” for a discussion of the limitations on such data and a reconciliation of such data to our financial information presented in accordance with GAAP.
- (4) Amounts reported in 2009 and 2008 have been adjusted to add back impairment charges in accordance with NAREIT’s (as defined) guidance.

#### *Funds from Operations and Adjusted Funds from Operations*

We compute FFO in accordance with the “White Paper on Funds From Operations” issued by the National Association of Real Estate Investment Trusts (“NAREIT”) and NAREIT’s related guidance. FFO is defined in the White Paper as net income (computed in accordance with generally accepting accounting principles), excluding gains (or losses) from sales of property, plus depreciation and amortization, plus impairment write-downs of depreciable real estate and after adjustments for unconsolidated partnerships and joint ventures. Adjustments for unconsolidated partnerships and joint ventures will be calculated to reflect funds from operations on the same basis. In computing FFO, we do not add back to net income the amortization of costs in connection with our financing activities or depreciation of non-real estate assets. Since the NAREIT White Paper only provides guidelines for computing FFO, the computation of FFO may vary from one REIT to another. We compute AFFO by deducting from FFO our straightline rent accruals and amortization of lease intangibles (including our share of our unconsolidated joint ventures).

We believe that FFO and AFFO are useful and standard supplemental measures of the operating performance for equity REITs and are used frequently by securities analysts, investors and other interested parties in evaluating equity REITs, many of which present FFO and AFFO when reporting their operating results. FFO and AFFO are intended to exclude GAAP historical cost depreciation and amortization of real estate assets, which assures that the value of real estate assets diminish predictability over time. In fact, real estate values have historically risen and fallen with market conditions. As a result, we believe that FFO and AFFO provide a performance measure that when compared year over year, should reflect the impact to operations from trends in occupancy rates, rental rates, operating costs, interest costs and other matters without the inclusion of depreciation and amortization, providing a perspective that may not be necessarily apparent from net income. We also consider FFO and AFFO to be useful to us in evaluating potential property acquisitions.

FFO and AFFO do not represent net income or cash flows from operations as defined by GAAP. FFO and AFFO should not be considered to be an alternative to net income as a reliable measure of our operating performance; nor should FFO and AFFO be considered an alternative to cash flows from operating, investing or financing activities (as defined by GAAP) as measures of liquidity.

FFO and AFFO do not measure whether cash flow is sufficient to fund all of our cash needs, including principal amortization, capital improvements and distributions to stockholders. FFO and AFFO do not represent cash flows from operating, investing or financing activities as defined by GAAP.

Management recognizes that there are limitations in the use of FFO and AFFO. In evaluating our performance, management is careful to examine GAAP measures such as net income and cash flows from operating, investing and financing activities. Management also reviews the reconciliation of net income to FFO and AFFO.

The table below provides a reconciliation of net income in accordance with GAAP to FFO and AFFO for each of the indicated years (amounts in thousands):

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Net income . . . . .	\$ 32,320	\$13,724	\$ 9,306	\$19,641	\$ 4,892
Add: depreciation of properties . . . . .	9,857	9,364	8,606	8,779	8,749
Add: our share of depreciation in unconsolidated joint ventures . . . . .	849	595	537	545	544
Add: impairment charges . . . . .	—	—	—	229	5,983
Add: amortization of deferred leasing costs . . . . .	108	74	53	64	64
Add: our share of amortization of deferred leasing cost in unconsolidated joint ventures . . . . .	82	—	—	—	—
Add: federal excise tax relating to gain on sales . . . . .	290	—	—	—	—
Deduct: gain on sales of real estate . . . . .	(19,731)	(932)	(235)	(5,757)	—
Deduct: gain on dispositions of real estate of unconsolidated joint ventures . . . . .	—	—	(107)	—	(297)
Funds from operations . . . . .	<u>23,775</u>	<u>22,825</u>	<u>18,160</u>	<u>23,501</u>	<u>19,935</u>
Deduct: straight line rent accruals and amortization of lease intangibles . . . . .	(1,352)	(1,430)	(1,129)	(1,108)	(1,315)
Deduct: our share of straight line rent accruals and amortization of lease intangibles of unconsolidated joint ventures . . . . .	154	35	(1)	(100)	(179)
Adjusted funds from operations . . . . .	<u>\$ 22,577</u>	<u>\$21,430</u>	<u>\$17,030</u>	<u>\$22,293</u>	<u>\$18,441</u>

The table below provides a reconciliation of net income per common share (on a diluted basis) in accordance with GAAP to FFO and AFFO.

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Net income . . . . .	\$ 2.16	\$ .96	\$ .81	\$1.82	\$ .48
Add: depreciation of properties . . . . .	.66	.66	.75	.81	.86
Add: our share of depreciation in unconsolidated joint ventures . . . . .	.06	.05	.05	.05	.05
Add: impairment charges . . . . .	—	—	—	.02	.59
Add: amortization of deferred leasing costs . . . . .	.01	.01	—	—	.01
Add: our share of amortization of deferred leasing cost in unconsolidated joint ventures . . . . .	—	—	—	—	—
Add: federal excise tax relating to gain on sales . . . . .	.02	—	—	—	—
Deduct: gain on sales of real estate . . . . .	(1.32)	(.07)	(.02)	(.53)	—
Deduct: gain on dispositions of real estate of unconsolidated joint ventures . . . . .	—	—	(.01)	—	(.03)
Funds from operations . . . . .	<u>1.59</u>	<u>1.61</u>	<u>1.58</u>	<u>2.17</u>	<u>1.96</u>
Deduct: straight line rent accruals and amortization of lease intangibles . . . . .	(.09)	(.10)	(.10)	(.10)	(.13)
Deduct: our share of straight line rent accruals and amortization of lease intangibles of unconsolidated joint ventures . . . . .	.01	—	—	(.01)	(.02)
Adjusted funds from operations . . . . .	<u>\$ 1.51</u>	<u>\$1.51</u>	<u>\$1.48</u>	<u>\$2.06</u>	<u>\$1.81</u>

## **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

### **Overview**

We are a self-administered and self-managed real estate investment trust. We acquire, own and manage a geographically diversified portfolio of retail, industrial, health and fitness, office, flex and other properties, a substantial portion of which are leased under long-term net leases. As of December 31, 2012, we owned 93 properties and our joint ventures owned seven properties. The 100 properties are located in 29 states.

We face a variety of risks and challenges in our business. As more fully described under Item 1.A. Risk Factors, we, among other things, face the possibility we will not be able to acquire accretive properties on acceptable terms, lease our properties on terms favorable to us or at all and that our tenants may not be able to pay their rental and other obligations.

We seek to manage the risk of our real property portfolio by diversifying among types of properties and industries, locations, tenants and scheduled lease expirations. As a result:

- 61.6%, 14%, 8.3%, 7.3% and 8.8% of our 2013 contractual rental income is derived from retail, industrial, health and fitness, office, and other properties, respectively,
- only one tenant accounts for 10% or more of our 2013 contractual rental income,
- properties in only two states account for more than 10% of 2013 contractual rental income (excluding the effect of properties leased to a single tenant but located in multiple states (*i.e.*, Haverty Furniture and Pantry Pride), and
- through 2021, there is only one year in which the percentage of our contractual rental income represented by expiring leases exceeds 10% of our 2013 contractual rental income and approximately 47.5% of our 2013 contractual rental income is represented by leases expiring in 2022 and thereafter.

We monitor the risk of tenant non-payments through a variety of approaches tailored to the applicable situation. Generally, based on our assessment of the credit risk posed by our tenants, we monitor a tenant's financial condition through one or more of the following actions: reviewing tenant financial statements, obtaining other tenant related financial information, regular contact with tenant's representatives, tenant credit checks and regular management reviews of our tenants. In acquiring properties, we balance an evaluation of the terms of the leases and the credit of the existing tenants with a fundamental analysis of the real estate to be acquired, which analysis takes into account, among other things, the estimated value of the property, local demographics and the ability to re-rent or dispose of the property on favorable terms upon lease expiration or early termination.

### *Summary of 2012 Results*

In 2012, our net income increased 136% to \$32.32 million from \$13.72 million in 2011. The increase is due primarily to an increase in income from discontinued operations and, to a lesser extent, an increase in income from continuing operations.

Income from discontinued operations increased in 2012 to \$20.45 million from \$2.15 million in 2011. The increase in income from discontinued operations is attributable to the gain of \$19.41 million from the sale in 2012 of five properties.

Income from continuing operations increased to \$11.86 million from \$11.57 million in 2011. Contributing to the increase were increases in, among other things, rental revenues, equity in earnings of unconsolidated joint ventures and gain on sale of real estate. Partially offsetting the increase were increases in depreciation and amortization expense, real estate acquisition expense and federal excise and state taxes and the inclusion in 2011 of a \$1.24 million gain on settlement of debt.

## 2012 Highlights and Recent Developments

In 2012, we:

- purchased eleven properties with 2013 contractual rental income of approximately \$3.8 million for an aggregate purchase price of approximately \$44.6 million,
- sold five properties, for an aggregate of \$36.1 million and a net gain of \$19.41 million. The properties sold accounted for \$1.04 million of income from operations of discontinued operations in 2012,
- refinanced the approximately \$22.85 million of mortgage debt secured by the eleven properties leased to Haverty Furniture and bearing interest of 6.87% per year. The new mortgage debt, in the aggregate principal amount of \$25 million, matures September 1, 2032 (subject to the lender's option to call the debt for any reason on 90 days' notice at any time after September 1, 2022) and bears interest of 5.125% per year, and
- amended our credit facility to, among other things, reduce our interest rate floor from 5.5% to 4.75%, increase our permitted borrowings from \$55 million to \$75 million and extend the facility's maturity from March 31, 2013 to March 31, 2015. As of December 31, 2012 and March 13, 2013, no borrowings were outstanding under the facility.

In the first quarter of 2013, we elected not to participate in the redevelopment plan proposed by our joint venture partner in the Plano Property, and thereafter, our partner exercised its right to purchase our 90% interest in the venture for approximately \$13.5 million. We anticipate that this transaction will be completed in 2013.

## Results of Operations

### Comparison of Years Ended December 31, 2012 and 2011

#### Total Revenues

The following table compares revenues for the periods indicated:

(Dollars in thousands)	Year Ended December 31,		Increase (Decrease)	% Change
	2012	2011		
Total revenues . . . . .	<u>\$44,750</u>	<u>\$41,805</u>	<u>\$2,945</u>	<u>7.0%</u>

*Total revenues.* The increase is attributable to rental revenues of \$3.30 million earned from 17 properties acquired by us beginning March 2011 (of which \$1.3 million is attributable to properties acquired in 2012), and \$153,000 of real estate tax and expense reimbursements from tenants (primarily from properties we acquired since July 2011). Partially offsetting the increase was the net decrease of approximately \$637,000 in rental revenue resulting from the contribution, on February 6, 2012, of the Plano Property to an unconsolidated joint venture.

## Operating Expenses

The following table compares operating expenses for the periods indicated:

(Dollars in thousands)	Year Ended December 31,		Increase (Decrease)	% Change
	2012	2011		
Operating expenses:				
Depreciation and amortization . . . . .	\$ 9,706	\$ 8,934	\$ 772	8.6%
General and administrative . . . . .	7,317	6,849	468	6.8
Federal excise and state taxes . . . . .	457	168	289	172
Real estate acquisition costs . . . . .	823	213	610	286
Real estate expenses . . . . .	2,622	2,331	291	12.5
Leasehold rent . . . . .	308	308	—	—
Total operating expenses . . . . .	<u>21,233</u>	<u>18,803</u>	<u>2,430</u>	12.9
Operating income . . . . .	<u>\$23,517</u>	<u>\$23,002</u>	<u>\$ 515</u>	2.2

*Depreciation and amortization expense.* The increase is substantially due to depreciation expense on the 17 properties we acquired beginning March 2011, partially offset by the decrease in depreciation resulting from the contribution of the Plano Property to an unconsolidated joint venture.

*General and administrative expenses.* Contributing to the increase were increases of approximately (i) \$268,000 in payroll and payroll related expenses due to higher levels of compensation and to a lesser extent, additional employees and (ii) \$214,000 in non-cash compensation expense related to restricted stock awards due to the increase in the number of awards granted, the higher fair value of such awards at the time of grant and changes in assumptions relating to restricted stock units.

*Federal excise and state taxes.* As a REIT, we are subject to a non-deductible Federal excise tax of 4% to the extent that the sum of (i) 85% of our ordinary taxable income, (ii) 95% of our capital gains and (iii) any undistributed taxable income from the prior year exceeds our distributions paid in such year. We incurred an excise tax of \$290,000 because our 2012 calendar year distributions were less than the total of these amounts. There was no corresponding federal excise tax expense in the prior year.

*Real estate acquisition costs.* The increase is due to the increased acquisition activity and increased professional fees resulting from the complexity of certain of the acquisitions.

*Real estate expenses.* The increase is attributable to the following factors: (i) approximately \$620,000 is due to the net increase in expenses (including approximately \$356,000 of real estate taxes) relating to properties we acquired since July 2011 and (ii) increases in other real estate expenses, none of which was individually material. Partially offsetting the increase was the inclusion, with respect to the Plano Property, of \$12,000 of real estate taxes in 2012 compared to \$260,000 in 2011.

### Other Income and Expenses

The following table compares other income and expenses for the periods indicated:

(Dollars in thousands)	Year Ended December 31,		Increase (Decrease)	% Change
	2012	2011		
Other income and expenses:				
Equity in earnings of unconsolidated joint ventures . . . . .	\$ 1,368	\$ 914	\$ 454	49.7%
Gain on settlement of debt . . . . .	—	1,240	(1,240)	(100)
Other income (loss) . . . . .	241	(35)	276	789
Interest:				
Expense . . . . .	(12,813)	(12,732)	(81)	(.6)
Amortization of deferred financing costs . . . . .	(776)	(817)	41	5.0
Gain on sale of real estate . . . . .	319	—	319	n/a
Income from continuing operations . . . . .	11,856	11,572	284	2.5

*Equity in earnings of unconsolidated joint ventures.* The increase is due primarily to: (i) our approximate 36% share (*i.e.*, \$233,000) of the net proceeds from a settlement entered into in May 2012 with a former tenant; (ii) the inclusion during 2011 of our 50% share (*i.e.*, \$62,000) of real estate acquisition costs incurred in connection with the purchase of a property by a joint venture in March 2011; and (iii) our 90% share (*i.e.*, \$137,000) of the net operating income from the Plano Property. Partially offsetting the increase was the inclusion during 2012 of our share (*i.e.*, \$68,000) of real estate acquisition costs related to the Plano Property.

*Gain on settlement of debt.* This gain represents the satisfaction, at less than face value, of the \$8.9 million mortgage payable related to the Plano Property. The \$1.24 million gain is net of a \$19,000 write off of the balance of related deferred mortgage costs.

*Other income (loss).* The results for 2012 includes a \$199,000 settlement with the carrier of a commercial crime insurance policy relating to our claim against our former president. The loss for 2011 includes an impairment charge recorded on marketable securities that had unrealized losses of \$126,000 and that were sold in January 2012.

*Interest expense.* The following table summarizes interest expense for the periods indicated:

(Dollars in thousands)	Year Ended December 31,		Increase (Decrease)	% Change
	2012	2011		
Interest expense:				
Credit line interest . . . . .	\$ 852	\$ 987	\$(135)	(13.7)%
Mortgage interest . . . . .	11,961	11,745	216	1.8
Total . . . . .	<u>\$12,813</u>	<u>\$12,732</u>	<u>\$ 81</u>	.6

#### Credit line interest

The decrease is due to the decrease, pursuant to amendments to our credit facility, which, among other things, reduced the annual interest rate from 6% to 5.5%, effective August 5, 2011, and from 5.5% to 4.75%, effective July 31, 2012, and, to a lesser extent, a decrease in the weighted average balance outstanding under our credit facility. The weighted average balance decreased due to repayments with financing proceeds from several properties and with a portion of the proceeds from



the sale of three properties in June, September and October 2012, partially offset by borrowings for property acquisitions.

#### Mortgage interest

The following table reflects the interest rate on our mortgage debt and principal amount of outstanding mortgage debt, in each case on a weighted average basis:

(Dollars in thousands)	Year Ended December 31,		Increase (Decrease)	% Change
	2012	2011		
Interest rate on mortgage debt . . . . .	5.92%	6.21%	(.29)%	(4.7)%
Principal amount of mortgage debt . . . .	\$202,190	\$189,187	\$13,003	6.9

The increase in mortgage interest expense is due to the increases in the weighted average amount of mortgage debt outstanding, partially offset by a decrease in the weighted average interest rate on outstanding mortgage debt. The decrease in the weighted average interest rate is principally due to the financing in 2011 and 2012 of \$86 million of mortgage debt with a weighted average interest rate of approximately 4.9%.

*Gain on sale of real estate.* In February 2012, we contributed the Plano Property to an unconsolidated joint venture in exchange for a 90% interest therein, and our joint venture partner contributed \$1.5 million for a 10% interest therein and we realized a gain of \$319,000. In March 2013, our venture partner exercised its right to purchase our interest in the venture for \$13.5 million.

#### *Discontinued Operations*

The following table compares discontinued operations for the periods indicated:

(Dollars in thousands)	Year Ended December 31,		Increase (Decrease)	% Change
	2012	2011		
Discontinued operations:				
Income from operations . . . . .	\$ 1,039	\$1,216	\$ (177)	(14.6)%
Net gain on sales . . . . .	19,413	932	18,481	1,983
Income from discontinued operations . . . . .	<u>\$20,452</u>	<u>\$2,148</u>	<u>\$18,304</u>	852

Income from discontinued operations includes the income from operations and gain on sale of six of our properties, five of which were sold during 2012 and one of which was sold in 2011.

#### **Comparison of Years Ended December 31, 2011 and 2010**

##### *Total Revenues*

The following table compares revenues for the periods indicated:

(Dollars in thousands)	Year Ended December 31,		Increase (Decrease)	% Change
	2011	2010		
Total revenues . . . . .	<u>\$41,805</u>	<u>\$37,630</u>	<u>\$4,175</u>	<u>11.1%</u>

*Total revenues.* The increase is attributable to rental revenues of \$4.2 million earned from substantially all of the properties acquired by us since February 2010 (approximately \$3.38 million and \$857,000 from properties acquired in 2010 and 2011, respectively), and \$249,000 of real estate tax and

expense reimbursements from tenants. Partially offsetting the increase was the \$198,000 decrease from lease amendments with tenants at two properties and a \$198,000 net decrease of rental income from the Plano Property that we contributed in February 2012 to an unconsolidated joint venture.

### *Operating Expenses*

The following table compares operating expenses for the periods indicated:

(Dollars in thousands)	Year Ended December 31,		Increase (Decrease)	% Change
	2011	2010		
Operating expenses:				
Depreciation and amortization . . . . .	\$ 8,934	\$ 7,994	\$ 940	11.8%
General and administrative . . . . .	6,849	6,148	701	11.4
Federal excise and state taxes . . . . .	168	193	(25)	(13.0)
Real estate acquisition costs . . . . .	213	1,010	(797)	(78.9)
Real estate expenses . . . . .	2,331	1,875	456	24.3
Leasehold rent . . . . .	308	308	—	—
Total operating expenses . . . . .	<u>18,803</u>	<u>17,528</u>	<u>1,275</u>	7.3
Operating income . . . . .	<u>\$23,002</u>	<u>\$20,102</u>	<u>\$2,900</u>	14.4

*Depreciation and amortization expense.* The increase is due to the \$951,000 expense associated with substantially all of the properties acquired since February 2010 (of which \$300,000 relates to the six properties acquired in 2011) and \$84,000 relating to the depreciation of tenant improvements partially offset by the inclusion in 2010 of \$118,000 in amortization of the lease intangible associated with the Plano Property.

*General and administrative expenses.* The increase is attributable to several factors including: (i) a \$500,000 increase in the annual amount payable pursuant to the compensation and services agreement; (ii) a \$100,000 annual fee paid to our vice-chairman which fee commenced in 2011; (iii) an increase, due to higher compensation rates, of \$130,000 in payroll and payroll related expenses; and (iv) an increase of \$94,000 in non-cash compensation expense primarily related to pay-for-performance restricted stock units awarded in September 2010. Partially offsetting the increase was the inclusion in 2010 of \$138,000 in professional fees in connection with a contemplated equity financing that was not pursued.

*Real estate acquisition costs.* These expenses decreased due to the inclusion in 2010 of expenses of a greater number of acquisitions than in 2011.

*Real estate expenses.* Approximately \$257,000 of the increase is attributable to real estate taxes, of which \$74,000 and \$156,000 relate to properties we acquired in 2011 and 2010, respectively. The balance of the increase is attributable to increases in various components of real estate expense, none of which was individually significant.

### Other Income and Expenses

The following table compares other income and expenses for the periods indicated:

(Dollars in thousands)	Year Ended December 31,		Increase (Decrease)	% Change
	2011	2010		
Other income and expenses:				
Equity in earnings of unconsolidated joint ventures . . . . .	\$ 914	\$ 992	\$ (78)	(7.9)%
Gain on disposition of real estate held by unconsolidated joint venture . . . . .	—	107	(107)	(100)
Gain on settlement of debt . . . . .	1,240	—	1,240	n/a
Other (loss) income . . . . .	(35)	308	(343)	(111)
Interest:				
Expense . . . . .	(12,732)	(13,492)	760	5.6
Amortization of deferred financing costs . . . . .	(817)	(579)	(238)	(41.1)
Income from continuing operations . . . . .	11,572	7,438	4,134	55.6

*Equity in earnings of unconsolidated joint ventures.* The decrease is attributable to our 50% share of real estate acquisition costs incurred in connection with the purchase of a property in March 2011 and from the sale of a property in April 2010 at the time the related lease expired.

*Gain on disposition of real estate held by unconsolidated joint venture.* In 2010, we recognized a net gain of \$107,000 on the sale of a property owned by a joint venture. There was no comparable gain in 2011.

*Gain on settlement of debt.* This gain represents the satisfaction, at less than face value, of the \$8.9 million mortgage payable related to the Plano Property. The \$1.24 million gain is net of a \$19,000 write off of the balance of related deferred mortgage costs.

*Other (loss) income.* The decrease is due to an impairment charge recorded on marketable securities that had unrealized losses of \$126,000 and that were sold in January 2012 and the inclusion in 2010 of \$68,000 in interest income from marketable securities which were sold in 2010 for a \$149,000 gain.

*Interest expense.* The following table summarizes interest expense for the periods indicated:

(Dollars in thousands)	Year Ended December 31,		Increase (Decrease)	% Change
	2011	2010		
Interest expense:				
Credit line interest . . . . .	\$ 987	\$ 1,551	\$(564)	(36.4)%
Mortgage interest . . . . .	11,745	11,941	(196)	(1.6)
Total . . . . .	<u>\$12,732</u>	<u>\$13,492</u>	<u>\$(760)</u>	(5.6)

#### Credit line interest

The decrease is due to the \$12.6 million, or 44.2%, reduction in the weighted average balance outstanding under our line of credit. In February 2011, we applied \$26.2 million of our public offering proceeds to reduce the then outstanding balance on our credit line. The decrease in interest expense was offset by an approximately \$151,000 increase in such expense due to the change in the weighted average interest rate from 5.24% for 2010 to 5.82% for 2011. Effective April 1, 2010, the interest rate

charged on the credit line increased to 6% (reduced to 5.5% effective August 5, 2011). In 2009 and through March 31, 2010, we paid interest at LIBOR plus 2.15% (2.44% at March 31, 2010).

### Mortgage interest

The following table reflects the interest rate on our mortgage debt and principal amount of outstanding mortgage debt, in each case on a weighted average basis:

(Dollars in thousands)	Year Ended December 31,		Increase (Decrease)	% Change
	2011	2010		
Interest rate on mortgage debt . . . . .	6.21%	6.32%	(.11)%	(1.7)%
Principal amount of mortgage debt . . .	\$189,187	\$188,938	\$249	0.1

The \$196,000 decrease in mortgage interest expense is due primarily to the decrease in the weighted average interest rate on outstanding mortgage debt. The interest rate decreased due to the paydowns and settlements (i) in 2011 of \$19.6 million of mortgage debt bearing a weighted average interest of 7.52% and (ii) in 2010 of approximately \$10.7 million of mortgage debt bearing a weighted average interest rate of approximately 8.15%.

*Amortization of deferred financing costs.* The increase is due to \$86,000 incurred in connection with financings on four properties we acquired in 2010, \$63,000 incurred in connection with the amendment of our line of credit in January 2011 and \$99,000 due to the accelerated amortization of deferred financing costs relating to two mortgage loans that were paid in full in February 2011.

### **Discontinued Operations**

The following table compares discontinued operations for the periods indicated:

(Dollars in thousands)	Year Ended December 31,		Increase (Decrease)	% Change
	2011	2010		
Discontinued operations:				
Income from operations . . . . .	\$1,216	\$1,633	\$(417)	(25.5)%
Net gain on sales . . . . .	932	235	697	297
Income from discontinued operations . . . . .	<u>\$2,148</u>	<u>\$1,868</u>	<u>\$ 280</u>	15.0

Income from discontinued operations includes the (i) results of operations and the gain on sale of three of our properties, one of which was sold during 2011 and two of which were sold in 2010 and (ii) the results of operations of five properties sold in 2012.

### **Liquidity and Capital Resources**

Our sources of liquidity and capital include cash flow from operations, cash and cash equivalents, borrowings under our revolving credit facility, refinancing existing mortgage loans, obtaining mortgage loans secured by our unencumbered properties, issuance of our equity securities and property sales. Our available liquidity at March 12, 2013 was approximately \$91 million, including approximately \$16 million of cash and cash equivalents and \$75 million available under our revolving line of credit (including the \$6 million required deposit balance).

#### *Liquidity and Financing*

We expect to meet substantially all of our operating cash requirements (including dividend payments) from cash flow from operations. To the extent that cash flow from operations is not

adequate to cover all of our operating needs, we will be required to use our available cash and cash equivalents or draw on our credit line (to the extent permitted) to satisfy operating requirements.

Mortgage debt in aggregate principal amount of \$58.6 million (inclusive of \$18.4 million of debt amortization payments) is payable from January 1, 2013 through December 31, 2015 (*i.e.*, \$8 million in 2013, \$37.4 million in 2014 and \$13.2 million in 2015). We intend to make debt amortization payments from operating cash flow and, though no assurance can be given that we will be successful in this regard, generally intend to refinance or extend the mortgage loans which mature in 2013 through 2015. We intend to repay the amounts not refinanced or extended from our existing funds and sources of funds, including our available cash and our credit line (to the extent available).

We continually seek to refinance existing mortgage loans on terms we deem acceptable, in order to generate additional liquidity. Additionally, in the normal course of our business, we sell properties when we determine that it is in our best interests, which also generates additional liquidity. Further, since each of our encumbered properties is subject to a non-recourse mortgage (with standard carve outs), if our in-house evaluation of the market value of such property is substantially less than the principal balance outstanding on the mortgage loan, we may determine to convey such property to the mortgagee in order to terminate our mortgage obligations, including payment of interest, principal and real estate taxes, with respect to such property.

Typically, we utilize funds from our credit facility to acquire a property and, thereafter secure long term, fixed rate mortgage debt on such property. We apply the proceeds from the mortgage loan to repay borrowings under the credit facility, thus providing us with the ability to re-borrow under the credit facility for the acquisition of additional properties. As a result, in order to grow our business, it is important to have a credit facility in place.

#### *Credit Facility*

We can borrow up to \$75 million pursuant to our revolving credit facility which is available to us for the acquisition of commercial real estate, repayment of mortgage debt, property improvements and general working capital purposes; provided, that if used for property improvements and working capital purposes, such use will not exceed the lesser of \$15 million and 15% of the borrowing base and if used for working capital purposes, will not exceed \$10 million. The facility matures on March 31, 2015 and bears interest at the greater of (i) 90 day LIBOR plus 3% and (ii) 4.75%. There is an unused facility fee of 0.25% per annum on the difference between the outstanding loan balance and \$75 million. We are required to maintain at least \$6 million in average deposit balances.

The terms of our revolving credit facility include certain restrictions and covenants which may limit, among other things, the incurrence of liens, and which require compliance with financial ratios relating to, among other things, the minimum amount of tangible net worth, the minimum amount of debt service coverage, the minimum amount of fixed charge coverage, the maximum amount of debt to value, the minimum level of net income, certain investment limitations and the minimum value of unencumbered properties and the number of such properties. Net proceeds received from the sale, financing or refinancing of properties are generally required to be used to repay amounts outstanding under our credit facility. At December 31, 2012, we were in compliance in all material respects with the covenants under this facility.

### Contractual Obligations

The following sets forth our contractual obligations as of December 31, 2012:

(Dollars in thousands)	Payment due by period				
	Total	Less than 1 Year	1 - 3 Years	4 - 5 Years	More than 5 Years
<i>Contractual Obligations</i>					
Mortgages payable—interest and amortization(1) .	\$160,930	\$18,960	\$31,810	\$25,681	\$ 84,479
Mortgages payable—balances due at maturity . . . .	138,544	1,879	38,364	62,987	35,314
Credit facility(2) . . . . .	—	—	—	—	—
Purchase obligations(3) . . . . .	17,267	3,238	6,584	6,587	858
Total . . . . .	<u>\$316,741</u>	<u>\$24,077</u>	<u>\$76,758</u>	<u>\$95,255</u>	<u>\$120,651</u>

- (1) Assumes that the interest rate on the \$6.07 million variable rate mortgage debt (3.21% per annum) maturing in 2022 is fixed in November 2013 at 4.75% per annum with a 25 year amortization schedule.
- (2) There was no balance outstanding as of December 31, 2012. We may borrow up to \$75 million under such facility.
- (3) Includes \$2.9 million payable annually pursuant to the compensation and services agreement (at the rate in effect at December 31, 2012 and assuming such agreement continues for only five years), amounts payable for office space leased from a related party and amounts payable pursuant to a ground lease.

As of December 31, 2012, we had \$226 million of mortgage debt outstanding (excluding mortgage indebtedness of our unconsolidated joint ventures), all of which is non-recourse (subject to standard carve-outs). We expect that mortgage interest and amortization payments (excluding repayments of principal at maturity) of approximately \$50.8 million due through 2015 will be paid primarily from cash generated from our operations. We anticipate that debt obligations due through 2015 of approximately \$40.2 million will be paid primarily from cash and cash equivalents and mortgage financings and refinancings. If we are unsuccessful in refinancing our existing indebtedness or financing our unencumbered properties, our cash flow, funds available under our credit facility and available cash, if any, may not be sufficient to repay all debt obligations when payments become due, and we may need to issue additional equity, obtain long or short term debt, or dispose of properties on unfavorable terms.

### Cash Distribution Policy

We have elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended. To qualify as a REIT, we must meet a number of organizational and operational requirements, including a requirement that we distribute currently at least 90% of our ordinary taxable income to our stockholders (pursuant to Internal Revenue Procedures). It is our current intention to comply with these requirements and maintain our REIT status. As a REIT, we generally will not be subject to corporate federal, state or local income taxes on taxable income we distribute currently (in accordance with the Internal Revenue Code and applicable regulations) to our stockholders. If we fail to qualify as a REIT in any taxable year, we will be subject to federal, state and local income taxes at regular corporate rates and may not be able to qualify as a REIT for four subsequent tax years. Even if we qualify for federal taxation as a REIT, we may be subject to certain state and local taxes on our income and to federal income taxes on our undistributed taxable income (i.e., taxable income not distributed in the amounts and in the time frames prescribed by the Internal Revenue Code and applicable regulations thereunder) and are subject to federal excise taxes on our undistributed taxable income.

It is our intention to pay to our stockholders within the time periods prescribed by the Internal Revenue Code no less than 90%, and, if possible, 100% of our annual taxable income, including taxable gains from the sale of real estate and recognized gains on the sale of securities. It will continue to be our policy to make sufficient distributions to stockholders in order for us to maintain our REIT status under the Internal Revenue Code.

Our board of directors reviews the dividend policy regularly to determine if any changes to our dividend should be made.

#### **Off-Balance Sheet Arrangements**

None.

#### **Critical Accounting Policies**

Our significant accounting policies are more fully described in Note 2 to our Consolidated Financial Statements included in this Annual Report on Form 10-K. Certain of our accounting policies are particularly important to an understanding of our financial position and results of operations and require the application of significant judgment by our management; as a result they are subject to a degree of uncertainty. These critical accounting policies include the following, discussed below.

##### *Purchase Accounting for Acquisition of Real Estate*

The fair value of real estate acquired is allocated to acquired tangible assets, consisting of land and building, and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases and other value of in-place leases based in each case on their fair values. The fair value of the tangible assets of an acquired property (which includes land and building) is determined by valuing the property as if it were vacant, and the “as-if-vacant” value is then allocated to land and building based on management’s determination of relative fair values of these assets. We assess fair value of the lease intangibles based on estimated cash flow projections that utilize appropriate discount rates and available market information. The fair values associated with below-market rental renewal options are determined based on our experience and the relevant facts and circumstances that existed at the time of the acquisitions. The portion of the values of the leases associated with below-market renewal options that are likely to be exercised are amortized to rental income over the respective renewal periods. The allocation made by management may have a positive or negative effect on net income and may have an effect on the assets and liabilities on the balance sheet.

##### *Revenues*

Our revenues, which are substantially derived from rental income, include rental income that our tenants pay in accordance with the terms of their respective leases reported on a straight line basis over the term of each lease. Since many of our leases provide for rental increases at specified intervals, straight line basis accounting requires us to record as an asset and include in revenues, unbilled rent receivables which we will only receive if the tenant makes all rent payments required through the expiration of the term of the lease. Accordingly, our management must determine, in its judgment, that the unbilled rent receivable applicable to each specific tenant is collectible. We review unbilled rent receivables on a quarterly basis and take into consideration the tenant’s payment history and the financial condition of the tenant. In the event that the collectability of an unbilled rent receivable is in doubt, we are required to take a reserve against the receivable or a direct write off of the receivable, which has an adverse affect on net income for the year in which the reserve or direct write off is taken, and will decrease total assets and stockholders’ equity.



### *Carrying Value of Real Estate Portfolio*

We review our real estate portfolio on a quarterly basis to ascertain if there are any indicators of impairment to the carrying value of any of our real estate assets, including deferred costs and intangibles, in order to determine if there is any need for an impairment charge. In reviewing the portfolio, we examine the type of asset, the current financial statements or other available financial information of the tenant, the economic situation in the area in which the asset is located, the economic situation in the industry in which the tenant is involved and the timeliness of the payments made by the tenant under its lease, as well as any current correspondence that may have been had with the tenant, including property inspection reports. For each real estate asset owned for which indicators of impairment exist, if the undiscounted cash flow analysis yields an amount which is less than the asset's carrying amount, an impairment loss is recorded to the extent that the estimated fair value is less than the asset's carrying amount. The estimated fair value is determined using a discounted cash flow model of the expected future cash flows through the useful life of the property. Real estate assets that are expected to be disposed of are valued at the lower of carrying amount or fair value less costs to sell on an individual asset basis. We generally do not obtain any independent appraisals in determining value but rely on our own analysis and valuations. Any impairment charge taken with respect to any part of our real estate portfolio will reduce our net income and reduce assets and stockholders' equity to the extent of the amount of any impairment charge, but it will not affect our cash flow or our distributions until such time as we dispose of the property.

#### **Item 7A. Qualitative and Quantitative Disclosures About Market Risk.**

Our primary market risk exposure is the effect of changes in interest rates on the interest cost of draws on our revolving variable rate credit facility and the effect of changes in the fair value of our interest rate swap agreements. Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control.

From time-to-time, we utilize interest rate swaps to limit interest rate risk. These swaps are used for hedging purposes-not for speculation. We do not enter into interest rate swaps for trading purposes.

At December 31, 2012, we had eight interest rate swap agreements outstanding (including one held by two of our unconsolidated joint ventures). The fair market value of the interest rate swaps is dependent upon existing market interest rates and swap spreads, which change over time. As of December 31, 2012, if there had been an increase of 100 basis points in forward interest rates, the fair market value of the interest rate swaps and net unrealized gain on derivative instruments would have increased by approximately \$1.52 million. If there were a decrease of 100 basis points in forward interest rates, the fair market value of the interest rate swaps and net unrealized gain on derivative instruments would have decreased by approximately \$1.41 million. These changes would not have any impact on our net income or cash.

Our mortgage debt, after giving effect to the interest rate swap agreements and excluding a \$6.07 million mortgage maturing in 2022, bears interest at fixed rates and accordingly, the effect of changes in interest rates would not impact the amount of interest expense that we incur under these mortgages. As of December 31, 2012, if there had been an increase of 100 basis points on the \$6.07 million mortgage debt, interest expense would have increased by approximately \$44,000 and a decrease of 100 basis points would have decreased interest expense by approximately \$10,000.

Our credit facility is a revolving variable rate facility which is sensitive to interest rates. Under current market conditions, we do not believe that our risk of material potential losses in future earnings, fair values and/or cash flows from near-term changes in market rates that we consider reasonably possible is material. We assessed the market risk for our revolving credit facility and believe that there is no foreseeable market risk because interest is charged at the greater of (i) 90 day LIBOR

plus 3% and (ii) 4.75% per annum. At December 31, 2012, 90 day LIBOR plus 3% was approximately 3.31%; therefore, an increase or decrease of 100 basis points on this interest rate would not have any impact on our interest expense related to this facility.

The fair market value of our long term debt is estimated based on discounting future cash flows at interest rates that our management believes reflect the risks associated with long term debt of similar risk and duration.

The following table sets forth our debt obligations by scheduled principal cash flow payments and maturity date, weighted average interest rates and estimated fair market value at December 31, 2012:

(Dollars in thousands)	For the Year Ended December 31,							Fair Market Value
	2013	2014	2015	2016	2017	Thereafter	Total	
<i>Fixed rate:</i>								
Long term debt(1) . . . .	\$8,039	\$37,393	\$13,216	\$31,187	\$43,089	\$93,047	\$225,971	\$233,170
Weighted average interest rate . . . . .	5.52%	5.42%	5.35%	5.27%	5.22%	5.15%	5.25%	4.8%
<i>Variable rate:</i>								
Long term debt(2) . . . .	—	—	—	—	—	—	—	—

(1) Includes the \$6.07 million variable rate mortgage debt maturing in 2022 and assumes that effective November 2013, the interest rate is fixed at 4.75% per annum and such debt provides for principal payments on a 25 year amortization schedule.

(2) Our credit facility matures on March 31, 2015 and bears interest at the greater of (i) 4.75% and (ii) 90 day LIBOR plus 3%.

**Item 8. Financial Statements and Supplementary Data.**

This information appears in Item 15(a) of this Annual Report on Form 10-K, and is incorporated into this Item 8 by reference thereto.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

Not applicable.

**Item 9A. Controls and Procedures.**

A review and evaluation was performed by our management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K. Based on that review and evaluation, the CEO and CFO have concluded that our current disclosure controls and procedures, as designed and implemented, were effective. There have been no significant changes in our internal controls or in other factors that could significantly affect our internal controls subsequent to the date of their evaluation. There were no significant material weaknesses identified in the course of such review and evaluation and, therefore, we took no corrective measures.

**Management Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as a process designed by, or under the supervision of, a company’s principal executive and principal financial

officers and effected by a company's board, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP, and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of a company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of a company are being made only in accordance with authorizations of management and directors of a company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of a company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2012. In making this assessment, our management used criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework.

Based on its assessment, our management believes that, as of December 31, 2012, our internal control over financial reporting was effective based on those criteria.

Our independent registered public accounting firm, Ernst & Young LLP, has issued an audit report on management's assessment of our internal control over financial reporting. This report appears on page F-1 of this Annual Report on Form 10-K.

**Item 9B. Other Information.**

None.

### **PART III**

**Item 10. Directors, Executive Officers and Corporate Governance.**

Apart from certain information concerning our executive officers which is set forth in Part I of this Annual Report, additional information required by this Item 10 shall be included in our proxy statement for our 2013 annual meeting of stockholders, to be filed with the SEC not later than April 30, 2013, and is incorporated herein by reference.

**Item 11. Executive Compensation.**

The information concerning our executive compensation required by this Item 11 shall be included in our proxy statement for our 2013 annual meeting of stockholders, to be filed with the SEC not later than April 30, 2013, and is incorporated herein by reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

The information concerning our beneficial owners and management required by this Item 12 shall be included in our proxy statement for our 2013 annual meeting of stockholders, to be filed with the SEC not later than April 30, 2013 and is incorporated herein by reference.

**Equity Compensation Plan Information**

The following table provides information about shares of our common stock that may be issued upon the exercise of options, warrants and rights under our 2009 Stock Incentive Plan as of December 31, 2012:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column(a))(3) (c)
Equity compensation plans approved by security holders(1) . . . . .	200,000(2)	—	600,000
Equity compensation plans not approved by security holders . . . . .	—	—	—
Total . . . . .	200,000	—	600,000

- (1) As of December 31, 2012, the only equity compensation plan under which equity compensation may be awarded is our 2012 Incentive Plan, which was approved by our stockholders in June 2012. This plan permits us to grant stock options, restricted stock, restricted stock units and performance based awards to our employees, officers, directors and consultants.
- (2) Represents an aggregate of up to 200,000 shares of common stock issuable pursuant to restricted stock units issued pursuant to our 2009 Incentive Plan. The shares underlying these units vest on June 30, 2017 if and to the extent specified performance or market conditions are satisfied, assuming continued employment.
- (3) Does not give effect to 112,650 restricted stock awards granted January 15, 2013 pursuant to our 2012 Incentive Plan.

**Item 13. Certain Relationships and Related Transactions.**

The information concerning certain relationships, related transactions and director independence required by this Item 13 shall be included in our proxy statement for our 2013 annual meeting of stockholders, to be filed with the SEC not later than April 30, 2013 and is incorporated herein by reference.

**Item 14. Principal Accountant Fees and Services.**

The information concerning our principal accounting fees required by this Item 14 shall be included in our proxy statement for our 2013 annual meeting of stockholders, to be filed with the SEC not later than April 30, 2013, and is incorporated herein by reference.

## PART IV

### Item 15. Exhibits and Financial Statement Schedules

(a) Documents filed as part of this Report:

(1) The following financial statements of the Company are included in this Annual Report on Form 10-K:

—Reports of Independent Registered Public Accounting Firm . . . . .	F-1 through F-2
—Statements:	
Consolidated Balance Sheets . . . . .	F-3
Consolidated Statements of Income . . . . .	F-4
Consolidated Statements of Comprehensive Income . . . . .	F-5
Consolidated Statements of Changes in Equity . . . . .	F-6
Consolidated Statements of Cash Flows . . . . .	F-7 through F-8
Notes to Consolidated Financial Statements . . . . .	F-9 through F-37

(2) Financial Statement Schedules:

—Schedule III—Real Estate and Accumulated Depreciation . . . . .	F-38 through F-42
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All other schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or the notes thereto.

(b) Exhibits:

- 3.1 Articles of Amendment and Restatement of One Liberty Properties, Inc., dated July 20, 2004 (incorporated by reference to Exhibit 3.1 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2004).
- 3.2 Articles of Amendment to Restated Articles of Incorporation of One Liberty Properties, Inc. filed with the State of Assessments and Taxation of Maryland on June 17, 2005 (incorporated by reference to Exhibit 3.1 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2005).
- 3.3 Articles of Amendment to Restated Articles of Incorporation of One Liberty Properties, Inc. filed with the State of Assessments and Taxation of Maryland on June 21, 2005 (incorporated by reference to Exhibit 3.2 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2005).
- 3.4 By-Laws of One Liberty Properties, Inc., as amended (incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K filed on December 12, 2007).
- 3.5 Amendment, effective as of June 12, 2012, to By-Laws of One Liberty Properties, Inc. (incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K filed on June 12, 2012).
- 4.1\* One Liberty Properties, Inc. 2009 Incentive Plan (incorporated by reference to Exhibit 4.1 to our Annual Report on Form 10-K for the year ended December 31, 2010).
- 4.2\* One Liberty Properties, Inc. 2012 Incentive Plan (incorporated by reference to Exhibit 4.1 to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2012).

- 4.3 Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 to our Registration Statement on Form S-2, Registration No. 333-86850, filed on April 24, 2002 and declared effective on May 24, 2002).
- 10.1 Seconded Amended and Restated Loan Agreement, dated as of March 31, 2010, by and among One Liberty Properties, Inc., Valley National Bank, Merchants Bank Division, Bank Leumi USA, Israel Discount Bank of New York and Manufacturers and Traders Trust Company (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on January 10, 2011).
- 10.2 First Amendment dated as of January 6, 2011 to the Second Amended and Restated Loan Agreement, dated as of March 31, 2010, between VNB New York Corp. as assignee of Valley National Bank, Merchants Bank Division, Bank Leumi, USA, Manufacturers and Traders Trust Company, Israel Discount Bank of New York, and One Liberty Properties, Inc. (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on January 10, 2011).
- 10.3 Second Amendment to Second Amended and Restated Loan Agreement dated as of August 5, 2011, between VNB New York Corp., Bank Leumi USA, Israel Discount Bank of New York, Manufacturers and Traders Trust Company and One Liberty Properties, Inc. (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed August 15, 2011).
- 10.4 Third Amendment to Second Amended and Restated Loan Agreement dated as of July 31, 2012, between VNB New York Corp., Bank Leumi USA, Israel Discount Bank of New York, Manufacturers and Traders Trust Company and One Liberty Properties, Inc. (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed August 2, 2012).
- 10.5\* Compensation and Services Agreement effective as of January 1, 2007 between One Liberty Properties, Inc. and Majestic Property Management Corp. (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed on March 14, 2007).
- 10.6\* First Amendment to Compensation and Services Agreement effective as of April 1, 2012 between One Liberty Properties, Inc. and Majestic Property Management Corp. (incorporated by reference to Exhibit 10.1 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2012).
- 10.7\* Form of Performance Award Agreement (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on September 15, 2010).
- 10.8\* Form of Restricted Stock Award Agreement for the 2009 Incentive Plan (incorporated by reference to Exhibit 10.6 to our Annual Report on Form 10-K for the year ended December 31, 2010).
- 14.1 Code of Business Conduct and Ethics (incorporated by reference to Exhibit 14.1 to One Liberty Properties, Inc.'s Current Report on Form 8-K filed on March 14, 2006).
- 21.1 Subsidiaries of Registrant
- 23.1 Consent of Ernst & Young LLP
- 31.1 Certification of President and Chief Executive Officer
- 31.2 Certification of Senior Vice President and Chief Financial Officer
- 32.1 Certification of President and Chief Executive Officer

32.2	Certification of Senior Vice President and Chief Financial Officer
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Definition Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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\* Indicates a management contract or compensatory plan or arrangement.

The file number for all the exhibits incorporated by reference is 001-09279 other than exhibit 4.3 whose file number is 333-86850.



## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Exchange, the Registrant has duly caused this report to be signed on its behalf of the undersigned, thereunto duly authorized.

ONE LIBERTY PROPERTIES, INC.

March 15, 2013

By:           /s/ PATRICK J. CALLAN, JR.            
Patrick J. Callan, Jr.  
*President and Chief Executive Officer*

Pursuant to the requirements of the Exchange Act, this report has been signed below by the following persons on behalf of the Registrant in the capacities indicated on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>          /s/ FREDRIC H. GOULD          </u> Fredric H. Gould	Chairman of the Board of Directors	March 15, 2013
<u>          /s/ PATRICK J. CALLAN, JR.          </u> Patrick J. Callan, Jr.	President, Director and Chief Executive Officer (Principal Executive Officer)	March 15, 2013
<u>          /s/ JOSEPH A. AMATO          </u> Joseph A. Amato	Director	March 15, 2013
<u>          /s/ CHARLES BIEDERMAN          </u> Charles Biederman	Director	March 15, 2013
<u>          /s/ JAMES J. BURNS          </u> James J. Burns	Director	March 15, 2013
<u>          /s/ JOSEPH A. DELUCA          </u> Joseph A. DeLuca	Director	March 15, 2013
<u>          /s/ JEFFREY A. GOULD          </u> Jeffrey A. Gould	Director	March 15, 2013
<u>          /s/ MATTHEW J. GOULD          </u> Matthew J. Gould	Director	March 15, 2013

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ LOUIS P. KAROL</u> Louis P. Karol	Director	March 15, 2013
<u>/s/ J. ROBERT LOVEJOY</u> J. Robert Lovejoy	Director	March 15, 2013
<u>/s/ EUGENE I. ZURIFF</u> Eugene I. Zuriff	Director	March 15, 2013
<u>/s/ DAVID W. KALISH</u> David W. Kalish	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	March 15, 2013
<u>/s/ KAREN DUNLEAVY</u> Karen Dunleavy	Vice President, Financial (Principal Accounting Officer)	March 15, 2013

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of  
One Liberty Properties, Inc. and Subsidiaries

We have audited One Liberty Properties, Inc. and Subsidiaries' (the "Company") internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, One Liberty Properties, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of One Liberty Properties, Inc. and Subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of income and comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2012 of the Company and our report dated March 15, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, New York  
March 15, 2013

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of  
One Liberty Properties, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of One Liberty Properties, Inc. and Subsidiaries (the “Company”) as of December 31, 2012 and 2011, and the related consolidated statements of income and comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2012. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of One Liberty Properties, Inc. and Subsidiaries at December 31, 2012 and 2011, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), One Liberty Properties, Inc. and Subsidiaries’ internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 15, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New York, New York  
March 15, 2013

**ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES**  
**Consolidated Balance Sheets**  
(Amounts in Thousands, Except Par Value)

	December 31,	
	2012	2011
<b>ASSETS</b>		
Real estate investments, at cost		
Land . . . . .	\$138,152	\$123,636
Buildings and improvements . . . . .	335,189	306,701
Total real estate investments, at cost . . . . .	473,341	430,337
Less accumulated depreciation . . . . .	62,816	54,214
Real estate investments, net . . . . .	410,525	376,123
Property contributed to joint venture (including related assets of \$84) . . . . .	—	11,842
Properties held for sale (including related assets of \$968) . . . . .	—	16,975
Investment in unconsolidated joint ventures . . . . .	19,485	7,170
Cash and cash equivalents . . . . .	14,577	12,668
Unbilled rent receivable . . . . .	12,629	11,264
Unamortized intangible lease assets . . . . .	16,491	11,240
Escrow, deposits and other assets and receivables . . . . .	3,741	3,161
Investment in BRT Realty Trust at market (related party) . . . . .	241	235
Unamortized deferred financing costs . . . . .	3,477	2,143
Total assets . . . . .	\$481,166	\$452,821
<b>LIABILITIES AND EQUITY</b>		
Liabilities:		
Mortgages and loan payable . . . . .	\$225,971	\$190,967
Mortgages payable—property held-for-sale . . . . .	—	6,970
Line of credit . . . . .	—	20,000
Dividends payable . . . . .	5,252	4,805
Accrued expenses and other liabilities . . . . .	6,584	5,967
Unamortized intangible lease liabilities . . . . .	5,300	5,165
Total liabilities . . . . .	243,107	233,874
Commitments and contingencies . . . . .	—	—
Equity:		
One Liberty Properties Inc. stockholders' equity:		
Preferred stock, \$1 par value; 12,500 shares authorized; none issued . . . . .	—	—
Common stock, \$1 par value; 25,000 shares authorized; 14,598 and 14,213 shares issued and outstanding . . . . .	14,598	14,213
Paid-in capital . . . . .	196,107	189,486
Accumulated other comprehensive loss . . . . .	(1,578)	(1,019)
Accumulated undistributed net income . . . . .	28,001	15,605
Total One Liberty Properties, Inc. stockholders' equity . . . . .	237,128	218,285
Non-controlling interests in joint ventures . . . . .	931	662
Total equity . . . . .	238,059	218,947
Total liabilities and equity . . . . .	\$481,166	\$452,821

See accompanying notes.

**ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES**

**Consolidated Statements of Income**

**(Amounts in Thousands, Except Per Share Data)**

	Year Ended December 31,		
	2012	2011	2010
Revenues:			
Rental income, net . . . . .	\$ 44,750	\$ 41,805	\$ 37,630
Operating expenses:			
Depreciation and amortization . . . . .	9,706	8,934	7,994
General and administrative (including \$2,685, \$2,685 and \$2,083, respectively, to related party) . . . . .	7,317	6,849	6,148
Federal excise and state taxes . . . . .	457	168	193
Real estate acquisition costs . . . . .	823	213	1,010
Real estate expenses (including \$600 in each year to related party) . . . . .	2,622	2,331	1,875
Leasehold rent . . . . .	308	308	308
Total operating expenses . . . . .	21,233	18,803	17,528
Operating income . . . . .	23,517	23,002	20,102
Other income and expenses:			
Equity in earnings of unconsolidated joint ventures . . . . .	1,368	914	992
Gain on disposition of real estate—unconsolidated joint venture . . . . .	—	—	107
Gain on settlement of debt . . . . .	—	1,240	—
Other income (loss) . . . . .	241	(35)	308
Interest:			
Expense . . . . .	(12,813)	(12,732)	(13,492)
Amortization of deferred financing costs . . . . .	(776)	(817)	(579)
Gain on sale of real estate . . . . .	319	—	—
Income from continuing operations . . . . .	11,856	11,572	7,438
Discontinued operations:			
Income from operations . . . . .	1,039	1,216	1,633
Net gain on sales . . . . .	19,413	932	235
Income from discontinued operations . . . . .	20,452	2,148	1,868
Net income . . . . .	32,308	13,720	9,306
Plus net loss attributable to non-controlling interests . . . . .	12	4	—
Net income attributable to One Liberty Properties, Inc. . . . .	\$ 32,320	\$ 13,724	\$ 9,306
Weighted average number of common shares outstanding:			
Basic . . . . .	14,427	13,801	11,465
Diluted . . . . .	14,527	13,851	11,510
Per common share attributable to common stockholders—basic:			
Income from continuing operations . . . . .	\$ .80	\$ .81	\$ .65
Income from discontinued operations . . . . .	1.38	.15	.16
	\$ 2.18	\$ .96	\$ .81
Per common share attributable to common stockholders—diluted:			
Income from continuing operations . . . . .	\$ .79	\$ .80	\$ .65
Income from discontinued operations . . . . .	1.37	.16	.16
	\$ 2.16	\$ .96	\$ .81

See accompanying notes.

**ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Amounts in Thousands)

	<u>Year Ended December 31,</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net income . . . . .	\$32,308	\$13,720	\$9,306
Other comprehensive (loss)			
Net unrealized gain (loss) on available-for-sale securities . . . . .	11	66	(60)
Net unrealized (loss) on derivative instruments . . . . .	(547)	(747)	(287)
One Liberty Property's share of joint venture net unrealized (loss) on derivative instruments . . . . .	(23)	(182)	—
Other comprehensive (loss) . . . . .	<u>(559)</u>	<u>(863)</u>	<u>(347)</u>
Comprehensive income . . . . .	31,749	12,857	8,959
Plus: comprehensive loss attributable to non-controlling interests . . . . .	12	4	—
Comprehensive income attributable to One Liberty Properties, Inc. . . . .	<u>\$31,761</u>	<u>\$12,861</u>	<u>\$8,959</u>

See accompanying notes.



**ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES**

**Consolidated Statements of Changes in Equity**

**For the Three Years Ended December 31, 2012**

**(Amounts in Thousands, Except Per Share Data)**

	Common Stock	Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Undistributed Net Income	Non- Controlling Interests in Joint Ventures	Total
Balances, December 31, 2009 . . . . .	\$10,879	\$143,272	\$ 191	\$ 25,786	\$ —	\$180,128
Distributions—common stock						
Cash—\$1.23 per share . . . . .	—	—	—	(14,123)	—	(14,123)
Issuance of stock for stock dividend						
obligation at December 31, 2009 . . . . .	216	1,888	—	—	—	2,104
Restricted stock vesting . . . . .	36	(36)	—	—	—	—
Shares issued through dividend reinvestment						
plan . . . . .	81	1,119	—	—	—	1,200
Compensation expense—restricted stock . . .	—	915	—	—	—	915
Net income . . . . .	—	—	—	9,306	—	9,306
Other comprehensive (loss) . . . . .	—	—	(347)	—	—	(347)
Balances, December 31, 2010 . . . . .	<u>11,212</u>	<u>147,158</u>	<u>(156)</u>	<u>20,969</u>	<u>—</u>	<u>179,183</u>
Distributions—common stock						
Cash—\$1.32 per share . . . . .	—	—	—	(19,088)	—	(19,088)
Shares issued in public offering—net of						
offering costs of \$282 . . . . .	2,700	37,869	—	—	—	40,569
Restricted stock vesting . . . . .	46	(46)	—	—	—	—
Shares issued through dividend reinvestment						
plan . . . . .	255	3,496	—	—	—	3,751
Contribution from non-controlling interest						
partner . . . . .	—	—	—	—	666	666
Compensation expense—restricted stock . . .	—	1,009	—	—	—	1,009
Net income (loss) . . . . .	—	—	—	13,724	(4)	13,720
Other comprehensive (loss) . . . . .	—	—	(863)	—	—	(863)
Balances, December 31, 2011 . . . . .	<u>14,213</u>	<u>189,486</u>	<u>(1,019)</u>	<u>15,605</u>	<u>662</u>	<u>218,947</u>
Distributions—common stock						
Cash—\$1.34 per share . . . . .	—	—	—	(19,924)	—	(19,924)
Shares issued through equity offering						
program—net . . . . .	121	2,010	—	—	—	2,131
Restricted stock vesting . . . . .	49	(49)	—	—	—	—
Shares issued through dividend reinvestment						
plan . . . . .	215	3,437	—	—	—	3,652
Contributions from non-controlling interest						
partners . . . . .	—	—	—	—	571	571
Distribution to non-controlling interest . . . .	—	—	—	—	(290)	(290)
Compensation expense—restricted stock . . .	—	1,223	—	—	—	1,223
Net income (loss) . . . . .	—	—	—	32,320	(12)	32,308
Other comprehensive (loss) . . . . .	—	—	(559)	—	—	(559)
Balances, December 31, 2012 . . . . .	<u>\$14,598</u>	<u>\$196,107</u>	<u>\$(1,578)</u>	<u>\$ 28,001</u>	<u>\$ 931</u>	<u>\$238,059</u>

See accompanying notes.

**ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows**  
(Amounts in Thousands)

	Year Ended December 31,		
	2012	2011	2010
Cash flows from operating activities:			
Net income . . . . .	\$ 32,308	\$ 13,720	\$ 9,306
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain on settlement of debt . . . . .	—	(1,240)	—
Gain on sales of real estate and other assets . . . . .	(19,741)	(932)	(384)
Increase in rental income from straight-lining of rent . . . . .	(1,354)	(1,455)	(675)
Decrease in rental income resulting from bad debt (recovery) expense, net . . . . .	(117)	467	525
Decrease (increase) in rental income from amortization of intangibles relating to leases . . . . .	2	26	(454)
Impairment charge on available-for-sale securities . . . . .	—	126	—
Amortization of restricted stock expense . . . . .	1,223	1,009	915
Gain on disposition of real estate held by unconsolidated joint venture . . . . .	—	—	(107)
Equity in earnings of unconsolidated joint ventures . . . . .	(1,368)	(914)	(992)
Distributions of earnings from unconsolidated joint ventures . . . . .	1,016	902	978
Depreciation and amortization . . . . .	9,966	9,439	8,659
Amortization and write off of financing costs . . . . .	800	850	610
Changes in assets and liabilities:			
(Increase) in escrow, deposits, other assets and receivables . . . . .	(492)	(395)	(561)
Increase in accrued expenses and other liabilities . . . . .	71	33	1,120
Net cash provided by operating activities . . . . .	<u>22,314</u>	<u>21,636</u>	<u>18,940</u>
Cash flows from investing activities:			
Purchase of real estate . . . . .	(44,088)	(25,668)	(37,542)
Improvements to real estate . . . . .	(4,969)	(3,746)	(1,208)
Net proceeds from sale of real estate . . . . .	36,062	11,544	4,136
Investment in unconsolidated joint ventures . . . . .	—	(669)	—
Distributions of return of capital from unconsolidated joint ventures . . . . .	145	95	991
Prepaid tenant improvement allowance . . . . .	—	—	(1,750)
Payment of leasing commissions . . . . .	(438)	(183)	(422)
Net proceeds from sale of available-for-sale securities . . . . .	373	—	6,345
Net cash (used in) investing activities . . . . .	<u>(12,915)</u>	<u>(18,627)</u>	<u>(29,450)</u>
Cash flows from financing activities:			
Scheduled amortization payments of mortgages payable . . . . .	(5,533)	(5,181)	(5,066)
Repayment of mortgages payable . . . . .	(32,422)	(15,302)	(10,689)
Proceeds from mortgage financings . . . . .	65,989	12,455	7,500
Proceeds from common stock offering, net . . . . .	2,131	40,569	—
Proceeds from bank line of credit . . . . .	14,550	28,500	28,700
Repayment on bank line of credit . . . . .	(34,550)	(44,700)	(19,500)
Issuance of shares through dividend reinvestment plan . . . . .	3,652	3,751	1,200
Payment of financing costs . . . . .	(2,111)	(741)	(1,272)
Capital contribution from non-controlling interests . . . . .	571	666	—
Distribution to non-controlling interest . . . . .	(290)	—	—
Cash distributions to common stockholders . . . . .	(19,477)	(18,090)	(10,564)
Expenses associated with stock issuance . . . . .	—	—	(103)
Net cash (used in) provided by financing activities . . . . .	<u>(7,490)</u>	<u>1,927</u>	<u>(9,794)</u>
Net increase (decrease) in cash and cash equivalents . . . . .	1,909	4,936	(20,304)
Cash and cash equivalents at beginning of year . . . . .	<u>12,668</u>	<u>7,732</u>	<u>28,036</u>
Cash and cash equivalents at end of year . . . . .	<u>\$ 14,577</u>	<u>\$ 12,668</u>	<u>\$ 7,732</u>

**ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows (Continued)**  
**(Amounts in Thousands)**

	<u>Year Ended December 31,</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Supplemental disclosures of cash flow information:			
Cash paid during the year for interest expense, net of capitalized interest of \$35 and \$36 in 2012 and 2011, respectively . . . . .	\$ 13,088	\$ 13,363	\$ 13,934
Cash paid during the year for income taxes . . . . .	68	70	73
Supplemental schedule of non-cash investing and financing activities:			
Contribution of property to unconsolidated joint venture . . . . .	\$ 11,734	\$ —	\$ —
Common stock dividend—portion paid in shares of Company's common stock .	—	—	2,209
Assumption of mortgages payable in connection with purchase of real estate . .	—	—	33,548
Settlement of mortgage debt . . . . .	—	1,259	—
Purchase accounting allocations—intangible lease assets . . . . .	6,641	2,387	5,500
Purchase accounting allocations—intangible lease liabilities . . . . .	(588)	(614)	(1,040)
Reclassification of 2010 prepaid tenant improvement allowance to building improvements . . . . .	—	1,750	—

See accompanying notes.

## ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

December 31, 2012

#### NOTE 1—ORGANIZATION AND BACKGROUND

One Liberty Properties, Inc. (“OLP”) was incorporated in 1982 in Maryland. OLP is a self-administered and self-managed real estate investment trust (“REIT”). OLP acquires, owns and manages a geographically diversified portfolio of retail, industrial, health and fitness, office, flex and other properties, a substantial portion of which are under long-term net leases. As of December 31, 2012, OLP owned 93 properties, four of which are owned by consolidated joint ventures. OLP’s unconsolidated joint ventures owned a total of seven properties. The 100 properties are located in 29 states.

#### NOTE 2—SIGNIFICANT ACCOUNTING POLICIES

##### *Principles of Consolidation*

The consolidated financial statements include the accounts and operations of OLP, its wholly-owned subsidiaries and its investment in four joint ventures in which the Company, as defined, has a controlling interest. OLP and its subsidiaries are hereinafter referred to as the “Company”. Material intercompany items and transactions have been eliminated in consolidation.

##### *Investment in Joint Ventures*

The Financial Accounting Standards Board, or FASB, guidance for determining whether an entity is a variable interest entity, or VIE, requires the performance of a qualitative rather than a quantitative analysis to determine the primary beneficiary of a VIE. Under this guidance, an entity would be required to consolidate a VIE if it has (i) the power to direct the activities that most significantly impact the entity’s economic performance and (ii) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could be significant to the VIE.

The Company assesses the accounting treatment for each joint venture investment. This assessment includes a review of each joint venture or limited liability company agreement to determine the rights of each party and whether those rights are protective or participating. For the Company’s VIE, the Company reviews such agreement to determine which party has the power to direct the activities that most significantly impact the entity’s economic performance. The agreements typically contain certain protective rights such as the requirement of partner approval to sell, finance or refinance the property and the payment of capital expenditures and operating expenditures outside of the approved budget or operating plan. In situations where the Company and its partner (i) approve the annual budget, (ii) approve certain expenditures, (iii) prepare or review and approve the joint venture’s tax return before filing, and (iv) approve each lease at each property, the Company does not consolidate the joint venture as the Company considers these to be substantive participation rights that result in shared power of the activities that most significantly impact the performance of the joint venture.

With respect to the four consolidated joint ventures in which the Company has between an 85% and 95% interest, the Company has determined that (i) such ventures are not VIE’s and (ii) the Company exercises substantial operating control and accordingly, such ventures are consolidated for financial statement purposes.

In February 2012, the Company contributed its property located in Plano, Texas to a joint venture (see Note 5) in exchange for a 90% equity interest therein. The Company has determined that this joint venture is a VIE; however, the Company is not the primary beneficiary and accordingly, the

**ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2012**

**NOTE 2—SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Company accounts for its investment in this joint venture under the equity method from the date of contribution.

The Company accounts for its investments in six other unconsolidated joint ventures under the equity method of accounting, including the Company's tenant in common interest which was reclassified from an investment in real estate to an investment in an unconsolidated joint venture in all periods presented (see "Reclassification" below). All investments in these six joint ventures have sufficient equity at risk to permit the entity to finance its activities without additional subordinated financial support and, as a group, the holders of the equity at risk have power through voting rights to direct the activities of these ventures. As a result, none of these six joint ventures are VIE's. In addition, although the Company is the managing member, it does not exercise substantial operating control over these entities, and therefore the entities are not consolidated. These investments are recorded initially at cost, as investments in unconsolidated joint ventures, and subsequently adjusted for their share of equity in earnings, cash contributions and distributions. None of the joint venture debt is recourse to the Company, excluding standard carve-outs.

The Company has elected to follow the cumulative earnings approach when assessing, for the statement of cash flows, whether the distribution from the investee is a return of the investor's investment as compared to a return on its investment. The source of the cash generated by the investee to fund the distribution is not a factor in the analysis (that is, it does not matter whether the cash was generated through investee refinancing, sale of assets or operating results).

Consequently, the investor only considers the relationship between the cash received from the investee to its equity in the undistributed earnings of the investee, on a cumulative basis, in assessing whether the distribution from the investee is a return on or return of its investment. Cash received from the unconsolidated entity is presumed to be a return on the investment to the extent that, on a cumulative basis, distributions received by the investor are less than its share of the equity in the undistributed earnings of the entity.

*Use of Estimates*

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

Management believes that the estimates and assumptions that are most important to the portrayal of the Company's financial condition and results of operations, in that they require management's most difficult, subjective or complex judgments, form the basis of the accounting policies deemed to be most significant to the Company. These significant accounting policies relate to revenues and the value of the Company's real estate portfolio. Management believes its estimates and assumptions related to these significant accounting policies are appropriate under the circumstances; however, should future events or occurrences result in unanticipated consequences, there could be a material impact on the Company's future financial condition or results of operations.

**ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2012**

**NOTE 2—SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Revenue Recognition*

Rental income includes the base rent that each tenant is required to pay in accordance with the terms of their respective leases reported on a straight-line basis over the term of the lease. In order for management to determine, in its judgment, that the unbilled rent receivable applicable to each specific property is collectible, management reviews unbilled rent receivables on a quarterly basis and takes into consideration the tenant's payment history and financial condition. Some of the leases provide for additional contingent rental revenue in the form of percentage rents and increases based on the consumer price index. The percentage rents are based upon the level of sales achieved by the lessee and are recorded once the required sales levels are reached.

Substantially all of the Company's properties are subject to long-term net leases under which the tenant is typically responsible to pay for real estate taxes, insurance and ordinary maintenance and repairs for the property directly to the vendor and the Company is not the primary obligor with respect to such items. As a result, the revenue and expenses relating to these properties is recorded on a net basis. For certain properties, the tenants, in addition to base rent, also pay the Company their pro rata share of real estate taxes and operating expenses. The income and expenses associated with these properties is recorded on a gross basis. During 2012, 2011 and 2010, the Company recorded additional rental income for the reimbursement of expenses in the amount of \$947,000, \$794,000 and \$496,000, respectively.

Gains or losses on disposition of properties are recorded when the criteria under GAAP have been met.

*Fair Value Measurements*

The Company measures the fair value of financial instruments based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, a fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity and the reporting entity's own assumptions about market participant assumptions. In accordance with the fair value hierarchy, Level 1 assets/liabilities are valued based on quoted prices for identical instruments in active markets, Level 2 assets/liabilities are valued based on quoted prices in active markets for similar instruments, on quoted prices in less active or inactive markets, or on other "observable" market inputs and Level 3 assets/liabilities are valued based significantly on "unobservable" market inputs.

*Purchase Accounting for Acquisition of Real Estate*

The Company allocates the purchase price of real estate among land, building, improvements and intangibles, such as the value of above, below and at-market leases and origination costs associated with in-place leases. The Company assesses the fair value of the lease intangibles and the assumed mortgage based on estimated cash flow projections that utilize appropriate discount rates and available market information. Such inputs are Level 3 in the fair value hierarchy. The fair value of the tangible assets of an acquired property is determined by valuing the property as if it were vacant. The value, as determined, is allocated to land, buildings and improvements based on management's determination.

**ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2012**

**NOTE 2—SIGNIFICANT ACCOUNTING POLICIES (Continued)**

In valuing an acquired property's intangibles, factors considered by management include an estimate of carrying costs during the expected lease-up periods, such as real estate taxes, insurance, other operating expenses, and estimates of lost rental revenue during the expected lease-up periods based on its evaluation of current market demand. Management also estimates costs to execute similar leases, including leasing commissions, tenant improvements, legal and other related costs.

The values of acquired above-market and below-market leases are recorded based on the present values (using discount rates which reflect the risks associated with the leases acquired) of the differences between the contractual amounts to be received and management's estimate of market lease rates, measured over the terms of the respective leases that management deemed appropriate at the time of the acquisitions. Such valuations include a consideration of the non-cancellable terms of the respective leases as well as any applicable renewal period(s). The fair values associated with below-market rental renewal options are determined based on the Company's experience and the relevant facts and circumstances that existed at the time of the acquisitions. The values of above-market leases are amortized to rental income over the terms of the respective non-cancellable lease periods. The portion of the values of below-market leases associated with the original non-cancellable lease terms are amortized to rental income over the terms of the respective non-cancellable lease periods. The portion of the values of the leases associated with below-market renewal options that are likely of exercise are amortized to rental income over the respective renewal periods. The value of other intangible assets (including leasing commissions and tenant improvements) is amortized to expense over the applicable terms of the respective leases. If a lease were to be terminated prior to its stated expiration or not renewed, all unamortized amounts relating to that lease would be recognized in operations at that time. The estimated useful lives of intangible assets or liabilities generally range from one to thirty five years.

***Accounting for Long-Lived Assets and Impairment of Real Estate Owned***

The Company reviews its real estate portfolio on a quarterly basis to ascertain if there are any indicators of impairment to the value of any of its real estate assets, including deferred costs and intangibles, in order to determine if there is any need for an impairment charge. In reviewing the portfolio, the Company examines one or more of the following: the type of asset, the current financial statements or other available financial information of the tenant, the economic situation in the area in which the asset is located, the economic situation in the industry in which the tenant is involved, the timeliness of the payments made by the tenant under its lease, and any current communication with the tenant, including property inspection reports. For each real estate asset owned for which indicators of impairment exist, if the undiscounted cash flow analysis yields an amount which is less than the asset's carrying amount, an impairment loss is recorded to the extent that the estimated fair value is less than the asset's carrying amount. The estimated fair value is determined using a discounted cash flow model of the expected future cash flows through the useful life of the property. The analysis includes an estimate of the future cash flows that are expected to result from the real estate investment's use and eventual disposition. These cash flows consider factors such as expected future operating income, trends and prospects, the effects of leasing demand, competition and other factors. Real estate assets that are classified as held for sale are valued at the lower of carrying amount or fair value less costs to sell on an individual asset basis.



**ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2012**

**NOTE 2—SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Real estate investments include costs of development and redevelopment activities, and construction in progress. Capitalized costs, including interest and other carrying costs during the construction and/or renovation periods, are included in the cost of the related asset and charged to operations through depreciation over the asset's estimated useful life.

A conditional asset retirement obligation ("CARO") is a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement is conditional on a future event that may or may not be within the control of the Company. The Company would record a liability for a CARO if the fair value of the obligation can be reasonably estimated. There were no CARO's recorded by the Company during the three years ended December 31, 2012.

***Cash and Cash Equivalents***

All highly liquid investments with original maturities of three months or less when purchased are considered to be cash equivalents. The Company places its cash and cash equivalents in high quality financial institutions.

***Escrow, Deposits and Other Assets and Receivables***

Escrow, deposits and other assets and receivables include \$1,104,000 and \$999,000 at December 31, 2012 and 2011, respectively, of restricted cash relating to real estate taxes, insurance and other escrows.

***Allowance for Doubtful Accounts***

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its tenants to make required rent payments. If the financial condition of a specific tenant were to deteriorate, resulting in an impairment of its ability to make payments, additional allowances may be required. At December 31, 2012 and 2011, the balance in allowance for doubtful accounts was \$132,000 and \$335,000, respectively, recorded as a reduction to accounts receivable. The balances at December 31, 2012 and 2011 are net of write offs of \$86,000 and \$1,109,000, respectively. The 2011 write off is primarily related to a former tenant which vacated the Company's property in June 2011 in the course of its liquidation after filing for bankruptcy protection in early 2011. The Company records bad debt expense as a reduction of rental income. For the year ended December 31, 2012, the Company recorded bad debt expense of \$56,000 in income from continuing operations and net recoveries of previously recognized bad debt expense of \$173,000 in discontinued operations as a result of collections from one tenant. For the years ended December 31, 2011 and 2010, the Company recorded bad debt expense of \$486,000 and \$432,000, respectively, in income from continued operations and \$(19,000) and \$93,000 in discontinued operations, respectively.

***Depreciation and Amortization***

Depreciation of buildings is computed on the straight-line method over an estimated useful life of 40 years. Depreciation of improvements is computed on the straight line method over the lesser of the remaining lease term or its estimated useful life. Depreciation ceases when a property is deemed "held for sale". Leasehold interest and the related ground lease payments are amortized over the initial lease term of the leasehold position. Depreciation expense, including amortization of a leasehold position,

**ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2012**

**NOTE 2—SIGNIFICANT ACCOUNTING POLICIES (Continued)**

lease origination costs, and capitalized lease commissions amounted to \$9,706,000, \$8,934,000, and \$7,994,000 for 2012, 2011 and 2010, respectively.

*Deferred Financing Costs*

Mortgage and credit line costs are deferred and amortized on a straight-line basis over the terms of the respective debt obligations, which approximates the effective interest method. At December 31, 2012 and 2011, accumulated amortization of such costs was \$3,096,000 and \$2,909,000, respectively.

*Federal Income Taxes*

The Company has qualified as a real estate investment trust under the applicable provisions of the Internal Revenue Code. Under these provisions, the Company will not be subject to federal income taxes on amounts distributed to stockholders providing it distributes at least 90% of its taxable income and meets certain other conditions. During the year ended December 31, 2012, the Company recorded a \$290,000 accrual of Federal excise tax which is based on taxable income generated but not yet distributed.

For 2012, 73% of the distributions are treated as capital gain distributions, with the balance treated as ordinary income. Distributions for 2011 were treated as ordinary income.

The Company follows a two-step approach for evaluating uncertain tax positions. Recognition (step one) occurs when an enterprise concludes that a tax position, based solely on its technical merits, is more-likely-than-not to be sustained upon examination. Measurement (step two) determines the amount of benefit that more-likely-than-not will be realized upon settlement. Derecognition of a tax position that was previously recognized would occur when a company subsequently determines that a tax position no longer meets the more-likely-than-not threshold of being sustained. The use of a valuation allowance as a substitute for derecognition of tax positions is prohibited. The Company has not identified any uncertain tax positions requiring accrual.

*Investment in Available-For-Sale Securities*

The Company determines the classification of equity securities at the time of purchase and reassesses the classification at each reporting date. At December 31, 2012, all marketable securities have been classified as available-for-sale and recorded at fair value. The fair value of the Company's equity investment in publicly-traded companies is determined based upon the closing trading price of the securities as of the balance sheet date and unrealized gains and losses on these securities are recorded as a separate component of stockholders' equity. Unrealized losses that are determined to be other-than-temporary are recognized in earnings.

The Company's investment in 37,081 common shares of BRT Realty Trust ("BRT"), a related party of the Company, (accounting for less than 1% of the total voting power of BRT), was purchased at a cost of \$132,000 and had a fair market value of \$241,000 and \$235,000 at December 31, 2012 and 2011, respectively.

**ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2012**

**NOTE 2—SIGNIFICANT ACCOUNTING POLICIES (Continued)**

At December 31, 2012 and 2011, the total cumulative net unrealized gains of \$98,000 and \$86,000, respectively, on all investments in equity securities is reported as accumulated other comprehensive income (loss) in the stockholders' equity section.

Realized gains and losses are determined using the average cost method and are included in "Other income" on the income statement. During 2012, 2011 and 2010, sales proceeds and gross realized gains and losses on securities classified as available-for-sale were (amounts in thousands):

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Sales proceeds . . . . .	\$373	\$—	\$6,345
Gross realized losses . . . . .	—	—	—
Gross realized gains—(a) . . . . .	9	—	149

(a) At December 31, 2011 the Company recorded an impairment charge of \$126 on such securities.

***Concentration of Credit Risk***

The Company maintains accounts at various financial institutions. While the Company attempts to limit any financial exposure, substantially all of its deposit balances exceed federally insured limits. The Company has not experienced any losses on such accounts.

The Company's properties are located in 29 states. During 2012, 2011 and 2010, excluding rental revenues from the eleven Haverty properties discussed below, 13.9%, 15.3% and 16.5% of rental revenues, respectively, were attributable to real estate investments located in New York and 11.0%, 12.0% and 11.0% of rental revenues, respectively, were attributable to real estate investments located in Pennsylvania. No other state contributed over 10% to the Company's rental revenues.

The Company owns eleven real estate investments that are located in six states and are net leased to Haverty Furniture Companies, Inc., a retail furniture company, pursuant to a master lease. The initial term of the net lease expires August 2022, with several renewal options. These real estate investments, which represented 11.7% of the depreciated book value of real estate investments at December 31, 2012, generated rental revenues of approximately \$4,844,000 in each year or 10.8%, 11.6%, and 12.9%, of the Company's total revenues for 2012, 2011 and 2010, respectively.

***Earnings Per Common Share***

Basic earnings per share was determined by dividing net income allocable to common stockholders for each year by the weighted average number of shares of common stock outstanding during each year, including the effect of the 2,700,000 shares sold in February 2011 as described in Note 10. Net income is also allocated to the unvested restricted stock outstanding during each year, as the restricted stock is entitled to receive dividends and is therefore considered a participating security. Unvested restricted stock is not allocated net losses and/or any excess of dividends declared over net income; such amounts are allocated entirely to the common stockholders other than the holders of unvested restricted stock. The restricted stock units awarded under the Pay-for-Performance program described

**ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2012**

**NOTE 2—SIGNIFICANT ACCOUNTING POLICIES (Continued)**

in Note 10 are excluded from the basic earnings per share calculation, as these units are not participating securities.

Diluted earnings per share reflects the potential dilution that could occur if securities or other rights exercisable for, or convertible into, common stock were exercised or converted or otherwise resulted in the issuance of common stock that shared in the earnings of the Company. For 2012, 2011 and 2010 the diluted weighted average number of common shares includes 100,000, 50,000 and 30,000 shares respectively, representing the diluted weighted average impact of the 100,000 shares of common stock underlying the restricted stock units awarded on September 14, 2010 under the Pay-For-Performance Program. These 100,000 shares may vest upon satisfaction of the total stockholder return metric. The number of shares that would be issued pursuant to this metric is based on the current market price and dividends paid at the end of each quarterly period assuming the end of that quarterly period was the end of the vesting period. The remaining 100,000 shares of common stock underlying the restricted stock units awarded under the Pay-For-Performance Program are not included during 2012, 2011 and 2010, as they did not meet the defined performance metric during such periods.

There were no options outstanding to purchase shares of common stock or other rights exercisable for, or convertible into, common stock in 2012, 2011 and 2010.

**ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2012**

**NOTE 2—SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The following table provides a reconciliation of the numerator and denominator of earnings per share calculations (amounts in thousands, except per share amounts):

	<b>Year Ended December 31,</b>	
	<b>2012</b>	<b>2011</b>
Numerator for basic and diluted earnings per share:		
Income from continuing operations . . . . .	\$11,856	\$11,572
Plus net loss attributable to noncontrolling interests . . . . .	12	4
Less earnings allocated to unvested shares(a) . . . . .	—	(460)
Income from continuing operations available for common stockholders . . . . .	11,868	11,116
Discontinued operations . . . . .	20,452	2,148
Net income available for common stockholders, basic and diluted . . . . .	<u>\$32,320</u>	<u>\$13,264</u>
Denominator:		
Denominator for basic earnings per share		
—weighted average common shares . . . . .	14,427	13,801
—weighted average unvested restricted stock shares(b) . . . . .	411	—
	<u>14,838</u>	<u>13,801</u>
Effect of diluted securities:		
—restricted stock units awarded under Pay-for-Performance program . . . . .	100	50
Denominator for diluted earnings per share		
—weighted average shares . . . . .	14,938	13,851
Earnings per common share, basic . . . . .	<u>\$ 2.18</u>	<u>\$ .96</u>
Earnings per common share, diluted . . . . .	<u>\$ 2.16</u>	<u>\$ .96</u>
Amounts attributable to		
One Liberty Properties, Inc. common stockholders, net of noncontrolling interests:		
Income from continuing operations . . . . .	\$11,868	\$11,576
Income from discontinued operations . . . . .	20,452	2,148
Net income attributable to One Liberty Properties, Inc. . . . .	<u>\$32,320</u>	<u>\$13,724</u>

(a) Since distributions exceeded earnings in 2011, earnings are allocated to unvested restricted stock.

(b) Since earnings exceeded distributions in 2012, the denominator for basic and diluted earnings per share includes unvested restricted stock.

**Segment Reporting**

Substantially all of the Company's real estate assets are comprised of real estate owned that is net leased to tenants on a long-term basis. Therefore, the Company operates predominantly in one industry segment.

**ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2012**

**NOTE 2—SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Derivatives and Hedging Activities*

The Company's objective in using derivatives, and in particular interest rate swaps, is to add stability to interest expense and to manage its exposure to interest rate movements. The Company does not use derivatives for trading or speculative purposes.

The Company records all derivatives on the balance sheet at fair value. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. In addition, the Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. These counterparties are generally larger financial institutions engaged in providing a variety of financial services. These institutions generally face similar risks regarding adverse changes in market and economic conditions, including, but not limited to, fluctuations in interest rates, exchange rates, equity and commodity prices and credit spreads.

The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows are considered cash flow hedges. For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in accumulated other comprehensive income (outside of earnings) and subsequently reclassified to earnings in the period in which the hedged transaction affects earnings. The ineffective portion of changes in the fair value of the derivative is recognized directly in earnings. For derivatives not designated as cash flow hedges, changes in the fair value of the derivative are recognized directly in earnings in the period in which the change occurs.

*Stock Based Compensation*

The fair value of restricted stock grants and restricted stock units, determined as of the date of grant, is amortized into general and administrative expense over the respective vesting period. The deferred compensation to be recognized as expense is net of certain forfeiture and performance assumptions which are re-evaluated quarterly.

*New Accounting Pronouncements*

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

**ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2012**

**NOTE 2—SIGNIFICANT ACCOUNTING POLICIES (Continued)**

comprehensive income or the reclassification of an item of other comprehensive income to net income but now the Company presents the components of other comprehensive income in two separate but consecutive statements.

In May 2011, FASB issued ASU No. 2011-04, *Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S GAAP and IFRS*. This update defines fair value, clarifies a framework to measure fair value, and requires specific disclosures of fair value measurements. The guidance was effective for the Company on January 1, 2012. The adoption of this guidance did not have a material impact on the Company's financial condition, results of operations, or disclosures.

In February 2013, the FASB issued ASU No. 2013-02, *Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income*. The standard requires an entity to present information about significant items reclassified out of accumulated other comprehensive income by component either on the face of the statement where net income is presented or as a separate disclosure in the notes to financial statements. The guidance is effective for calendar year-end public companies beginning in the first quarter of 2013 and is to be applied on a prospective basis. The Company will adopt this guidance January 1, 2013. Adoption of this guidance will not have a material impact on our consolidated financial statements.

***Reclassification***

Certain amounts reported in previous consolidated financial statements have been reclassified in the accompanying consolidated financial statements to conform to the current year's presentation, primarily to reclassify the transferred assets and liabilities of five properties that were sold in the year ended December 31, 2012 to properties held for sale at December 31, 2011 and to classify the operations of these properties to discontinued operations for all years presented. In addition, the net book value of the Plano, Texas property that was contributed to a joint venture in February 2012 was reclassified from real estate investments to property contributed to joint venture at December 31, 2011. The accounting treatment presentation on the accompanying consolidated statements of income is to reflect the results of this property's operations prospectively following its transfer to the joint venture as "equity in earnings of unconsolidated joint ventures" with no reclassification adjustments for discontinued operations.

The accompanying consolidated financial statements also include a reclassification of the Company's tenant-in-common interest from an investment in real estate to an investment in an unconsolidated joint venture. This reclassification had no impact on previously reported stockholders' equity, net income or earnings per share in any of the historical financial statements issued by the Company. The reclassification transfers the tenant-in-common interest related balances recorded in certain line items on both the balance sheet (real estate investments, unbilled rent receivable, unamortized intangible lease assets, unamortized deferred financing costs and mortgages payable) to investment in unconsolidated joint ventures and the income statement (rental income, depreciation and amortization, real estate expenses, mortgage interest expense and amortization of deferred financing costs) to equity in earnings of unconsolidated joint ventures.



**ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2012**

**NOTE 2—SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Additionally, the accompanying income statements include the reclassification of state tax expense from general and administrative expense in 2011 and 2010 to federal excise and state taxes to conform to the current year's presentation.

**NOTE 3—REAL ESTATE INVESTMENTS AND MINIMUM FUTURE RENTALS**

***Real Estate Acquisitions***

The following chart details the Company's real estate acquisitions during 2012 and 2011 (amounts in thousands):

Description of Property	Date Acquired	Contract Purchase Price	Terms of Payment	Third Party Real Estate Acquisition Costs(a)
Urban Outfitters retail store, Lawrence, Kansas . . . . .	February 7, 2012	\$ 1,230	All cash	\$ 21
Three Applebee's restaurants, Carrollton, Kennesaw and Cartersville, Georgia . . . . .	March 12, 2012	8,568	All cash	84
Avalon Carpet Tile and Flooring, retail store and warehouse, Deptford, New Jersey(b) . . . . .	April 24, 2012	2,200	Cash and \$2,040 mortgage(c)	—(b)
Applebee's restaurant, Lawrenceville, Georgia . . . . .	May 17, 2012	2,340	All cash	19
FedEx Facility, Pinellas Park, Florida . . . . .	October 11, 2012	2,810	All cash	28(d)
Walgreens Pharmacy, Cape Girardeau, Missouri(e) . . . . .	October 25, 2012	2,268	All cash	92
Shopping Center, Houston, Texas(f) . . . . .	November 13, 2012	7,150	Cash and \$5,100 mortgage(g)	206
LA Fitness Health Club, Secaucus, New Jersey . . . . .	December 12, 2012	16,400	Cash and \$10,000 mortgage(h)	341
FedEx Facility, Miamisburg, Ohio . . . . .	December 26, 2012	1,650	All cash	6(d)
Other(i) . . . . .		—		26
Totals for 2012 . . . . .		<u>\$44,616</u>		<u>\$823</u>
Big Lots retail store, Bolingbrook, Illinois . . . . .	March 4, 2011	\$ 2,325	All cash	\$ 22
FedEx Facility, Durham, North Carolina . . . . .	July 29, 2011	3,975	All cash	35
LA Fitness Health Club, Hamilton, Ohio . . . . .	August 9, 2011	7,900	All cash	54
Two hhGregg retail stores, Niles and Crystal Lake, Illinois . . . . .	September 14, 2011	8,000	All cash	76
Burlington Coat Factory retail property, Cherry Hill, New Jersey(j) . . . . .	October 27, 2011	5,800	All cash	—(j)
Other(i) . . . . .		—		26
Totals for 2011 . . . . .		<u>\$28,000</u>		<u>\$213</u>

- (a) Included as an expense in the accompanying consolidated statements of income.
- (b) Owned by a consolidated joint venture in which the Company has a 95% interest. Transaction costs of \$90 incurred with this asset acquisition were capitalized.
- (c) The mortgage bears interest at 5% per annum through April 2017 and thereafter at a rate of not less than 5% and matures May 2022.
- (d) Assignment fees of \$84 and \$125, paid in connection with the purchase of the FedEx properties located in Florida and Ohio, respectively, were capitalized.

**ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2012**

**NOTE 3—REAL ESTATE INVESTMENTS AND MINIMUM FUTURE RENTALS (Continued)**

- (e) Owned by a consolidated joint venture in which the Company has a 95% interest.
- (f) Owned by a consolidated joint venture in which the Company has an 85% interest.
- (g) The mortgage bears interest at 3.75% per annum and matures December 2017.
- (h) The mortgage bears interest at 4.9% per annum and matures January 2025.
- (i) Costs incurred for potential acquisitions.
- (j) Owned by a consolidated joint venture in which the Company has a 90% interest. Transaction costs of \$578 incurred with this asset acquisition were capitalized.

With the exception of the Houston, Texas and Cherry Hill, New Jersey properties, all of the properties purchased by the Company in 2012 and 2011 are currently 100% occupied and are each leased by a single tenant pursuant to a long term net lease. The Houston, Texas property has 16 tenant spaces and is 94% leased. The Cherry Hill, New Jersey retail property is being redeveloped and is currently 61% leased by one major tenant pursuant to a long term net lease.

As a result of the 2012 and 2011 purchases, the Company recorded intangible lease assets of \$6,641,000 and \$2,387,000, respectively, and intangible lease liabilities of \$588,000 and \$614,000, respectively, representing the value of the acquired leases and origination costs. As of December 31, 2012, the weighted average amortization period for the 2012 and 2011 acquisitions is 16.3 and 10.3 years for the intangible lease assets and 16.5 and 24.0 years for the intangible lease liabilities, respectively. The Company is currently in the process of finalizing the purchase price allocations for the six properties purchased since May 2012; therefore, these allocations are preliminary and subject to change.

At December 31, 2012 and 2011, accumulated amortization of intangible lease assets was \$4,974,000 and \$3,873,000, respectively and accumulated amortization of intangible lease liabilities was \$2,505,000 and \$2,053,000, respectively.

The Company recognized a net (decrease) increase in rental revenue of \$(2,000), \$(37,000) and \$442,000 for the amortization of the above/below market leases for 2012, 2011 and 2010, respectively. For 2012, 2011 and 2010, the Company recognized amortization expense of \$1,006,000, \$844,000 and \$620,000, respectively, relating to the amortization of the origination costs. The results for 2011 include an increase in rental revenue of \$7,000 and additional amortization expense of \$5,000 resulting from the accelerated expiration of certain leases.

The unamortized balance of intangible lease assets as a result of acquired above market leases at December 31, 2012 will be deducted from rental income through 2027 as follows (amounts in thousands):

2013 . . . . .	\$ 505
2014 . . . . .	497
2015 . . . . .	491
2016 . . . . .	481
2017 . . . . .	448
Thereafter . . . . .	<u>2,789</u>
Total . . . . .	<u><u>\$5,211</u></u>

**ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2012**

**NOTE 3—REAL ESTATE INVESTMENTS AND MINIMUM FUTURE RENTALS (Continued)**

The unamortized balance of intangible lease liabilities as a result of acquired below market leases at December 31, 2012 will be added to rental income through 2041 as follows (amounts in thousands):

2013 . . . . .	\$ 511
2014 . . . . .	495
2015 . . . . .	473
2016 . . . . .	456
2017 . . . . .	446
Thereafter . . . . .	<u>2,919</u>
Total . . . . .	<u>\$5,300</u>

The unamortized balance of origination costs associated with in-place leases at December 31, 2012 will be charged to amortization expense through 2027 as follows (amounts in thousands):

2013 . . . . .	\$ 1,249
2014 . . . . .	1,205
2015 . . . . .	1,172
2016 . . . . .	1,052
2017 . . . . .	966
Thereafter . . . . .	<u>5,636</u>
Total . . . . .	<u>\$11,280</u>

***Pro Forma Financial Information (unaudited)***

During the year ended December 31, 2010, the Company acquired 14 properties for a total purchase price of approximately \$72,300,000 and sold two properties. If these transactions had been completed as of January 1, 2010, on an unaudited pro forma basis, the combined revenues, net income and net income per share (diluted and basic) of the Company for 2010 would have been \$45,677,000, \$10,007,000 and \$.87, respectively. This unaudited pro forma information does not purport to represent what the actual results of operations of the Company would have been had the acquisitions and sales had occurred as of January 1, 2010, nor does it purport to predict the results of operations for future periods. Revenues and net income related to these properties already included in the 2010 results of operations amounted to \$3,488,000 and \$440,000, respectively.

This pro forma information does not include 2012 and 2011 acquisitions as such acquisitions were determined not to be material in the aggregate.

**ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2012**

**NOTE 3—REAL ESTATE INVESTMENTS AND MINIMUM FUTURE RENTALS (Continued)**

*Minimum Future Rentals*

The minimum future contractual rentals (without taking into consideration straight-line rent or amortization of intangibles) to be received over the next five years and thereafter on the operating leases in effect at December 31, 2012 are as follows (amounts in thousands):

2013 . . . . .	\$ 45,779
2014 . . . . .	43,324
2015 . . . . .	39,565
2016 . . . . .	37,627
2017 . . . . .	35,303
Thereafter . . . . .	<u>201,284</u>
Total . . . . .	<u>\$402,882</u>

The rental properties owned at December 31, 2012 are leased under noncancellable operating leases with current expirations ranging from 2013 to 2031, with certain tenant renewal rights. Substantially all lease agreements are net lease arrangements which require the tenant to pay rent and substantially all the expenses of the leased property including maintenance, taxes, utilities and insurance. For certain properties, the tenants pay the Company, in addition to the base rent, their pro rata share of real estate taxes and operating expenses. Certain lease agreements provide for periodic rental increases and others provide for increases based on the consumer price index.

*Unbilled Rent Receivable*

At December 31, 2012 and 2011, the Company recorded an unbilled rent receivable aggregating \$12,629,000 and \$11,264,000, respectively, representing rent reported on a straight-line basis in excess of rental payments required under the term of the respective leases. The balance at December 31, 2011 excludes \$84,000 classified as property transferred to joint venture and \$263,000 classified as assets related to properties held for sale. The unbilled rent receivable is to be billed and received pursuant to the lease terms during the next 19 years.

During 2012 and 2011, the Company wrote off \$256,000 and \$118,000, respectively, of unbilled “straight-line” rent receivable, relating to properties sold during such years. During 2010, the Company wrote off or recorded accelerated amortization of \$1,152,000 of unbilled “straight-line” rent receivable, which includes \$149,000 relating to a property sold and \$1,003,000 relating to a former tenant which vacated the Company’s property in June 2011 in the course of its liquidation after filing for bankruptcy protection in early 2011.

**NOTE 4—DISCONTINUED OPERATIONS AND PROPERTIES HELD FOR SALE**

Discontinued operations include real estate investments sold in 2012, 2011 and 2010. The related assets sold in 2012 were reclassified to properties held for sale as of December 31, 2011.

Real estate investments are classified as held for sale when management has determined that it has met the criteria established under GAAP. Real estate investments which are held for sale are not depreciated and their operations are included in a separate component of income on the consolidated statements of income under the caption Discontinued Operations.

**ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2012**

**NOTE 4—DISCONTINUED OPERATIONS AND PROPERTIES HELD FOR SALE (Continued)**

*Sales of Properties*

During 2012, the Company sold to unrelated parties, two properties located in Florida and leased to Office Depot, two properties located in New York (one of which was vacant) and a retail furniture property located in Texas. The total sales price aggregated \$36,062,000, net of closing costs, and the Company realized aggregate gains of \$19,413,000 which is included in net gain on sales in discontinued operations in the results of operations for 2012. The net book value of the properties, including related assets of \$968,000, was \$16,975,000 at December 31, 2011 and is included in properties held for sale on the accompanying balance sheet.

During 2011, the Company sold a property, leased to Office Depot and located in California, to an unrelated party for \$11,544,000, net of closing costs, and realized a gain of approximately \$932,000, which is included in net gain on sales in discontinued operations in the results of operations for 2011.

During 2010, the Company sold two properties to unrelated parties, for an aggregate of approximately \$4,100,000, net of closing costs, and realized an aggregate gain of \$235,000, which is included in net gain on sales in discontinued operations in the results of operations for 2010.

The following summarizes the components of income from discontinued operations (amounts in thousands):

	<b>Year Ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
Rental income . . . . .	\$ 1,733	\$2,446	\$3,265
Depreciation and amortization . . . . .	260	505	665
Real estate expenses . . . . .	102	257	261
Interest expense . . . . .	332	468	706
Total expenses . . . . .	<u>694</u>	<u>1,230</u>	<u>1,632</u>
Income from operations . . . . .	1,039	1,216	1,633
Net gain on sales . . . . .	<u>19,413</u>	<u>932</u>	<u>235</u>
Income from discontinued operations . . . . .	<u>\$20,452</u>	<u>\$2,148</u>	<u>\$1,868</u>

**NOTE 5—INVESTMENT IN UNCONSOLIDATED JOINT VENTURES**

In February 2012, the Company entered into a joint venture with an affiliate of Trammell Crow Company pursuant to which the venture contemplated redeveloping a 6.2 acre site located in Plano, Texas into up to two Class A office buildings. The Company contributed this property to the joint venture in exchange for a 90% equity interest therein and Trammell Crow contributed \$1,500,000 in exchange for a 10% equity interest therein which resulted in a \$319,000 gain to the Company. At December 31, 2012, the Company's investment in this VIE, which includes the original basis of the property it contributed to the joint venture adjusted for the Company's share of net income for the year ended December 31, 2012, was \$12,200,000, which represents its maximum exposure to loss. In February 2013, the Company elected not to participate in the redevelopment plan proposed by Trammell Crow and Trammel Crow thereafter exercised its right to purchase the Company's 90% equity interest in the joint venture for approximately \$13,500,000.

The Company's seven unconsolidated joint ventures each own and operate one property. At December 31, 2012 and 2011, the Company's equity investment in unconsolidated joint ventures totaled

**ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2012**

**NOTE 5—INVESTMENT IN UNCONSOLIDATED JOINT VENTURES (Continued)**

\$19,485,000 and \$7,170,000, respectively. In addition to the gain on disposition of real estate of \$107,000 for 2010, the unconsolidated joint ventures contributed \$1,368,000, \$914,000 and \$992,000 in equity earnings for 2012, 2011 and 2010, respectively. Equity in earnings for 2012 includes the Company's \$233,000 equity share of income pertaining to the net settlement entered into with a former tenant.

In April 2010, one of the Company's unconsolidated joint ventures sold its only property for \$3,171,000, net of closing costs. The sale resulted in a gain to the Company of \$107,000.

**NOTE 6—DEBT OBLIGATIONS**

*Mortgages and Loan Payable*

At December 31, 2012, there were 45 outstanding mortgages payable, all of which are secured by first liens on individual real estate investments with an aggregate carrying value of \$379,432,000 before accumulated depreciation of \$49,560,000. After giving effect to the interest rate swap agreements (see Note 8) and excluding variable rate debt on one property, the mortgage payments bear interest at fixed rates ranging from 3.75% to 8.80%, and mature between 2013 and 2037. At December 31, 2012, the variable rate mortgage and loan on one property had an outstanding balance of \$6,068,000, a floating interest rate of 3.21% and matures in 2022. The weighted average interest rate on all mortgage debt was 5.25% and 5.90% at December 31, 2012 and 2011, respectively.

Scheduled principal repayments during the next five years and thereafter are as follows (amounts in thousands):

<u>Year Ending December 31,</u>	
2013 . . . . .	\$ 8,039
2014 . . . . .	37,393
2015 . . . . .	13,216
2016 . . . . .	31,187
2017 . . . . .	43,089
Thereafter . . . . .	<u>93,047</u>
Total . . . . .	<u>\$225,971</u>

*Line of Credit*

Effective as of July 31, 2012, the Company entered into an amendment of its credit facility with VNB New York Corp., Bank Leumi USA, Israel Discount Bank of New York and Manufacturer's & Trader's Trust Company, which, among other things, reduced the interest rate floor from 5.5% to 4.75%, increased the Company's borrowing capacity by \$20,000,000 to \$75,000,000, subject to compliance with the borrowing base, and extended the maturity of this facility by two years to March 31, 2015. In connection with the amendment, the Company incurred an aggregate of \$800,000 in commitment and extension fees which is being amortized over the remaining term of the facility.

**ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2012**

**NOTE 6—DEBT OBLIGATIONS (Continued)**

The Company pays interest at the greater of (i) 90 day LIBOR plus 3% (3.31% at December 31, 2012), and (ii) 4.75% per annum, and there is an unused facility fee of .25% per annum. There was no balance outstanding under the facility at December 31, 2012 and March 13, 2013.

The terms of the credit facility include certain restrictions and covenants which may limit, among other things, the incurrence of liens, and which require compliance with financial ratios relating to, among other things, minimum amount of tangible net worth, minimum amount of debt service coverage, minimum amount of fixed charge coverage, maximum amount of debt to value, minimum level of net income, certain investment limitations and minimum value of unencumbered properties and number of such properties. The Company was in compliance with all covenants at December 31, 2012.

The facility is guaranteed by subsidiaries of the Company that own unencumbered properties and the Company pledged to the lenders the equity interests in the Company's subsidiaries and delivered to the lenders collateral mortgages with respect to certain unencumbered properties owned by the Company or its subsidiaries. The facility is available for the acquisition of commercial real estate, repayment of mortgage debt, property improvements and general working capital purposes; provided, that if used for property improvements and working capital purposes, such use will not exceed the lesser of \$15 million and 15% of the borrowing base and if used for working capital purposes, will not exceed \$10 million. Net proceeds received from the sale, financing or refinancing of properties are generally required to be used to repay amounts outstanding under the credit facility.

**NOTE 7—FAIR VALUE MEASUREMENTS**

The carrying amounts of cash and cash equivalents, escrow, deposits and other assets and receivables, and accrued expenses and other liabilities are not measured at fair value on a recurring basis, but are considered to be recorded at amounts that approximate fair value.

At December 31, 2012, the \$233,170,000 estimated fair value of the Company's mortgages and loan payable is more than their carrying value by approximately \$7,199,000 assuming a blended market interest rate of 4.8% based on the 9.2 year weighted average remaining term of the mortgages and loan. At December 31, 2011, the \$208,355,000 estimated fair value of the Company's mortgages and loan payable (including the mortgages payable-property held-for-sale) was more than their carrying value by approximately \$10,418,000 assuming a blended market interest rate of 4.5% based on the 4.75 year weighted average remaining term of the mortgages and loan.

The fair value of the Company's mortgages and loan payable were estimated using unobservable inputs such as available market information and discounted cash flow analysis based on borrowing rates the Company believes it could obtain with similar terms and maturities. These fair value measurements fall within Level 3 of the fair value hierarchy.

***Financial Instruments Measured at Fair Value***

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



**ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2012**

**NOTE 7—FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

The fair value of the Company's available-for-sale securities and derivative financial instruments was determined using the following inputs as of December 31, 2012 (amounts in thousands):

	Year Ended December 31,	Carrying and Fair Value	Fair Value Measurements Using Fair Value Hierarchy on a Recurring Basis	
			Level 1	Level 2
<i>Financial assets:</i>				
Available-for-sale securities:				
Equity securities . . . . .	2012	\$ 278	\$278	\$ —
	2011	631	631	—
<i>Financial liabilities:</i>				
Derivative financial instruments . . . .	2012	1,470	—	1,470
	2011	923	—	923

The Company does not currently own any financial instruments that are classified as Level 3.

**Available-for-sale securities**

The Company's available-for-sale securities have a total cost of \$150,000 and are included in other assets on the balance sheet. At December 31, 2012, unrealized gains on such securities were \$129,000 and unrealized losses were \$1,000 with the aggregate net unrealized gain of \$128,000 included in accumulated other comprehensive loss on the balance sheet. Fair values are approximated on current market quotes from financial sources that track such securities. All of the available-for-sale securities in an unrealized loss position are equity securities and amounts are not considered to be other than temporary impairments because the Company expects the value of these securities to recover and plans on holding them until at least such recovery occurs.

During 2012, the Company sold certain available-for-sale securities for gross proceeds of \$373,000 and recognized a gain of \$9,000. At December 31, 2011, the Company recorded an impairment charge of \$126,000 on such securities. During 2010, the Company sold three corporate bonds for total gross proceeds of \$2,356,000 and recognized a total gain of \$149,000.

**Derivative financial instruments**

Fair values are approximated using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of the derivatives. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves, foreign exchange rates, and implied volatilities. At December 31, 2012, these derivatives are included in other liabilities on the balance sheet.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with it use Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by itself

**ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2012**

**NOTE 7—FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

and its counterparty. As of December 31, 2012, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company determined that its derivative valuation is classified in Level 2 of the fair value hierarchy. Additionally, based on the rates in effect as of December 31, 2012, if a counterparty were to default, the Company would receive a net interest benefit.

**NOTE 8—DERIVATIVE FINANCIAL INSTRUMENTS**

As of December 31, 2012, the Company had the following outstanding interest rate derivatives, all of which were designated as cash flow hedges of interest rate risk (amounts in thousands):

<u>Interest Rate Derivative</u>	<u>Notional Amount</u>	<u>Fixed Interest Rate</u>	<u>Maturity Date</u>
Interest Rate Swap . . . . .	\$8,988	6.50%	December 2014
Interest Rate Swap . . . . .	4,324	5.75%	November 2020
Interest Rate Swap . . . . .	3,887	4.75%	August 2016
Interest Rate Swap . . . . .	5,757	4.63%	February 2019
Interest Rate Swap . . . . .	2,156	4.50%	April 2016
Interest Rate Swap . . . . .	3,893	4.50%	March 2017
Interest Rate Swap . . . . .	5,100	4.68%	January 2023

The following table presents the fair value of the Company's derivatives designated as hedging instruments for the periods presented (amounts in thousands):

<u>Liability Derivatives As of December 31,</u>			
<u>2012</u>		<u>2011</u>	
<u>Balance Sheet Location</u>	<u>Fair Value</u>	<u>Balance Sheet Location</u>	<u>Fair Value</u>
Other Liabilities	\$1,470	Other Liabilities	\$923

The Company did not have any asset derivatives as of December 31, 2012 and December 31, 2011.

The following table presents the effect of the Company's derivative financial instruments on the consolidated statement of income for the periods presented (amounts in thousands):

	<u>Years Ended December 31,</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Amount of (loss) recognized on derivative in Other Comprehensive (Loss) . . . . .	\$(1,051)	\$(1,098)	\$(523)
Amount of (loss) reclassified from Accumulated Other Comprehensive (Loss) into Interest Expense . . . . .	\$ (504)	\$ (351)	\$(236)

No gain or loss was recognized with respect to hedge ineffectiveness or to amounts excluded from effectiveness testing on the Company's cash flow hedges for the three years ended December 31, 2012.

**ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2012**

**NOTE 8—DERIVATIVE FINANCIAL INSTRUMENTS (Continued)**

During the twelve months ending December 31, 2013, the Company estimates an additional \$603,000 will be reclassified from other comprehensive income as an increase to interest expense.

The derivative agreements in effect at December 31, 2012 provide that if the wholly owned subsidiary of the Company which is a party to the agreement defaults or is capable of being declared in default on any of its indebtedness, then a default can be declared on such subsidiary's derivative obligation. In addition, the Company is a party to one of the derivative agreements and if the subsidiary defaults on the loan subject to such agreement and if there are swap breakage losses on account of the derivative being terminated early, the Company could be held liable for interest rate swap breakage losses, if any.

As of December 31, 2012, the fair value of the derivatives including accrued interest but excluding any adjustments for nonperformance risk was approximately \$1,549,000. If the Company breaches any of the contractual provisions of the derivative contracts, it would be required to settle its obligations thereunder at their termination liability value of \$1,549,000.

Two of the Company's unconsolidated joint ventures, in which a wholly owned subsidiary of the Company is a 50% partner, had a \$3,877,000 interest rate derivative outstanding at December 31, 2012. The interest rate derivative, which was entered into in March 2011, has an interest rate of 5.81% and matures in April 2018. The following table presents the Company's 50% share of such derivative financial instrument (amounts in thousands):

	Years Ended December 31,	
	2012	2011
Amount of (loss) recognized on derivative in Other Comprehensive (Loss) . . . . .	\$(79)	\$(225)
Amount of (loss) reclassification from Accumulated Other Comprehensive (Loss) into Interest Expense . . . . .	(56)	(43)

**NOTE 9—RELATED PARTY TRANSACTIONS**

At December 31, 2012 and 2011, Gould Investors L.P. ("Gould"), a related party, owned 1,524,009 and 1,450,670 shares of the outstanding common stock of the Company or approximately 10.2% and 10%, respectively. During 2012, Gould purchased 73,038 shares of the Company's stock through the Company's dividend reinvestment plan and 301 shares of the Company's stock in the open market. During 2011, Gould purchased 104,395 shares of the Company's stock through the Company's dividend reinvestment plan.

Effective as of January 1, 2007, the Company entered into a compensation and services agreement with Majestic Property Management Corp. ("Majestic"), a company wholly-owned by our Chairman and in which certain of the Company's executive officers are officers and from which they receive compensation. Under the terms of the agreement, Majestic assumed the Company's obligations to make payments to Gould (and other affiliated entities) under a shared services agreement and agreed to provide to the Company the services of all affiliated executive, administrative, legal, accounting and clerical personnel that the Company had previously used on an as needed, part time basis and for

**ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2012**

**NOTE 9—RELATED PARTY TRANSACTIONS (Continued)**

which the Company had reimbursed an allocated portion of the payroll expenses of such personnel in accordance with the shared services agreement. Commencing January 1, 2007, the Company no longer incurs any allocated expenses. Under the terms of the compensation and services agreement, Majestic (or its affiliates) continues to provide to the Company certain property management services (including construction supervisory services), property acquisition, sales and leasing services and mortgage brokerage services that it has provided to the Company in the past, some of which were capitalized, deferred or reduced net sales proceeds in prior years. The Company does not incur any fees or expenses for such services except for the annual fees described below.

In consideration for providing to the Company the services described above, the Company paid Majestic an annual fee of \$2,725,000, \$2,725,000 and \$2,225,000 in 2012, 2011 and 2010, respectively, in equal monthly installments, of which \$600,000 of property management costs is allocated annually to real estate expenses. Majestic credits against the fee payments due to it under the agreement any management or other fees received by it from any joint venture in which the Company is a joint venture partner (exclusive of fees paid by our joint venture partner on a property located in Los Angeles, California). The agreement also provides for an additional payment to Majestic of \$175,000 in 2012, 2011 and 2010 for the Company's share of all direct office expenses, such as rent, telephone, postage, computer services and internet usage, previously allocated to the Company under the shared services agreement. The annual payments the Company makes to Majestic is negotiated each year by the Company and Majestic, and is approved by the Company's independent directors. The Company also agreed to pay the Company's Chairman \$250,000 per annum effective January 2007 and to pay the Company's Vice Chairman \$100,000 per annum effective January 2011.

On September 13, 2011, the independent members of the Company's Board of Directors authorized a \$500,000 increase (effective January 1, 2011) from \$2,400,000 to \$2,900,000 (which includes the payment of \$175,000 described above) in the compensation and services agreement with Majestic. In June 2011, a compensation consultant was engaged to prepare a "Compensation and Total Costs Analysis" report. The results of this report were utilized to evaluate the \$500,000 increase.

Executive officers and others providing services under the compensation and services agreement also receive awards of shares of restricted stock and restricted stock units under the Company's stock incentive plans (described in Note 10). The costs of the plans charged to the Company's operations applicable to the executive officers and others providing services under the compensation and services agreement amounted to \$743,000, \$603,000 and \$553,000 in 2012, 2011, and 2010, respectively.

In addition to its share of rent included in the \$175,000 payment to Majestic, the Company leased additional space in the same building, and paid a subsidiary of Gould, an annual rent of \$41,000, \$47,000, and \$45,000 in 2012, 2011 and 2010, respectively.

Except for the \$600,000 of real estate expenses described above, the fees paid under the compensation and services agreement, the chairman and vice-chairman fees and the rent expense are included in general and administrative expense in 2012, 2011 and 2010.

**ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2012**

**NOTE 10—STOCKHOLDERS' EQUITY**

*Stock Based Compensation*

The Company's 2012 Incentive Plan, approved by the Company's stockholders in June 2012, permits the Company to grant, among other things, stock options, restricted stock units and performance share awards and any one or more of the foregoing to its employees, officers, directors and consultants. A maximum of 600,000 shares of the Company's common stock is authorized for issuance pursuant to this Plan, none of which have been issued at December 31, 2012. Through December 31, 2012, a total of 525,810 and 273,600 stock awards were issued pursuant to the Company's 2009 and 2003 Stock Incentive Plans, respectively. An aggregate of 607,460 shares of restricted stock and restricted stock units are outstanding under the Company's 2003 and 2009 equity incentive plans (collectively, the "Prior Plans") and have not yet vested. No additional awards may be granted under the Prior Plans.

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

On September 14, 2010, the Board of Directors approved a Pay-For-Performance Program under the Company's 2009 Incentive Plan and awarded 200,000 performance share awards in the form of restricted stock units (the "Units"), half of which were awarded to full time employees of the Company. The other half were awarded to part time officers of the Company who are compensated through the compensation and services agreement, some of whom are also officers of Majestic Property Management Corp. The holders of Units are not entitled to dividends or to vote the underlying shares until the Units vest and shares are issued. Accordingly, for financial statement purposes, the shares underlying the Units are not included in the shares shown as outstanding on the balance sheet. If the defined performance criteria are satisfied in full at June 30, 2017, one share of the Company's common stock will vest and be issued for each Unit outstanding and a pro-rata portion of the Units will vest and be issued if the performance criteria fall between defined ranges. In the event that the performance criteria are not satisfied in whole or in part at June 30, 2017, the unvested Units will be forfeited and no shares of the Company's common stock will be issued for those Units. For the awards which vest based on total stockholder return, a third party appraiser prepared a Monte Carlo simulation pricing model to determine the fair value. For the awards which vest based on return on capital, the fair value is based on the market value on the date of grant. Expense is not recognized on the Units which the Company does not expect to vest as a result of service conditions or the Company's performance expectations. The average per Unit grant price of the 200,000 units granted is \$11.74. The total amount recorded as deferred compensation is \$824,000 and is being charged to general and administrative expense over the approximate seven year vesting period. The deferred compensation expense to be recognized is net of certain forfeiture and performance assumptions (which are re-evaluated quarterly). No Units were forfeited or vested during 2012, 2011 and 2010.

As of December 31, 2012, 2011 and 2010 there were no options outstanding under the Company's equity incentive plans.

**ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2012**

**NOTE 10—STOCKHOLDERS' EQUITY (Continued)**

The following is a summary of the activity of the incentive plans excluding the 200,000 Units:

	Years Ended December 31,		
	2012	2011	2010
Restricted share grants . . . . .	109,450	74,040	875
Average per share grant price . . . . .	\$ 16.77	\$ 16.19	\$ 14.64
Deferred compensation to be recognized over vesting period . . . . .	\$1,835,000	\$1,199,000	\$ 13,000
Non-vested shares:			
Non-vested beginning of period . . . . .	348,385	320,940	357,925
Grants . . . . .	109,450	74,040	875
Vested during period . . . . .	(49,325)	(46,450)	(36,050)
Forfeitures . . . . .	(1,050)	(145)	(1,810)
Non-vested end of period . . . . .	<u>407,460</u>	<u>348,385</u>	<u>320,940</u>
Average per share value of non-vested shares (based on grant price) . . . . .	<u>\$ 12.59</u>	<u>\$ 12.96</u>	<u>\$ 13.33</u>
Value of shares vested during the year (based on grant price) . . . . .	<u>\$1,208,000</u>	<u>\$ 960,000</u>	<u>\$687,000</u>
Average value of shares forfeited (based on grant price) . . . . .	<u>\$ 13.65</u>	<u>\$ 11.03</u>	<u>\$ 13.62</u>

The total charge to operations for all incentive plans, including the 200,000 Units, is as follows:

Outstanding restricted stock grants . . . . .	\$1,050,000	\$ 930,000	\$889,000
Outstanding restricted stock units . . . . .	173,000	79,000	26,000
Total charge to operations . . . . .	<u>\$1,223,000</u>	<u>\$1,009,000</u>	<u>\$915,000</u>

As of December 31, 2012, there were approximately \$3,272,000 of total compensation costs related to nonvested awards that have not yet been recognized, including \$545,000 related to the Pay-for-Performance Program (net of forfeiture and performance assumptions which are re-evaluated quarterly). These compensation costs will be charged to general and administrative expense over the remaining respective vesting periods. The weighted average vesting period is approximately three years.

***Common Stock Dividend Distributions***

In 2012, 2011 and 2010, the Company declared an aggregate \$1.34, \$1.32 and \$1.23 per share in cash distributions, respectively.

***Distribution Reinvestment Plan***

In June 2010, the Company reinstated its Dividend Reinvestment Plan (the "Plan"). The Plan provides stockholders with the opportunity to reinvest all, or a portion of, their cash dividends paid on

**ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2012**

**NOTE 10—STOCKHOLDERS' EQUITY (Continued)**

the Company's common stock in additional shares of its common stock, at a discount of up to 5% from the market price. The discount is determined in the Company's sole discretion. The Company is currently offering a 5% discount from market. The Company issued 214,620, 254,502 and 81,154 common shares under the Plan during 2012, 2011 and 2010, respectively.

*Shares Issued Through Equity Offering Program*

On August 9, 2012, the Company entered into an equity offering sales agreement to sell shares of the Company's common stock from time to time with an aggregate sales price of up to \$50,000,000, through an "at the market" equity offering program. During 2012, the Company sold 120,844 shares for proceeds of \$2,296,041, net of commissions of \$23,000, and incurred offering costs of \$165,000.

*Public Offering*

On February 11, 2011, the Company sold 2,700,000 shares of its common stock and received net proceeds of approximately \$40,569,000. The proceeds were used to repay two mortgages in aggregate amount of \$7,700,000 having a weighted average interest rate of 7.9%, to reduce the amount outstanding under the line of credit by \$26,200,000, to purchase a property in March 2011 for \$2,325,000 and for general corporate purposes.

**NOTE 11—GAIN ON SETTLEMENT OF DEBT**

In June 2011, with a payment of \$7,634,000, the Company paid off the \$8,893,000 principal balance of the mortgage secured by a property previously leased to a former tenant which vacated the Company's property in June 2011 in the course of its liquidation after filing for bankruptcy protection in early 2011. The \$1,240,000 gain on settlement of debt is net of a \$19,000 write off of the remaining balance of related deferred mortgage costs. The property was tested for impairment in June 2011 and it was determined that no charge was required. No additional indicators of impairment have been identified.

**NOTE 12—COMMITMENTS AND CONTINGENCIES**

The Company maintains a non-contributory defined contribution pension plan covering eligible employees. Contributions by the Company are made through a money purchase plan, based upon a percent of the qualified employees' total salary (subject to the maximum amount allowed by law). Pension expense approximated \$128,000, \$119,000 and \$114,000 for 2012, 2011 and 2010, respectively.

The Company pays annual fixed leasehold rent of \$296,875 through July 2014 with 25% increases every five years through March 3, 2020 and the Company has a right to extend the lease for up to five 5-year and one seven month renewal options.

In the ordinary course of business the Company is party to various legal actions which management believes are routine in nature and incidental to the operation of the Company's business. Management believes that the outcome of the proceedings will not have a material adverse effect upon the Company's consolidated financial statements taken as a whole.



**ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2012**

**NOTE 13—INCOME TAXES**

The Company elected to be taxed as a REIT under the Internal Revenue Code, commencing with its taxable year ended December 31, 1983. To qualify as a REIT, the Company must meet a number of organizational and operational requirements, including a requirement that it currently distribute at least 90% of its adjusted taxable income to its stockholders. It is management's current intention to adhere to these requirements and maintain the Company's REIT status. As a REIT, the Company generally will not be subject to corporate level federal, state and local income tax on taxable income it distributes currently to its stockholders. If the Company fails to qualify as a REIT in any taxable year, it will be subject to federal, state and local income taxes at regular corporate rates (including any applicable alternative minimum tax) and may not be able to qualify as a REIT for four subsequent taxable years. Even though the Company qualifies for taxation as a REIT, the Company is subject to certain state and local taxes on its income and property, and to federal income and excise taxes on its undistributed taxable income.

***Reconciliation between Financial Statement Net Income and Federal Taxable Income:***

The following unaudited table reconciles financial statement net income to federal taxable income for the years indicated (amounts in thousands):

	<u>2012</u> <u>Estimate</u>	<u>2011</u> <u>Actual</u>	<u>2010</u> <u>Actual</u>
Net income . . . . .	\$32,320	\$13,724	\$ 9,306
Straight line rent adjustments . . . . .	(1,354)	(1,419)	(693)
Financial statement gain on sale in excess of tax gain . . . . .	(315)	61	557
Rent received in advance, net . . . . .	111	(78)	205
Financial statement adjustment for above/below market leases . . . . .	2	31	(442)
Non-deductible portion of restricted stock expense . . . . .	341	300	249
Federal excise tax, non-deductible . . . . .	290	—	—
Financial statement depreciation in excess of tax depreciation . . . . .	1,021	1,042	1,051
Property acquisition costs—capitalize for tax purposes . . . . .	823	268	1,010
Other adjustments . . . . .	(68)	(516)	542
Federal taxable income . . . . .	<u>\$33,171</u>	<u>\$13,413</u>	<u>\$11,785</u>

**ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2012**

**NOTE 13—INCOME TAXES (Continued)**

*Reconciliation between Cash Dividends Paid and Dividends Paid Deduction:*

The following unaudited table reconciles cash dividends paid with the dividends paid deduction for the years indicated (amounts in thousands):

	<u>2012</u> <u>Estimate</u>	<u>2011</u> <u>Actual</u>	<u>2010</u> <u>Actual</u>
Dividends paid . . . . .	\$24,255	\$14,758	\$14,123
Dividend reinvestment plan(a) . . . . .	256	153	108
	<u>24,511</u>	<u>14,911</u>	<u>14,231</u>
Less: Spillover dividends designated to previous year . .	—	(1,448)	(3,844)
Plus: Dividends designated from following year . . . . .	<u>8,710</u>	<u>—</u>	<u>1,448</u>
Dividends paid deduction(b) . . . . .	<u>\$33,221</u>	<u>\$13,463</u>	<u>\$11,835</u>

(a) Amount reflects the 5% discount on common stock purchased through the dividend reinvestment plan.

(b) Dividends paid deduction is slightly higher than federal taxable income in 2012, 2011 and 2010 to account for adjustments made to federal taxable income as a result of the impact of the alternative minimum tax.

**NOTE 14—SUBSEQUENT EVENTS**

On January 15, 2013, 112,650 shares were issued as restricted share grants having an aggregate value of approximately \$2,432,000 and will vest in January 2018.

On March 13, 2013, the Board of Directors declared a quarterly cash dividend of \$.35 per share on the Company's common stock, totaling \$5,312,000. The quarterly dividend is payable on April 3, 2013 to stockholders of record on March 25, 2013.

**ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2012**

**NOTE 15—QUARTERLY FINANCIAL DATA (Unaudited):**

**(In Thousands, Except Per Share Data)**

<u>2012</u>	<u>Quarter Ended</u>				<u>Total For Year</u>
	<u>March 31</u>	<u>June 30</u>	<u>Sept. 30</u>	<u>Dec. 31</u>	
Rental revenues as previously reported(a) . . . . .	\$11,308	\$11,375	\$11,459	\$11,557	\$45,699
Revenues from discontinued operations(b) . . . . .	(550)	(273)	(126)	—	(949)
Revenues . . . . .	<u>\$10,758</u>	<u>\$11,102</u>	<u>\$11,333</u>	<u>\$11,557</u>	<u>\$44,750</u>
Income from continuing operations(c) . . . . .	\$ 2,962	\$ 3,266	\$ 3,001	\$ 2,627	\$11,856
Income from discontinued operations(c) . . . . .	264	2,488	15,419	2,281	20,452
Net income . . . . .	<u>\$ 3,226</u>	<u>\$ 5,754</u>	<u>\$18,420</u>	<u>\$ 4,908</u>	<u>\$32,308</u>
Net income attributable to One Liberty Properties, Inc. . . . .	<u>\$ 3,223</u>	<u>\$ 5,750</u>	<u>\$18,414</u>	<u>\$ 4,933</u>	<u>\$32,320</u>
Weighted average number of common shares outstanding:					
Basic: . . . . .	<u>14,289</u>	<u>14,378</u>	<u>14,443</u>	<u>14,596</u>	<u>14,427</u>
Diluted: . . . . .	<u>14,389</u>	<u>14,478</u>	<u>14,543</u>	<u>14,696</u>	<u>14,527</u>
Basic:					
Income from continuing operations(c) . . . . .	\$ .20	\$ .22	\$ .20	\$ .17	\$ .80(d)
Income from discontinued operations(c) . . . . .	.02	.17	1.04	.16	1.38(d)
Net income . . . . .	<u>\$ .22</u>	<u>\$ .39</u>	<u>\$ 1.24</u>	<u>\$ .33</u>	<u>\$ 2.18</u>
Diluted:					
Income from continuing operations(c) . . . . .	\$ .20	\$ .22	\$ .20	\$ .17	\$ .79(d)
Income from discontinued operations(c) . . . . .	.01	.17	1.03	.16	1.37(d)
Net income . . . . .	<u>\$ .21</u>	<u>\$ .39</u>	<u>\$ 1.23</u>	<u>\$ .33</u>	<u>\$ 2.16</u>

- (a) Amounts have been adjusted to reflect reclassification of tenant in common interest to investment in unconsolidated joint venture.
- (b) Represents revenues from discontinued operations which were previously included in rental revenues as previously reported.
- (c) Amounts have been adjusted to give effect to discontinued operations.
- (d) Calculated on weighted average shares outstanding for the year.

**ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 2012**

**NOTE 15—QUARTERLY FINANCIAL DATA (Continued)**

<u>2011</u>	Quarter Ended				<u>Total For Year</u>
	March 31	June 30	Sept. 30	Dec. 31	
Rental revenues as previously reported(e) . . . . .	\$10,992	\$10,908	\$10,817	\$11,413	\$44,130
Revenues from discontinued operations(f) . . . . .	(743)	(521)	(521)	(540)	(2,325)
Revenues . . . . .	<u>\$10,249</u>	<u>\$10,387</u>	<u>\$10,296</u>	<u>\$10,873</u>	<u>\$41,805</u>
Income from continuing operations(g) . . . . .	\$ 2,327	\$ 3,880	\$ 2,538	\$ 2,827	\$11,572
Income from discontinued operations(g) . . . . .	405	1,262	227	254	2,148
Net income . . . . .	<u>\$ 2,732</u>	<u>\$ 5,142</u>	<u>\$ 2,765</u>	<u>\$ 3,081</u>	<u>\$13,720</u>
Net income attributable to One Liberty Properties, Inc. . . . .	<u>\$ 2,732</u>	<u>\$ 5,142</u>	<u>\$ 2,765</u>	<u>\$ 3,085</u>	<u>\$13,724</u>
Weighted average number of common shares outstanding:					
Basic: . . . . .	<u>13,117</u>	<u>14,078</u>	<u>14,143</u>	<u>14,210</u>	<u>13,801</u>
Diluted: . . . . .	<u>13,117</u>	<u>14,178</u>	<u>14,143</u>	<u>14,310</u>	<u>13,851</u>
Basic:					
Income from continuing operations(g) . . . . .	\$ .18	\$ .27	\$ .17	\$ .19	\$ .81(h)
Income from discontinued operations(g) . . . . .	.03	.09	.02	.02	.15(h)
Net income . . . . .	<u>\$ .21</u>	<u>\$ .36</u>	<u>\$ .19</u>	<u>\$ .21</u>	<u>\$ .96(h)</u>
Diluted:					
Income from continuing operations(g) . . . . .	\$ .18	\$ .27	\$ .17	\$ .19	\$ .80(h)
Income from discontinued operations(g) . . . . .	.03	.08	.02	.02	.16(h)
Net income . . . . .	<u>\$ .21</u>	<u>\$ .35</u>	<u>\$ .19</u>	<u>\$ .21</u>	<u>\$ .96(h)</u>

(e) Amounts have been adjusted to reflect reclassification of tenant in common interest to investment in unconsolidated joint venture.

(f) Represents revenues from discontinued operations which were previously included in rental revenues as previously reported.

(g) Amounts have been adjusted to give effect to discontinued operations.

(h) Calculated on weighted average shares outstanding for the year.

**ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES**  
**Schedule III—Consolidated Real Estate and Accumulated Depreciation**  
**December 31, 2012**  
**(Amounts in Thousands)**

	Encumbrances	Initial Cost To Company		Cost Capitalized Subsequent to Acquisition	Gross Amount at Which Carried at December 31, 2012		Total	Accumulated Depreciation(1)	Date of Construction	Date Acquired
		Land	Buildings and Improvements		Land	Buildings and Improvements				
<i>Flex</i>										
Hauppauge, NY . . . . .	8,988	1,952	10,954	—	1,952	10,954	12,906	3,298	1982	2000
Ronkonkoma, NY . . . . .	3,887	1,042	4,171	1,113	1,042	5,284	6,326	1,406	1986	2000
<i>Health Clubs</i>										
Tucker, GA . . . . .	5,191	807	3,027	3,126	807	6,153	6,960	1,431	1988	2002
Grand Rapids, MI . . . . .	2,001	912	3,649	—	912	3,649	4,561	1,129	1972	2000
Grand Rapids, MI . . . . .	1,047	513	2,053	—	513	2,053	2,566	635	1968	2000
Secaucus, NJ . . . . .	10,000	5,660	8,855	—	5,660	8,855	14,515	9	1986	2012
Hamilton, OH . . . . .	3,893	1,483	5,953	—	1,483	5,953	7,436	236	2008	2011
<i>Industrial</i>										
West Palm Beach, FL . . . . .	—	181	724	—	181	724	905	257	1973	1998
Pinellas Park, FL . . . . .	—	1,231	1,669	—	1,231	1,669	2,900	12	1995	2012
Baltimore, MD(2) . . . . .	21,826	6,474	25,282	—	6,474	25,282	31,756	3,819	1960	2006
Saco, ME . . . . .	3,380	1,027	3,623	—	1,027	3,623	4,650	608	2001	2006
Durham, NC . . . . .	2,156	1,043	2,404	—	1,043	2,404	3,447	105	1991	2011
Melville, NY . . . . .	1,944	774	3,029	748	774	3,777	4,551	799	1982	2003
New Hyde Park, NY . . . . .	—	182	728	33	182	761	943	254	1960	1999
Columbus, OH . . . . .	—	435	1,353	350	435	1,703	2,138	521	1979	1995
Miamisburg, OH . . . . .	—	165	1,348	—	165	1,348	1,513	2	1987	2012
Philadelphia, PA . . . . .	5,757	1,981	7,668	—	1,981	7,668	9,649	1,510	1964	2005

	Initial Cost To Company		Cost Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at December 31, 2012			Accumulated Depreciation(1)	Date of Construction	Date Acquired	
	Encumbrances	Buildings and Improvements		Improvements	Land	Buildings and Improvements					Total
		Land	Improvements			Land	Improvements				
<i>Office</i>											
Parsippany, NJ	14,315	6,055	23,300	1,799	6,055	25,099	31,154	4,438	1997	2005	
Brooklyn, NY	5,891	1,381	5,447	2,592	1,381	8,039	9,420	2,576	1973	1998	
<i>Retail</i>											
Denver, CO	3,115	780	3,247	413	780	3,660	4,440	1,414	1995	1996	
West Hartford, CT	—	2,881	94	—	2,881	94	2,975	16	N/A	2010	
West Hartford, CT	12,759	9,296	5,071	—	9,296	5,071	14,367	321	2005	2010	
Newark, DE	2,061	935	3,643	—	935	3,643	4,578	854	1996	2003	
Ft. Myers, FL	3,195	1,013	4,054	—	1,013	4,054	5,067	1,634	1995	1996	
Naples, FL	—	3,070	2,846	—	3,070	2,846	5,916	305	1992	2008	
Athens, GA(3)	2,858	1,130	4,340	—	1,130	4,340	5,470	936	2003	2004	
Atlanta, GA	1,613	803	3,211	—	803	3,211	4,014	1,314	1994	1996	
Carrollton, GA	1,774	796	1,458	—	796	1,458	2,254	34	1996	2012	
Cartersville, GA	1,678	786	1,346	—	786	1,346	2,132	34	1995	2012	
Duluth, GA(4)	1,873	778	3,436	—	778	3,436	4,214	576	1987	2006	
Fayetteville, GA(4)	2,349	976	4,308	—	976	4,308	5,284	722	1987	2006	
Kennesaw, GA(3)	—	1,501	4,349	—	1,501	4,349	5,850	467	1995	2008	
Kennesaw, GA	1,375	702	916	—	702	916	1,618	23	1989	2012	
Lawrenceville, GA	1,320	804	782	—	804	782	1,586	17	1988	2012	
Bolingbrook, IL	—	834	1,887	—	834	1,887	2,721	85	2001	2011	
Champaign, IL	1,916	791	3,165	274	791	3,439	4,230	1,117	1985	1999	
Chicago, IL(3)	—	3,877	2,256	—	3,877	2,256	6,133	242	1994	2008	
Crystal Lake, IL	2,038	615	1,899	—	615	1,899	2,514	81	1997	2011	
Gurnee, IL	2,494	834	3,635	—	834	3,635	4,469	572	1994	2006	
Niles, IL	3,382	843	3,485	—	843	3,485	4,328	130	1995	2011	

	Initial Cost To Company		Cost Capitalized to Subsequent to Acquisition		Gross Amount at Which Carried at December 31, 2012			Date of Construction	Date Acquired		
	Encumbrances	Buildings and Improvements		Improvements	Land	Buildings and Improvements				Total	Accumulated Depreciation(1)
		Land	Improvements			Land	Improvements				
<i>Retail</i>											
Lawrence, KS	—	133	938	—	133	938	1,071	21	1915	2012	
Wichita, KS(4)	2,861	1,189	5,248	—	1,189	5,248	6,437	880	1996	2006	
Lexington, KY(4)	1,925	800	3,532	—	800	3,532	4,332	592	1999	2006	
Bastrop, LA	1,031	378	1,465	—	378	1,465	1,843	224	1995	2006	
Kentwood, LA	1,003	368	1,425	—	368	1,425	1,793	218	1995	2006	
Lake Charles, LA(3)	—	1,167	4,669	—	1,167	4,669	5,836	1,201	1998	2002	
Monroe, LA	1,031	378	1,465	—	378	1,465	1,843	224	1995	2006	
Monroe, LA	984	361	1,399	—	361	1,399	1,760	214	1995	2006	
Everett, MA	1,315	1,935	—	—	1,935	—	1,935	—	N/A	2008	
Hyannis, MA	1,221	802	2,324	—	802	2,324	3,126	288	1998	2008	
Marston Mills, MA	516	461	2,313	—	461	2,313	2,774	282	1998	2008	
Somerville, MA	1,981	510	1,993	24	510	2,017	2,527	497	1993	2003	
Kansas City, MO	4,324	2,958	5,691	—	2,958	5,691	8,649	362	2004	2010	
Cape Girardeau, MO	—	545	1,547	—	545	1,547	2,092	9	1994	2012	
D'iberville, MS	1,003	368	1,425	—	368	1,425	1,793	218	1995	2006	
Flowood, MS	1,068	392	1,517	—	392	1,517	1,909	232	1995	2006	
Vicksburg, MS	975	358	1,385	—	358	1,385	1,743	212	1985	2006	
Vicksburg, MS	1,189	436	1,689	—	436	1,689	2,125	259	1995	2006	
Cary, NC(3)	—	1,129	3,736	—	1,129	3,736	4,865	401	1995	2008	
Cherry Hill, NJ	6,068	3,584	2,794	3,263	3,584	6,057	9,641	259	2000	2011	
Deptford, NJ	2,013	572	1,779	705	572	2,484	3,056	50	1981	2012	
Batavia, NY	—	515	2,061	—	515	2,061	2,576	715	1998	1999	
Hauppauge, NY	—	725	2,963	—	725	2,963	3,688	528	1992	2005	
Island Park, NY	1,662	1,235	1,355	—	1,235	1,355	2,590	83	1947	2010	
Selden, NY	2,333	572	2,287	150	572	2,437	3,009	827	1997	1999	
Columbus, OH	—	1,445	5,781	—	1,445	5,781	7,226	2,186	1996	1997	
Eugene, OR(3)	—	1,952	2,096	—	1,952	2,096	4,048	225	1994	2008	
Gettysburg, PA	933	754	704	—	754	704	1,458	42	1991	2010	



	Initial Cost To Company		Cost Capitalized to Subsequent Acquisition		Gross Amount at Which Carried at December 31, 2012			Date of Construction	Date Acquired		
	Encumbrances	Buildings and Improvements		Improvements	Land	Buildings and Improvements				Total	Accumulated Depreciation(1)
		Land	Improvements			Land	Improvements				
<i>Retail</i>											
Hanover, PA	910	736	686	—	736	686	1,422	41	1992	2010	
Monroeville, PA	—	450	863	—	450	863	1,313	56	1994	2010	
Palmyra, PA	832	650	650	—	650	650	1,300	40	1981	2010	
Reading, PA	822	655	625	—	655	625	1,280	39	1981	2010	
Reading, PA	810	618	643	—	618	643	1,261	41	1983	2010	
Royersford, PA	16,647	19,538	3,150	142	19,538	3,292	22,830	229	2001	2010	
Trexletown, PA	793	800	439	—	800	439	1,239	26	1994	2010	
Bluffton, SC(4)	1,418	589	2,600	—	589	2,600	3,189	437	1994	2006	
Knoxville, TN	4,581	2,290	8,855	—	2,290	8,855	11,145	1,946	2003	2004	
Amarillo, TX(4)	2,076	863	3,810	—	863	3,810	4,673	639	1996	2006	
Austin, TX(4)	3,822	1,587	7,010	—	1,587	7,010	8,597	1,176	2001	2006	
El Paso, TX	—	2,821	11,123	321	2,821	11,444	14,265	3,657	1974	2000	
El Paso, TX(3)	—	1,035	2,700	—	1,035	2,700	3,735	290	1993	2008	
Houston, TX	—	396	1,583	30	396	1,613	2,009	578	1997	1998	
Houston, TX	2,800	1,962	1,540	—	1,962	1,540	3,502	94	2006	2010	
Houston, TX	—	2,002	1,800	—	2,002	1,800	3,802	108	2009	2010	
Rosenberg, TX	—	216	863	67	216	930	1,146	370	1994	1995	
Tyler, TX(4)	2,483	1,031	4,554	—	1,031	4,554	5,585	764	2001	2006	
Houston, TX	5,100	3,122	3,768	—	3,122	3,768	6,890	19	2001	2012	
Newport News, VA(4)	1,808	751	3,316	—	751	3,316	4,067	556	1995	2006	
Richmond, VA(4)	2,088	867	3,829	—	867	3,829	4,696	642	1979	2006	
Virginia Beach, VA(4)	2,056	854	3,770	—	854	3,770	4,624	632	1995	2006	
Seattle, WA	—	201	189	—	201	189	390	120	1986	1987	
Onalaska, WI	—	753	3,099	—	753	3,099	3,852	630	1994	2004	
<i>Theater</i>											
Greensboro, NC	5,413	—	8,328	—	—	8,328	8,328	4,498	1999	2004	
Totals	\$225,971	\$138,152	\$320,039	\$15,150	\$138,152	\$335,189	\$473,341	\$62,816			

Note 1—Depreciation is provided over the estimated useful lives of the buildings and improvements, which range from 3 to 40 years.

Note 2—Upon purchase of the property in December 2006, a \$416,000 rental income reserve was posted by the seller for the Company's benefit, since the property was not producing sufficient rent at the time of acquisition. The Company recorded the receipt of this rental reserve as a reduction to land and building.

Note 3—These seven properties are retail office supply stores net leased to the same tenant, pursuant to separate leases. Five of these leases contain cross default provisions. They are located in six states (Illinois, Louisiana, North Carolina, Texas, Georgia and Oregon).

Note 4—These 11 properties are retail furniture stores covered by one master lease and one loan that is secured by cross-collateralized mortgages. They are located in six states (Georgia, Kansas, Kentucky, South Carolina, Texas and Virginia).

**ONE LIBERTY PROPERTIES, INC. AND SUBSIDIARIES**  
**Notes to Schedule III**  
**Consolidated Real Estate and Accumulated Depreciation**

(a) Reconciliation of “Real Estate and Accumulated Depreciation”

(Amounts in Thousands)

	Year Ended December 31,		
	2012	2011	2010
Investment in real estate:			
Balance, beginning of year . . . . .	\$430,337	\$400,795	\$382,674
Addition: Land, buildings and improvements . . . . .	43,004	29,542	67,825
Deduction: Cost of properties sold and property contributed to joint venture . . . . .	—	—	(49,704)
Balance, end of year . . . . .	\$473,341(b)	\$430,337	\$400,795
Accumulated depreciation:			
Balance, beginning of year . . . . .	\$ 54,214	\$ 46,410	\$ 39,336
Addition: Depreciation . . . . .	8,602	8,537	7,946
Deduction: Accumulated depreciation related to properties sold and property contributed to joint venture . . . . .	—	(733)	(872)
Balance, end of year . . . . .	\$ 62,816	\$ 54,214	\$ 46,410

(b) The aggregate cost of the properties is approximately \$25,718 higher for federal income tax purposes at December 31, 2012.

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# Board of Directors and Executive Officers



## **Fredric H. Gould**

Chairman of the Board of Directors; Trustee of BRT Realty Trust; President of REIT Management Corp., Advisor to BRT Realty Trust; Director of Georgetown Partners, Inc., Managing General Partner of Gould Investors L.P.; Director of EastGroup Properties, Inc.

## **Patrick J. Callan, Jr.**

Director; President and Chief Executive Officer.

## **Jeffrey A. Gould**

Director; Senior Vice President; Trustee, President and Chief Executive Officer of BRT Realty Trust; Senior Vice President and Director of Georgetown Partners, Inc.

## **Matthew J. Gould**

Vice Chairman of the Board of Directors; Chairman and Chief Executive Officer of Georgetown Partners, Inc.; Vice President of REIT Management Corp.; Trustee and Senior Vice President of BRT Realty Trust.

## **Joseph A. Amato**

Director; Real Estate Developer; Managing Partner of the Kent Companies.

## **Charles L. Biederman**

Director; Real Estate Developer.

## **James J. Burns**

Director; Consultant to Reis, Inc.; Director of Cedar Realty Trust.

## **Joseph A. DeLuca**

Director; Principal of Joseph A. DeLuca, Inc.; Director of Capmark Bank; Member of Board of Managers of Wrightwood Capital LLC.

## **Louis P. Karol**

Director; Partner of Karol Hausman & Sosnik, P.C.

## **J. Robert Lovejoy**

Independent Lead Director; Principal of J.R. Lovejoy & Co. LLC; Chairman of Orient-Express Hotels Ltd.

## **Eugene I. Zuriff**

Director; Consultant to the Restaurant Industry.

## **Lawrence G. Ricketts, Jr.**

Executive Vice President and Chief Operating Officer.

## **Simeon Brinberg**

Senior Vice President; Senior Vice President and Secretary of BRT Realty Trust; Senior Vice President of Georgetown Partners, Inc.

## **David W. Kalish**

Senior Vice President and Chief Financial Officer; Senior Vice President—Finance of BRT Realty Trust; Senior Vice President and Chief Financial Officer of Georgetown Partners, Inc.

## **Mark H. Lundy**

Senior Vice President and Secretary; Senior Vice President of BRT Realty Trust; President and Chief Operating Officer of Georgetown Partners, Inc.

## **Israel Rosenzweig**

Senior Vice President; Chairman of BRT Realty Trust; Senior Vice President of Georgetown Partners, Inc.

## **Karen Dunleavy**

Vice President, Financial.

## **Richard M. Figueroa**

Vice President and Assistant Secretary; Vice President of Georgetown Partners, Inc.; Vice President of BRT Realty Trust.

## **Alysa Block**

Treasurer; Treasurer of BRT Realty Trust.

## **Justin Clair**

Assistant Vice President.

## **Isaac Kalish**

Assistant Treasurer; Assistant Treasurer of BRT Realty Trust; Vice President and Treasurer of Georgetown Partners, Inc.

## **EXECUTIVE OFFICES**

60 Cutter Mill Road  
Suite 303  
Great Neck, NY 11021  
516-466-3100

## **REGISTRAR, TRANSFER AGENT, DISTRIBUTION DISBURSING AGENT**

American Stock Transfer and Trust Company  
59 Maiden Lane  
New York, NY 10038  
212-936-5100 800-937-5449  
www.amstock.com

## **INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Ernst & Young LLP  
5 Times Square  
New York, NY 10036

## **FORM 10-K AVAILABLE**

A copy of the Annual Report on Form 10-K filed with the Securities and Exchange Commission is included as part of this Annual Report. Exhibits to the Form 10-K may be obtained by writing to the Secretary, One Liberty Properties, Inc., 60 Cutter Mill Road, Suite 303, Great Neck, NY 11021 or by accessing our web site.

## **COMMON STOCK**

The Company's common stock is listed on the New York Stock Exchange under the ticker symbol OLP.

## **ANNUAL MEETING**

The annual meeting will be held on June 13, 2013 at the Company's Executive Offices at 9:00 a.m.

## **WEB SITE ADDRESS**

onelibertyproperties.com



# ONE LIBERTY PROPERTIES, INC.

60 Cutter Mill Road  
Great Neck, New York 11021  
(516) 466-3100

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## NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

June 13, 2013

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The annual meeting of stockholders of One Liberty Properties, Inc. will be held at our offices, located at Suite 303, 60 Cutter Mill Road, Great Neck, NY, on Thursday, June 13, 2013 at 9:00 a.m. local time. We are holding the meeting for the following purposes:

1. To elect four directors to hold office for a term expiring in 2016;
2. To ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for 2013; and
3. To transact any other business properly brought before the meeting.

Holders of record of our common stock at the close of business on April 17, 2013 are entitled to notice of the annual meeting and to vote at the meeting and any adjournment thereof.

It is important that your shares be represented and voted at the meeting. To assure that your vote will be counted, please complete, date and sign the enclosed proxy card and return it in the enclosed prepaid envelope, whether or not you plan to attend the meeting. Most stockholders can also vote by telephone or via the internet. Telephone and internet voting information is provided on the accompanying proxy card. Your proxy may be revoked in the manner described in the accompanying proxy statement at any time before it has been voted at the meeting.

By Order of the Board of Directors



Mark H. Lundy, Secretary

Dated: April 17, 2013

We urge each stockholder to promptly sign and return the enclosed proxy card or use telephone or internet voting. See our questions and answers about the meeting for information about voting by telephone or internet, how to revoke a proxy, and how to vote shares in person.

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# ONE LIBERTY PROPERTIES, INC.

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## PROXY STATEMENT

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### GENERAL

Our board of directors is furnishing you with this proxy statement to solicit proxies on its behalf to be voted at the 2013 annual meeting of stockholders of One Liberty Properties, Inc. The meeting will be held at our offices, 60 Cutter Mill Road, Suite 303, Great Neck, NY 11021 on June 13, 2013 at 9:00 a.m., local time. The proxies will be voted at the meeting and may also be voted at any adjournments or postponements of the meeting.

All properly executed proxy cards, and all properly completed proxies submitted by telephone or by the internet, that are delivered pursuant to this solicitation, will be voted at the meeting in accordance with your directions, unless the proxy is revoked before the meeting.

### QUESTIONS AND ANSWERS ABOUT THE MEETING AND VOTING

*What is the purpose of the annual meeting?*

At our annual meeting, stockholders will vote on the following matters:

- election of four directors (Joseph A. Amato, Jeffrey A. Gould, Matthew J. Gould and J. Robert Lovejoy) to hold office until the 2016 annual meeting;
- ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for 2013; and
- such other matters as may properly come before the meeting.

*Who is entitled to vote?*

We are mailing this proxy statement on or about April 22, 2013 to our stockholders of record on April 17, 2013. The record date was established by our board of directors. Stockholders as of the close of business on the record date of April 17, 2013 are entitled to receive notice of and to vote their shares at the meeting. Each outstanding share of common stock is entitled to one vote. As of the record date, 15,229,748 shares of our common stock were outstanding and entitled to vote at the meeting.

*How do I vote?*

If you are a stockholder of record on April 17, 2013 and attend the annual meeting, you may vote in person at the meeting. If your shares are held by a bank, broker or other nominee (*i.e.*, in “street name”) and if you wish to vote in person at the annual meeting, you must contact the nominee to obtain evidence of your ownership of our common stock as of the record date. If you hold your shares directly (*i.e.*, the share certificate or certificates representing your shares are registered in your name), you may complete, sign and date the accompanying proxy card and return it in the prepaid envelope, and your shares will be voted according to your instructions.

*How will my shares be voted?*

If you do not mark any selections but return the signed proxy card, your shares will be voted by the proxies named on the proxy card in favor of the three nominees for election as directors, in favor of the proposal to ratify the appointment of Ernst & Young LLP as our independent registered public accounting

firm for 2013, and as the proxy holders may determine in their discretion with respect to other matters that properly come before the meeting. Registered holders (*i.e.*, those who hold shares directly rather than through a bank or broker) can simplify their voting by calling 1-800-PROXIES (776-9437) or by accessing the internet website [www.voteproxy.com](http://www.voteproxy.com). Telephone voting information and internet voting information is provided on the proxy card. The internet and telephone voting facilities for stockholders of record will close at 11:59 p.m., local time, on June 12, 2013. You should be aware that if you vote over the internet you may incur costs, such as telephone and internet access charges, for which you will be responsible. If you vote by telephone or via the internet, it is not necessary to return your proxy card. If you attend the meeting, you may deliver your completed proxy or vote in person.

If you wish to name as a proxy someone other than the proxies named on the proxy card, you may do so by crossing out the name of the designated proxies and inserting the name of another person. In that case, it will be necessary to sign the proxy card and deliver it to the person so named and for the person so named to be present at and vote at the meeting. Proxy cards so marked should not be mailed to us or to American Stock Transfer and Trust Company LLC, our transfer agent.

*Who will count the vote?*

A representative of our transfer agent, American Stock Transfer and Trust Company, LLC, will tabulate the votes and act as inspector of elections.

*Can I revoke my proxy before it is exercised?*

If you hold stock directly in your name, you may revoke a proxy at any time before it is voted at the annual meeting with a later dated, properly executed proxy (including an internet or telephone vote), or a written revocation delivered to our Secretary. The proxy holders' powers may also be suspended if you attend the meeting and notify our Secretary at the meeting that you would like to change your vote or vote in person. If your stock is held in the name of a broker, bank or other nominee, you must contact such nominee and comply with the nominee's procedures if you want to revoke or change the instructions that you previously provided to the nominee. Attendance at the meeting will not by itself automatically revoke a previously granted proxy.

*What constitutes a quorum?*

A quorum is the presence in person or by proxy of stockholders holding a majority of shares entitled to vote at the meeting. To constitute a quorum, at least 7,614,875 shares must be present in person or by proxy at the meeting. Generally, action cannot be taken at the meeting unless a quorum is present.

*Is my vote important?*

Yes. Under applicable rules, brokers, banks and other nominees are prohibited from voting shares held in street name on matters pertaining to the election of directors unless the client specifically instructs his or her nominee to vote their shares. Shares held in street name and for which voting instructions are not provided and accordingly, as to which bank, brokers and other nominees do not have discretionary authority to vote on their clients' behalf, are referred to "broker non-votes." Because "broker non-votes" will have the effect of a vote against the election of the directors identified herein as standing for election, it is very important that you vote your shares.

*How many votes does it take to approve the items to be voted upon?*

The vote of a majority of the outstanding shares entitled to vote at the meeting is necessary for the election of each director standing for election. Accordingly, for purposes of the election of directors, abstentions and broker non-votes will have the effect of a vote against the election of such director.

*Who is soliciting my vote and who pays the cost?*

Our board of directors is soliciting votes for the meeting and we will pay the entire cost of the solicitation, including preparing and mailing this proxy statement. In addition to the solicitation of proxies by mail and through our and our affiliates' employees, we will request banks, brokers, custodians, nominees and other record holders to forward copies of the proxy statement and other soliciting materials to persons for whom they hold shares and to request authority for the exercise of proxies. We will reimburse such record holders for their reasonable out-of-pocket expenses in forwarding proxies and proxy materials to stockholders. We have retained AST Phoenix Advisors for a fee of \$4,500, plus reasonable out of pocket expenses, to aid in the solicitation of proxies from our stockholders. To the extent necessary to ensure sufficient representation at the meeting, we or our proxy solicitor may solicit the return of proxies by personal interview, mail, telephone, facsimile, internet or other means of electronic transmission. The extent to which this will be necessary depends upon how promptly proxies are returned. We urge you to send in your proxy without delay.

*What is householding?*

We are sending only one proxy statement to eligible stockholders who share a single address, unless we have received instructions to the contrary from any stockholder at that address. This practice, known as "householding," is designed to reduce our printing and postage costs. However, if a stockholder of record residing at such an address wishes to receive a separate annual report or proxy statement, he or she may request it orally or in writing by contacting us at One Liberty Properties, Inc., 60 Cutter Mill Road, Suite 303, Great Neck, NY 11021, Attention: Investor Relations, by emailing us at [simeonb@1liberty.com](mailto:simeonb@1liberty.com), or by calling us at 516-466-3100, and we will promptly deliver to the stockholder the requested annual report or proxy statement. If a stockholder of record residing at such an address wishes to receive a separate annual report or proxy statement in the future, he or she may contact us in the same manner. If you are an eligible stockholder of record receiving multiple copies of our annual report and proxy statement, you can request householding by contacting us in the same manner. If you own your shares through a bank, broker or other nominee, you can request householding by contacting the nominee.

*When are stockholder proposals due for the 2014 Annual Meeting?*

If a stockholder wants a proposal to be included in our proxy statement for the 2014 annual meeting of stockholders, the proposal, in writing and addressed to our Secretary, must be received by us no later than December 24, 2013. Upon timely receipt of any such proposal, we will determine whether or not to include such proposal in the proxy statement in accordance with applicable regulations governing the solicitation of proxies.

For any proposal that is not submitted for inclusion in next year's proxy statement, but is instead intended to be presented directly at the 2014 annual meeting, rules and regulations promulgated by the United States Securities and Exchange Commission permit us to exercise discretionary voting authority to the extent conferred by proxy if we:

- receive notice of the proposal before March 8, 2014, and advise stockholders in the 2014 proxy statement of the nature of the proposal and how management intends to vote on such matter; or
- do not receive notice of the proposal before March 8, 2014.

Notices of intention to present proposals at our 2014 annual meeting should be submitted in writing and addressed to our Secretary.

*What other information about us is available?*

Stockholders can call (516) 466-3100 or write to us at 60 Cutter Mill Road, Suite 303, Great Neck, NY 11021, Attention: Secretary, to request a copy of our Annual Report on Form 10-K. This and other important information about us is also available on our web site which is located at [www.onelibertyproperties.com](http://www.onelibertyproperties.com). Our Annual Report to Stockholders for 2012 accompanies this proxy statement.

## GOVERNANCE OF THE COMPANY

### General

Pursuant to the Maryland General Corporation Law and our by-laws, as amended, our business, property and affairs are managed by or under the direction of our board of directors. Members of the board are kept informed of our business through discussions with our chief executive officer, chairman of our board and other officers, by reviewing materials provided to them and by participating in meetings of the board and its committees.

During 2012, the board held six meetings. All of the directors attended at least 75% of the total number of meetings of the board of directors and the board committees of which such director was a member. Our directors meet at regularly scheduled executive sessions without management. We encourage our directors to attend the annual meeting of stockholders. Last year, all of our directors attended our annual meeting of stockholders.

### Leadership Structure

The board of directors has designated J. Robert Lovejoy as its “Independent Lead Director.” Among other things, the Lead Director presides at, and prepares the agenda for, executive sessions of the independent directors, recommends to the Chairman of the Board matters to be considered and materials to be reviewed by the board, serves as an independent point of contact for stockholders desiring to communicate with the board and performs such other duties and responsibilities as are assigned to him by a majority of the non-management directors.

Our company is led by Fredric H. Gould, chairman of our board, and Patrick J. Callan, Jr., president and chief executive officer. Although the board of directors has not established a policy on whether the role of the chairman and chief executive officer should be separated, the board of directors believes this is the most appropriate structure at this time because it makes the best use of the abilities of Messrs. Gould and Callan.

### Risk Oversight

Management is responsible for the day-to-day management of risks we face. Our board of directors has overall responsibility for overseeing risk management with a focus on the more significant risks facing us. Our audit committee oversees risk policies and processes related to our financial statements, financial reporting processes and liquidity risks, our compensation committee oversees risks relating to remuneration of our full-time officers, and our nominating and corporate governance committee oversees corporate governance risks.

A portion of each quarterly meeting of the audit committee is devoted to reviewing with management, among other things, property operation issues (including tenant matters and impairments, if any,) which might have a material adverse impact on current or future operations, the status of issues previously considered by the committee, liquidity risks, management of debt maturities and, as required, reviewing risks arising from related party transactions and compliance with debt covenants. Each audit committee meeting is generally attended by our Chief Executive Officer and Chief Operating Officer who are there to, among other things, respond to issues relating to tenant matters or property operations. In addition, at each meeting of the audit committee, our chief financial officer, the accounting firm performing the internal audit function on our behalf and our independent registered public accounting firm report to the committee with respect to compliance with our internal control policies to ascertain that no failures of a significant or material nature have occurred. This process assists the audit committee in overseeing the risks related to our financial statements and the financial reporting process.

At each meeting of the board of directors, a portion of the meeting is dedicated to reviewing and discussing significant risk issues reviewed by the audit committee.

Our compensation committee monitors risks associated with our compensation structure. The compensation committee does not believe that the compensation programs which are in place give rise to any risk that is reasonably likely to have a material adverse effect on us.

**Code of Business Conduct and Ethics**

We have adopted a code of business conduct and ethics that is designed to help our directors, officers, employees, agents and consultants resolve ethical issues. This code applies to all directors, officers, employees, agents and consultants, including our chief executive officer, principal financial officer, principal accounting officer or persons performing similar functions. The code covers a variety of topics, including those required by the Securities and Exchange Commission and the New York Stock Exchange. Topics covered include conflicts of interest, confidentiality of information, and compliance with laws and regulations. During 2012, there were no amendments to the code and no waivers of the provisions of the code with respect to any of our directors, officers, employees, agents or consultants. We will post any amendments to, or waivers of, our code on our website. See “Additional Information” to obtain access to, or copies of, our code of business conduct and ethics.

**Committees of the Board of Directors**

We have three standing committees: audit, compensation and nominating and corporate governance. Our board has adopted corporate governance guidelines that address the make-up and function of the board and a charter for each of these committees. The charter for each committee requires that such committee be comprised of at least three independent directors and in the case of the audit committee, also requires that at least one member of the committee qualify as a “financial expert.” All of the members of each committee were independent during their period of service on such committee and in the case of the audit committee, each such member was also financially literate. See “Additional Information” to obtain access to, or copies of, our corporate governance guidelines and committee charters.

The table below provides membership and meeting information for each of the standing board committees for 2012:

<u>Name</u>	<u>Audit</u>	<u>Compensation</u>	<u>Nominating and Corporate Governance</u>
Joseph A. Amato . . . . .			
Charles Biederman . . . . .		✓(1)	✓(1)
James J. Burns . . . . .	Chair*	(2)	Chair
Joseph A. DeLuca . . . . .	✓		
J. Robert Lovejoy . . . . .		✓	
Louis P. Karol . . . . .			✓
Eugene I. Zuriff . . . . .	✓	Chair	(2)
Number of Meetings . . . . .	5	1	1

\* Audit committee financial expert.

(1) Began serving on such committee on June 12, 2012.

(2) Served on such committee until June 12, 2012.

### *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) the independent registered public accounting firm's qualifications and independence, (iv) the performance of the independent registered public accounting firm, (v) the performance of the accounting firm performing our internal control audit function, and (vi) the preparation of the audit committee report required by the Securities and Exchange Commission for inclusion in this proxy statement. The audit 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 recommends the base salary and annual bonus to our full-time officers, fees to be paid to our directors and recommends and/or determines awards under our equity based incentive plans.

### *Nominating and Corporate Governance Committee*

This committee is responsible for, among other things, recommending a slate of directors for election to the board of directors at the annual stockholders' meeting, recommending committee assignments to the board of directors, identifying and recommending candidates to fill vacancies on the board of directors between annual stockholder meetings, recommending a slate of officers for election by the board of directors at the annual directors' meeting, proposing, monitoring and recommending changes to our corporate governance guidelines and overseeing the evaluation of effectiveness of our board of directors and the committees thereof.

### **Director Qualifications**

The board believes that it should be comprised of directors with complementary backgrounds, and that directors should, at a minimum, have experience which is relevant to our business or otherwise be of assistance to the board in its deliberations. Our nominating and corporate governance committee (the "nominating committee") has not adopted a formal diversity policy in connection with the consideration of director nominations or the selection of nominees. It considers the personal and professional attributes and the experience of each director candidate to promote diversity of expertise and experience among our directors. Additionally, directors should possess the highest personal and professional ethics in order to perform their duties properly, and should be willing and able to devote the required amount of time to our business.

When considering candidates for director, the nominating 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 nominating committee to determine whether the candidate would be suitable for audit committee membership;
- Executive compensation background, to enable the nominating committee to determine whether the candidate would be suitable for compensation committee membership; and
- The size and composition of the existing board.



The nominating committee will consider candidates for director suggested by stockholders applying the criteria for candidates described above and considering the additional information referred to below. Stockholders wishing to suggest a candidate for director should write to our Secretary and include:

- A statement that the writer is a stockholder and is proposing a candidate for consideration by the nominating committee;
- The name of and contact information of the candidate;
- A detailed statement of the candidate's business and educational experience and an explanation of the reasons why the stockholder believes the candidate is qualified for service on our board of directors;
- Information regarding each of the factors listed above sufficient to enable the nominating 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 stockholder and the candidate; and
- A statement that the candidate is willing to be considered and willing to serve as a director if nominated and elected.

When seeking candidates for director, the nominating committee may solicit suggestions from management, incumbent directors and others. The nominating committee or its chairman will interview a candidate if it believes the candidate might be suitable to be a director. The nominating committee may also ask the candidate to meet with management.

The nominating committee generally intends to recommend that the Board nominate incumbent directors whom the committee believes will continue to make important contributions to us, inasmuch as 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 directors have accumulated during their tenure, while contributing to the Board's ability to work as a collective body.

### **Independence of Directors**

The board reviews director independence annually and bases its independence determinations primarily on a review of the responses of the directors to questions regarding employment and compensation history, affiliations, family and other relationships and discussions with the directors.

In determining whether our directors are independent, our board of directors employs the New York Stock Exchange director independence standards. These standards provide:

- No director qualifies as "independent" unless the board affirmatively determines that the director has no material relationship with us (either directly or as a partner, shareholder or officer of an organization that has a relationship with us);
- A director who is an employee, or whose immediate family member is an executive officer, of ours is not independent until three years after the end of such relationship;
- A director 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 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 director who is, or who has an immediate family member who is, a current partner of our internal or external auditor, a director who is a current employee of our internal or external auditor, a director 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 director 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 director who is employed, or whose immediate family member is employed, as an executive officer of another company where any of our present executives serve on that company's compensation committee is not "independent" until three years after the end of such service or the employment relationship; and
- A director 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 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 commentary to the New York Stock Exchange standards provides that it is not possible to anticipate or explicitly to provide for all circumstances that might signal potential conflicts of interest, or might bear on the materiality of a director's relationship to a listed company. Accordingly, the board considers material relationships with the Company's affiliates and officers that a director may have.

Our board has determined that each of Joseph A. Amato, James J. Burns, Charles Biederman, Joseph A. DeLuca, Louis P. Karol, J. Robert Lovejoy and Eugene I. Zuriff are independent.

#### **Compensation Committee Interlocks and Insider Participation**

None of the compensation committee members were ever officers or employees of our company or has had any relationship requiring disclosure by us under any paragraph of Item 404 (Transactions with Related Persons, Promoters and Certain Control Persons) of Regulation S-K.

#### **Communications with Directors**

Stockholders, employees and other interested persons who want to communicate with the board, any committee of the board, or any individual director can write to:

One Liberty Properties, Inc.  
Suite 303  
60 Cutter Mill Road  
Great Neck, New York 11021  
Attention: Secretary

The Secretary will:

- Forward the communication to the director or directors to whom it is addressed;
- Attempt to handle the inquiry directly; for example where it is a request for information about the 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 all communications received since the last meeting that were not forwarded and make those communications available to the directors on request.

In the event that a stockholder, employee or other interested person would like to communicate with our non-management directors confidentially, they may do so by sending a letter to “Independent Lead Director” at the address set forth above. Please note that the envelope must contain a clear notation that it is confidential.

### Compensation of Directors

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

	Board	Committee		
		Audit	Compensation	Nominating
Annual retainer . . . . .	\$ 25,000	\$ 8,000	\$3,000	\$3,000
Participation in meeting . . . . .	1,000	1,000	1,000	1,000
Chairman’s annual retainer . . . . .	250,000(1)	15,000	4,000	4,000
Lead director’s annual retainer . . . . .	15,000	—	—	—

(1) Such payment is made to Fredric H. Gould, a management director and the chairman of our board of directors.

In addition, non-management directors are awarded shares of restricted common stock—the number of such shares varies from year to year. In 2012, each such director was awarded 2,500 shares. 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.

Our directors received the following compensation for 2012:

Name(1)	Fees Earned or Paid in Cash (\$)(2)	Stock Awards (\$)(3)	All Other Compensation (\$)(4)	Total (\$)
Joseph A. Amato . . . . .	31,000	41,925	13,065	85,990
Charles Biederman . . . . .	34,000	41,925	13,065	88,990
James J. Burns . . . . .	66,500	41,925	13,065	121,490
Joseph A. DeLuca . . . . .	43,000	41,925	13,065	97,990
Jeffrey A. Gould . . . . .	—	124,098	233,829(5)	357,927
J. Robert Lovejoy . . . . .	49,000	41,925	13,065	103,990
Louis P. Karol . . . . .	35,000	41,925	6,868	83,793
Eugene I. Zuriff . . . . .	55,500	41,925	13,065	110,490

(1) The compensation received by Fredric H. Gould, chairman of the board, Patrick J. Callan, Jr., president, chief executive officer and a director and Matthew J. Gould, vice chairman of the board, is set forth in the Summary Compensation Table and is not included in this table. All of the directors in this table are non-management directors, except for Jeffrey A. Gould. See “Certain Relationships and Related Transactions.”

(2) Includes all fees earned for services as a director, including annual retainer fees, committee and committee chairman fees and meeting fees. Each non-management director is entitled to reimbursement of travel and other expenses incurred in connection with attendance board and committee meetings. The reimbursement amounts are not included in this table.

- (3) Represents the aggregate grant date fair value computed in accordance with ASC Topic 718. Each of these directors was awarded 2,500 shares of restricted stock other than Jeffrey A. Gould who was awarded 7,400 shares of restricted stock for services rendered and to be rendered as our officer. Each of these directors own 9,750 restricted shares which have not yet vested, other than Messrs. Gould and Karol who own 27,000 and 5,125, respectively, unvested restricted shares.
- (4) Represents dividends declared in 2012 on unvested restricted shares awarded under our 2003 Incentive Plan, 2009 Incentive Plan and 2012 Incentive Plan.
- (5) Includes compensation of \$197,649 received in 2012 by Jeffrey A. Gould, representing approximately 45% of the total compensation of \$439,220 received by him from Majestic Property Management Corp., an entity wholly owned by Fredric H. Gould, which performs services on our behalf and which received 45% of its 2012 revenues from us. See “Certain Relationships and Related Transactions.”

The table below shows the number of outstanding shares of our unvested restricted stock and restricted stock units (“RSU’s”) held by each director at December 31, 2012:

<u>Name(1)</u>	<u>Unvested Restricted Stock (#)</u>	<u>Unvested RSU’s (#)(2)</u>	<u>Market Value of Unvested Restricted Stock and Restricted Stock Units (\$)(3)</u>
Joseph A. Amato . . . . .	9,750	—	197,828
Charles Biederman . . . . .	9,750	—	197,828
James J. Burns . . . . .	9,750	—	197,828
Joseph A. DeLuca . . . . .	9,750	—	197,828
Jeffrey A. Gould . . . . .	27,000	14,286	837,693
J. Robert Lovejoy . . . . .	9,750	—	197,828
Louis P. Karol . . . . .	5,125	—	103,986
Eugene I. Zuriff . . . . .	9,750	—	197,828

- (1) The outstanding RSU’s and shares of restricted stock held by Fredric H. Gould, Patrick J. Callan, Jr. and Matthew J. Gould are set forth in the “Outstanding Equity Awards At Fiscal Year End” table and are not included in the above table. All of the directors in this table are non-management directors, except for Jeffrey A. Gould.
- (2) The RSU’s vest if and to the extent applicable performance or market conditions are met at June 30, 2017. See “Outstanding Equity Awards at Fiscal Year End.”
- (3) The closing price on the New York Stock Exchange on December 30, 2012 for a share of our common stock was \$20.29.

## STOCK OWNERSHIP OF CERTAIN BENEFICIAL OWNERS, DIRECTORS AND OFFICERS

The following table sets forth, as of the April 1, 2013, information concerning shares of our common stock owned by (i) all persons known to own beneficially 5% or more of our outstanding stock, (ii) all directors and nominees for election as directors, (iii) each executive officer named in the Summary Compensation Table, and (iv) all directors and executive officers as a group:

<u>Name</u>	<u>Amount of Beneficial Ownership(1)</u>	<u>Percent of Class</u>
Joseph A. Amato . . . . .	23,162	*
Charles Biederman(2) . . . . .	11,000	*
James J. Burns . . . . .	23,194	*
Patrick J. Callan, Jr. . . . .	81,063	*
Joseph A. DeLuca(3) . . . . .	23,337	*
Fredric H. Gould(4)(5) . . . . .	2,145,881	14.1
Jeffrey A. Gould(4)(6) . . . . .	1,780,862	11.7
Matthew J. Gould(4)(7) . . . . .	1,746,890	11.5
David W. Kalish(8) . . . . .	267,628	1.8
Louis P. Karol . . . . .	7,625	*
J. Robert Lovejoy(9) . . . . .	43,305	*
Mark H. Lundy(10) . . . . .	71,826	*
Lawrence G. Ricketts, Jr. . . . .	58,560	*
Eugene I. Zuriff(11) . . . . .	17,657	*
Directors and officers as a group (21 individuals)(4) . . . . .	3,335,940	22.0
Gould Investors L.P.(4)(12) . . . . .	1,546,707	10.2
BlackRock, Inc.(13) . . . . .	857,283	5.6

\* Less than 1%

- (1) Securities are listed as beneficially owned by a person who directly or indirectly holds or shares the power to vote or to dispose of the securities, whether or not the person has an economic interest in the securities. In addition, a person is deemed a beneficial owner if he has the right to acquire beneficial ownership of shares within 60 days of April 1, 2013. The percentage of beneficial ownership is based on 15,176,068 shares of common stock outstanding on April 1, 2013.
- (2) Does not include 33,662 shares owned by his spouse, as to which he disclaims any beneficial ownership interest.
- (3) Includes 20,837 shares of common stock, some of which are held directly and some of which are held by a corporation of which Joseph A. DeLuca is the sole shareholder. Does not include 500 shares of common stock owned by his wife as to which he disclaims any beneficial ownership interest.
- (4) Fredric H. Gould, Matthew J. Gould and Jeffrey A. Gould are the directors of the corporate managing partner of Gould Investors and accordingly may be deemed to share voting and dispositive power with respect to the shares owned by Gould Investors.
- (5) Includes 417,243 shares of common stock owned directly, 1,546,707 shares of common stock owned by Gould Investors and 181,931 shares of common stock owned by entities, pension trusts and a foundation over which he has sole or shared voting and dispositive power. Does not include 56,440 shares of common stock owned by his wife, as to which shares he disclaims any beneficial ownership interest.

- (6) Includes 215,109 shares of common stock owned directly, 1,546,707 shares of common stock owned by Gould Investors, 5,069 shares of common stock owned as custodian for minor children (as to which shares he disclaims any beneficial ownership interest) and 13,977 shares of common stock owned by a foundation over which he has shared voting and dispositive power. Does not include 10,003 shares owned by his child over age 18.
- (7) Includes 186,206 shares of common stock owned directly, 1,546,707 shares of common stock owned by Gould Investors and 13,977 shares of common stock owned by a foundation over which he has shared voting and dispositive power. Does not include 41,223 shares owned by his children over age 18.
- (8) Includes 91,211 shares of common stock owned directly, 3,167 shares of common stock owned by his IRA and profit sharing trust, of which he is the sole beneficiary, and 173,250 shares of common stock owned by pension trusts over which he has shared voting and dispositive power. Does not include 500 shares of common stock owned by his wife, as to which shares he disclaims any beneficial ownership interest.
- (9) Includes 43,195 shares of common stock owned directly and 110 shares of common stock owned as custodian for a minor child (as to which shares he disclaims any beneficial ownership interest). Does not include 4,000 shares of common stock owned by his wife as to which shares he disclaims any beneficial ownership interest.
- (10) Includes 70,560 shares of common stock owned directly and held in a margin account and 1,266 shares of common stock owned as custodian for minor child (as to which shares he disclaims any beneficial ownership interest).
- (11) Includes 2,500 shares held in his IRA account.
- (12) Address is 60 Cutter Mill Road, Great Neck, NY 11021.
- (13) As of December 31, 2012, based (other than with respect to percentage ownership) on information set forth in Amendment No. 2 to Schedule 13G filed with the SEC on February 11, 2013 by BlackRock, Inc. BlackRock's business address is 40 East 52<sup>nd</sup> Street, New York, NY 10022.

## ELECTION OF DIRECTORS

### (Proposal 1)

Pursuant to our by-laws, as amended, the number of directors was fixed at eleven by our board of directors. The board is divided into three classes. Each class is elected to serve a three year term and is to be as equal in size as is possible, The classes are elected on a staggered basis. The terms of Joseph A. Amato, Jeffrey A. Gould, Matthew J. Gould and J. Robert Lovejoy expire at the 2013 annual meeting. Each of them has been recommended to the board of directors by the nominating committee for election at the annual meeting. Seven other individuals serve as directors but are not standing for election because their terms extend past the date of the annual meeting. Proxies will not be voted for a greater number of persons than the number of nominees named in the proxy statement.

It is contemplated that all the nominees will stand for election. Should any nominee become unavailable for election, all proxies (except proxies marked to the contrary) will be voted for the election of a substitute nominee recommended by the board of directors.

If any director is unable to serve his full term, the board, by majority vote of the directors then in office, may designate a substitute. Any director chosen by the board prior to the 2013 annual meeting of stockholders will hold office for a term expiring at the 2013 annual meeting of stockholders and until his successor is elected and qualified.

#### **Nominees for Election to serve until the 2016 Annual Meeting**

The following table sets forth information certain information regarding the nominees for director to hold office until the 2016 annual meeting of stockholders:

<u>Name and Age</u>	<u>Principal Occupation For The Past Five Years and other Directorships or Significant Affiliations</u>
Joseph A. Amato . . . . . 77 Years	Director since June 1989; Real estate developer; Managing partner of the Kent Companies, owner, manager and developer of income producing real estate since 1970. Mr. Amato has been principally engaged in real estate development activities for more than 40 years, developing residential and commercial properties. In addition he has for many years owned and managed residential and commercial real estate. His activities have involved, among other things, land acquisition, infrastructure installation, building design, construction supervision, zoning, budgeting, negotiations with lending institutions and property sales. His broad experience has encompassed many aspects of real estate development and management and he brings his broad and varied experiences to our board of directors.

**Principal Occupation For The Past  
Five Years and other Directorships  
or Significant Affiliations**

Name and Age

Jeffrey A. Gould ..... 47 Years	Director since December 1999; Vice President from 1989 to December 1999 and Senior Vice President since December 1999; Since 1996, President, from March 1996 through December 2001, Chief Operating Officer, and since January 2002, Chief Executive Officer of BRT Realty Trust, a New York Stock Exchange listed real estate investment trust; Trustee of BRT Realty Trust since 1997; Since 1996, Senior Vice President and since 2013, director of Georgetown Partners, Inc., the managing general partner of Gould Investors. Gould Investors is primarily engaged in the ownership and operation of real estate properties held for investment. Jeffrey A. Gould is the son of Fredric H. Gould and brother of Matthew J. Gould. Mr. Gould has spent his entire career in the real estate business. His principal activity for more than the past sixteen years has been first as chief operating officer and then as chief executive officer of BRT Realty Trust. In these capacities, he has operated a public REIT, dealt with many areas in the real estate field, including evaluation, management and sale of real estate, and is highly qualified to serve as a member of our board of directors.
Matthew J. Gould ..... 53 Years	Vice Chairman of our board since January 2011; Director since December 1999; President and Chief Executive Officer from June 1989 to December 1999 and a Senior Vice President from December 1999 through June 2011; From 1996 through March 2013, President, and from March 2013, Chairman of the Board and Chief Executive Officer of Georgetown Partners; Senior Vice President of BRT Realty Trust since 1993 and Trustee since June 2004 and from March 2001 to March 2004; Vice President of REIT Management Corp. since 1986. Matthew J. Gould is the son of Fredric H. Gould and brother of Jeffrey A. Gould. Matthew J. Gould served as our president and chief executive officer for ten years and has served as one of our senior vice presidents since he relinquished the CEO position in 1999 to become president of Georgetown Partners. In addition to his general knowledge of real estate matters, he devotes a significant amount of his business time to the acquisition and sale of real property, and he brings his knowledge and expertise in these areas to his board activities. He also has experience in mortgage financing and real estate management, activities in which he is frequently involved. His experience as a real estate executive is a valuable asset to our board of directors in its deliberations.



<u>Name and Age</u>	<u>Principal Occupation For The Past Five Years and other Directorships or Significant Affiliations</u>
J. Robert Lovejoy . . . . . 68 Years	Director since June 2004; Since 2000, Director, since June 2011, Chairman and from July 2011 to May 2012, Interim Chief Executive Officer of Orient-Express Hotels Ltd., a New York Stock Exchange listed luxury lodging company and sophisticated adventure travel operator. Founder and principal of J.R. Lovejoy & Co. LLC, providing consulting and advisory services regarding strategy and finance to corporate, investment and financial clients; Partner, Chief Administrative Officer and General Counsel of Coatue Management LLC, a privately owned investment management company, from December 2009 through December 2010; Managing Director of Groton Partners, LLC, merchant bankers, from January 2006 to December 2009; Senior Managing Director of Ripplewood Holdings, LLC, a private equity investment firm, from January 2000 to December 2005; a Managing Director of Lazard Freres & Co. LLC and a General Partner of Lazard's predecessor partnership for over 15 years prior to January 2000; Mr. Lovejoy, an attorney, has extensive experience in investment and merchant banking and throughout his career has been involved in raising capital in private and public transactions, mergers and acquisitions, business law and accounting issues. His exposure to these areas makes him a valued member of our board of directors.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF JOSEPH A. AMATO, JEFFREY A. GOULD, MATTHEW J. GOULD AND J. ROBERT LOVEJOY AS DIRECTORS.**

**Directors to continue in office until the 2014 Annual Meeting**

<u>Name and Age</u>	<u>Principal Occupation For The Past Five Years and other Directorships or Significant Affiliations</u>
Charles Biederman . . . . . 79 Years	Director since June 1989; Chairman from January 2008 to June 2010 of Universal Development Company, a commercial general contractor engaged in turnkey hotel, commercial and residential projects; Principal of Sunstone Hotel Investors, LLC, a company engaged in the management, ownership and development of hotel properties, from November 1994 to December 2007; Executive Vice President of Sunstone Hotel Investors, Inc., a real estate investment trust engaged in the ownership of hotel properties, from September 1994 to November 1998 and Vice Chairman of Sunstone Hotel Investors from January 1998 to November 1999. Mr. Biederman, a professional architect, was involved for many years in the development and construction of residential communities. He subsequently became involved, as an executive officer and a director, in the activities of a publicly traded real estate investment trust engaged in the ownership of hotel properties and developed, as an investor, principal and partner, residential properties and hotels. In his business activities he has been involved in all aspects of real estate ownership and operation and in real estate development, which includes financing and related financial matters.
James J. Burns . . . . . 73 Years	Director since June 2000; Consultant (with continued primary responsibility for income tax reporting and compliance) since April 2009, Vice Chairman from March 2006 to March 2009 and Senior Vice President and Chief Financial Officer of Reis, Inc. and its predecessor, Wellsford Real Properties, Inc., from October 1999 to March 2006; Partner of Ernst & Young LLP, certified public accountants, and a predecessor firm from January 1977 to September 1999; Director and chairman of the audit committee of Cedar Realty Trust (formerly known as Cedar Shopping Centers, Inc.), a real estate investment trust engaged in the ownership, development, management and leasing of retail properties, since 2001. Mr. Burns has been involved for more than 45 years in accounting and auditing issues, specializing since 1975 in the real estate industry. His experience as a certified public accountant, wealth of knowledge in financial and accounting matters and his involvement as an officer and director of, and as adviser to, real estate investment trusts, makes him valuable as the chairman of, and financial expert to, our audit committee, and an important component of our board of directors.

**Principal Occupation For The Past  
Five Years and other Directorships  
or Significant Affiliations**

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**Name and Age**

Patrick J. Callan, Jr. . . . . 50 Years	Director since June 2002; President since January 2006 and Chief Executive Officer since January 2008; Senior Vice President of First Washington Realty, Inc. from March 2004 to November 2005; Vice President of Real Estate for Kimco Realty Corporation, a real estate investment trust, from May 1998 to March 2004. Mr. Callan joined us in 2002, as a director, with significant experience in commercial leasing with a publicly traded real estate investment trust and thereafter served as a senior executive officer of another real estate investment trust. His knowledge of our business and our industry made him an excellent choice to become our president in 2006 and our chief executive officer in 2008.
Louis P. Karol . . . . . 55 Years	Director since April 2010; Partner of Karol Hausman & Sosnik, P.C., attorneys at law, a firm he founded in 1993, which focuses on estate and trust matters and tax planning. He has also represented entities and individuals in the acquisition and sale of real estate. Mr. Karol holds a masters degree in taxation from New York University School of Law and is admitted to practice in the United States Tax Court. His education and experience are of benefit to our board in its deliberations.

**Directors to continue in office until the 2015 Annual Meeting**

<u>Name and Age</u>	<u>Principal Occupation For The Past Five Years and other Directorships or Significant Affiliations</u>
Joseph A. DeLuca . . . . . 67 Years	<p>Director since June 2004; Principal and sole shareholder of Joseph A. DeLuca, Inc., engaged in commercial and multi-family real estate debt and equity investment advisory and restructuring, since September 1998; Director of Capmark Bank, a commercial and multi-family real estate lender since February 2011; Member of Board of Managers of Wrightwood Capital LLC, a private commercial real estate lender and investment manager, since September 2010; Consultant to Gramercy Capital Corp. from October 2008 to September 2011 for restructuring/special servicing of various real estate investments; Principal of MHD Capital Partners, LLC from March 2006 to June 2009, an equity oriented real estate investing entity; Director of Real Estate Investments for Equitable Life Assurance Society of America under a consulting contract from June 1999 to June 2002; Head of Real Estate Finance of Chemical Bank and its successor, Chase Manhattan Bank, as Executive Vice President / Group Head at Chemical Bank from September 1990 through the 1996 merger with the Chase Manhattan Bank, and continuing as Managing Director / Group Head of the Chase Real Estate Finance Group through April 1998. After leaving the bank in 1998, Mr. DeLuca has been a consultant on real estate matters to various public and private entities. His years of experience in banking and the real estate industry, particularly in real estate finance matters, provides our board with a director who has exceptional knowledge and understanding of real estate finance, credit issues from both the lender's and borrower's perspectives, and property acquisitions and dispositions.</p>

**Principal Occupation For The Past  
Five Years and other Directorships  
or Significant Affiliations**

Name and Age

Fredric H. Gould . . . . . 77 Years	Chairman of our board since June 1989, Chief Executive Officer from December 1999 to December 2001 and from July 2005 to December 2007; From 1997 through March 2013, Chairman of Georgetown Partners, Inc., managing general partner of Gould Investors; Since 1984, a trustee of, and from 1984 through March 2013, Chairman of the board of BRT Realty Trust; President of REIT Management Corp., adviser to BRT Realty Trust, since 1986; Director of EastGroup Properties, Inc., a real estate investment trust engaged in the acquisition, ownership and development of industrial properties, since 1998. Fredric H. Gould is the father of Jeffrey A. Gould and Matthew J. Gould. Mr. Fredric H. Gould has been involved in the real estate business for over 50 years, as an investor and owner, 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 trusts, including serving as chairman of the board of our company, 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 business and history makes him an important member of our board of directors.
Eugene I. Zuriff . . . . . 73 Years	Director since December 2005; Consultant to the restaurant industry since July 2010; Vice Chairman of PBS Real Estate LLC, real estate brokers, from March 2008 through July 2010; President of The Smith & Wollensky Restaurant Group, Inc., developer, owner and operator of a diversified portfolio of white tablecloth restaurants in the United States, from May 2004 to October 2007; consultant to The Smith & Wollensky Restaurant Group, Inc., from February 1997 to May 2004 and a Director of The Smith & Wollensky Restaurant Group, Inc., from 1997 to October 2007; Director of Doral Federal Savings Bank from 2001 to July 2007 and Chairman of its audit committee from 2001 to July 2003. Mr. Zuriff's experience as president and a director of a publicly traded entity, as a director and chairman of the audit committee of a federal savings bank along with his experience in the real estate brokerage industry provide him with knowledge and experience that is important to our board in its deliberations.

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

**General**

The audit committee and the board of directors is seeking ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for 2013. A representative of Ernst & Young LLP is expected to be present at our annual meeting and will have the opportunity to make a statement if he or she desires to do so and will be available to respond to appropriate questions.

We are not required to have our stockholders ratify the selection of Ernst & Young LLP as our independent registered public accounting firm. We are doing so because we believe it is good corporate practice. If the stockholders do not ratify the selection, the audit committee will reconsider whether or not to retain Ernst & Young LLP, but may, in its discretion, decide to retain such independent registered public accounting 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 and our stockholders' interests.

**THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE FOR RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2013.**

**Audit and Other Fees**

The following table presents the fees billed by Ernst & Young LLP for the services and years indicated:

	2012	2011
Audit fees(1) . . . . .	\$535,649	\$529,104
Audit-related fees . . . . .	—	—
Tax fees(2) . . . . .	18,853	10,250
All other fees . . . . .	—	—
Total fees . . . . .	\$554,502	\$539,354

(1) Includes fees for the audit of our annual consolidated financial statements, for the review of our consolidated financial statements included in our quarterly reports on Form 10-Q and for services rendered in connection with the Sarbanes-Oxley Act of 2002, registration statements and comfort letters.

(2) Tax fees consist of fees for tax advice, tax compliance and tax planning.

The audit committee has concluded that the provision of non-audit services listed above is compatible with maintaining the independence of Ernst & Young LLP.

*Pre-Approval Policy for Audit and Non-Audit Services*

The audit committee must pre-approve all audit and non-audit services involving our independent registered public accounting firm.

In addition to the audit work necessary for us to file required reports under the Securities Exchange Act of 1934, as amended (*i.e.*, quarterly reports on Form 10-Q and annual reports on Form 10-K), our independent registered public accounting firm may perform non-audit services, other than those prohibited by the Sarbanes-Oxley Act of 2002, provided they are approved in advance by the

audit committee. The audit committee approved all audit and non-audit services performed by our independent registered public accounting firm in 2012 and 2011.

*Approval Process*

Annually, the audit committee reviews the audit plan and fees for that year, including the proposed audit fee associated with the audit services in connection with our compliance with Section 404 of the Sarbanes-Oxley Act of 2002. The audit committee may, at the time it reviews the proposed audit fees or subsequently thereafter, approve the provision of tax and other non-audit related services and the maximum expenditure which may be incurred for such services for such year. Any fees for the audit in excess of those approved and any fees for non-audit related services in excess of the maximum established by the audit committee must receive the approval of the audit committee.

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

## REPORT OF THE AUDIT COMMITTEE

The audit committee of the board of directors is comprised of three independent directors and operates under a written charter adopted by the board of directors. The audit committee reviews the charter on an annual basis. The board of directors has reviewed Section 10A(m)(3) of the Securities Exchange Act of 1934, as amended, and the New York Stock Exchange listing standards definition of independence for audit committee members and 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 select and engage our independent registered public accounting firm and to oversee and monitor, among other things, our financial reporting process, the independence and performance of the independent registered public accounting firm and the functioning of our internal controls. It is the responsibility of management 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 our internal control procedures and their evaluation of the internal controls 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 (i) unaudited quarterly financial statements prior to filing each Form 10-Q with the Securities and Exchange Commission and (ii) related quarterly earnings press release 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*;
- received from the independent registered public accounting firm the written disclosures regarding the auditors independence required by PCAOB Ethics and Independence Rule 3526, *Communications with Audit Committees Governing Independence*, and discussed with such firm its 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 audited financial statements for 2012 be included in our Annual Report on Form 10-K for the year ended December 31, 2012 for filing with the Securities and Exchange Commission.

The audit committee approved the retention of Ernst & Young LLP as independent registered public accounting firm for 2013 after reviewing the firm's performance in 2012 and its independence from us and management.

Respectfully submitted.

James J. Burns  
Joseph A. DeLuca  
Eugene I. Zuriff

## EXECUTIVE COMPENSATION

### Highlights

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

- the compensation we pay our full-time named executive officers is generally related to (but, except for the RSU's which are performance related based on specified metrics, are not formulaically tied to) our performance.
- Messrs. Callan and Ricketts were awarded increases in base salaries effective as of January 1, 2012, reflecting, among other things, their efforts with respect to the increase, from 2010 to 2011, of \$0.15 in net income per share, \$0.03 per share in each of funds from operations and adjusted funds from operations (in each case as reflected in our Annual Report on Form 10-K for 2011), the six properties acquired in 2011 for an aggregate of approximately \$28 million, the follow on public offering from which we received net proceeds of approximately \$40.7 million, and various subjective factors, including their administrative activities, managing of tenant relationships, property management activities, and networking with real estate brokers and real estate professionals which is helpful in securing transactions.
- Messrs. Callan and Ricketts were awarded bonuses of \$75,000 and \$50,000, respectively for 2012, reflecting, among other things, a subjective evaluation of their performance, our positive performance from a financial and total stockholder return point of view, and their efforts with respect to,
  - (i) the eleven properties we acquired in 2012 for an aggregate of approximately \$44.6 million,
  - (ii) the five properties we sold in 2012 for a \$19.4 million gain, and
  - (iii) the overall management of our existing real estate portfolio.
- all of our executive officers are employees at will—none of our officers have employment agreements;
- there are no severance or similar arrangements for our executive officers, other than the accelerated vesting of shares of restricted stock and RSU's upon the occurrence of specified events (e.g. death, disability, retirement or a change of control);
- there are no excise tax gross ups or similar arrangements for our executive officers;
- the shares of restricted stock awarded to our executive officers vest (assuming continued service) approximately five years after the grant date on a “cliff-vesting” basis;
- the RSU's awarded to our executive officers in 2010 vest, assuming continued service, on a “cliff-vesting” basis in 2017 only if, and to the extent that, performance metrics are satisfied—we believe that these conditions establish challenging hurdles as only 50% of the awards would have vested as of December 31, 2012;
- although we do not have a formal policy requiring a minimum level of stock ownership, our executive officers and directors own beneficially in the aggregate approximately 3.34 million shares or 22% of our outstanding shares.

### Compensation Discussion and Analysis

This compensation discussion and analysis describes our compensation objectives, policies and decisions as applied to the compensation provided by us in 2012 to our named executive officers. This

discussion and analysis focuses on the information contained in the compensation tables that follow this discussion and analysis, but also describes our historic compensation structure to enhance an understanding of our executive compensation disclosure. Our compensation committee oversees our compensation program, recommends the compensation of the executive officers employed by us on a full-time basis to our board of directors for its approval, recommends the annual fee paid by us to the chairman and vice chairman of our board of directors, and recommends the annual fees paid by us pursuant to a compensation and services agreement to Majestic Property Management Corp., an affiliated entity (“Majestic”), which results in the payment by Majestic of compensation to our part-time officers, including Fredric H. Gould, Matthew J. Gould, David W. Kalish and Mark H. Lundy, named executive officers. Majestic is wholly-owned by Fredric H. Gould, the chairman of our board.

### *Background*

We have two categories of officers: (i) officers who devote their full business time to our affairs; and (ii) officers who devote their business time to us on a part-time basis. Our full-time officers and employees are compensated directly and solely by us and our part-time officers and employees are compensated by Majestic which provides us, pursuant to the compensation and services agreement, the services of other personnel (including executive, administrative and legal, accounting, clerical and real property management personnel) performing services on our behalf. In consideration for providing services and the services of such personnel, we paid Majestic a fee of \$2,725,000 for 2012. Majestic may earn a profit from payments made to it under the agreement. In addition, under this agreement, we made an additional payment to Majestic of \$175,000 in 2012 for our share of all direct office expenses, including rent, telephone, computer services, internet usage and supplies. The amount of annual payments to be made by us to Majestic under the compensation and services agreement are reviewed and negotiated annually by our audit committee and Majestic.

All of our full-time and part-time officers and other employees, including employees of affiliated companies who perform services for us on a part-time basis, receive annual restricted stock awards approved by the compensation committee and the board of directors.

### *Named Executive Officers*

Our named executive officers are Patrick J. Callan, Jr., president and chief executive officer and Lawrence G. Ricketts, Jr., executive vice president and chief operating officer, both of whom devote their full time to our affairs, and Fredric H. Gould, chairman of our board, Matthew J. Gould, vice chairman of our board, David W. Kalish, a senior vice president and chief financial officer, and Mark H. Lundy, a senior vice president and secretary, each of whom devote time to our affairs on a part-time basis.

### **Say-on-Pay**

In reviewing our compensation philosophy and practices and in approving base salaries for 2013 and bonuses paid for services rendered in 2012, the compensation committee was aware of the results of our June 2011 “say-on-pay” vote in which approximately 83% of the shares voted on such proposal, voted to approve our executive compensation practices, and viewed such results as generally supportive of our compensation philosophy, practices and determinations.

### **Objectives of our Compensation Program**

A principal objective of our compensation program for full-time officers is to ensure that the total compensation paid to such officers is fair and competitive. The compensation committee believes that relying on this principle will permit us to retain and motivate these officers. With respect to our part-time executive officers, the compensation committee must be satisfied that such officers provide us

with sufficient time and attention to fully meet our needs and fully perform their duties on our behalf. The compensation committee is of the opinion 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. The compensation committee is also of the opinion that utilizing the services of various senior officers with diverse skills on a part-time basis enables us to benefit from a greater degree of executive experience and competence than an organization of our size could otherwise afford.

We have historically experienced an extremely low level of officer and employee turnover. Fredric H. Gould, Matthew J. Gould, David W. Kalish and Mark H. Lundy each has been an officer with us for over 20 years and Lawrence G. Ricketts, Jr. has been employed by us for approximately 14 years. Patrick J. Callan, Jr. has been a member of our board of directors for nine years, our president for over six years and our chief executive officer for over five years.

### **Compensation Setting Process**

#### *Full-time Officers*

Our compensation committee refers to the compensation survey prepared for the National Association of Real Estate Investment Trusts (NAREIT) to understand the base salary, bonus, long-term incentives and total compensation paid by other REITs to their officers to assist it in providing a fair and competitive compensation package to our full-time officers. Although there are many REITs engaged in the ownership and management of real estate, there are few equity REITs which have a market capitalization comparable to ours. As a result, the NAREIT compensation survey, although not directly applicable to us, does provide informative data for the compensation committee to use in its deliberations. We determine compensation for our full-time named executive officers on a case-by-case basis and our compensation decisions are subjective. Other than with respect to the RSU's, which are performance based awards issued in 2010, we do not use formal performance targets.

In determining compensation for 2012, the recommendations of Fredric H. Gould, chairman of our board, played a significant role in the compensation setting process since, as chairman of the board, he is aware of each officer's duties and responsibilities and was most qualified to assess the level of each officer's performance. The chairman of our board, prior to making recommendations to the compensation committee concerning each full-time officer's compensation, consulted with other senior executive officers, including our president and chief executive officer. During the process, our overall performance for the immediately preceding fiscal year, including total revenues, funds from operations, net income, dividends, performance of our common stock and acquisition and financing activities were taken into consideration. None of these measures of performance was given more weight than any other. The chairman of the board and other senior officers also assessed each individual's performance in such year, which assessment was highly subjective. During this process, the chairman of our board proposed to the compensation committee with respect to each full-time named executive officer, a base salary for 2012, a bonus applicable to 2012 and generally payable in 2013 and the number of shares of restricted stock to be awarded to each full-time named executive officer. At its annual compensation committee meeting, the compensation committee reviewed these recommendations. The compensation committee has discretion to accept, reject or modify the recommendations. The final recommendations by the compensation committee on compensation matters with respect to all officers was reported to the board of directors, which approved the recommendations of the committee with respect to our full-time named executives.

#### *Part-time Officers*

We believe that using part-time officers pursuant to the compensation and services agreement enables us to benefit from access to, and the services of, a group of senior officers with experience and

knowledge in real estate ownership, operations, management and finance, legal, accounting and tax matters that an organization our size could not otherwise afford. The base compensation, bonus, if any, and perquisites to be paid in the aggregate to our part-time officers by the entities for which these officers provide services (other than us) is determined by our chairman, in consultation with certain of our part-time senior officers, in their capacity as officers of such entities.

Our part-time officers, including our chairman and vice chairman, also receive compensation from other business entities, most of which are owned or controlled by our chairman, for services rendered to such entities.

## **Components of Executive Compensation**

### *Full-time Officers*

The principal elements of our compensation program for our full-time officers are:

- base salary;
- annual bonus;
- long-term equity in the form of restricted stock and long-term equity incentives in the form of RSU's; and
- special benefits and perquisites (e.g., contributions to our defined contribution plan, additional disability insurance, an automobile allowance and automobile maintenance and repairs).

Base salary and annual bonus are cash-based, while long-term equity and long-term equity incentives consists of restricted stock awards and RSU's, respectively. In determining compensation, the compensation committee does not have a specific allocation goal between cash and equity-based compensation.

### *Part-time Officers*

In 2012, except for the \$250,000 annual compensation we paid to the chairman of our board and the \$100,000 paid to the vice chairman of our board, the only form of direct compensation we provided our part-time officers was the granting of long-term equity in the form of restricted stock awards. For services rendered to us, our part-time officers are compensated by Majestic, which was paid a fee of \$2.725 million (excluding \$175,000 as reimbursement for our share of direct office expenses) in 2012 pursuant to the compensation and services agreement.

### *Base Salary*

Base salary is the basic, least variable form of compensation for the job an officer performs and provides each officer with a guaranteed monthly income.

*Full-time Officers:* Base salaries of full-time officers are generally targeted to be competitive with the salaries paid to officers at other REITs similar to ours. Any increase in base salary is determined on a case by case basis, is not formula based and is based upon, among other considerations (i) our performance in the preceding year, (ii) such officer's current base salary, (iii) amounts paid by other REITs for officers performing substantially similar functions, (iv) years of service, (v) job responsibilities, (vi) the individual's performance and (vii) the recommendation of the chairman of the board and other senior executive officers.

*Part-time Officers:* The base salary of our part-time officers is paid by Majestic and its affiliates. Since the annual fee paid to Majestic is approved by the audit committee and the board of directors, the compensation committee is not involved in determining the base salaries of these officers.

## *Bonus*

*Full-time Officers:* We provide the opportunity for our full-time officers to earn an annual cash bonus. We provide this opportunity both to reward our personnel for past performance and to motivate and retain them. We recognize that annual bonuses are almost universally provided by other companies with which we might compete for talent. In view of the fact that only two of our named executive officers devote their full-time to our affairs, annual cash bonuses for such named executive officers are recommended on a case-by-case basis by our chairman of the board to the compensation committee. During the process, we consider our overall performance for the immediately preceding year, including rental revenues, funds from operations, net income, dividends paid to stockholders and the performance of our common stock. None of these measures of performance is given more weight than any other and they are used to provide an overall view of our performance for the preceding year. Once it has determined the annual bonus to be paid to each of these executive officers, the compensation committee presents its recommendations to the board of directors for its approval.

*Part-time Officers:* The annual bonus, if any, to be paid to any part-time officer is paid by Majestic and its affiliates. Since the annual fee paid to Majestic is approved by the audit committee and the board of directors, the compensation committee is not involved in determining the bonuses paid to part-time officers.

## *Long-term Equity and Long-term Equity Incentive Awards*

We provide the opportunity for our full-time and part-time officers to receive long-term equity and long-term equity incentive awards. These compensation programs are designed to recognize responsibilities, reward performance, motivate future performance, align the interests of our officers with those of our stockholders and retain our officers. The compensation committee makes recommendations to our board of directors for the grant of equity awards for all our employees, including part-time officers and employees. In determining the long-term equity and long-term equity incentive compensation components, the compensation committee considers all factors it deems to be relevant, including our performance and individual performance. Existing stock ownership levels are not a factor in award determinations. As of December 31, 2012, all outstanding equity awards were granted under either our stockholder approved 2003 Incentive Plan or 2009 Incentive Plan.

In 2010, we issued RSU's to ten individuals, including our named executive officers. Each RSU entitles the recipient to one share of common stock upon vesting. Assuming continued service, vesting occurs on June 30, 2017 if and to the extent pre-established market (*i.e.* total average annual stockholder return) or performance (*i.e.*, average annual return on capital) conditions are met. See "Outstanding Equity Awards at Fiscal Year End." Further, at least 50% of the shares that are issued pursuant to vested RSU's must be retained until 2020 and the shares may be subject to a "clawback" in the event of a restatement of our financial statements. We initiated the use of RSU's as an element of our long-term equity compensation program with the expectation that in light of the long vesting period and the need to satisfy market and/or financial performance conditions, these awards would further align the interests of our executive officers with our stockholders and reward long-term market and financial performance.

We do not have a formal policy with respect to whether equity compensation should be paid in the form of stock options, restricted stock or RSU's. We generally grant restricted stock awards which vest after five years of service and in 2010, also granted RSU's that vest after seven years of service if, and to the extent, specified performance or market conditions are met. The compensation committee generally believes that restricted stock awards and RSU's are more effective than options in achieving our compensation objectives. Restricted stock has a greater retention value than options because of its five-year cliff vesting requirement and, because before vesting, cash dividends are paid on all outstanding restricted stock as an additional element of compensation. RSU's provide an additional

incentive component to equity based awards in that the units only vest if, and to the extent, performance or market conditions are satisfied. Restricted stock and RSU's align the interests of our officers with our stockholders and because fewer shares are normally awarded than in connection with the grant of options, they are potentially less dilutive.

Generally, our equity compensation grants are made in January or February of each year. We do not have a formal policy on timing these grants in connection with the release of material non-public information and in view of the five-year and seven-year "cliff" vesting requirements with respect to restricted stock awards and RSU's, respectively, we do not believe such a formal policy is necessary.

Our compensation committee has reviewed our compensation policies and practices to ascertain if the risks arising from such policies or practices are reasonably likely to have a materially adverse effect on us. The compensation committee concluded that while our compensation program takes into account our performance, the program does not encourage excessive or unnecessary risk-taking and our policies and practices achieve a balance between annual performance and long-term growth.

#### *Executive Benefits and Perquisites*

*Full-time Officers:* We provide our full-time officers with a competitive benefits and perquisites program. We recognize that similar benefits and perquisites are commonly provided at other companies with which we might compete for talent. We review our benefits and perquisites program periodically to ensure it remains fair to our officers and employees. For 2012, the benefits and perquisites we provided to our officers were a small percentage of the compensation provided by us to them.

#### *Employment and Severance Agreements; Post Employment Benefits; Change of Control*

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

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

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) or retirement (with respect to restricted stock awarded pursuant to our 2009 Incentive Plan, having reached the age of 65 and worked for us for at least ten consecutive years), such person's shares of restricted stock vest fully and a pro-rata portion (giving effect to, among other things, the amount of time between the grant and the triggering event) of their RSU's will vest if and to the extent the applicable performance or market conditions are met as of June 30, 2017. In addition, upon a change of control, the (i) shares of restricted stock vest fully and (ii) the RSU's vest fully if such change occurs after June 30, 2015 and, if on or prior to June 30, 2015, a pro-rata portion (giving effect to, among other things, the amount of time between the grant and such event) vests, in each case, without regard to satisfaction of market or performance conditions. Subject to the specific terms and conditions of the applicable plan and award agreement, a change of control is generally deemed to occur if, (i) any person becomes the "beneficial owner" of securities representing 25% or more of the combined voting power of our then outstanding securities, (ii) the completion of a business combination or sale of all or substantially all of our assets or (iii) there is a change in the composition of a majority of our board of directors, other than changes approved by incumbent directors.



We provide for the partial vesting of RSU's (subject to the satisfaction of performance or market conditions at June 30, 2017) and full vesting of restricted stock awards upon death and disability, because these events are completely outside of the control of our executives and in such circumstance, we believe that it would be unfair for our executives to forfeit the compensation and benefits that to which they otherwise would have been entitled. We provide for the partial vesting of RSU's (subject to the satisfaction of performance or market conditions at June 30, 2017) and full vesting of restricted stock awards upon retirement as we believe it runs contrary to the retention and reward of long-term equity and long term equity incentive awards to compel an executive to choose between retirement and the loss of all unvested awards. We differentiate between RSU's (*i.e.*, partial vesting) and restricted stock awards (*i.e.* full vesting) because of the additional incentive component of the RSU's.

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 stockholders, by motivating them to work towards the completion of the transaction. Because in a change of control it may be impossible to determine whether the market or performance vesting conditions applicable to RSU's are met as of June 30, 2017, we have instead applied a service based measure allowing for partial vesting if the change of control occurs before July 1, 2015 and for full vesting if it occurs after such date.

#### **Compensation of the Chairman and Vice Chairman of the Board**

In 2012 we paid, and in 2013 we intend to pay, our chairman \$250,000 and our vice chairman \$100,000, for serving in such capacities. These officers did not receive any additional direct compensation from us in 2012 other than restricted stock awards. For additional information regarding compensation of these officers, see "Executive Compensation—Summary Compensation Table" and "Certain Relationships and Related Transactions."

#### **Deductibility of Executive Compensation**

Section 162(m) of the Internal Revenue Code of 1986, as amended, limits the deductibility of certain compensation in excess of \$1 million earned by specified executive officers of publicly held companies. In 2012, all compensation paid to our full-time officers was deductible by us. The compensation committee intends to preserve the deductibility of compensation payments and benefits to the extent reasonably practicable. The compensation committee has not adopted a formal policy that requires all compensation paid to the officers to be fully deductible.



## Analysis

### *Base Salary and Bonus*

In accordance with the compensation setting process described above, the following base salaries and bonuses were approved as follows for our full-time named executive officers in 2012 and 2011:

<u>Name</u>	<u>2012 Base Salary (\$)(1)</u>	<u>2011 Base Salary (\$)(1)</u>	<u>Salary Increase (%)</u>	<u>2012 Bonus (\$)(2)</u>	<u>2011 Bonus (\$)(3)</u>	<u>Bonus Increase (%)</u>
Patrick J. Callan, Jr. . . . .	660,000	635,000	3.9	75,000	65,000	15.4
Lawrence G. Ricketts, Jr . . . . .	320,000	280,000	14.3	50,000	45,000	11.1

- (1) The compensation committee and board of directors determined 2012 base salary in December 2011 and 2011 base salary in December 2010. Messrs. Callan's and Ricketts' base salary for 2013, which was determined in December 2012, is \$700,000 and \$355,000, respectively.
- (2) Reflects the bonuses paid in 2013 for services rendered in 2012, except that Mr. Callan was paid \$50,000 of his \$75,000 bonus in 2012. These bonuses were recommended by the compensation committee and approved by the board of directors in December 2012.
- (3) Reflects the bonuses paid in 2012 for services rendered in 2011. These bonuses were recommended by the compensation committee and approved by the board of directors in December 2011.

Based on the individual performances of Messrs. Callan and Ricketts in 2011 and in light of, among other things, the increases from 2010 to 2011 of approximately \$0.15 in net income per share, \$0.03 per share in each of funds from operations and adjusted funds from operations, the six properties acquired in 2011 for an aggregate of approximately \$28 million, the follow-on public offering from which we received net proceeds of approximately \$40.7 million, and various subjective factors, including an evaluation of their administrative activities, management of tenant relationships, property management activities, and networking with real estate brokers and professionals, the compensation committee concluded that the increase in base salary for 2012 was appropriate. In recommending bonuses for 2012, the compensation committee viewed as positives the eleven properties acquired in 2012 for an aggregate of approximately \$44.6 million, the sale of five properties for a \$19.4 million gain and the overall management of our real estate portfolio.

### *Long-term Equity and Equity Incentive Awards*

We believe that our long-term equity and equity incentive compensation programs, using restricted stock awards with five-year cliff vesting and RSU's with seven-year cliff vesting, is an appropriate incentive for our officers and is a beneficial retention tool. We are mindful of the potential dilution and compensation cost associated with awarding shares of restricted stock and RSU's and, therefore our policy is to minimize dilution. In 2012, we awarded 109,450 shares of restricted stock with an aggregate grant date fair value of \$1.84 million—such shares represented 0.73% of our issued and outstanding shares at December 31, 2012. In the five years ended December 31, 2012, we awarded an aggregate of 409,940 restricted shares and, upon satisfaction of specified performance conditions, RSU's for up to 200,000 shares of common stock, representing, respectively, an average of 0.53% and 0.35% per annum of our outstanding shares of common stock as of the respective immediately preceding year ends. We believe the cumulative effect of the awards is not overly dilutive and has created significant incentives for our officers and employees.

After reviewing the aggregate compensation received by our full-time named executive officers, our performance in 2012, and the performance and responsibilities of each named executive officer, and taking into account our policy of minimizing stockholder dilution, in 2013 we awarded 12,500 shares to Patrick J. Callan, Jr., 10,000 shares of restricted stock to Lawrence G. Ricketts, Jr., and 8,600 shares of

restricted stock to each of David W. Kalish, Fredric H. Gould, Matthew J. Gould and Mark H. Lundy. All of such shares vest in full, assuming continued employment, in 2018, subject to accelerated vesting upon the occurrence of specified events.

We intend to continue to award restricted stock as we believe (i) restricted stock awards align management’s interests and goals with stockholders’ interests and goals and (ii) officers and employees are more desirous of participating in a restricted stock award program and, therefore, it is an excellent motivator and employee retention tool. We have not made any determination as to whether we will award any RSU’s or stock options in the future.

*Perquisites*

The perquisites we provide to our full-time officers represent a small percentage of the compensation paid by us to these officers. We believe that such perquisites are competitive and appropriate.

*Employment and Severance Agreements*

We do not enter into employment agreements or severance agreements with any of our officers or employees as we believe such agreements are not beneficial to us, and that we can provide sufficient motivation to officers by using other types of compensation.

*Post-Employment Benefit Programs*

The following table sets forth the value (based on our stock price of \$20.29 per share as of December 30, 2012) of equity awards that would vest upon the occurrence of the specified events as of December 31, 2012:

Name	Upon Death or Disability(1)		Upon a Change of Control	
	Restricted Stock (\$)	RSU’s (\$)(2)	Restricted Stock (\$)	RSU’s (\$)
Patrick J. Callan, Jr.(3)	959,717	363,030	959,717	508,361
David W. Kalish	547,830	103,718	547,830	145,239
Fredric H. Gould	547,830	103,725	547,830	145,249
Lawrence G. Ricketts, Jr.(3)	791,310	290,424	791,310	406,689
Mark H. Lundy	547,830	103,725	547,830	145,249
Matthew J. Gould	547,830	103,725	547,830	145,249

- (1) Because they have reached the age of 65 and have satisfied period of service requirements, only the RSU’s (assuming satisfaction of performance and market conditions as of June 30, 2017) and restricted stock owned by Messrs. Kalish and Fredric H. Gould would vest upon their retirement as of December 31, 2012; the market value of such person’s restricted stock awards and RSU’s are reflected in the applicable column.
- (2) Assumes that the maximum level of market and performance conditions would be achieved at June 30, 2017. See “Outstanding Equity Awards at Fiscal Year End.”
- (3) See “Summary Compensation Table” for information regarding the amount accumulated for this individual pursuant to our defined contribution plan.

*Equity Ownership Policy*

We do not have any policy regarding ownership requirements for officers or directors. In view of the fact that our executive officers and directors as a group own approximately 3.34 million shares of common stock representing 22% of our outstanding shares, we do not believe there is a need to adopt a policy regarding ownership of shares of our common stock by our officers and directors.

## SUMMARY COMPENSATION TABLE

The following table lists the annual compensation for the periods indicated of our CEO, CFO, and our four other named executive officers in 2012:

Name and Principal Position	Year	Salary(\$)	Bonus\$(1)	Stock Awards\$(2)	All Other Compensation \$(3)	Total(\$)
Patrick J. Callan, Jr. . . . .	2012	660,000	75,000	209,625	127,998(6)	1,072,623
President and Chief Executive Officer(4)	2011	635,000	65,000	135,996	117,535	953,531
	2010	607,000	45,000	217,450	108,098	977,548
David W. Kalish . . . . .	2012	—	—	124,098	152,721(7)	276,819
Senior Vice President and Chief Financial Officer(5)	2011	—	—	84,188	78,590	162,778
	2010	—	—	62,125	49,542	111,667
Fredric H. Gould . . . . .	2012	250,000	—	124,098	36,180(8)	410,278
Chairman of the Board(5)	2011	250,000	—	84,188	29,832	364,020
	2010	250,000	—	62,130	33,882	346,012
Lawrence G. Ricketts, Jr. . . . .	2012	320,000	50,000	167,700	98,533(9)	636,233
Executive Vice President and Chief Operating Officer(4)	2011	280,000	45,000	113,330	89,071	527,401
	2010	252,000	35,000	173,960	83,238	544,198
Mark H. Lundy . . . . .	2012	—	—	124,098	188,978(10)	313,076
Senior Vice President and Secretary(5)	2011	—	—	84,188	88,545	172,733
	2010	—	—	62,130	59,742	121,872
Matthew J. Gould . . . . .	2012	100,000	—	124,098	305,109(11)	529,207
Vice Chairman(5)	2011	100,000	—	84,188	122,933	307,121
	2010	—	—	62,130	64,842	126,972

- (1) Reflects bonuses paid in 2013, 2012 and 2011 for services rendered in 2012, 2011 and 2010, respectively, except that \$50,000 of Mr. Callan’s \$75,000 bonus for 2012 was paid in 2012.
- (2) Reflects, for 2010, the aggregate grant date fair value of the RSU’s, and for 2012 and 2011, the grant date fair value of restricted stock awards, in each case calculated in accordance with Accounting Standards Codification Topic 718—Stock Compensation, excluding the effect of estimated forfeitures. These amounts do not correspond to the actual values that will be realized by the named executives. Grant date fair value assumptions are consistent with those disclosed in Note 10—Stock Based Compensation, in the consolidated financial statements included in our 2012 Annual Report on Form 10-K.
- (3) Majestic provided services to us and to other affiliated and non-affiliated entities. We accounted for approximately 45% of Majestic’s revenues in 2012. We have included in the “All Other Compensation” column for Messrs. Kalish, Lundy and M. Gould, 45% of the compensation each received from Majestic in 2012. See “Certain Relationship and Related Transactions” for additional information.
- (4) All compensation received by Messrs. Callan and Ricketts is paid solely and directly by us. The salary and bonus amounts paid to Mr. Callan in 2010 has been reclassified to conform to the presentation for 2012 and 2011.
- (5) Other than the restricted stock awarded to these individuals and the chairman and vice chairman fees paid to Messrs. F. Gould and M. Gould, respectively: (a) we did not pay, nor were we allocated, any portion of such person’s base salary, bonus, defined contribution plan payments or perquisites in 2012, 2011 and 2010; and (b) the services of these individuals is provided to us pursuant to the compensation and services agreement with Majestic.

- (6) Includes \$37,500 of contributions to our defined contribution plan, dividends of \$63,382 on unvested restricted stock and perquisites aggregating \$27,116, of which \$21,191 represents an automobile allowance and related insurance, maintenance and repairs and \$5,925 represents the annual premium for additional disability insurance. Approximately \$258,000 has been accumulated for this individual pursuant to our defined contribution plan.
- (7) Includes dividends of \$36,180 on unvested restricted stock and compensation of \$116,541 paid to him by Majestic, which represents 45% of the total amount of \$258,980 paid him by Majestic. See note 3 above and “Certain Relationships and Related Transactions.”
- (8) Represents dividends of \$36,180 on unvested restricted stock. See “Certain Relationships and Related Transactions.”
- (9) Includes dividends of \$52,260 on unvested restricted stock, our contribution of \$37,500 to our defined contribution plan, and perquisites of \$8,773, representing an automobile allowance and related expenses. Approximately \$377,000 has been accumulated for this individual pursuant to our defined contribution plan.
- (10) Includes dividends of \$36,180 on unvested restricted stock and compensation of \$152,798 paid to him by Majestic, which represents 45% of the total amount of \$339,550 paid him by Majestic. See note 3 above and “Certain Relationships and Related Transactions.”
- (11) Includes dividends of \$36,180 on unvested restricted stock and compensation of \$268,929 paid to him by Majestic, which represents 45% of the total amount of \$597,620 paid him by Majestic. See note 3 above and “Certain Relationships and Related Transactions.”

#### GRANT OF PLAN BASED AWARDS DURING 2012

The following table summarizes information regarding restricted stock awards granted in 2012 pursuant to our 2009 Incentive Plan:

Name	Grant Date	All Other Stock Awards: Number of Shares of Stocks or Units (#)(1)	Grant Date Fair Value of Stock Awards(\$)(2)
Patrick J. Callan, Jr. . . . .	1/16/2012	12,500	209,625
David W. Kalish . . . . .	1/16/2012	7,400	124,098
Fredric H. Gould . . . . .	1/16/2012	7,400	124,098
Lawrence G. Ricketts, Jr. . . . .	1/16/2012	10,000	167,700
Mark H. Lundy . . . . .	1/16/2012	7,400	124,098
Matthew J. Gould . . . . .	1/16/2012	7,400	124,098

- (1) These shares generally vest five years from the grant date, subject to such persons continued employment. Dividends are paid with respect to such shares, regardless of whether the shares vest.
- (2) Based on the closing price of \$16.77 per share on the last trading day immediately preceding the grant date.

## OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END

The following table provides information as of December 31, 2012 about the outstanding equity awards held by our named executive officers:

Name	Stock Awards			
	Number of Shares or Units of Stock That Have Not Vested (#)(1)	Market Value of Shares or Units of Stock That Have Not Vested \$(2)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)(3)(7)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested \$(2)(7)(8)
Patrick J. Callan, Jr. . . . .	47,300(4)	959,717	50,000	1,014,500
David W. Kalish . . . . .	27,000(5)	547,830	14,285	289,843
Fredric H. Gould . . . . .	27,000(5)	547,830	14,286	289,863
Lawrence G. Ricketts, Jr. . . . .	39,000(6)	791,310	40,000	811,600
Mark H. Lundy . . . . .	27,000(5)	547,830	14,286	289,863
Matthew J. Gould . . . . .	27,000(5)	547,830	14,286	289,863

- (1) Reflects the number of shares of restricted stock that have not vested.
- (2) The market value represents the product of the closing price of our common stock as of December 30, 2012, which was \$20.29, multiplied by the number of shares subject to or underlying such award.
- (3) Reflects the number of RSU's that have not vested.
- (4) With respect to this individual, 6,000 shares vest in February 2013, 12,000 shares vest in January 2014, 8,400 shares vest in each of February 2015 and January 2016 and 12,500 shares vest in January 2017.
- (5) With respect to this individual 3,000 shares of restricted stock vest in February 2013, 6,700 shares vest in January 2014, 4,700 shares vest in February 2015, 5,200 shares vest in January 2016 and 7,400 shares vest in January 2017.
- (6) With respect to this individual, 5,000 shares vest in February 2013, 10,000 shares vest in January 2014, 7,000 shares vest in February 2015, 7,000 shares vest in January 2016 and 10,000 shares vest in January 2017.
- (7) Assumes that all of the RSU's vest. The underlying shares vest on June 30, 2017 if, and to the extent, the applicable market (*i.e.*, average annual total stockholder return) or performance (*i.e.*, average annual return on capital) conditions are satisfied. If the average annual total stockholder return (including dividends) on our common stock from July 1, 2010 through June 30, 2017 equals or exceeds 13%, 50% of such award and the underlying shares subject to such award vest and if it equals or is less than 10.25%, no shares vest. If the average annual stockholder return is more than 10.25% and less than 13%, a pro rata portion of 50% of the underlying shares subject to such award vest. If our average annual return on capital (as explained below) from July 1, 2010 through June 30, 2017 exceeds 10%, 50% of the shares subject to such award vests and if it is equal to or less than 8%, no shares vest. If our average annual return on capital exceeds 8% but is less than 10%, a pro rata portion of 50% of the underlying shares subject to such award vest. Return on

capital is based upon adjusted funds from operations (“AFFO”). AFFO means funds from operations determined in accordance with the National Association of Real Estate Investment Trusts definition, adjusted for straight-line rent accruals and amortization of lease intangibles. Capital is defined as stockholders’ equity, plus depreciation and amortization, adjusted for intangibles.

- (8) Assuming that the measurement and vesting dates were December 31, 2012 and giving effect to related adjustments, 50% of the RSU’s (*i.e.*, RSU’s that vest on the attainment at the highest level of average annual total stockholder return) would have vested and the balance of the RSU’s would have been forfeited.

None of the named executive officers hold any stock options and none were granted to any of the named executive officers during the year.

### OPTION EXERCISES AND STOCK VESTED

The following table sets forth information regarding the shares of restricted stock that vested in 2012:

Name	Stock Awards	
	Number of Shares Acquired on Vesting (#)(1)	Value Realized on Vesting (\$)(2)
Patrick J. Callan, Jr. . . . .	5,000	89,400
David W. Kalish . . . . .	3,000	53,640
Fredric H. Gould . . . . .	3,000	53,640
Lawrence G. Ricketts, Jr. . . . .	4,000	71,520
Mark H. Lundy . . . . .	3,000	53,640
Matthew J. Gould . . . . .	3,000	53,640

- (1) These restricted shares were awarded in 2007.
- (2) This column represents the value realized on vesting as calculated by multiplying the closing market price of our common stock of \$17.88 on the vesting date by the number of shares that vested.

None of the named executive officers had any stock options outstanding in 2012 nor did any of their RSU’s vest.

### COMPENSATION COMMITTEE REPORT

The compensation committee of the board of directors has reviewed the Compensation Discussion and Analysis set forth herein, and discussed it with management, and based on such review and discussions, recommends to the board of directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

Respectfully submitted,  
 Eugene I. Zuriff  
 J. Robert Lovejoy  
 James J. Burns (with respect to service ending June 12, 2012)  
 Charles Biederman (with respect to service commencing June 12, 2012)



## CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

### Introduction

In 2012, Fredric H. Gould, chairman of our board of directors, served as chairman of the board of trustees of BRT Realty Trust, a real estate investment trust listed on the New York Stock Exchange, as chairman of the board of directors and sole stockholder of the managing general partner of Gould Investors, and as the sole member of a limited liability company which is also a general partner of Gould Investors. Gould Investors owns 10.2% of our outstanding shares of common stock. In 2012, Matthew J. Gould, vice chairman of our board of directors, served as a senior vice president of BRT Realty Trust and was president of the managing general partner of Gould Investors. Jeffrey A. Gould, a director and officer of our company, served as president and chief executive officer of BRT Realty Trust and a senior vice president of the managing general partner of Gould Investors in 2012. Matthew J. Gould and Jeffrey A. Gould are brothers and the sons of Fredric H. Gould. In addition, David W. Kalish, Mark H. Lundy, Simeon Brinberg and Israel Rosenzweig, each of whom is an executive officer of our company, are officers of BRT Realty Trust and of the corporate managing general partner of Gould Investors. Mark H. Lundy is Simeon Brinberg's son-in-law.

### *Related Party Transactions*

Pursuant to the compensation and services agreement, we pay an annual fee to Majestic and Majestic provides to us the services of all affiliated executive, administrative, legal, accounting and clerical personnel, as well as property management services, property acquisition, sales and lease consulting and brokerage services, consulting services in respect to mortgage financings and construction supervisory services. In accordance with the compensation and services agreement, we paid a fee of \$2,725,000 to Majestic in 2012 for the provision of the referenced services. Majestic is wholly owned by the chairman of our board, and certain of our part-time officers, including our part-time named executive officers, are officers of, and receive compensation from, Majestic.

In 2012 we also paid, under the compensation and services agreement, \$175,000 to Majestic as reimbursement for our share of direct office expenses, including rent, telephone, postage, computer services, internet usage and supplies. Our part-time officers and employees occupy space in an office building owned by a subsidiary of Gould Investors. The rent expense for this space is included in the \$175,000 expenditure.

In addition to its share of rent included in the \$175,000 payment to Majestic, we lease, through December 31, 2016 an additional 3,130 square feet in the same building, and paid a subsidiary of Gould Investors rent of \$41,000 in 2012. We believe that this is a competitive rent for comparable office space in the area in which the building is located.

The amount paid by us and our joint venture to Majestic in 2012 pursuant to the compensation and services agreement represented approximately 45% of the revenues of Majestic in 2012. In 2012, the following officers of ours (some of whom are also officers of Majestic and other affiliated companies, which account for a portion of Majestic's revenue) received the following compensation from Majestic: Fredric H. Gould, \$0; Matthew J. Gould, \$597,620; David W. Kalish, \$258,980; Jeffrey A. Gould, \$439,220; Simeon Brinberg, \$50,890; Mark H. Lundy, \$339,550; and Israel Rosenzweig, \$148,730. A portion of the compensation received by these individuals from Majestic results from services performed and fees earned by Majestic from entities (both affiliated and non-affiliated) other than us. These individuals also received compensation in 2012 from our affiliates, including BRT Realty Trust and Gould Investors, as well as entities wholly owned by Fredric H. Gould, none of which provided services to us in 2012.

During 2012, \$743,000 of non-cash compensation expense (relating to the restricted stock and RSU's held by our part-time executive officers and employees who are also compensated by Majestic or its affiliates), was charged to our operations.

#### *Policies and Procedures*

Any transaction with affiliated entities raises the potential that we may not receive terms as favorable as those that we would receive if the transactions were entered into with unaffiliated entities or that our officers might otherwise seek benefits for affiliated entities at our expense. Our code of business conduct and ethics contains specific requirements with respect to the approval of these transactions. Generally, a contract or transaction with an affiliated entity must be approved by our audit committee and a majority of our independent directors after consideration of all relevant factors.

#### **SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires that our executive officers and directors, and persons who beneficially own more than 10% of our issued and outstanding capital stock, file certain reports with the Securities and Exchange Commission. Executive officers, directors and greater than 10% beneficial owners are required by the rules and regulations promulgated by the SEC to furnish us with copies of all Section 16(a) forms they file.

Based on a review of information supplied to us by our executive officers and directors, and public filings made by any 10% beneficial owners, we believe that in 2012 all Section 16(a) filing requirements applicable to our executive officers, directors and 10% beneficial owners were met on a timely basis.

#### **ADDITIONAL INFORMATION**

As of the date of this proxy statement, we do not know of any business that will be presented for consideration at the meeting other than the items referred to in the Notice of the Meeting. Subject to applicable law, if any other matter is properly brought before the meeting for action by stockholders, the holders of the proxies will vote and act with respect to the business in accordance with their best judgment and discretionary authority to do so is conferred by the enclosed proxy.

Our corporate governance guidelines, code of business conduct and ethics and the charter for each of our audit, compensation and nominating committees are available at the corporate governance section of our website at: [www.onelibertyproperties.com/corporate\\_governance](http://www.onelibertyproperties.com/corporate_governance). Copies of such documents may be obtained without charge by writing to us at 60 Cutter Mill Road, Suite 303, Great Neck, NY 11021, Att: Secretary.

Great Neck, NY  
April 17, 2013

By order of the Board of Directors

A handwritten signature in black ink, appearing to read 'M. Lundy', written over a horizontal line.

Mark H. Lundy, Secretary



□

**ONE LIBERTY PROPERTIES, INC.**  
**PROXY FOR THE ANNUAL MEETING OF STOCKHOLDERS**  
**JUNE 13, 2013**

**THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS**

The undersigned hereby appoints SIMEON BRINBERG, MARK H. LUNDY AND ASHER GAFFNEY, as Proxies each with the power to appoint his substitute, and hereby authorizes them to represent and to vote, as designated on the reverse side, all the shares of Common Stock, \$1.00 par value per share, of One Liberty Properties, Inc. held of record by the undersigned on April 17, 2013 at the Annual Meeting of Stockholders to be held on June 13, 2013 or any adjournments thereof.

**(TO BE SIGNED ON REVERSE SIDE)**

**ANNUAL MEETING OF STOCKHOLDERS OF  
ONE LIBERTY PROPERTIES, INC.**

**June 13, 2013**

**PROXY VOTING INSTRUCTIONS**

**INTERNET** - Access "[www.voteproxy.com](http://www.voteproxy.com)" and follow the on-screen instructions. Have your proxy card available when you access the web page.

**TELEPHONE** - Call toll-free **1-800-PROXIES** (1-800-776-9437) in the United States or **1-718-921-8500** from foreign countries from any touch-tone telephone and follow the instructions. Have your proxy card available when you call.

Vote online/phone until 11:59 PM EST the day before the meeting.

**MAIL** - Sign, date and mail your proxy card in the envelope provided as soon as possible.

**IN PERSON** - You may vote your shares in person by attending the Annual Meeting.

**GO GREEN** - e-Consent makes it easy to go paperless. With e-Consent, you can quickly access your proxy material, statements and other eligible documents online, while reducing costs, clutter and paper waste. Enroll today via [www.amstock.com](http://www.amstock.com) to enjoy online access.

<b>COMPANY NUMBER</b>	
<b>ACCOUNT NUMBER</b>	

**NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIAL:** The Notice of Meeting, proxy statement and proxy card are available at [http://onelibertyproperties.com/files/client\\_files/325/523/2013annualmeetingmaterials.pdf](http://onelibertyproperties.com/files/client_files/325/523/2013annualmeetingmaterials.pdf)

↓ Please detach along perforated line and mail in the envelope provided IF you are not voting via telephone or the Internet. ↓

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**PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE. PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK AS SHOWN HERE**

1. Election of four Directors:
- NOMINEES:**
- |                   | FOR                      | AGAINST                  | ABSTAIN                  |
|-------------------|--------------------------|--------------------------|--------------------------|
| Joseph A. Amato   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Jeffrey A. Gould  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Matthew J. Gould  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| J. Robert Lovejoy | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
2. Ratify the appointment of Ernst & Young LLP as independent registered public accounting firm for the year ending December 31, 2013.
3. In their discretion, the Proxies are authorized to vote upon such other business as may properly come before the meeting.

**This Proxy, when properly executed, will be voted in the manner directed by you. If no direction is made, this Proxy will be voted FOR all nominees and FOR proposal 2. You are encouraged to specify your choices by marking the appropriate boxes, but you need not mark any boxes if you wish to vote in accordance with the Board of Directors' recommendation. The Proxies cannot vote your shares of common stock unless you sign and return this card.**

To change the address on your account, please check the box at right and indicate your new address in the address space above. Please note that changes to the registered name(s) on the account may not be submitted via this method.

Signature of Stockholder  Date:  Signature of Stockholder  Date:

**Note:** Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.