# WINTHROP REALTY TRUST

## 2009 ANNUAL REPORT

WINTHROP

Dear Fellow Shareholders: April 2010

We seem to have a tale of two markets. On the one hand, Moody's recently reported its Commercial Property Price Index has risen for the third straight month. A PriceWaterhouse Coopers survey of institutional investors which gauged investor sentiment indicated an expectation of improved sales volume, improved sales prices and declining capitalization rates. Anecdotally, most major market real estate brokers and investment bankers will confirm witnessing heated auctions for better performing assets that are not dissimilar to those experienced in 2006. Further supporting this trend is the enormous spread tightening for most senior level commercial mortgage backed securities (CMBS) and performing junior debt. The prices on REIT equity securities as reported by the RMZ Index have risen by 105% since the March 2009 low. All of the foregoing would lead one to conclude that the real estate market has troughed and recovery is imminent, if not already occurring.

On the other hand, REIT earnings, inarguably a relevant measure of ascertaining real estate operating performance, declined during 2009 and are expected to continue to decline in 2010. According to the National Association of Realtors, this deterioration is projected to continue until at least 2011. Moreover, the executive summary of the February 10, 2010, Congressional Oversight's Panel Special Report entitled, "Commercial Real Estate Losses and the Risk to Financial Stability" troublingly states:

> "Between 2010 and 2014 about $1.4 trillion in commercial real estate loans will reach the end of their terms. Nearly half are at present "under water"- that is the borrower owes more than the underlying property is currently worth. Commercial property values have fallen more than 40 percent since the beginning of 2007. Increased vacancy rates which now range from 8 percent for multifamily housing to 18 percent for office buildings, and falling rents, which have declined by 40 percent for office space and 33 percent for retail space, have exerted a powerful downward pressure on the value of commercial properties."

Notwithstanding the price tightening of CMBS securities, by February 2010, loans in special servicing increased to $75 billion or 10.7% of the entire CMBS universe with a current loss severity exceeding 44% on defaulted fixed-rate loans. Fitch Ratings now predicts that 20% of all CMBS loans will be in special servicing by 2012. Job growth, the single greatest driver of occupancy rates, continues to remain elusive. These statistics belie any theory that the real estate markets are improving.

Where sentiment/momentum clashes with real time economic data, how should we invest our Company's capital in 2010? While we acknowledge we may miss some of the momentum related opportunity, we believe that capitalization rates will ultimately revert back to historic levels and real estate pricing will trend downward more accurately reflecting its current and near term operating fundamentals. We expect that excessive leverage, reduced liquidity and a reappraisal of value by institutional lenders will create ongoing investment opportunity not presented by the current "pretend and extend" lender policies. Consequently, we intend to continue to invest patiently, with deliberation and dispassionately avoiding market mania.

During 2009 we identified and capitalized on investment opportunities in real estate debt and equity securities as well as secured real estate debt, investing in excess of $90 million in these assets. While we do not presently see equivalent opportunities in REIT debt and equity securities, we maintain an interest in secured real estate debt as well as new investment opportunities in preferred equity and distressed debt. These latter opportunities have only begun to emerge in the last quarter of 2009 but we expect an increase in their volume through 2010.

With respect to our existing portfolio of assets, we were not immune to the deteriorating market conditions of 2009. We, like all companies, have had to face significant challenges. Some of these were deeply disappointing, primarily Concord, which resulted in a significant loss to our shareholders, and the impairments taken on some of our joint venture property investments in suburban Chicago. On the other hand, there have been a number of challenges that we have addressed successfully, and while not immediately recognized in our financial statements, have created substantial future value for the company. With respect to leasing, our asset management team has performed very well, leaving no stone unturned. Our 554,000 square foot Jacksonville, Florida property, which was vacant much of the year, has been leased up under a long-term lease to a creditworthy tenant. Likewise, asset management retenanted our properties in Andover, Massachusetts and Burlington, Vermont, bringing our consolidated assets up to 96.6% leased. In addition, we continue to financially manage our portfolio of operating properties, as we have historically, generally maintaining a match-funded approach to leverage so as to protect the equity in our investments.

Our balance sheet remains exceptionally strong. This balance sheet, which has in excess of over $100 million in liquid assets, has us poised to take advantage of opportunities as we identify them. Despite this liquidity, we will continue to be patient. As we have said repeatedly, we are all well aware of the responsibility to protect our capital particularly in stressed market conditions such as these and intend to invest with great caution and deliberation.

As always, we like to acknowledge the dedication and efforts of our entire management team along with the contributions of the members of our Board of Trustees. We hope to see you at our annual shareholders meeting on May 11th and, in the interim, we welcome you to contact either of us with any questions or comments.

Michael L. Ashner

Chairman of the Board and
Chief Executive Officer

Carolyn B. Tiffany

President

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**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, 2009
or
**☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ____to ____

Commission File Number 1-6249

**WINTHROP REALTY TRUST**
(Exact name of Registrant as specified in its certificate of incorporation)

| | |
|---|---|
| Ohio | 34-6513657 |
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification Number) |
| 7 Bulfinch Place, Suite 500, Boston, Massachusetts | 02114 |
| (Address of principal executive offices) | (Zip Code) |

(617) 570-4614
(Registrant's telephone number, including area code)

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

| **Title of Each Class** | **Name of Exchange on Which Registered** |
|---|---|
| Common shares, $1.00 par value | 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 Section 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 and 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 at least the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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 smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

| | | | |
|---|---|---|---|
| Large accelerated filer | ☐ | Accelerated filer | ☒ |
| Non-accelerated filer | ☐ | Smaller reporting company | ☐ |
| (Do not check if a smaller reporting company) | | | |

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

As of March 1, 2010, there were 20,422,868 Common Shares outstanding.

At June 30, 2009, the aggregate market value of the Common Shares held by non-affiliates was $118,091,829.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive Proxy Statement for the Annual Meeting of Shareholders, which is expected to be filed with the Securities and Exchange Commission within 120 days after the Registrant's fiscal year ended December 31, 2009, are incorporated by reference into Part III hereof.

**WINTHROP REALTY TRUST**
**CROSS REFERENCE SHEET PURSUANT TO ITEM G,**
**GENERAL INSTRUCTIONS TO FORM 10-K**

## CAUTIONARY STATEMENTS CONCERNING FORWARD-LOOKING STATEMENTS

Any statements included in this prospectus, including any statements in the document that are incorporated by reference herein that are not strictly historical are forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Any such forward-looking statements contained or incorporated by reference herein should not be relied upon as predictions of future events. Certain such forward-looking statements can be identified by the use of forward-looking terminology such as "believes," "expects," "may," "will," "should," "seeks," "approximately," "intends," "plans," "pro forma," "estimates" or "anticipates" or the negative thereof or other variations thereof or comparable terminology, or by discussions of strategy, plans, intentions or anticipated or projected events, results or conditions. Such forward-looking statements are dependent on assumptions, data or methods that may be incorrect or imprecise and they may be incapable of being realized. Such forward-looking statements include statements with respect to:

- the declaration or payment of distributions by us;
- the ownership, management and operation of properties;
- potential acquisitions or dispositions of our properties, assets or other businesses;
- our policies regarding investments, acquisitions, dispositions, financings and other matters;
- our qualification as a real estate investment trust under the Internal Revenue Code of 1986, as amended, which we refer to as the Code;
- the real estate industry and real estate markets in general;
- the availability of debt and equity financing;
- interest rates;
- general economic conditions;
- supply of real estate investment opportunities and demand;
- trends affecting us or our assets;
- the effect of acquisitions or dispositions on capitalization and financial flexibility;
- the anticipated performance of our assets and of acquired properties and businesses, including, without limitation, statements regarding anticipated revenues, cash flows, funds from operations, earnings before interest, depreciation and amortization, property net operating income, operating or profit margins and sensitivity to economic downturns or anticipated growth or improvements in any of the foregoing; and
- our ability, and that of our assets and acquired properties and businesses to grow.

You are cautioned that, while forward-looking statements reflect our good faith beliefs, they are not guarantees of future performance and they involve known and unknown risks and uncertainties. Actual results may differ materially from those in the forward-looking statements as a result of various factors. The information contained or incorporated by reference in this report and any amendment hereof, including, without limitation, the information set forth in "Item 1A-Risk Factors" below or in any risk factors in documents that are incorporated by reference in this report, identifies important factors that could cause such differences. We undertake no obligation to publicly release the results of any revisions to these forward-looking statements that may reflect any future events or circumstances.

## SHARE SPLIT

In November 2008 Winthrop Realty Trust effected a 1-for-5 reverse stock split, which we refer to as the Reverse Split, of its Common Shares of Beneficial Interest, which we refer to as Common Shares, pursuant to which each of five shares of its Common Shares issued and outstanding as of the close of the market on November 28, 2008 were automatically combined into one Common Share, subject to the elimination of fractional shares. All Common Share and per Common Share data included in this Annual Report on Form 10-K and the accompanying Consolidated Financial Statements and Notes thereto have been adjusted to reflect this Reverse Split.

# PART I

## ITEM 1. BUSINESS

### General

Winthrop Realty Trust is a real estate investment trust ("REIT") under Sections 856-860 of the Internal Revenue Code ("Code"), formed under the laws of the State of Ohio. We conduct our business through our wholly owned operating partnership, WRT Realty L.P., a Delaware limited partnership, which we refer to as the Operating Partnership. All references to the "Trust", "we", "us", "our", "WRT" or the "Company" refer to Winthrop Realty Trust and its consolidated subsidiaries, including the Operating Partnership.

We are engaged in the business of owning real property and real estate related assets which we categorize into three operating segments: (i) the ownership of investment properties, which includes properties in joint ventures which we consolidate or account for on a equity basis which we refer to as operating properties; (ii) the origination and acquisition of senior and mezzanine loans and debt securities secured directly or indirectly by commercial and multi-family real property, which we refer to as loan assets; and (iii) the ownership of equity and debt securities in other REITs, which we refer to as REIT securities.

At December 31, 2009 we held (i) interests in properties containing approximately 8.5 million square feet of rentable space, owned either directly by us or through joint ventures; (ii) loan assets totaling $31,774,000; (iii) REIT securities with a market value of $52,597,000 (iv) and cash and cash equivalents of $66,493,000.

Our executive offices are located at 7 Bulfinch Place, Suite 500, Boston, Massachusetts 02114 and Two Jericho Plaza, Jericho, NY 11753. Our telephone number is (617) 570-4614 and our web site is located at *http://www.winthropreit.com*. The information contained on our web site does not constitute part of this Annual Report on Form 10-K. On our web site you can obtain, free of charge, a copy of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act of 1934, as amended, as soon as reasonably practicable after we file such material electronically with, or furnish it to, the Securities and Exchange Commission , which we refer to as the SEC.

### History

We began operations in 1961 under the name First Union Real Estate Equity and Mortgage Investments. Effective December 31, 2003, FUR Investors LLC acquired 32% of our then outstanding Common Shares and FUR Advisors LLC, which we refer to as FUR Advisors or our Advisor, was retained as our external advisor, our Board of Trustees was substantially reconstituted and Michael Ashner was appointed CEO and he entered into an exclusivity agreement with the Trust. Since January 1, 2004, we have been externally managed by FUR Advisors. Both FUR Advisors and FUR Investors LLC are separate entities controlled by and owned by our current executive officers as well as other members of the senior management of AREA Property Partners, formerly known as Apollo Real Estate Advisors Inc., a New York based real estate investment fund.

With our new management, commencing January 1, 2004, we began to seek out more opportunistic investments across the real estate spectrum, whether they be operating properties, loan assets or investments in other REITs. From January 1, 2004 through December 31, 2009 we have increased our asset base from $289,968,000 to its current level of $493,192,000 which is detailed below under "Assets." In particular, we have engaged in certain portfolio type investments including: (i) the acquisition in November 2004 of 16 triple-net leased properties containing approximately 2.5 million gross square feet; (ii) commencing in April 2005, the making of participating mezzanine loans and acquisition of equity interests in a portfolio of 22 properties located primarily in the Chicago, Illinois area (see "Marc Realty Portfolio" below); and (iii) the formation in March 2006, together with Newkirk Realty Trust, Inc., which we refer to as Newkirk, of Concord Debt Holdings LLC, which we refer to as Concord, an entity formed for the purpose of acquiring and originating loan assets (see "Concord and Lex-Win Concord" below).

On January 1, 2005 we elected to form the Operating Partnership and contributed all of our assets to the Operating Partnership in exchange for 100% of the ownership interests in the Operating Partnership. Our Operating Partnership structure, commonly referred to as an umbrella partnership real estate investment trust or "UPREIT" structure, provides us with additional flexibility when acquiring properties as it enables us to acquire properties for cash and/or by issuing to sellers, as a form of consideration, limited partnership interests in our operating partnership. Although we have not yet issued any limited partnership interests in connection with the acquisition of an asset, we believe that this structure can facilitate our ability to acquire portfolio and individual properties by enabling us to structure transactions which may defer tax gains for a seller while preserving our available cash for other purposes.

**Management**

Under the terms of the Advisory Agreement between FUR Advisors and us, FUR Advisors administers our affairs including seeking, servicing and managing our investments. For providing these and other services, FUR Advisors receives a base management fee and is entitled to an incentive fee after common shareholders have received a return of equity and a cumulative 7% annual return thereon. See "Employees" below for a description of the fees payable to FUR Advisors.

Pursuant to our bylaws, our executive officers are permitted to acquire or dispose of an investment with an aggregate value of $5,000,000 or less without the consent of our Board of Trustees. However, if such transaction is with (i) our Advisor (and any successor advisor), Michael Ashner, or any of their respective affiliates; (ii) certain stated entities which are, or were, affiliated with us; (iii) a beneficial owner of more than 4.9% of our outstanding Common Shares, either directly or upon the conversion of any of our Series B-1 Cumulative Convertible Redeemable Preferred Shares of Beneficial Interest, which we refer to as our Series B-1 Preferred Shares, or Series C Cumulative Convertible Redeemable Preferred Shares of Beneficial Interest, which we refer to as our Series C Preferred Shares; or (iv) a beneficial owner of more than 4.9% of any other entity in which we hold a 10% or greater interest, then regardless of the amount of the transaction, such transaction must be approved by a majority of our independent trustees, acting in their capacity as members of our Conflicts Committee.

**Investment, Operating and Capital Strategy**

Our business objective is to maximize long-term shareholder value through the acquisition of assets which we believe can generate an overall risk adjusted superior return based on current market conditions through a combination of appreciation as well as recurring or potentially recurring cash flow. As a result of our emphasis on total return, while we seek to achieve a stable, predictable dividend for our shareholders, we do not select or manage our investments for short-term dividend growth, but rather towards achieving overall superior total return. We believe this approach will ultimately result in long term increased share value.

In light of our emphasis on total return risk adjusted investing, we are an opportunistic investor and, with the exception of certain self-imposed restrictions as described below, do not limit ourselves to the type, class or specific location of real estate investments. As such, from time to time the types of real estate investments we will acquire may vary and are not predicatable. In this regard, as opportunities present themselves and as market conditions dictate, we will focus our investment activity in one or more of our business segments and aggressively pursue such opportunities. That is, subject to economic and credit market conditions, we will seek to:

- acquire operating properties of specific property types and locations that we believe:
    - are undervalued,
    - present an opportunity to outperform the marketplace while providing recurring current or potentially recurring cash flow, or
    - can provide superior returns through an infusion of capital and/or improved management;
- acquire portfolios or interests in portfolios at properties within characteristics similar to the above;
- acquire loan assets utilizing the same criteria for operating properties;
- acquire securities issued by other REITs we believe are undervalued; and

- divest investments as they mature in value to the point where we may be unlikely to achieve better than market returns and redeploy capital to what we believe to be higher yielding opportunities. Consistent with our total return approach to investing, it is not possible to predict when we will exit any particular investment.

By way of example, with the significant decline in stock prices during 2008 and early 2009 in general, and REIT shares in particular, we determined that the better utilization of our capital was in undervalued equity and debt securities of other REITs as well as repurchasing our own Series B-1 Preferred Shares. In this regard, through December 31, 2009, we have acquired 2,041,000 Series B-1 Preferred Shares at a combined 26.2% discount from their liquidation value. In addition, we hold equity (primarily preferred shares) and debt securities of other REITs, which we acquired for an aggregate purchase price of $36,266,000 and had a market value of approximately $52,597,000 at December 31, 2009. Further to this point, towards the end of 2009, we acquired loan assets at a discount that we believed to have a strong current return together with appreciation potential and secured by assets we believe to have a large upside.

Another example, during July 2009 we restructured our preferred equity investments with Marc Realty. In doing so, we effectively transferred our interest in several suburban Chicago properties, which in our view were not likely to recover in the near term, and required future capital investment and riskier potential returns. In exchange, we received an increased overall interest in five downtown Chicago properties we considered to be opportunities of a lower risk profile with a better return potential and more aligned with our investment strategy.

Based on current market conditions, we expect to concentrate our investment activity primarily in major metropolitan cities in the United States as we believe that as the economy and real estate values recover, these locations will experience recovery first and most significantly increase in market value. Similarly, we expect to currently concentrate our investment activities in assets that we believe are higher quality office, retail and multi-family properties along with high-end hospitality assets as we expect these too will be the first to recover. We do not pursue those investments in which there is a significant component of raw land, development risk, specialty real estate or condominiums, unless the condominium project can be converted to a conventional multi-family property.

We further seek to limit risk by seeking to make our investments through discrete single purpose entities in which we do not guaranty, other than customary environmental and recourse carve-out guarantees, the debt of our single purpose subsidiaries, thereby limiting the risk of loss to that particular investment or joint venture. To enhance our total return, we utilize leverage. In addition, strategic co-investment ventures managed by us with institutional and high net worth investors may enhance our total return with asset management and other fees, and promoted economic interests and appreciation.

Since December 2005, we have paid regular dividends to our shareholders. In paying dividends we have always sought to have our dividends track recurring cash flow from operations. As a result, while we intend to continue paying dividends each quarter, future dividend declarations will be at the discretion of our Board of Trustees and will depend on our actual cash flow, financial condition, capital requirements, utilization of available capital losses and net operating loss carryforwards, distribution requirements for REITs under the Code, and such other factors as our Board of Trustees deem relevant. Subject to the foregoing, we expect to continue distributing our recurring current cash flow from operations after reserving normal and customary amounts thereby allowing us to maintain our capital. In addition, when deemed prudent or necessitated by applicable distribution requirements for REITs under the Code we may make one or more special distributions during any particular year. In light of the foregoing, in 2009 we reduced our quarterly dividend from $0.325 per share to $0.25 per share for the first three quarters of 2009 and, as a result of the issuance of additional Common Shares during the fourth quarter of 2009 from our rights offering, the proceeds of which have not yet been invested in accretive investments, we reduced it again to $0.1625 for the fourth quarter of 2009. This represents our existing budgeted recurring cash flow generated by assets currently owned and excludes any potential future cash flow generated from the investment of the substantial cash and cash equivalents on hand. Additionally, during a favorable investing environment, we expect that we will utilize our capital loss carryforwards to shelter capital gains from dispositions of our assets so that we may use the proceeds for reinvestment. We expect to continue applying these standards with respect to our dividends on a quarterly basis which may cause the dividends to increase or decrease depending upon cash flow.

As a REIT, we are dependent primarily on external financing to fund the growth of our business because one of the requirements for a REIT is that it distribute at least 90% of its annual REIT taxable income, subject to certain adjustments, to its shareholders. We have historically used the public equity markets and secured financing as our primary sources of capital including raising capital through rights offerings to our then existing shareholders as we did in November 2009. We expect to continue to fund our investments through one or a combination of: cash reserves, borrowings under our credit facility, redeployment of capital from timely asset sales, property loans, the issuance of debt or equity or the formation of joint ventures. Finally, we maintain a stock purchase and dividend reinvestment plan which enables our existing shareholders to reinvest their dividends as well as purchase additional shares at a discounted price.

**Assets**

Operating Properties

These are discussed below under ITEM 2 – Properties.

Loan Assets

The following table sets forth certain information relating to our loans receivable, carried at historical cost, and loan securities carried at fair value.

All information presented is as of December 31, 2009, except as noted. Dollars are stated in thousands.

| Loan Position | Asset Type | Location | Interest Rate | Carrying Amount (1) | Par Value | Maturity Date (2) | Senior Debt (3) |
|---|---|---|---|---|---|---|---|
| B Note | Office | San Francisco, CA | 6.48% | $ 4,282 | $ 38,796 | 06/09/13 | $ 35,000 |
| Mezzanine | Office | San Francisco, CA | 15.00% | 1,211 | 1,200 | 06/09/13 | 73,796 |
| Whole loan | Office | Phoeniz, AZ | 9.84% | 5,505 | 7,219 | 06/09/12 | - |
| B Note | Hotel | Beverly Hills, CA | Libor + 1.74% | 5,384 | 10,000 | 08/09/13 | 165,000 |
| B Note | Retail | New York, NY | Libor + 1.50% | 6,638 | 15,000 | 11/01/11 | 81,559 |
| Mezzanine | Mixed use | New York, NY | 6.79% | 2,364 | 3,500 | 07/11/17 | 22,500 |
| Mezzanine (4) | Office | Chicago, IL | 8.50% | 717 | 717 | 12/31/16 | 18,517 |
| Rake Bonds | Office | Burbank, CA | (5) | 1,500 | 6,364 | 12/01/10 | 15,666 |
| Rake Bond | Hotel | West Hollywood, CA | Libor + 1.75% | 161 | 1,140 | 07/12/11 | 77,600 |
| | | | | $ 27,762 | $ 83,936 | | |

(1) Carrying amount includes all applicable accrued interest and accretion of discount.
(2) After giving effect to all contractual extensions.
(3) Debt secured by the underlying property which is senior to our loan.
(4) Represents a tenant improvement and capital expenditure loan collateralized by a subordinate mortgage or the ownership interest in the property owner.
(5) Ranges from Libor + 0.65% to Libor + 1.60%.

*160 Spear Street, San Francisco, CA*

On June 1, 2009, we acquired from Concord for $38,409,000 a $73,796,000 first mortgage loan collateralized by a 19 story, 289,000 square foot office building located at 160 Spear Street, San Francisco, California, which we refer to as the 160 Spear Loan. In connection with our acquisition of the 160 Spear Loan, we agreed to make additional advances to the borrower in equal quarterly installments of $600,000 over the next two years up to a maximum of $4,800,000.

On July 14, 2009, we split the 160 Spear Loan into a $35,000,000 A Note which bears interest at 9.75% and a $38,796,000 B Note which bears interest at 6.48% and may be satisfied at a discounted payoff amount of $15,000,000. In addition, our $4,800,000 future funding obligation was restructured into a mezzanine loan which bears interest at 15% per annum. Simultaneously with the restructuring, we sold to an unrelated third party the A Note at par resulting in us having a remaining $3,409,000 investment in the 160 Spear Loan together with a commitment to advance up to $4,800,000. As of December 31, 2009 we had advanced $1,200,000 to the borrower.

Both the first mortgage loan and the mezzanine loan require monthly payments of interest only and mature on June 9, 2012, subject to a one-year extension which extension requires the payment of an $850,000 extension fee.

*Siete Square, Phoenix, AZ*

On June 1, 2009, we acquired from Concord for $5,500,000 a $7,219,000 first mortgage loan collateralized by a two-building four story office complex containing 116,000 square feet located at 3737 and 3877 North 7th Street, Phoenix, Arizona, which we refer to as the Siete Square Loan. The Siete Square Loan has an outstanding principal balance of $7,219,000, bears interest at fixed rate of 9.84% and matures on June 9, 2012. The borrower has the right to prepay the loan at any time for a discounted payoff amount of $5,500,000.

On February 5, 2010, we sold to Concord a $3,000,000 8% senior participaton interest at par.

*Beverly Hills Hilton Hotel, Beverly Hills, CA*

On December 9, 2009, we acquired from an unrelated third party for $5,250,000, a $10,000,000 participating interest in a $33,000,000 B Note which is part of the $300,000,000 financing collateralized by the Beverly Hills Hilton Hotel located in Beverly Hills, California. Our participating interest is senior to $23,000,000 of the B Note, bears interest at a rate equal to Libor + 1.74% and matures on August 9, 2013.

*Metropolitan Tower, New York, NY*

On December 16, 2009, we acquired from Concord for $6,500,000, a $15,000,000 B-Note collateralized by 259,000 square feet of office condominium interests in the first 18 floors of a 78-story building located in Manhattan, New York City. This loan bears interest at a rate equal to Libor + 1.50% and matures in November 2011.

*Wellington Tower, New York, NY*

On December 18, 2009, we acquired from Concord for $2,350,000, a $3,500,000 mezzanine loan collateralized by approximately 41,000 square feet of retail space and a garage located in a residential tower on the Upper East Side of New York City. This loan bears interest at a fixed rate of 6.79% and matures in July 2017.

*West Olive Avenue, Burbank, CA*

On December 18, 2009, we acquired from Concord for $1,500,000, four rake bonds in a first mortgage loan with an aggregate par value of $6,364,000. The rake bonds are collateralized by a 10-story, 151,000 square foot office building located at 2600 West Olive Avenue in Burbank, California. The bonds bear interest at a rate ranging from Libor + 0.65% to Libor + 1.60% and mature in December 2010.

*Concord and Lex-Win Concord*

In March 2006, together with Newkirk, we formed Concord for the purpose of acquiring and originating a diversified portfolio of real estate loans and securities. In connection with the merger of Newkirk into Lexington Realty Trust, which we refer to as Lexington, Lexington acquired Newkirk's interest in Concord. We and Lexington had each invested $162,500,000 in Concord by March 2008. On August 2, 2008, together with Lexington, we restructured our investment in Concord by forming Lex-Win Concord LLC, a 50% owned joint venture with Lexington which we refer to as Lex-Win Concord, and admitted Inland American Concord Sub, LLC, which we refer to as Inland, as a preferred member in Concord. At December 31, 2008 Inland had made total capital contributions to Concord aggregating $76,000,000, primarily to reduce the outstanding balance on one of Concord's repurchase agreements.

Concord's business had been to acquire and originate loan assets collateralized by real estate assets including mortgage loans, subordinate interests in whole loans, mezzanine loans, preferred equity and commercial real estate securities including CMBS and CDOs. Concord sought to finance its loan assets through various structures including repurchase facilities, credit lines, term loans and securitizations and, in this regard Concord formed Concord Real Estate CDO 2006-1, Ltd., which we refer to as CDO-1, pursuant to which it financed approximately $464,744,000 of its loan assets.

The disruption in the capital and credit markets (i) increased margin calls on Concord's repurchase agreements, (ii) effectively eliminated the ability to issue CDOs or obtain new financing and (iii) resulted in the decline in the fair value of its loan assets beginning in the fourth quarter of 2007. As a result, Concord's original strategy became unfeasible and Concord began seeking to restructure its existing financing instruments in an effort to preserve, to the extent possible, the remaining value, if any, in its portfolio. Although we, together with our partners, have not ceased to work towards some equity recovery, due to the significant decline in the fair value of Concord's assets, as of June 30, 2009, we had written down our investment in Concord to zero for financial statement purposes.

On May 22, 2009, a wholly-owned subsidiary of Inland filed a legal action against Lex-Win Concord and Concord generally seeking declaratory relief that Inland should not be required to satisfy the May 11, 2009 capital call made by Concord in the amount of $24,000,000 and that Inland is entitled to a priority return of its capital. Lex-Win Concord filed counterclaims against Inland which state, in general, that Inland is in material breach of their agreements with Lex-Win Concord and seeking to recover all losses incurred by it as a result of such breach.

On December 21, 2009, the applicable parties and certain of their affiliates entered into a settlement agreement to resolve the action which would provide for, among other things, no obligation on any of the parties to make additional capital contributions to Concord, the allocation of distributions equally among Inland, Lexington, and Winthrop and the formation of a new entity to be owned by subsidiaries of Inland, Lexington and Winthrop which, under certain circumstances, would contribute assets to CDO-1. The implementation of the settlement agreement is conditioned on certain events including the ability of certain CDO-1 bonds held by Concord Debt Funding Trust, a subsidiary of Concord, to be cancelled.

If Concord Debt Funding Trust is unable to cancel the CDO-1 bonds, CDO-1 will likely fail its financial covenants, Concord will be in default of the CDO indenture and any excess cash flow of CDO-1 that previously went to Concord will be directed to accelerate the repayment of the senior debt tranches of the CDO-1 bonds.

REIT Securities

At December 31, 2009 our investments in REIT securities consisted of the following:

| | Cost | Fair Value |
|---|---|---|
| Senior debentures | $ 13,597,000 | $ 18,794,000 |
| Preferred Shares | 14,435,000 | 24,153,000 |
| Common Shares | 8,234,000 | 9,650,000 |
| | $ 36,266,000 | $ 52,597,000 |

**Revolving Line of Credit**

For information on our Revolving Line of Credit, see ITEM 8 – Financial Statements and Supplementary Data, Note 11.

**Employees**

As of December 31, 2009, we had no employees. Our affairs are administered by our Advisor, pursuant to the terms of the Advisory Agreement, which includes providing asset management services and coordinating with our shareholder transfer agent and property managers. Under the Advisory Agreement, during 2009 we paid our Advisor a quarterly base management fee equal to 1.5% of our issued and outstanding equity securities plus (ii) 0.25% of any equity contribution by an unaffiliated third party to a venture managed by us. For purposes of the calculation, the 15,754,495 Common Shares outstanding at January 1, 2009 were valued at $11.00 and with respect to the 1,496,000 Series B-1 Preferred Shares outstanding after giving effect to the repurchases of Series B-1 Preferred Shares during the fourth quarter of 2008 and the first quarter of 2009 were valued at $25.00 per Series B-1 Preferred Share. Any additional future conversions, redemptions or repurchases of the Series B-1 Preferred Shares do not reduce the base equity for purposes of the base management fee calculation.

Effective January 1, 2010, the Advisory Agreement was amended to revert the determination of the issuance price of Common Shares back to the pre 2009 definition. This change will result in an increase to the annual advisory fee payable to the Advisor of approximately $2,100,000, which increase will be phased in with 54% of the increase being paid during 2010 and then 100% of the increase being paid commencing in 2011.

Pursuant to the terms of the Advisory Agreement, in addition to receiving a base management fee, FUR Advisors is entitled to receive an incentive fee for administering the Trust. FUR Advisors, or its affiliate, is also entitled to receive property and construction management fees at commercially reasonable rates, as determined by our independent Trustees. The incentive fee which is equal to 20% of any amounts available for distribution in excess of a threshold amount (as defined) is only payable at such time, if at all, (i) when holders of our Common Shares receive aggregate distributions above a threshold amount or (ii) upon termination of the Advisory Agreement, if the net value of our assets exceed the threshold amount based on then current market values and appraisals. That is, the incentive fee is not payable annually but only at such time, if at all, as shareholders have received a return of invested capital (based on initial share issuance price) plus a 7% annual return thereon (the threshold amount) or, if the Advisory Agreement is terminated, if the assets of the Trust exceed the threshold amount. At December 31, 2009 the threshold amount was approximately $394,205,000, which was equivalent to $17.68 per diluted Common Share. At such time as shareholders' equity exceeds the threshold amount, we will record a liability equal to approximately 20% of the difference between shareholders' equity and the threshold amount.

**Competition**

We have competition with respect to our acquisition of operating properties and our acquisition and origination of loan assets with many other companies, including other REITs, insurance companies, commercial banks, private investment funds, hedge funds, specialty finance companies and other investors. Some competitors may have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or make different risk assessments, which could allow them to consider a wider variety of investments. We cannot assure you that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations.

We will continue to capitalize on the acquisition and investment opportunities that our Advisor brings to us as a result of its acquisition experience as well as our partners in ventures which serve as platforms to investments in various geographic areas and particular classes of assets. We derive significant benefit from our present advisor structure, where our Advisor's experienced management team provides us with resources at substantially less cost than if such persons were directly employed by us. Through its broad experience, our Advisor's senior management team has established a network of contacts and relationships, including relationships with operators, financing sources, investment bankers, commercial real estate brokers, potential tenants and other key industry participants.

**Environmental Regulations**

Our operations and properties are subject to various federal, state and local laws and regulations concerning the protection of the environment including air and water quality, hazardous or toxic substances and health and safety. These are discussed further under ITEM 1A – Risk Factors.

**Segment Data**

Business segment data may be found under ITEM 8 – Financial Statements and Supplementary Data, Note 20.

**Additional Information**

The following materials are available free of charge through our website at www.winthropreit.com as soon as reasonably practicable after they are electronically filed with or furnished to the SEC under the Securities Exchange Act of 1934, as amended:

- our Annual Reports on Form 10-K and all amendments thereto;
- our quarterly reports on Form 10-Q and all amendments thereto;
- our current reports on Form 8-K and all amendments thereto;
- other SEC filings;
- organizational documents;
- Audit Committee Charter;
- Compensation Committee Charter;
- Conflicts Committee Charter;
- Nominating and Corporate Governance Committee Charter;
- Code of Business Conduct and Ethics; and
- Corporate Governance Guidelines.

We will provide a copy of the foregoing materials without charge to anyone who makes a written request to our Investor Relations Department, c/o FUR Advisors, LLC, 7 Bulfinch Place, Suite 500, P.O. Box 9507, Boston, Massachusetts 02114.

We also intend to promptly disclose on our website any amendments that we make to, or waivers for our Trustees or executive officers that we grant from, the Code of Business Conduct and Ethics.

**NYSE Certification**

As required by applicable New York Stock Exchange listing rules, on June 19, 2009, following our 2009 Annual Meeting of Shareholders, our Chairman and Chief Executive Officer submitted to the New York Stock Exchange a certification that he was not aware of any violation by us of New York Stock Exchange corporate governance listing standards.

## ITEM 1A – RISK FACTORS

We, our assets and the entities in which we invest are subject to a number of risks customary for REITs, property owners, loan originators and holders and equity investors as well as a number of risks involved in our investment, operating, and capital strategy policy that not all REITs may have. Material factors that may adversely affect our business operations and financial conditions are summarized below. As used in this Risk Factors section and except as expressly provided otherwise, references to the terms "we", "our" or "us" include both us and our ventures.

***We may not be able to invest our cash reserves in suitable investments.***

As of December 31, 2009, we had approximately $66,493,000 of cash and cash equivalents available for investment. Our ability to increase entity value is dependent upon our ability to grow our asset base by investing these funds, as well as additional funds which we may raise or borrow, in real estate related assets that will ultimately generate more favorable returns.

***We are subject to significant competition and we may not compete successfully.***

We have significant competition with respect to our acquisition of operating properties and our acquisition and origination of loan assets with many other companies, including other REITs, insurance companies, commercial banks, private investment funds, hedge funds, specialty finance companies and other investors some of which may have a lower cost of funds and access to funding sources that are not available to us. In addition, many of our competitors have greater resources than we do and for this and other reasons, we may not be able to compete successfully for particular investments.

***Investing through ventures presents additional risks.***

Our investments in ventures present additional risks such as our having objectives that differ from those of our partners or in the investments we make, becoming involved in disputes concerning operations, or possibly competing with those persons for investments unrelated to our venture. In addition, where we do not control the venture, we rely on the internal controls and financial reporting controls of our partners and, as such, their failure to comply with applicable standards may adversely affect us.

***Investing in private companies involves specific risks.***

We have held and may acquire additional ownership interests in private companies not subject to the reporting requirements of the SEC. Investments in private businesses involve a higher degree of business and financial risk, which can result in substantial losses and accordingly should be considered speculative. There is generally no publicly available information about these private companies, and we will rely significantly on the due diligence of our Advisor to obtain information in connection with our investment decisions.

***Many of our investments are illiquid, and we may not be able to adjust our portfolio in response to changes in economic and other conditions, which may result in losses to us.***

Many of our investments are relatively illiquid and, therefore, our ability to sell or purchase assets in response to a change in economic or other conditions may be limited. The requirements of the Code that we hold assets for a set period of time or risk losing status as a REIT also may limit our ability to sell investments. These considerations could make it difficult for us to dispose of assets, even if a disposition were in the best interest of our shareholders. As a result, our ability to adjust our portfolio in response to changes in economic and other conditions may be relatively limited, which may result in losses and lost opportunities.

***We leverage our portfolio, which may adversely affect our financial condition and results of operations.***

We seek to leverage our portfolio through borrowings. Our return on investments and cash available for distribution to holders of our Series B-1 and Series C Preferred Shares and Common Shares may be reduced to the extent that changes in market conditions make new borrowings or refinancing of existing debt difficult or even impossible or cause the cost of our financings to increase relative to the income that can be derived from the assets. Our debt service payments reduce the cash available for distributions to holders of Series B-1 and Series C Preferred Shares and Common Shares. We may not be able to meet our debt service obligations and, to the extent that we cannot, we risk the loss of some or all of our assets to foreclosure or forced sale to satisfy our debt obligations. A decrease in the value of the assets may lead to a requirement that we repay certain existing or future credit facilities. We may not have the funds available, or ability to obtain replacement financing, to satisfy such repayments.

***We may change our investment and operational policies.***

We may change our investment and operating strategy either voluntarily or as result of changing economic conditions, including our policies with respect to investments, acquisitions, growth, operations, indebtedness, capitalization and distributions at any time which could result in our making investments that are different from, and possibly riskier than, our current investments. A change in our investment strategy may increase our exposure to interest rate risk, default risk and real estate market fluctuations, all of which could adversely affect our financial condition, results of operations, share price and our ability to make distributions.

***Interest rate fluctuations may reduce our investment return.***

Certain of our loan obligations and loan assets have floating interest rates. In such cases, an increase in interest rates would increase our loan obligations while a decrease in interest rates would decrease the interest received on our loan assets. Where possible we seek to mitigate these risks by acquiring interest rate cap agreements, rate collars and other similar protections. To the extent we have not mitigated these risks or our actions are ineffective, a fluctuation in interest rates could negatively impact our cash flow due to an increase in loan obligations or a decrease in interest received on our loan assets.

***We engage in hedging transactions that may limit gains or result in losses.***

We have and may continue to use hedging instruments in our risk management strategy to limit the effects of changes in interest rates on our operations. A hedge may not be effective in eliminating all of the risks inherent in any particular position. Further, we have and could in the future recognize losses on a hedge position which adversely effects our financial condition and results of operations. In addition, we run the risk of default by a counterparty to a hedging arrangement.

***We must manage our investments in a manner that allows us to rely on an exemption from registration under The Investment Company Act in order to avoid the consequences of regulation under that Act.***

We intend to operate our business so that we are exempt from registration as an investment company under the Investment Company Act of 1940, as amended. Therefore, the assets that we may invest in, or acquire, are limited by the provisions of the Investment Company Act and the rules and regulations promulgated thereunder. If we are required to make investments in order to be exempt from registration, such investments may not represent an optimum use of our capital when compared to other available investments.

***We may not be able to obtain capital to make investments.***

As a REIT, we are dependent primarily on external financing to fund the growth of our business because one of the requirements for a REIT is that it distribute at least 90% of its annual REIT taxable income, subject to certain adjustments, to its shareholders. Accordingly, to the extent we are unable to obtain debt or equity financing it will likely have a material adverse affect on our financial condition and results of operations, our stock price and our ability to pay dividends to our shareholders.

***We have significant distribution obligations to holders of our Series B-1 and Series C Preferred Shares.***

The provisions of our Series B-1 and Series C Preferred Shares currently require us to make quarterly distributions presently aggregating approximately $567,125 or $2,268,500 annually before any distributions may be made on our Common Shares.

***Covenants in our debt instruments could adversely affect our financial condition and our ability to make future investments.***

The mortgages on our properties contain customary covenants such as those that limit our ability, without the prior consent of the lender, to further mortgage the applicable property. Our credit facility contains, and other loans that we may obtain in the future may contain, customary restrictions, requirements and other limitations on our ability to incur indebtedness. These restrictions can include, among other things, a limitation on our ability to incur debt based upon the level of our ratio of total debt to total assets, our ratio of secured debt to total assets, our ratio of EBITDA to interest expense and fixed charges, and a requirement for us to maintain a certain level of unencumbered assets to unsecured debt. Our ability to borrow under our credit facility with KeyBank National Association is subject to compliance with certain other covenants including the absence of factors both within and outside of our control. If we fail to comply with our covenants, it would cause a default under the applicable debt instrument, and we may then be required to repay such debt with funds from other sources which may not be available to us, or be available only on unattractive terms. Further, a default under a debt instrument could limit our ability to obtain additional equity or debt financing in the future, either of which would adversely affect our financial condition and results of operations.

***Future issuances and sales of equity or debt interests may affect the market price of our Common Shares and the amount of dividends payable to our shareholders.***

The actual issuance of additional Common or Preferred Shares or the sale of debt securities by us may decrease the market price of our Common Shares. In paying dividends on our Common Shares we endeavor to have our dividends track recurring cash flow from operations. Accordingly, as we issue additional Common Shares, the per share dividend will likely decrease until such time as we deploy the proceeds from such issuance of Common Shares in investments which increase our recurring cash flow.

***Our focus on total return investing may impact our ability to maintain our dividend rate.***

Our focus on a total return value approach to investing may result in our inability to maintain the current dividend rate as we do not necessarily seek assets that provide recurring or potentially recurring cash flow but seek to invest in assets that we believe will provide us with a superior risk-adjusted total return which encompasses both current return and capital appreciation. Accordingly, the true value of an investment may not be realized until such investment is liquidated.

***If we issue preferred equity or debt we may be exposed to additional restrictive covenants and limitations on our operating flexibility, which could adversely affect our ability to pay dividends.***

If we decide to issue preferred equity or debt in the future, it is likely that they will be governed by an indenture or other instrument containing covenants that may restrict our operating flexibility which could have an adverse effect on the market price of our Common Shares or our ability to pay dividends.

***Our due diligence may not reveal all of the liabilities associated with a proposed investment and may not reveal other weaknesses.***

There can be no assurance that due diligence by our Advisor in connection with a new investment will uncover all relevant facts which could adversely affect the value of the investment and the success of the investment.

***We may fail to remain qualified as a REIT, which would reduce the cash available for distribution to our shareholders.***

Qualification as a REIT for federal income tax purposes is governed by highly technical and complex provisions of the Code for which there are only limited judicial or administrative interpretations. Our qualification as a REIT also depends on various facts and circumstances that are not entirely within our control. In addition, legislation, new regulations, administrative interpretations or court decisions might change the tax laws with respect to the requirements for qualification as a REIT or the federal income tax consequences of qualification as a REIT. Although we currently intend to operate in a manner designed to allow us to continue to qualify as a REIT, future economic, market, legal, tax or other considerations might cause us to elect to revoke the REIT election. In that event, we and our shareholders would no longer be entitled to the federal income tax benefits applicable to a REIT.

If, with respect to any taxable year, we were to fail to maintain our qualification as a REIT or elect to revoke our REIT election, we would not be able to deduct distributions to our shareholders in computing our taxable income and would have to pay federal corporate income tax (including any applicable alternative minimum tax) on our taxable income. If we had to pay federal income tax, the amount of money available to distribute to our shareholders would be reduced for the year or years involved. In addition, we would be disqualified from treatment as a REIT for the four taxable years following the year during which qualification was lost and thus our cash available for distribution to our shareholders would be reduced in each of those years, unless we were entitled to relief under relevant statutory or regulatory provisions.

***In order to maintain our status as a REIT, we may be forced to borrow funds or sell assets during unfavorable market conditions.***

As a REIT, we must distribute at least 90% of our annual REIT taxable income, subject to certain adjustments, to our shareholders. To the extent that we satisfy the REIT distribution requirement but distribute less than 100% of our taxable income, we will be subject to federal and, where applicable, state corporate income tax on our undistributed taxable income. In addition, if we fail to distribute at least 90% of our annual REIT taxable income, subject to certain adjustments, we will be subject to a 4% nondeductible excise tax.

From time to time, we may have taxable income greater than our cash available for distribution to our shareholders (for example, due to substantial non-deductible cash outlays, such as capital expenditures or principal payments on debt). If we did not have other sources of funds available in these situations, we could be required to borrow funds, sell investments at disadvantageous prices or find alternative sources of funds to make distributions sufficient to enable us to pay out enough of our taxable income to satisfy the REIT distribution requirement and to avoid income and excise taxes in a particular year. Additionally, we could elect to pay a portion of our required dividend in Common Shares. Each of these alternatives could increase our operating costs and diminish our rate of growth.

***Factors that may cause us to lose our New York Stock Exchange listing.***

We might lose our listing on the NYSE depending on a number of factors, including failure to qualify as a REIT, or our not meeting the NYSE's requirements, including those relating to the number of shareholders, the price of our Common Shares and the amount and composition of our assets.

***Ownership limitations in our bylaws may adversely affect the market price of our Common Shares.***

Our bylaws contain an ownership limitation that is designed to prohibit any transfer of Common Shares or Preferred Shares that would result in our being "closely-held" within the meaning of Section 856(h) of the Code. This ownership limitation, which may be waived by our Board of Trustees, generally prohibits any single shareholder, or any group of affiliated shareholders, from beneficially or constructively owning more than 9.8% of our outstanding Common Shares. Our Board of Trustees has waived this ownership limitation in the past where there is believed to be a benefit derived by the Company from granting such waiver and the party obtaining the waiver provides assurances that the issuance of the waiver will not result in the Company becoming, or likely becoming, "closely held." Unless the Board of Trustees waives the restrictions or approves a bylaw amendment, Common Shares owned by a person or group of persons in excess of 9.8% of our outstanding Common Shares are not entitled to any voting rights, are not considered outstanding for quorum or voting purposes, and are not entitled to dividends, interest or any other distributions with respect to the

Common Shares. The ownership limit may have the effect of inhibiting or impeding a change of control or a tender offer for our Common Shares.

***A prolonged economic slowdown, a lengthy or severe recession or continued instability in the credit markets could harm our operations and viability.***

A prolonged economic slowdown, a lengthy or severe recession or the continued instability in the credit market has and will affect our operations and viability in a number of ways including:

- Depressing prices for our investments, operating properties and loan assets;
- Decreasing interest income received or increases in interest expenses paid;
- Reducing the number of potential purchasers for our assets;
- Increasing risk of default on loan assets;
- Limiting the ability to obtain new or replacement financing; and
- Limiting the ability to sell additional debt or equity securities.

***Risks incidental to the real estate investments.***

As a REIT our investments are limited to direct ownership and operation of operating properties, loan assets secured, directly or indirectly, by operating assets, and investments in other REITs. Accordingly, an investment in us depends upon our financial performance and the value of our operating properties held from time to time as well as those securing our loan assets, and those held by the REITs in which we invest, which operating properties are subject to the risks normally associated with the ownership, operation and disposal of real estate properties and real estate related assets, including:

- adverse changes in general and local economic conditions which affect the demand for real estate assets;
- competition from other properties;
- changes in interest rates and the availability of financing;
- the cyclical nature of the real estate industry and possible oversupply of, or reduced demand for, properties in the markets in which our investments are located;
- the attractiveness of our properties to tenants and purchasers;
- how well we manage our properties;
- changes in market rental rates and our ability to rent space on favorable terms;
- the financial condition of our tenants and borrowers including their becoming insolvent and bankrupt;
- the need to periodically renovate, repair and re-lease space and the costs thereof;
- increases in maintenance, insurance and operating costs;
- civil unrest, armed conflict or acts of terrorism against the United States; and
- earthquakes floods and other natural disasters or acts of God that may result in uninsured losses.

In addition, changes to applicable federal, state and local regulations, zoning and tax laws and potential liability under environmental and other laws affect real estate values. Further, throughout the period that we own real property, regardless of whether or not a property is producing any income, we must make significant expenditures, including those for property taxes, maintenance, insurance and related charges and debt service. The risks associated with real estate investments may adversely affect our operating results and financial position, and therefore the funds available for distribution to you as dividends.

***Failure to renew expiring leases could adversely affect our financial condition.***

We are subject to the risk that, upon expiration, leases may not be renewed, the space may not be relet or the terms of renewal or reletting, including the cost of any required renovations, may be less favorable than the prior or current lease terms. This risk is substantial with respect to our net leased properties as single tenants lease 100% of each property. Eighteen of our properties, containing an aggregate of approximately 2,844,000 square feet of space are net leased to seven different tenants. Leases accounting for approximately 10% of the aggregate annualized base rents from our operating properties for 2009, representing approximately 9% of the net rentable square feet at the properties, are scheduled to expire in 2010 including, the lease at our Churchill, Pennsylvania property which accounts for approximately $3,000,000 in annual rental revenue. Other leases grant tenants early termination rights upon payment of a termination penalty. Lease expirations will require us to locate new tenants and negotiate replacement leases with them. The costs for tenant improvements, tenant concessions and leasing commissions with respect to new leases are traditionally greater than costs relating to renewal leases. If we are unable to promptly relet or renew leases for all or a substantial portion of the space subject to expiring leases, or if the rental rates upon such renewal or reletting are significantly lower than expected, our revenue and net income could be adversely affected.

***We are subject to risks associated with the financial condition of our and our borrower's tenants*.**

Our tenants or tenants at properties securing our loan assets may experience a downturn in their business resulting in their inability to make rental payments when due. In addition, a tenant may seek the protection of bankruptcy, insolvency or similar laws, which could result in the rejection and termination of such tenant's lease and cause a reduction in our cash flow. If this were to occur at a net lease property, the entire property would become vacant.

We cannot evict a tenant solely because of its filing for bankruptcy. A bankruptcy court, however, may authorize a tenant to reject and terminate its lease. In such a case, our claim against the tenant for past due rent and unpaid future rent would be subject to a statutory cap that might be substantially less than the remaining rent owed under the lease. In any event, it is unlikely that a bankrupt tenant will pay the entire amount it owes us under a lease. The loss of rental payments from tenants could adversely affect our financial condition and results of operations.

Similarly, if a tenant at a property securing a loan asset fails to meet its rental obligations, the borrower may have insufficient funds to satisfy the debt service resulting in a default on our loan asset. Additionally, the loss of a tenant at a property securing a loan asset could negatively impact the value of the property and, therefore, our collateral.

***The loss of a major tenant could adversely affect our financial condition*.**

We are and expect that we will continue to be subject to a degree of tenant concentration at certain of our operating properties and the properties securing our loan assets. As indicated above, we are subject to risks associated with the financial condition of our tenants and tenants at properties securing our loan assets. In the event that a tenant occupying a significant portion of one or more of our properties or whose rental income represents a significant portion of the rental revenue at such property or properties were to experience financial weakness, default on its lease, elect not to renew its lease or file bankruptcy it would negatively impact our financial condition and results of operations. Similarly, if a tenant occupying a significant portion of one or more of the properties securing our loan assets or whose rental income represents a significant portion of the rental revenue at such property or properties experiences financial weakness defaults on its lease, elects not to renew its lease or files for bankruptcy, it would negatively impact our financial condition and results of operations.

***We may be unable to refinance our existing debt or preferred share financings or obtain favorable refinancing terms.***

We are subject to the normal risks associated with debt and preferred share financings, including the risk that our cash flow will be insufficient to meet required payments of principal and interest on debt and distributions and redemption payments to holders of preferred shares and the risk that indebtedness on our properties, or unsecured indebtedness, will not be able to be renewed, repaid or refinanced when due, or that the terms of any renewal or refinancing will not be as favorable as the terms of such indebtedness. These risks are exacerbated by the current tightened lending requirements for real estate related assets and in some cases the inability to refinance real estate indebtedness. If we were unable to refinance indebtedness or preferred share financings on acceptable terms, or at all, we might be forced to dispose of one or more of our investments on disadvantageous terms, which might result in losses to us, which could have a material adverse affect on us and our ability to pay distributions to our holders of Preferred Shares and Common Shares. Furthermore, if a property is mortgaged or a loan pledged to secure payment of indebtedness and we are unable to meet the debt payments, the lender could foreclose upon the property or the loan, appoint a receiver or obtain an assignment of rents and leases or pursue other remedies, all with a consequent loss of revenues and asset value to us. Foreclosures could also create taxable income without accompanying cash proceeds, thereby hindering our ability to meet the REIT distribution requirements.

***Some of our potential losses may not be covered by insurance.***

We use our discretion in determining amounts, coverage limits and deductibility provisions of insurance, with a view to maintaining appropriate insurance coverage on our investments at a reasonable cost and on suitable terms. This may result in insurance coverage that, in the event of a substantial loss, would not be sufficient to pay the full current market value or current replacement cost of the lost investment and also may result in certain losses being totally uninsured. Inflation, changes in building codes, zoning or other land use ordinances, environmental considerations, lender imposed restrictions or other factors might not make it feasible to use insurance proceeds to replace the building after such building has been damaged or destroyed. Under such circumstances, the insurance proceeds, if any, received by us might not be adequate to restore our economic position with respect to such property. With respect to our net leased properties, under the lease agreements for such properties, the tenant is required to adequately insure the property, but should a loss occur their failure or inability to have adequate coverage might adversely affect our economic position with respect to such property.

***Compliance with the Americans with Disabilities Act and fire, safety and other regulations may require us to make unanticipated expenditures that adversely affect our financial condition and results of operations.***

All of our properties are required to comply with the Americans with Disabilities Act, which we refer to as the ADA. The ADA has separate compliance requirements for "public accommodations" and "commercial facilities," but generally requires that buildings be made accessible to people with disabilities. Although we believe that our properties are in compliance with the ADA, it is possible that we may have to incur additional expenditures which, if substantial, could adversely affect our financial condition and results of operations.

In addition, we are required to operate our properties in compliance with fire and safety regulations, building codes and other land use regulations, as they may be adopted by local, state and federal governmental agencies and bodies and become applicable to our properties. We may be required to make substantial capital expenditures to comply with those requirements and these expenditures could have an adverse affect on our financial condition and results of operations.

***We may incur costs to comply with environmental laws.***

The obligation to pay for the cost of complying with existing environmental laws, ordinances and regulations, as well as the cost of complying with future legislation, may increase our operating costs. Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner or operator of real property may be liable for the costs of removal or remediation of hazardous or toxic substances on or under the property. Environmental laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances and whether or not such substances originated from the property. In addition, the presence of hazardous or toxic substances, or the failure to remediate such property properly, may adversely affect our ability to borrow by using such property as collateral. We maintain insurance related to potential environmental issues on our properties which are not net leased which may not be adequate to cover all possible contingencies.

***The loans we invest in are subject to delinquency and loss.***

Our loan assets are directly or indirectly secured by income producing property. The ability of a borrower to make payments on the loan underlying these securities is dependent primarily upon the successful operation of the property rather than upon the existence of independent income or assets of the borrower since the underlying loans are generally non-recourse in nature. These loans are subject to risks of delinquency and foreclosure as well as risk associated with the capital markets. If a borrower were to default on a loan, it is possible that we would not recover the full value of the loan.

***We may be unable to foreclose on the collateral securing our loan assets on a timely basis.***

In certain states foreclosing on a property can be a lengthy and costly process. In addition, a borrower can file for bankruptcy or raise defenses that could delay our ability to realize on our collateral on a timely basis. In such instances, the increased costs and time required to realize on our collateral would likely result in a reduced return on the invesment.

***The subordinate loan assets we invest are subject to risks relating to the structure and terms of the transactions, and there may not be sufficient funds or assets to satisfy our subordinate notes, which may result in losses to us.***

We invest in loan assets that are subordinate in payment and collateral to more senior loans. If a borrower defaults or declares bankruptcy, after the more senior obligations are satisfied, there may not be sufficient funds or assets remaining to satisfy our subordinate notes. Because each transaction is privately negotiated, subordinate loan assets can vary in their structural characteristics and lender rights, including our rights to control the default or bankruptcy process. The subordinate loan assets that we invest in may not give us the right to demand foreclosure as a subordinate debtholder. Furthermore, the presence of intercreditor agreements, co-lender agreements and participation agreements may limit our ability to amend the loan documents, assign the loans, accept prepayments, exercise remedies and control decisions made in bankruptcy proceedings relating to borrowers. Bankruptcy and borrower litigation can significantly increase the time needed for us to acquire possession of underlying collateral in the event of a default, during which time the collateral may decline in value. In addition, there are significant costs and delays associated with the foreclosure process.

***The widening of credit spreads could have a negative impact on the value of our loan asset and REIT debt securities.***

The fair value of our loan assets is dependent upon the yield demanded on these assets by the market based on the underlying credit as well as general economic conditions. Although most of our directly held loan assets were purchased at significant discounts, a further deterioration of the real estate markets or a large supply of these loan assets available for sale combined with reduced demand will generally cause the market to require a higher yield on these loan assets, resulting in a higher, or “wider,” spread over the benchmark rate of such loan assets. Under these conditions, the value of the loan assets in our portfolio would decline.

Our investments in REIT debt securities are also subject to changes in credit spreads as their value is dependent upon the yield demanded on these securities by the market based on the underlying credit. Excessive supply of these securities combined with reduced demand will generally cause the market to require a higher yield on these real estate securities, resulting in the use of a higher, or "wider," spread over the benchmark rate to value such securities. Under such conditions, the value of our REIT debt securities portfolio would tend to decline. Such changes in the market value of our portfolio may adversely affect our financial condition and results of operations.

***The deterioration of the credit markets has had an adverse impact on the ability of borrowers to obtain replacement financing.***

The deterioration of credit markets has made it extremely difficult for borrowers to obtain mortgage financing. The inability of borrowers to obtain replacement financing has led and will likely continue to lead to more loan defaults thereby resulting in expensive and time consuming foreclosure actions and/or negotiated extensions to existing loans beyond their current expirations on terms which may not be as favorable to us as the existing loans.

***Our investments in REIT securities are subject to specific risks relating to the particular REIT issuer of the securities and to the general risks of investing in REITs.***

Our investments in REIT securities involve special risks. These risks include many, if not all, of the foregoing risks which apply to an investment in us, including: (i) risks generally incident to interests in real estate assets; (ii) risks associated with the failure to maintain REIT qualification; (iii) risks that may be presented by the type and use of a particular property; and (iv) risks that the issuer of the security may reduce or eliminate expected dividend payments.

***Ability of our Advisor and other third parties directly affects our financial condition.***

Other than for severe economic conditions or natural forces which may be unanticipated or uncontrollable, the ultimate value of our assets and the results of our operations will depend on the ability of our Advisor and other third parties we retain to operate and manage our assets in a manner sufficient to maintain or increase revenues and control our operating and other expenses in order to generate sufficient cash flows to pay amounts due on our indebtedness and to pay dividends to our shareholders.

***We are dependent on our Advisor and the loss of our Advisor's key personnel could harm our operations and adversely affect the value of our shares.***

We have no paid employees. Our officers are employees of our Advisor. We have no separate facilities and are completely reliant on our Advisor who has significant discretion as to the implementation of our investment and operating strategies. We are subject to the risk that our Advisor will terminate its Advisory Agreement and that no suitable replacement will be found. Furthermore, we are dependent on the efforts, diligence, skill, network of business contacts and close supervision of all aspects of our business by our Advisor and, in particular, Michael Ashner, Chairman of our Board of Trustees and our chief executive officer, Carolyn Tiffany, our president, as well as our other executive officers. While we believe that we could find replacements for these key personnel, the loss of their services could have a negative impact on our operations and the market price of our shares.

***The incentive fee payable to our Advisor may be substantial.***

Pursuant to the terms of the Advisory Agreement, our Advisor is entitled to receive an incentive fee equal to 20% of any amounts available for distribution in excess of a threshold amount. The incentive fee is only payable at such time, if at all, (i) when holders of our Common Shares receive aggregate distributions above a threshold amount or (ii) upon termination of the Advisory Agreement, if the value of our assets exceed the threshold amount based on then current market values and appraisals. That is, the incentive fee is not payable annually but only at such time, if at all, as shareholders have received the threshold amount or, if the Advisory Agreement is terminated, the assets of the Trust exceed the threshold amount. At December 31, 2009, the threshold amount was approximately $394,205,000, which was equivalent to $17.68 for each of our Common Shares on a fully diluted basis. At such time as shareholders' equity exceeds the threshold amount, we will record a liability in our financial statements equal to approximately 20% of the difference between shareholders' equity and the threshold amount in accordance with GAAP.

***Termination of the Advisory Agreement may be costly or not in our best interest.***

Termination of the Advisory Agreement either by us or our Advisor may be costly. Upon termination of the Advisory Agreement, our Advisor would be entitled to a termination fee equal to the incentive fee based on an appraised valuation of our assets assuming we were then liquidated. The amount payable on termination of the Advisory Agreement could be substantial which may have a negative effect on the price of our Common Shares. Further, affiliates of our Advisor hold approximately 15.4% of our outstanding Common Shares and serve as our executive officers. Accordingly, if we were inclined to terminate the Advisory Agreement, the ownership position of our Advisor in our Common Shares could have other adverse effects such that a termination would ultimately not be in our best interest.

## ITEM 1B – UNRESOLVED STAFF COMMENTS

None.

## ITEM 2 – PROPERTIES

The following tables set forth certain information relating to operating properties in which we have an ownership interest. Information presented in Notes 7 and 8 to the Consolidated Financial Statements provides additional information related to our investments. All information presented is as of December 31, 2009, except as noted. Dollars are stated in thousands.

***Table of Operating Office, Retail and Industrial Properties***

**CONSOLIDATED PROPERTIES**

| Description and Location | Year Acquired | Venture Partner | Trust's Ownership Interest | Rentable Sq. Feet | % Leased as of December 31, 2009 | Average 2009 Occupancy | Major Tenants (Lease Expiration/ Options Expiration) | Major Tenants Rentable Sq. Ft. | Cost Less Depreciation | Ownership of Land (2) | Debt Balance | Debt Maturity and Interest Rate |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ***Retail*** | | | | | | | | | | | | |
| Atlanta, GA | 2004 | N/A | 100% | 61,000 | 100% | 100% | The Kroger Co. (2016/2040) | 61,000 | $ 4,044 | Ground Lease | (1) | (1) |
| Denton, TX (4) | 2004 | N/A | 100% | 48,000 | 100% | 100% | The Kroger Co. (2010) | 48,000 | 1,375 | Land Estate | (1) | (1) |
| Greensboro, NC | 2004 | N/A | 100% | 47,000 | 100% | 100% | The Kroger Co. (2017/2040) | 47,000 | 3,314 | Ground Lease | (1) | (1) |
| Knoxville, TN (4) | 2004 | N/A | 100% | 43,000 | 100% | 100% | The Kroger Co. (2010) | 43,000 | 1,852 | Land Estate | (1) | (1) |
| Lafayette, LA (4) | 2004 | N/A | 100% | 46,000 | 100% | 100% | The Kroger Co. (2010) | 46,000 | 1 | Ground Lease | (1) | (1) |
| Louisville, KY | 2004 | N/A | 100% | 47,000 | 100% | 100% | The Kroger Co. (2015/2040) | 47,000 | 2,377 | Land Estate | (1) | (1) |
| Memphis, TN | 2004 | N/A | 100% | 47,000 | 100% | 100% | The Kroger Co. (2015/2040) | 47,000 | 664 | Land Estate | (1) | (1) |
| Seabrook, TX | 2004 | N/A | 100% | 53,000 | 100% | 100% | The Kroger Co. (2015/2040) | 53,000 | 1,217 | Land Estate | (1) | (1) |
| Sherman, TX (4) | 2004 | N/A | 100% | 46,000 | 100% | 100% | The Kroger Co. (2010) | 46,000 | 718 | Land Estate | (1) | (1) |
| St. Louis, MO (4) | 2004 | N/A | 100% | 46,000 | 100% | 100% | The Kroger Co. (2010) | 46,000 | 865 | Land Estate | (1) | (1) |
| **Retail Subtotal** | | | | 484,000 | | | | | $ 16,427 | | $ 23,761 | |
| ***Office*** | | | | | | | | | | | | |
| Amherst, NY (3) | 2005 | N/A | 100% | 200,000 | 100% | 100% | Ingram Micro Systems (2013/2023) | 200,000 | $ 17,534 | Fee | $ 16,526 | 10/2013 5.65% |
| Andover, MA (5) | 2005 | N/A | 100% | 93,000 | 100% | 100% | PAETEC Communications, Inc. (2022/2037) | 93,000 | 4,808 | Ground Lease | 6,266 | 03/2011 6.6% |
| Chicago, IL (Ontario) | 2005 | Marc Realty | 80% | 126,000 | 88% | 90% | The Gettys Group, Inc. (2011/2016) | 16,000 | 22,490 | Fee | 21,118 | 03/2016 5.75% |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | River North Same Day Surgery, LLC (2015/NA) | 15,000 | | | | |
| Chicago, IL (River City) | 2007 | Marc Realty | 60% | 253,000 | 77% | 72% | Bally Total Fitness Corp. (2011/2021) | 55,000 | 12,989 | Fee | 9,300 | 03/2010 6% (6) |
| | | | | | | | MCI Communications Services, Inc. d/b/a Verizon Business Svcs (2019/2023) | 37,000 | | | | |
| Houston, TX | 2004 | Various | 8% | 614,000 | 100% | 100% | Spectra Energy (2018/2028) | 614,000 | 61,604 | Fee | 63,869 | 04/2016 6.4% |
| Indianapolis, IN (Circle Tower) | 1974 | N/A | 100% | 111,000 | 86% | 87% | None Over 10% | - | 4,348 | Fee | 4,317 | 04/2015 5.82% |
| Lisle, IL | 2006 | N/A | 100% | 169,000 | 71% | 78% | United Healthcare Services, Inc. (2014/NA) | 41,000 | 18,846 | Fee | 17,165 | 06/2016 6.26% |
| | | | | | | | IPSCO Enterprises, Inc. (2010/2020) | 22,000 | | | | |
| Lisle, IL | 2006 | N/A | 100% | 67,000 | 93% | 96% | T Systems, Inc. (2010/2015) | 35,000 | 8,331 | Fee | 7,011 | 06/2016 6.26% |
| | | | | | | | ABM Janitorial Midwest, Inc. (2012/2014) | 11,000 | | | | |
| | | | | | | | Zenith Insurance Company, Inc. (2010/2013) | 10,000 | | | | |
| Lisle, IL | 2006 | Marc Realty | 60% | 54,000 | 100% | 100% | Ryerson (2018/2028) | 54,000 | 3,757 | Fee | 5,600 | 03/2017 5.55% |
| Orlando, FL | 2004 | N/A | 100% | 256,000 | 100% | 100% | Siemens Real Estate, Inc. (2017/2042) | 256,000 | 15,075 | Ground Lease | 39,148 | 07/2017 6.4% |
| Plantation, FL | 2004 | N/A | 100% | 133,000 | 100% | 100% | BellSouth Communications Inc. (2010/2035) | 133,000 | 7,790 | Land Estate | (1) | |
| South Burlington, VT (5) | 2005 | N/A | 100% | 56,000 | 100% | 100% | Fairpoint Communications, Inc. (2014/2029) | 56,000 | 2,790 | Ground Lease | 2,686 | 03/2011 6.6% |
| **Office Subtotal** | | | | 2,132,000 | | | | | $ 180,362 | | $ 193,006 | |
| ***Warehouse*** | | | | | | | | | | | | |
| Jacksonville, Fl (5) | 2004 | N/A | 100% | 587,000 | 100% | 55% | Football Fanatics, Inc. (2015/2024) | 558,000 | 10,207 | Fee | (1) | (1) |

***Mixed-Use***

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Churchill, PA | 2004 | N/A | 100% | 1,008,000 | 100% | 100% | Viacom, Inc. (2010/2040) | 1,008,000 | 10,813 | Ground Lease | (1) | (1) |
| **Total** | | | | 4,211,000 | | | | | $ 217,809 | | $ 216,767 | |

(1) Our retail properties and our properties located in Churchill, PA, Plantation, FL, and Jacksonville, FL collateralized $23,761 of mortgage debt at an interest rate of LIBOR + 1.75% which matures in June 2010. We have a one-year extension option which we intend to exercise.
(2) See below for additional information relating to ground leases and land estates.
(3) Represents 2 separate buildings. The ground underlying the properties is leased to us by the local development authority pursuant to a ground lease which requires no payment. Effective October 31, 2013, legal title to these properties will vest in us.
(4) The tenant has sent notification that they will not be exercising their renewal option upon expiration of current lease term.
(5) Reflects leases signed in January 2010.
(6) We are currently negotiating with the lender for a one-year renewal to March 2011. The terms of the renewal require monthly payments of interest at a fixed rate of 6%. The renewal is subject to a $200 principal payment due at the renewal date.

**EQUITY INVESTMENTS**

*Sealy Venture Properties*

| Description and Location | Year Acquired | Trust's Ownership Interest | Rentable Sq. Feet | % Leased as of December 31, 2009 | Average 2009 Occupancy | Major Tenants (Lease Expiration/ Options Expiration) | Major Tenants' Rentable Sq. Ft. | Equity Investment Balance | Ownership of Land | Debt Balance (4) | Debt Maturity and Interest Rate |
|---|---|---|---|---|---|---|---|---|---|---|---|
| ***Mixed Use*** | | | | | | | | | | | |
| Atlanta, GA (1) | 2006 | 60% | 472,000 | 73% | 81% | Original Mattress (2020/2025) | 57,000 | $ 3,189 | Fee | $ 28,750 | 01/2012 5.7% |
| Atlanta, GA (2) | 2008 | 68% | 470,000 | 78% | 81% | Alere Health Improvement (2011/NA) | 76,000 | 7,840 | Fee | 37,000 | 11/2016 6.12% |
| | | | | | | West Asset Management (2010/NA) | 54,000 | | | | |
| Nashville, TN (3) | 2007 | 50% | 1,155,000 | 86% | 88% | None Over 10% | - | 4,618 | Fee | 74,000 | 05/2012 5.77% |
| **Subtotal** | | | 2,097,000 | | | | | $ 15,647 | | | |

(1) Consists of 12 flex/office properties.
(2) Consists of six flex/office campus style properties.
(3) Consists of 13 light distribution and service center properties.
(4) Represents 100% of the debt balance encumbering the property.

**EQUITY INVESTMENTS**

*Marc Realty Portfolio*

| Description and Location | Year Acquired | Trust's Ownership Interest | Rentable Sq. Feet | % Leased as of December 31, 2009 | Average 2009 Occupancy | Major Tenants (Lease Expiration/ Options Expiration) | Major Tenants Rentable Sq. Feet | Equity Investment Balance (in thousands) | Ownership of Land | Debt Balance (2) | Debt Maturity and Interest Rate |
|---|---|---|---|---|---|---|---|---|---|---|---|
| ***Office*** | | | | | | | | | | | |
| 8 South Michigan, Chicago, IL | 2005 | 50% | 174,000 | 95% | 96% | None Over 10% | - | $ 6,859 | Ground Lease | $ 4,113 | 08/2011 6.87% |
| 11 East Adams St, Chicago, IL | 2005 | 49% | 161,000 | 84% | 84% | IL School of Health Careers (2015/2020) | 28,700 | 2,963 | Fee | 10,000 | 08/2011 Libor + 2.0% |
| 29 East Madison St, Chicago, IL | 2005 | 50% | 235,000 | 95% | 89% | Computer Systems Institute (2020/2030) | 25,000 | 7,750 | Fee | 11,734 | 05/2013 5.20% |
| 30 North Michigan Ave, Chicago, IL | 2005 | 50% | 221,000 | 92% | 93% | None Over 10% | - | 11,881 | Fee | 13,448 | 08/2014 5.99% |
| 223 West Jackson St, Chicago, IL | 2005 | 50% | 168,000 | 85% | 91% | Intertrack Partners (2010/2017) | 27,400 | 7,346 | Fee | 8,203 | 06/2012 6.92% |
| 4415 West Harrison Street, Hillside, IL | 2005 | 50% | 192,000 | 77% | 79% | North American Medical Management (2015/2020) | 21,200 | 5,986 | Fee | 5,126 | 12/2017 5.62% |
| 2000-2060 Algonquin Road, Schaumburg, IL | 2005 | 50% | 101,000 | 51% | 55% | Landmark Merchant (2010/2011) | 10,300 | 1,536 | Fee | (1) | 04/2010 Libor + 2.0% |
| 1701 East Woodfield Road, Schaumburg, IL | 2005 | 50% | 175,000 | 82% | 85% | None Over 10% | - | 1,582 | Fee | 10,489 | 05/2011 5.73% |
| 2720 River Road, Des Plaines, IL | 2005 | 50% | 108,000 | 77% | 80% | None Over 10% | - | 4,075 | Fee | 2,720 | 10/2012 6.095% |
| 3701 Algonquin Road, Rolling Meadows, IL | 2005 | 50% | 193,000 | 76% | 83% | ISACA (2018/2024) | 23,400 | 2,827 | Fee | 10,527 | 04/2010 Libor +2.0% |
| | | | | | | Relational Funding (2013/NA) | 19,900 | | | | |
| 2205-2255 Enterprise Drive, Westchester, IL | 2005 | 50% | 130,000 | 95% | 91% | Consumer Portfolio Services (2014/2019) | 18,900 | 3,094 | Fee | (1) | 04/2010 Libor + 2.0% |
| 900 & 910 Skokie Blvd, Northbrook, IL | 2006 | 50% | 119,000 | 80% | 78% | MIT Financial Group (2016/NA) | 12,600 | 1,661 | Fee | 5,509 | 02/2011 Libor + 2.0% |
| **Subtotal** | | | 1,977,000 | | | | | $ 57,560 | | $ 94,969 | |

(1) Both properties are cross collateralized by a mortgage of $13,100.
(2) Represents 100% of the debt balance encumbering the property.

**PREFERRED EQUITY INVESTMENTS**

| Description and Location | Year Acquired | Venture Partner | Rentable Sq. Feet | % Leased as of December 31, 2009 | Average 2009 Occupancy | Major Tenants (Lease Expiration) Options Expiration) | Major Tenants Rentable Sq. Feet | Preferred Equity Investments | Tenant Improvement Loans | Ownership of Land | Debt Balance (1) | Debt Maturity and Interest Rate |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *Office* | | | | | | | | | | | | |
| 180 North Michigan Ave, Chicago, IL | 2008 | Marc Realty | 229,000 | 81% | 90% | None Over 10% | | $ 3,923 | $ 713 | Fee | $18,517 | 03/2011 Libor+ 1.5% (2) |

(1) Represents 100% of the debt balance encumbering the property.
(2) An interest rate swap agreement with a notional amount of $17,869 effectively converts the interest rate to a fixed rate of 3.05%.

### Land Estates

Land estates represent land in which we hold fee title for a set period of time after which ownership reverts to a remainderman at which time we have the right to lease the land.

The following table sets forth the terms of the land estates:

| Property Location | Land Estate Expiration | Lease Term Options Upon Expiration of Land Estate | Lease Term Rents Per Annum |
|---|---|---|---|
| Louisville, KY (1) | 10/31/2010 | Fourteen, 5 year | $ 35,400 |
| St. Louis, MO (1) | 10/31/2010 | Fourteen, 5 year | $ 61,400 |
| Knoxville, TN (1) | 10/31/2010 | Fourteen, 5 year | $ 97,200 |
| Memphis, TN (1) | 10/31/2010 | Fourteen, 5 year | $ 60,360 |
| Denton, TX (1) | 10/31/2010 | Fourteen, 5 year | $ 86,880 |
| Seabrook, TX (1) | 10/31/2010 | Fourteen, 5 year | $ 58,560 |
| Sherman, TX (1) | 10/31/2010 | Fourteen, 5 year | $ 80,160 |
| Plantation, FL | 02/28/2010 | Thirteen, 5 year | $261,919 through 6th term and then fair market value |

(1) We have the option to purchase the land at fair market value prior to September 30, 2010.

### Ground Leases

On certain of our properties we own the improvements and lease the land underlying the improvements pursuant to ground leases.

The following table sets forth the terms of the ground leases:

| Property Location | Current Term Expiration | Renewal Terms | Lease Term Rents Per Annum (1) |
|---|---|---|---|
| Andover, MA | 1/2/2015 | Four 5-year and one 10-year | $99,920 through current term and then fair market value |

| | | | |
|---|---|---|---|
| Atlanta, GA | 9/30/2011 | Four 5-year | $30,000 plus ½ of 1% of sales greater than $27,805,800 |
| Churchill, PA | 12/31/2015 | Five 5-year | $300,000 through current term and then fair market value |
| Greensboro, NC | 12/31/2012 | Four 5-year and fifteen 1-year | $59,315 increased by approximately $12,000 for each successive renewal period plus 1% of sales over $35,000,000 |
| Orlando, FL | 12/31/2017 | Five 5-year | $1 through the current term and then fair market value |
| Lafayette, LA | 4/30/2013 | Seven 5-year | $176,244 increased by 5% for each successive renewal term |
| South Burlington, VT | 1/2/2015 | Three 5-year and one 10-year | Fair market value (2) |

(1) The lease requires the tenant to perform all covenants under the ground lease including the payment of ground rent.
(2) The lease was extended through January 2015. The parties are currently determining the fair market value of the ground rent expense.

**Operating Properties – Multi-Tenant**

The following tables set forth certain information concerning lease expirations (assuming no renewals) as of December 31, 2009 for our consolidated multi-tenant properties:

***Ontario Property - Chicago, Illinois***

| | Number of Tenants Whose Leases Expire | Aggregate Sq. Ft. Covered by Expiring Leases | 2009 Rental Revenue for Leases Expiring | % of Total Annualized Rental Revenue |
|---|---|---|---|---|
| 2010 | 2 | 8,500 | $ 194,000 | 6% |
| 2011 | 4 | 24,600 | 608,000 | 19% |
| 2012 | - | - | - | - |
| 2013 | 3 | 9,900 | 367,000 | 11% |
| 2014 and beyond | 13 | 68,600 | 2,082,000 | 64% |

***River City Property – Chicago, Illinois***

| | Number of Tenants Whose Leases Expire | Aggregate Sq. Ft. Covered by Expiring Leases | 2009 Rental Revenue for Leases Expiring | % of Total Annualized Rental Revenue |
|---|---|---|---|---|
| 2010 | 5 | 27,000 | $ 564,000 | 20% |
| 2011 | 2 | 55,300 | 554,000 | 20% |
| 2012 | 2 | 12,100 | 283,000 | 10% |
| 2013 | 2 | 4,800 | 101,000 | 3% |
| 2014 and beyond | 5 | 94,900 | 1,316,000 | 47% |

***Circle Tower - Indianapolis, Indiana***

| | Number of Tenants Whose Leases Expire | Aggregate Sq. Ft. Covered by Expiring Leases | 2009 Rental Revenue for Leases Expiring | % of Total Annualized Rental Revenue |
|---|---|---|---|---|
| 2010 | 25 | 38,500 | $ 548,000 | 40% |
| 2011 | 9 | 7,900 | 106,000 | 8% |
| 2012 | 5 | 6,300 | 115,000 | 8% |
| 2013 | 2 | 3,600 | 50,000 | 4% |
| 2014 and beyond | 10 | 38,300 | 556,000 | 40% |

***Corporetum Properties – Lisle, Illinois***

550/650 Corporetum

| | Number of Tenants Whose Leases Expire | Aggregate Sq. Ft. Covered by Expiring Leases | 2009 Rental Revenue for Leases Expiring | % of Total Annualized Rental Revenue |
|---|---|---|---|---|
| 2010 | 7 | 41,500 | $ 766,000 | 45% |
| 2011 | 1 | 3,300 | 42,000 | 2% |
| 2012 | 1 | 4,600 | 47,000 | 3% |
| 2013 | 3 | 17,800 | 163,000 | 10% |
| 2014 and beyond | 4 | 51,800 | 678,000 | 40% |

701 Arboretum

| | Number of Tenants Whose Leases Expire | Aggregate Sq. Ft. Covered by Expiring Leases | 2009 Rental Revenue for Leases Expiring | % of Total Annualized Rental Revenue |
|---|---|---|---|---|
| 2010 | 4 | 51,500 | $ 769,000 | 83% |
| 2011 | - | - | - | - |
| 2012 | 1 | 10,800 | 152,000 | 17% |
| 2013 and beyond | - | - | - | - |

***Jacksonville Property – Jacksonville, Florida***

| | Number of Tenants Whose Leases Expire | Aggregate Sq. Ft. Covered by Expiring Leases | 2009 Rental Revenue for Leases Expiring | % of Total Annualized Rental Revenue |
|---|---|---|---|---|
| 2010 | - | - | $ - | - |
| 2011 | - | - | - | - |
| 2012 | - | - | - | - |
| 2013 | - | - | - | - |
| 2014 and beyond | 2 | 580,300 | 114,000 | 100% |

In 2009, our largest tenant, representing approximately 49% of the rentable area, elected not to renew its lease which expired on May 31, 2009. Our second largest tenant, representing approximately 30% of the rentable area, with a lease expiring in December 2010, filed for bankruptcy protection in January 2009 and rejected its lease in August 2009. On January 19, 2010, we entered into a new lease with Football Fanatics, Inc. to rent 553,200 square feet for an initial term expiring July 31, 2015. The lease contains three three-year extensions.

**Equity Investments**

The following tales set forth certain information concering lease expirations (assuming no renewals) as of December 31, 2009 for our equity investment operating properties.

**Sealy Equity Investments**

***Sealy Northwest Atlanta, LP***

| | Number of Tenants Whose Leases Expire | Aggregate Sq. Ft. Covered by Expiring Leases | 2009 Rental Revenue for Leases Expiring | % of Total Annualized Rental Revenue |
|---|---|---|---|---|
| 2010 | 23 | 100,000 | $ 964,000 | 34% |
| 2011 | 21 | 88,000 | 772,000 | 28% |
| 2012 | 10 | 41,000 | 308,000 | 11% |
| 2013 | 5 | 29,000 | 221,000 | 8% |
| 2014 and beyond | 5 | 86,000 | 531,000 | 19% |

***Sealy Newmarket, LP***

| | Number of Tenants Whose Leases Expire | Aggregate Sq. Ft. Covered by Expiring Leases | 2009 Rental Revenue for Leases Expiring | % of Total Annualized Rental Revenue |
|---|---|---|---|---|
| 2010 | 22 | 143,000 | $ 1,650,000 | 39% |
| 2011 | 15 | 122,000 | 1,510,000 | 36% |
| 2012 | 2 | 15,000 | 167,000 | 4% |
| 2013 | 2 | 32,000 | 347,000 | 8% |
| 2014 and beyond | 5 | 56,000 | 548,000 | 13% |

***Sealy Airpark Nashville, LP***

| | Number of Tenants Whose Leases Expire | Aggregate Sq. Ft. Covered by Expiring Leases | 2009 Rental Revenue for Leases Expiring | % of Total Annualized Rental Revenue |
|---|---|---|---|---|
| 2010 | 29 | 262,000 | $ 1,820,000 | 28% |
| 2011 | 20 | 221,000 | 1,494,000 | 23% |
| 2012 | 17 | 213,000 | 1,206,000 | 18% |
| 2013 | 9 | 54,000 | 373,000 | 6% |
| 2014 and beyond | 15 | 238,000 | 1,687,000 | 25% |

**Marc Equity Investments**

***8 South Michigan***

| | Number of Tenants Whose Leases Expire | Aggregate Sq. Ft. Covered by Expiring Leases | 2009 Rental Revenue for Leases Expiring | % of Total Annualized Rental Revenue |
|---|---|---|---|---|
| 2010 | 25 | 32,000 | $ 714,000 | 18% |
| 2011 | 11 | 17,000 | 376,000 | 10% |
| 2012 | 14 | 23,000 | 488,000 | 12% |
| 2013 | 8 | 23,000 | 494,000 | 13% |
| 2014 and beyond | 24 | 70,000 | 1,816,000 | 47% |

***11 East Adams Street***

| | Number of Tenants Whose Leases Expire | Aggregate Sq. Ft. Covered by Expiring Leases | 2009 Rental Revenue for Leases Expiring | % of Total Annualized Rental Revenue |
|---|---|---|---|---|
| 2010 | 8 | 22,000 | $ 413,000 | 13% |
| 2011 | 4 | 11,000 | 183,000 | 6% |
| 2012 | 5 | 19,000 | 349,000 | 11% |
| 2013 | 5 | 8,000 | 144,000 | 4% |
| 2014 and beyond | 12 | 76,000 | 2,162,000 | 66% |

***29 East Madison***

| | Number of Tenants Whose Leases Expire | Aggregate Sq. Ft. Covered by Expiring Leases | 2009 Rental Revenue for Leases Expiring | % of Total Annualized Rental Revenue |
|---|---|---|---|---|
| 2010 | 14 | 31,000 | 652,000 | 15% |
| 2011 | 16 | 26,000 | 544,000 | 12% |
| 2012 | 33 | 49,000 | 1,227,000 | 28% |
| 2013 | 8 | 23,000 | 743,000 | 17% |
| 2014 and beyond | 19 | 93,000 | 1,232,000 | 28% |

***30 North Michigan Avenue***

| | Number of Tenants Whose Leases Expire | Aggregate Sq. Ft. Covered by Expiring Leases | 2009 Rental Revenue for Leases Expiring | % of Total Annualized Rental Revenue |
|---|---|---|---|---|
| 2010 | 52 | 30,000 | $ 818,000 | 15% |
| 2011 | 28 | 33,000 | 706,000 | 13% |
| 2012 | 37 | 33,000 | 910,000 | 17% |
| 2013 | 16 | 11,000 | 275,000 | 5% |
| 2014 and beyond | 51 | 96,000 | 2,725,000 | 50% |

***223 West Jackson Street***

| | Number of Tenants Whose Leases Expire | Aggregate Sq. Ft. Covered by Expiring Leases | 2009 Rental Revenue for Leases Expiring | % of Total Annualized Rental Revenue |
|---|---|---|---|---|
| 2010 | 9 | 51,000 | $ 1,064,000 | 34% |
| 2011 | 4 | 7,000 | 151,000 | 5% |
| 2012 | 2 | 2,000 | 30,000 | 1% |
| 2013 | 4 | 7,000 | 141,000 | 4% |
| 2014 and beyond | 19 | 77,000 | 1,771,000 | 56% |

***4415 West Harrison Street***

| | Number of Tenants Whose Leases Expire | Aggregate Sq. Ft. Covered by Expiring Leases | 2009 Rental Revenue for Leases Expiring | % of Total Annualized Rental Revenue |
|---|---|---|---|---|
| 2010 | 24 | 51,000 | $ 869,000 | 36% |
| 2011 | 9 | 40,000 | 528,000 | 22% |
| 2012 | 9 | 15,000 | 247,000 | 10% |
| 2013 | 1 | 11,000 | 216,000 | 9% |
| 2014 and beyond | 4 | 31,000 | 533,000 | 23% |

***2000-2060 Algonquin Road***

| | Number of Tenants Whose Leases Expire | Aggregate Sq. Ft. Covered by Expiring Leases | 2009 Rental Revenue for Leases Expiring | % of Total Annualized Rental Revenue |
|---|---|---|---|---|
| 2010 | 10 | 22,000 | $ 295,000 | 44% |
| 2011 | 13 | 16,000 | 126,000 | 19% |
| 2012 | 3 | 7,000 | 133,000 | 20% |
| 2013 | 1 | 5,000 | 86,000 | 13% |
| 2014 and beyond | 1 | 2,000 | 30,000 | 4% |

***1701 East Woodfield Road***

| | Number of Tenants Whose Leases Expire | Aggregate Sq. Ft. Covered by Expiring Leases | 2009 Rental Revenue for Leases Expiring | % of Total Annualized Rental Revenue |
|---|---|---|---|---|
| 2010 | 15 | 23,000 | $ 452,000 | 18% |
| 2011 | 14 | 22,000 | 413,000 | 17% |
| 2012 | 14 | 33,000 | 569,000 | 23% |
| 2013 | 11 | 24,000 | 456,000 | 18% |
| 2014 and beyond | 11 | 42,000 | 602,000 | 24% |

***2720 River Road***

| | Number of Tenants Whose Leases Expire | Aggregate Sq. Ft. Covered by Expiring Leases | 2009 Rental Revenue for Leases Expiring | % of Total Annualized Rental Revenue |
|---|---|---|---|---|
| 2010 | 21 | 34,000 | $ 534,000 | 43% |
| 2011 | 7 | 9,000 | 167,000 | 14% |
| 2012 | 14 | 21,000 | 332,000 | 27% |
| 2013 | 3 | 3,000 | 52,000 | 4% |
| 2014 and beyond | 5 | 14,000 | 149,000 | 12% |

***3701 Algonquin Road***

| | Number of Tenants Whose Leases Expire | Aggregate Sq. Ft. Covered by Expiring Leases | 2009 Rental Revenue for Leases Expiring | % of Total Annualized Rental Revenue |
|---|---|---|---|---|
| 2010 | 6 | 14,000 | $ 179,000 | 8% |
| 2011 | 5 | 23,000 | 325,000 | 14% |
| 2012 | 2 | 3,000 | 49,000 | 2% |
| 2013 | 4 | 35,000 | 674,000 | 30% |
| 2014 and beyond | 6 | 72,000 | 1,011,000 | 46% |

*__2205-2255 Enterprise Drive__*

| | Number of Tenants Whose Leases Expire | Aggregate Sq. Ft. Covered by Expiring Leases | 2009 Rental Revenue for Leases Expiring | % of Total Annualized Rental Revenue |
|---|---|---|---|---|
| 2010 | 11 | 29,000 | $ 390,000 | 21% |
| 2011 | 2 | 9,000 | 159,000 | 9% |
| 2012 | 6 | 16,000 | 263,000 | 14% |
| 2013 | 3 | 9,000 | 173,000 | 9% |
| 2014 and beyond | 8 | 60,000 | 875,000 | 47% |

*__900 Ridgebrook__*

| | Number of Tenants Whose Leases Expire | Aggregate Sq. Ft. Covered by Expiring Leases | 2009 Rental Revenue for Leases Expiring | % of Total Annualized Rental Revenue |
|---|---|---|---|---|
| 2010 | 13 | 16,000 | $ 345,000 | 21% |
| 2011 | 15 | 25,000 | 458,000 | 28% |
| 2012 | 7 | 9,000 | 141,000 | 9% |
| 2013 | 7 | 14,000 | 238,000 | 14% |
| 2014 and beyond | 10 | 31,000 | 474,000 | 28% |

**Mortgage Loans**

Information pertaining to the terms of the first mortgages for each of the properties is included in the table at the beginning of Item 2 - Properties.

## ITEM 3 – LEGAL PROCEEDINGS

The Trust is involved from time to time in litigation on various matters, including disputes with tenants and disputes arising out of agreements to purchase or sell properties. Given the nature of the Trust's business activities, these lawsuits are considered routine to the conduct of its business. The Trust does not expect that the liabilities, if any, that may ultimately result from such legal actions will have a material adverse effect on the consolidated financial position, results of operations or cash flows of the Trust. As of December 31, 2009, the Trust was not involved in any material litigation.

## ITEM 4 –RESERVED

# PART II

## ITEM 5 – MARKET FOR TRUST'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our Common Shares are listed for trading on the New York Stock Exchange, which we refer to as NYSE, under the symbol "FUR." In November 2008 we effected a 1-for-5 reverse split of our Common Shares, pursuant to which each of five shares of our Common Shares issued and outstanding as of the close of market on November 28, 2008 were automatically combined into one Common Share, subject to the elimination of fractional shares. All references to outstanding share and dividends declared amounts for all periods presented have been adjusted to give effect to the 1-for-5 Common Share reverse split.

The table below sets forth the high and low sales prices as reported by the NYSE for our Common Shares for each of the periods indicated.

| | High | Low |
|---|---|---|
| Year Ended December 31, 2008: | | |
| First quarter | $ 29.75 | $ 20.35 |
| Second quarter | 23.85 | 18.00 |
| Third quarter | 21.75 | 15.05 |
| Fourth quarter | 19.70 | 9.45 |
| Year Ended December 31, 2009: | | |
| First quarter | $ 12.30 | $ 5.83 |
| Second quarter | 10.83 | 6.63 |
| Third quarter | 10.15 | 8.44 |
| Fourth quarter | 11.38 | 8.70 |

Holders

As of December 31, 2009 there were 592 record holders of our Common Shares. We estimate the total number of beneficial owners to be approximately 5,156.

Dividend Policy

In 2006 we began paying regular quarterly dividends on our Common Shares. In order to retain REIT status, and thus avoid paying federal corporate tax, we are required by the Code to distribute at least 90% of our REIT taxable income. As a result, during the fourth quarter of 2008, we declared a special dividend on our Common Shares to meet this requirement. Dividends declared on Common Shares in each quarter for the last two years are as follows:

| Quarters Ended | 2009 | 2008 |
|---|---|---|
| March 31 | $ 0.2500 | $ 0.325 |
| June 30 | 0.2500 | 0.325 |
| September 30 | 0.2500 | 0.325 |
| December 31 | 0.1625 | 0.375 (1) |

(1) Includes a regular dividend of $0.325 and a special dividend of $0.05.

Pursuant to the terms of our Series B-1 and Series C Preferred Shares, we are required to pay quarterly dividends of $0.40625 per Preferred Share, all of which were paid during 2009 and 2008.

In paying dividends we have always sought to have our dividends track recurring cash flow from operations. As a result, while we intend to continue paying dividends each quarter, future dividend declarations will be at the discretion of our Board of Trustees and will depend on our actual cash flow, financial condition, capital requirements, utilization of available capital losses and net operating loss carryforwards, distribution requirements for REITs under the Internal Revenue Code, which we refer to as the Code, and such other factors as our Board of Trustees deem relevant. Subject to the foregoing, we expect to continue distributing our recurring current cash flow from operations after reserving normal and customary amounts thereby allowing us to maintain our capital. In addition, when deemed prudent or necessitated by applicable distribution requirements for REITs under the Code we may make one or more special distributions during any particular year. In light of the foregoing, in 2009 we reduced our quarterly dividend from $0.325 per share to $0.25 per share for the first three quarters of 2009 and, as a result of the issuance of additional Common Shares during the fourth quarter of 2009 from our rights offering, the proceeds of which have not yet been invested in accretive investments, we reduced it again to $0.1625 for the fourth quarter of 2009. This represents our existing budgeted recurring cash flow generated by assets currently owned and excludes any potential future cash flow generated from the investment of the substantial cash and cash equivalents on hand. Additionally, during a favorable investing environment, we expect that we will utilize our carried forward capital losses to shelter capital gains from dispositions of our assets so that we may use the proceeds for reinvestment. We expect to continue applying these standards with respect to our dividends on a quarterly basis which may cause the dividends to increase or decrease from time to time.

As of December 31, 2009 we had net operating loss carryforwards, which we refer to as NOL carryforwards, of approximately $24,040,000 (none of which will be used to partially offset 2009 taxable income) which expire between 2021 through 2023. In prior years, we have been able to utilize our NOL carryforwards to reduce taxable income and thus reduce the amount of dividend payments required to maintain REIT status. We expect to continue to utilize our NOL carryforwards as well as any capital loss carryforwards generated in future years from our investment in Concord to reduce taxable income and required dividend payments, and thereby enable us to reinvest more of our cash flow.

Share Issuances

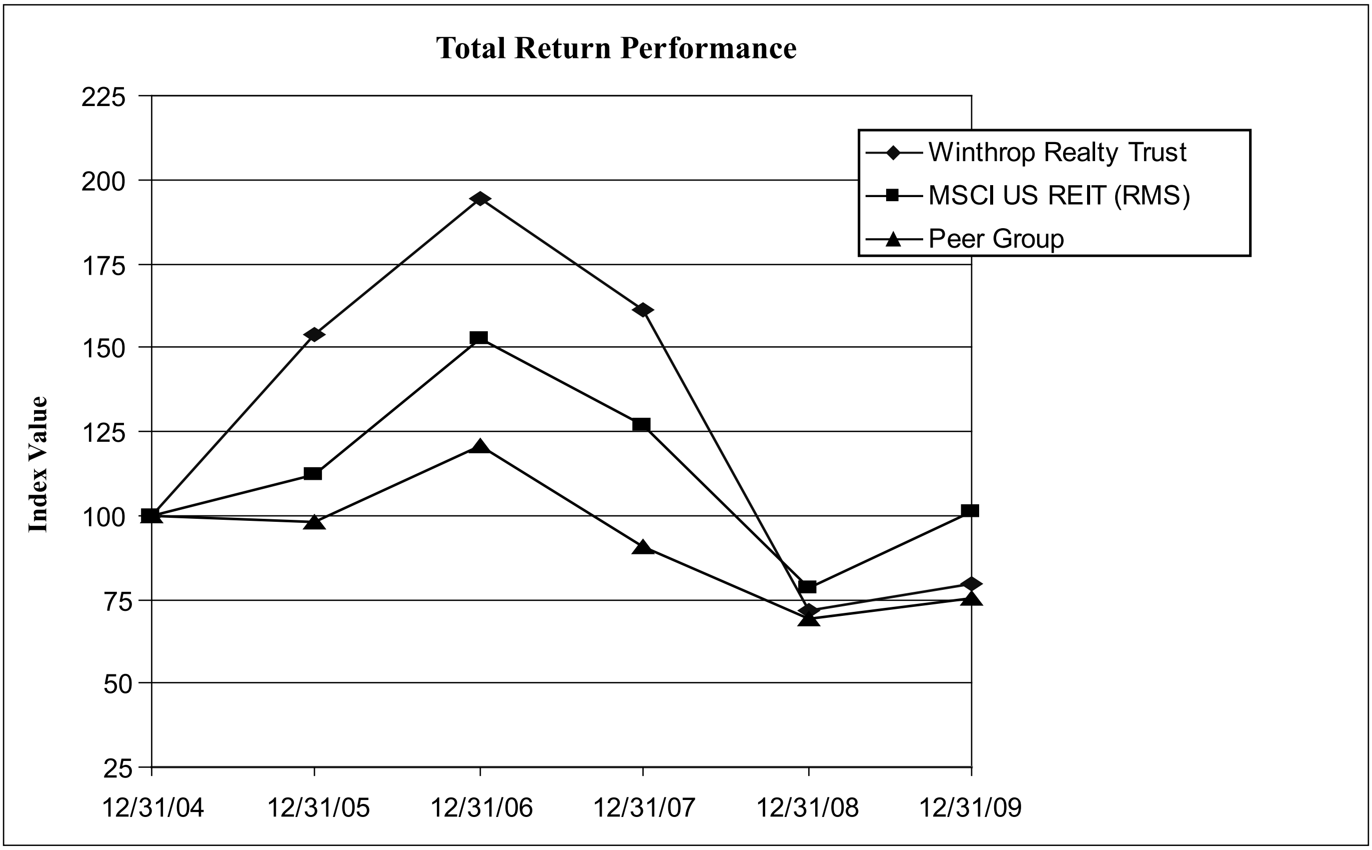
During 2008, at the request of holders of our Series B-1 Preferred Shares we issued 548,389 of our Common Shares in redemption of 493,552 Series B-1 Preferred Shares. There were no requests for redemptions in 2009. In addition, during 2009 and 2008, we issued a total of 170,207 and 249,638 Common Shares pursuant to our Dividend Reinvestment and Stock Purchase Plan resulting in net proceeds of approximately $1,615,000 and $4,407,000, respectively.

On October 12, 2009, we offered holders of the Series B-1 Preferred Shares the right, in a private transaction, to convert all or any portion of their Series B-1 Preferred Shares into an equivalent number of newly-issued Series C Preferred Shares. This right, which we refer to as the Conversion Offer, enabled the holders of the Series B-1 Preferred Shares to convert one Series B-1 Preferred Share into one Series C Preferred Share. Upon expiration of the Conversion Offer, holders of Series B-1 Preferred Shares had elected to convert an aggregate of 544,000 Series B-1 Preferred Shares into Series C Preferred Shares and, effective November 1, 2009, 544,000 Series C Preferred Shares were issued. As a result, effective November 1, 2009, we had 852,000 Series B-1 Preferred Shares and 544,000 Series C Preferred Shares outstanding.

The Series C Preferred Shares have substantially the same rights as the Series B-1 Preferred Shares including dividend rate, liquidation preference and mandatory redemption date, but will be junior in right of payment to the Series B-1 Preferred Shares. However, the initial conversion price of the Series C Preferred Shares is $14.00, which is a reduction from the $22.50 conversion price on the Series B-1 Preferred Shares. Additionally, under the terms of the Series C Preferred Shares, we are permitted to issue additional preferred shares which are on par with the Series C Preferred Shares, subject to certain limitations, without the consent of the holders of the Series C Preferred Shares. We are not permitted to issue additional preferred shares which are on par with the Series B-1 Preferred Shares.

Performance Graph

The following graph is a comparison of the five-year cumulative return of common shares, a peer group index and the Morgan Stanley REIT Index for the periods shown. The peer group consists of REITs with diverse investments which is in contrast to REITs which target a certain asset type, class or geographic location. The peer group REITs also have current market values as of January 12, 2010 under $750,000,000. The graph assumes that $100 was invested on December 31, 2004 in our Common Shares, a peer group index and the Morgan Stanley REIT Index and that all dividends were reinvested without the payment of any commissions. There can be no assurance that the performance of our shares will continue in line with the same or similar trends depicted in the graph. It should also be noted that if common shares were purchased at times after December 31, 2004, the results depicted would not have been the same.




| | *Period Ending* | | | | | |
|---|---|---|---|---|---|---|
| ***Index*** | **12/31/04** | **12/31/05** | **12/31/06** | **12/31/07** | **12/31/08** | **12/31/09** |
| Winthrop Realty Trust | 100.00 | 153.65 | 194.08 | 161.16 | 71.88 | 79.75 |
| MSCI US REIT (RMS) | 100.00 | 112.13 | 152.41 | 126.78 | 78.64 | 101.14 |
| Peer Group | 100.00 | 97.95 | 120.62 | 90.81 | 69.16 | 75.09 |

## ITEM 6 – SELECTED FINANCIAL DATA

The following table sets forth selected, historical, consolidated financial data for the Trust and should be read in conjunction with the Consolidated Financial Statements of the Trust and Notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included in this Annual Report on Form 10-K.

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| **Operating Results**<br>(in thousands, except per share data) | 2009 | 2008 | 2007 | 2006 | 2005 |
| Revenue | $ 47,941 | $ 44,536 | $ 50,191 | $ 52,590 | $ 30,473 |
| (Loss) income from continuing operations | $ (84,823) | $ (69,995) | $ 3,556 | $ 42,564 | $ 22,852 |
| Income (loss) from discontinued operations (1) | 476 | 1,819 | (1,075) | 372 | 769 |
| Net (loss) income | $ (84,347) | $ (68,176) | 2,481 | 42,936 | 23,621 |
| Preferred dividends | (147) | - | - | - | (2,064) |
| Net (loss) income applicable to Common Shares | $ (84,494) | $ (68,176) | $ 2,481 | $ 42,936 | $ 21,557 |
| Per Common Share | | | | | |
| (Loss) income from continuing operations, basic | $ (5.22) | $ (4.71) | $ 0.27 | $ 3.63 | $ 2.45 |
| Income (loss) from discontinued operations, basic (1) | 0.03 | 0.12 | (0.08) | 0.04 | 0.12 |
| Net (loss) income applicable to Common Shares, basic | $ (5.19) | $ (4.59) | $ 0.19 | $ 3.67 | $ 2.57 |
| (Loss) income from continuing operations per Common Share, diluted | $ (5.22) | $ (4.71) | $ 0.27 | $ 3.54 | $ 2.45 |
| Income (loss) from discontinued operations, diluted | 0.03 | 0.12 | (0.08) | 0.03 | 0.12 |
| Net (loss) income applicable to Common Shares, diluted | $ (5.19) | $ (4.59) | $ 0.19 | $ 3.57 | $ 2.57 |
| Dividends declared per Common Share | $ 0.9125 | $ 1.35 | $ 2.15 | $ 1.50 | $ 0.55 |

| **Balance Sheet Data:** | December 31, | | | | |
|---|---|---|---|---|---|
| (in thousands) | 2009 | 2008 | 2007 | 2006 | 2005 |
| Total Assets | $ 493,192 | $ 578,094 | $ 745,447 | $ 851,620 | $ 658,848 |
| Total Debt (2) | $ 238,067 | $ 299,865 | $ 335,191 | $ 362,522 | $ 321,143 |
| Total Shareholders' Equity | $ 217,089 | $ 248,250 | $ 291,794 | $ 323,586 | $ 159,606 |

(1) The results of the Biloxi, Mississippi property were classified as discontinued operations for 2005 through 2008. The results of Ventek were classified as discontinued operations for 2005 through 2008. The results of the Athens, Georgia property were classified as discontinued operations for 2005 through 2009. The results of the Creekwood, Apartment property were classified as discontinued operations for 2007 through 2009.

(2) For comparability purposes, the Total Debt balances for 2007, 2006 and 2005 do not include repurchase agreements of $75,175, $111,911 and $121,716, respectively. These debt securities were sold in January 2008.

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

Certain statements contained herein constitute forward-looking statements as such term is defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Our future results, financial condition and business may differ materially from those expressed in these forward-looking statements. You can find many of these statements by looking for words such as "approximates," "believes," "expects," "anticipates," "intends," "plans," "would," "may" or similar expressions in this Annual Report on Form 10-K. These forward-looking statements are subject to numerous assumptions, risks and uncertainties. Many of the factors that will determine these items are beyond our ability to control or predict. Factors that may cause actual results to differ materially from those contemplated by the forward-looking statements include, but are not limited to, those set forth under "Forward Looking Statements" and "Item 1A – Risk Factors," as well as our other filings with the SEC. For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. We expressly disclaim any responsibility to update forward-looking statements, whether as a result of new information, future events or otherwise. Accordingly, investors should use caution in relying on forward-looking statements, which are based on information, judgments and estimates at the time they are made, to anticipate future results or trends.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. This section should be read in conjunction with the financial statements, footnotes thereto and other items contained elsewhere in this report.

### Overview

*Our Business*

We are a real estate investment trust engaged in the business of owning and managing real property and real estate related assets. Our business objective is to maximize long-term shareholder value through a total return value approach to real estate investing. As a result of our emphasis on total return, while we seek to achieve a stable, predictable dividend for our shareholders, we do not select or manage our investments for short-term dividend growth, but rather towards achieving overall superior total return. We believe this approach will ultimately result in long term increased share value.

We operate in three strategic business segments: (i) operating properties; (ii) loan assets; and (iii) REIT equity and debt securities. We acquire assets through direct ownership as well as through strategic alliances and ventures. During 2009 we identified opportunities in loan assets which were being sold under distressed liquidation scenarios, pursuant to which we were able to acquire loan assets at substantial discounts. In addition we recognized the opportunity presented in publicly traded REIT equity and debt securities, which we believed to be mispriced by the public markets. Accordingly, during 2009 we focused our investment activity in these segments of our business by investing \$57,969,000 in loan assets and \$31,614,000 in REIT equity and debt securities. Throughout 2009 we believed that sellers' pricing of operating properties was not reflective of the expected future downturn in rents, occupancy and overall net operating income. As a result, we did not grow our operating properties business segment through acquisition during 2009. Instead, we sought to minimize the recessionary impact on our existing operating properties through leasing efforts, both with new tenants and with existing tenants, and through the restructuring of our Marc Realty joint venture. Details of these efforts are described below.

During 2009, our primary sources of income were rental income and tenant recoveries from leases of our operating properties, interest income from our loan assets, and interest and dividend income and appreciation from our investments in REIT securities. In prior years, we have also had income from appreciation recognized on the sale of selected operating properties. We expect that our future income will include these sources along with income from the payoff at par of loan assets previously purchased at a discount.

*Comparability of Financial Data from Period to Period*

The comparability of financial data from period to period is affected by several items including 1) the timing of our property acquisitions and leasing activities, 2) the purchases and sales of assets and investments, 3) taking material other-than-temporary impairment losses on assets in our portfolio and 4) the reclassification of assets. In this regard, the comparability of financial results for the current periods were negatively impacted by the write-down of our investment in Lex-Win Concord to zero during the second quarter of 2009 and the reclassification of certain Marc Realty assets from an aggregated preferred equity investment to 12 individual common equity investments as of July 1, 2009.

*Recent Operating Losses*

The downturn in the economy since late 2007 and the subsequent disruption of the capital and credit markets to date has affected our profitability. We have experienced losses of $84,347,000 and $68,176,000 for the years ended December 31, 2009 and 2008, respectively, which are primarily attributable to our investment in Lex-Win Concord. For the years ended December 31, 2009 and 2008, we incurred losses from Lex-Win Concord of $98,574,000 in 2009 and $66,750,000 in 2008. During 2009 we wrote down our investment in Lex-Win Concord to zero as a result of recurring operating losses and the overall lack of clarity on the future recovery of the underlying collateral of the assets. Lex-Win Concord's loan assets were purchased at the height of the real estate market and its borrowers' ability to refinance these loans given current market conditions is uncertain. Additionally certain of Lex-Win Concord's lenders required significant repayments on their loans, which resulted in Lex-Win Concord having to sell assets in a down market, further exacerbating its losses.

*Operating Properties*

<u>Acquisitions and Dispositions</u>

There were no material acquisitions or dispositions of real estate properties for the year ended December 31, 2009.

<u>Consolidated Operating Properties</u>

As of December 31, 2009, we owned and consolidated the operations of approximately 4,200,000 rentable square feet of office, retail, warehouse and mixed use space through our 20 wholly owned and four partially owned operating properties. The average occupancy of these consolidated properties was approximately 90.5% for the year ended December 31, 2009. As of December 31, 2009 our consolidated properties were approximately 84.6% leased compared to approximately 96.1% leased at December 31, 2008. At January 31, 2010, our consolidated properties were approximately 96.6% leased.

An overview of the significant leasing activity is as follows:

- *<u>Jacksonville, Florida</u>* – A significant portion of the decline in overall operating property occupancy during 2009 was due to the loss of two tenants who occupied a combined 460,000 square feet, or 78.4%, at our Jacksonville, Florida property. Subsequent to year end, we leased 558,000 square feet of space at this property through July 2015. With the signing of this lease, the property is now 100% leased. The space was leased to a sports apparel and merchandise company for an initial term of 66 months, with three, three-year renewal options. Net rent payable under the lease commences in August 2010 at an annual rent of $648,000, increasing to $669,000 annually for August 2011 through July 2012 and thereafter increasing by an average of approximately 16% per year for the balance of the initial term.

- *<u>Plantation, Florida</u>* – In April 2009 we entered into a lease extension and modification agreement with BellSouth Telecommunications Inc., the tenant at this 133,000 square foot, net lease office property. The lease term was extended for ten years and the current annual rent was reduced to approximately $1,740,000 for the final year of the current lease term ending in March 2010. Thereafter, the annual rent will be $1,450,000 through March 31, 2015 and then increase to approximately $1,500,000 through March 31, 2020.

- *The Kroger Company* – In October 2009 The Kroger Co., our tenant occupying 536,000 square feet of retail space in 11 net lease buildings notified us of their intention to extend their leases on 255,000 square feet in five buildings, exercise their purchase option on our 52,000 square foot property located in Athens, Georgia and not to extend leases expiring in October 2010 on five buildings containing 229,000 square feet. Of the properties where the Kroger Co. has not exercised their renewal option, brokers have been engaged and the properties are being marketed for sale or lease.
- *Andover, Massachusetts* – In January 2010, we executed a lease agreement with PAETEC Communications, Inc. for 93,000 square feet, representing 100% of the rentable square footage of the property, through September 2022. The annual rent is $742,000 for the first year, $969,000 for the second year, increasing 3% every two years thereafter. The tenant has the option to purchase the building for $10,500,000 effective after January 10, 2011 through March 19, 2013.
- *South Burlington, Vermont* – In January 2010, we executed a lease agreement with FairPoint Communications, Inc., for 56,000 square feet, representing 100% of the rentable square footage of the property, through January 1, 2015. The rent is $800,000 annually through January 2012 and increases to $820,000, $840,000 and $861,500 each subsequent year.
- *Churchill, Pennsylvania* – We are currently in discussions with our tenant, Viacom, Inc., at our Churchill, Pennsylvania property whose lease expires in December 2010. The property has significant capital needs which we believe to be the tenant's responsibility. Our negotiations with the tenant could result in various potential outcomes. As a result of our analysis of impairment with respect to this property, an impairment loss of $10,000,000 was recognized at December 31, 2009.
- *Lisle, Illinois* – During 2010 we expect occupancies on our two suburban office properties with 169,000 and 67,000 square feet, respectively, to drop from 71% and 93% at December 31, 2009 to 68% and 69% in 2010 due to major tenant relocations and downsizing in this difficult suburban Chicago market.

With respect to our debt exposure, each of our equity investments is essentially a stand-alone business, such that any potential liabilities which might occur are limited to that specific platform or investment and are not recourse to our other assets. Consequently, our risk of loss is in each case limited to our investment in that particular venture. Inclusive of extension rights, we have one borrowing related to our consolidated operating properties with a principal balance of $9,300,000 scheduled to mature in 2010. Additionally, there are $6,484,000 of scheduled principal payments due on mortgage loans in 2010, approximately $36,886,000 is scheduled to be paid down or mature in 2011 and $164,097,000 is scheduled to be paid down or mature in 2012 or later. With respect to the borrowing that is scheduled to mature in 2010, we are currently negotiating with the lender for a one-year renewal to March 2011.

Sealy Equity Investments

As of December 31, 2009, we held equity interests in three real estate ventures with Sealy & Co which have an aggregate of approximately 2.1 million rentable square feet consisting of 18 office/flex buildings and 13 light distribution and service center properties. The investment properties are located in Northwest Atlanta, Georgia, Atlanta, Georgia and Nashville, Tennessee and had occupancies of 73%, 78% and 86%, respectively, at December 31, 2009. This compares to occupancy of 88%, 82%, and 88% at December 31, 2008. The decrease in occupancy is the result of the current softening in the markets in which these properties are located. The properties are being aggressively marketed for lease. They continue to generate sufficient cash flow to service debt, meet capital expenditure needs and in 2009, although reporting a loss of $3,889,000 due primarily to depreciation and amortization, we received cash distributions of $1,195,000 from operations.

The Sealy properties have $139,750,000 of mortgage debt with no maturities until January 2012.

Marc Realty Portfolio

As of December 31, 2009, we held 12 equity interests with Marc Realty which consist of an aggregate of approximately 1,977,000 rentable square feet of office and retail space which was 84.1% occupied as compared to 85.4% occupied at December 31, 2008.

During 2009 we restructured our investments with Marc Realty. Pursuant to the restructuring, we transferred our interest in properties which we perceived to have less opportunity for superior returns on a risk adjusted basis, increased our interest in the downtown Chicago properties and retained our interest in seven suburban properties. In exchange, Marc Realty relinquished $12,500,000 of deferred returns due to them. As a result, we effectively own 50% of the equity in 12 properties.

There are five downtown Chicago properties which contain approximately 959,000 rentable square feet of the aggregate Marc Realty portfolio and $36,799,000 of our December 31, 2009 carrying value. These five properties had occupancy of 90.6% at December 31, 2009, compared to 90.8% occupancy at December 31, 2008. They offer significant stability to our overall investment due to their size, locality, tenant composition and consistent results, even during times of difficult market conditions. The balance of the portfolio, representing seven properties and $20,761,000 of our December 31, 2009 carrying value, contain approximately 1,018,000 square feet. This subset of the portfolio is located in the Chicago suburbs and was 79.0% occupied at December 31, 2009 compared to 80.4% occupied at December 31, 2008.

The Marc Realty properties are encumbered with $94,969,000 of mortgage debt currently with $23,627,000 maturing in 2010, $30,111,000 maturing in 2011 and the remainder in 2012 or later. We are currently negotiating with the lender to extend the total debt maturing in 2010.

*Loan Assets*

In addition to stabilizing our existing loan assets in 2009, we continued to monitor and pursue new opportunities in the market. In June 2009 we wrote our investment in Concord to zero. The most significant loan asset transaction was our purchase of a $73,796,000 first mortgage loan for $38,409,000 which is collateralized by a 19 story, 289,000 square foot office building located at 160 Spear Street, San Francisco, California. After the initial purchase in June 2009 we split this loan in July 2009 into a $35,000,000 A Note which bears interest at 9.75% and a $38,796,000 B Note which bears interest at 6.48% and which may be satisfied at a discounted payoff amount of $15,000,000. Simultaneously with the split, we sold to an unrelated third party the A Note at par of $35,000,000 resulting in us having a remaining investment of approximately $3,409,000 on the B Note on which we earn $1,371,000 annually in interest and on which we expect to receive $15,000,000 at maturity.

Excluding the 160 Spear Street transactions, since June 2009 we acquired loan assets with an aggregate face value of $42,083,000 for an aggregate purchase price of $21,060,000. At December 31, 2009 our aggregate loan assets' carrying value was $31,774,000 .

*REIT Securities*

During 2009 we invested $31,614,000 in REIT securities and have capitalized on the market mispricing of REIT securities. We recognized $23,278,000 in combined realized and unrealized gains on our securities in 2009. We held REIT securities with a fair value of $52,597,000 at December 31, 2009.

**Liquidity and Capital Resources**

At December 31, 2009 we held $66,493,000 in unrestricted cash and cash equivalents and $52,597,000 in equity and debt REIT securities. In addition, we had the ability to draw up to $35,000,000 on our credit facility with KeyBank National Association ("KeyBank").

Liquidity is a measure of our ability to meet potential cash requirements, including commitments to repay borrowings, fund and maintain investments and other general business needs. We believe that cash flow from operations will continue to provide adequate capital to fund our operating and administrative expenses, regular debt service obligations and all dividend payments in accordance with REIT requirements in the short-term. We anticipate that cash on hand, borrowings under our credit facility and issuance of equity and debt securities, as well as other alternatives, will provide the necessary capital required for our investment activities. As a REIT, we must distribute annually at least 90% of our REIT taxable income. As a result of this dividend requirement, we, like other REITs, are unable to reinvest all of our operating cash flow and are dependent on raising capital through equity and debt issuances or forming ventures with institutional or high net worth investors to obtain funds with which to expand our business.

In order to better position ourselves to take advantage of investment opportunities, in November 2009 we 1) completed a rights offering to shareholders of record on October 22, 2009 issuing of 4,450,781 Common Shares at a price of $9.05 per share and 2) converted 544,000 Series B-1 Preferred Shares into an equivalent number of Series C Preferred Shares. We believe the proceeds from the rights offering of $40,168,000 can be invested accretively within a reasonable time period and we believe, together with our existing liquid assets, provides liquidity sufficient to target a variety of investments. As a result of the Series B-1/Series C transaction, we believe that due to the reduction in our outstanding Series B-1 Preferred Shares to 852,000 shares which have a liquidation value of $21,300,000, we will have greater flexibility in the future to raise capital through the sale of additional preferred shares as the Series C Preferred Shares permit the issuance of pari passu preferred shares, subject to certain limitations, whereas the Series B-1 Preferred Shares do not.

Our primary sources of funds include:

- the use of cash and cash equivalents;
- rents and reimbursements received from our operating properties;
- payments received under our loan assets;
- the issuance of equity and debt securities;
- interest and dividends received from investments in REIT securities;
- cash distributions from joint ventures;
- borrowings under our credit facilities; and
- asset specific borrowings.

Additional financing transactions during the year ended December 31, 2009 include:

- the acquisition of 1,017,105 of our Series B-1 Preferred Shares with a liquidation value of $25,428,000 for $19,081,000 in cash, resulting in a net gain of $5,681,000;
- the extension of the maturity date of the mortgage loan on our River City property for a period of one year;
- the extension of the maturity date of our KeyBank mortgage loan for a period of one year; and
- the repayment in March 2009 of a $9,800,000 note payable.

*Cash Flows*

Our level of liquidity based upon cash and cash equivalents increased by approximately $7,255,000 from $59,238,000 at December 31, 2008 to $66,493,000 at December 31, 2007.

Our cash flow activities are summarized as follows (in thousands):

| | 2009 |
|---|---|
| Net cash flow provided by operating activities | $ 14,968 |
| Net cash flow used in investing activities | (17,786) |
| Net cash flow provided by financing activities | 10,073 |
| Increase in cash and cash equivalents | $ 7,255 |

*Operating Activities*

Although our operating activities generated a net loss of $83,330,000 for the year ended December 31, 2009, operating activities generated positive cash flow of $14,968,000. Our cash provided by operations reflects our net loss adjusted by: (i) non-cash items of $97,300,000 primarily related to equity losses from Concord of $98,574,000; (ii) $5,157,000 of distributions from non-consolidated interests; and (iii) a net decrease due to changes in other operating assets and liabilities of $4,159,000. See our discussion of our Results of Operations below for additional details on our operations.

*Investing Activities*

Cash used in investing activities of $17,786,000 for the year ended December 31, 2009 was comprised primarily of the following:

- $35,000,000 for purchases of available for sale real estate loans which represents the portion of the 160 Spear loan that was subsequently sold in July;

- $33,115,000 for purchases of securities carried at fair value;
- $22,969,000 for acquisitions of loans receivable;
- $8,545,000 for additional loan advances ;
- $3,358,000 for investment in our equity investments; and
- $2,522,000 for investment in capital and tenant improvements at our operating properties.

These uses of investing cash flows were offset primarily by:

- $39,015,000 in proceeds from the sale of securities carried at fair value;
- $34,797,000 in proceeds from the sale of the 160 Spear A Note;
- $11,467,000 in proceeds from the repayment of loans receivable which were primarily short term loans made to Concord; and
- $2,668,000 in net proceeds, primarily related to the release of funds held in escrow from the qualified intermediary for the sale of our Biloxi, Mississippi property.

*Financing Activities*

Cash provided by financing activities of $10,073,000 for the year ended December 31, 2009 was comprised primarily of the following:

- $40,168,000 of proceeds from the issuance of Common Shares through a rights offering; and
- $4,004,000 of proceeds, primarily related to the application of escrow funds held as cash collateral and utilized to pay off the CitiBank note payable.

These contributions to financing cash flows were offset primarily by:

- $9,800,000 for payment of the note payable to CitiBank;
- $17,809,000 for dividend payments on our Common Shares; and
- $6,229,000 for mortgage loan repayments.

*Dividends*

Since December 2005 we have paid regular dividends to our shareholders. In paying dividends we have always sought to have our dividends track cash flow from operations. As a result, while we intend to continue paying dividends each quarter, future dividend declarations will be at the discretion of our Board of Trustees and will depend on the actual cash flow, financial condition, capital requirements, utilization of available capital losses and net operating loss carryforwards, distribution requirements for REITs under the Code, and such other factors as our Board of Trustees deem relevant. Subject to the foregoing, we expect to continue distributing our recurring current cash flow after reserving normal and customary amounts thereby allowing us to maintain our capital. In addition, when deemed prudent or necessitated by applicable distribution requirements for REITs under the Code, we may make one or more special distributions during any particular year. In light of the foregoing, in 2009 we reduced our dividend from $0.325 per share to $0.25 per share for the first three quarters of 2009 and, as a result of the issuance of additional Common Shares during the fourth quarter of 2009 from our rights offering, the proceeds of which have not yet been invested into accretive investments, we reduced the quarterly dividend again to $0.1625 for the fourth quarter of 2009. This represents our existing budgeted recurring cash flow generated by assets currently owned and excludes any potential future cash flow generated from the investment of the substantial cash and cash equivalents on hand. Additionally, during a favorable investing environment, we expect that we will utilize our carryforward capital losses to shelter gains from the disposition of our assets so we may use the proceeds for investment. We expect to continue applying these standards with respect to our dividends on a quarterly basis which could cause the dividends to increase or decrease depending on cash flow.

We paid regular quarterly dividends of $0.325 per Common Share and we declared a special dividend of $0.05 per Common Share in December 2008, which was paid in January 2009. We paid regular quarterly dividends of $0.40625 per Series B-1 Preferred Share for all four quarters of 2009 and 2008.

**Contractual Obligations**

The following table summarizes our payment obligations under contractual obligations, including all fixed and variable rate debt obligations, except as otherwise noted, as of December 31, 2009 (in thousands):

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 Year | 2-3 Years | 4-5 Years | After 5 Years |
| Mortgage loans payable (principal and interest) | $ 279,642 | $ 50,014 (1) | $ 41,204 | $ 45,977 | $ 142,447 |
| Revolving line of credit (principal and interest) | - | - | - | - | - |
| Ground lease obligations (2) | - | - | - | - | - |
| Advisors' fee (3) | 4,702 | 4,702 | - | - | - |
| | $ 284,344 | $ 54,716 | $ 41,204 | $ 45,977 | $ 142,447 |

(1) Balance includes a mortgage loan payable with an outstanding principal balance at December 31, 2009 of $23,761 which we have one one-year option to extend.
(2) All the underlying lease agreements require the tenant to pay the ground rent expense.
(3) Advisor's fee based upon the terms of the Advisory Agreement, effective January 1, 2010, with no effect given to equity issuances after December 31, 2009 or to incentive fee compensation to FUR Advisors. No amounts have been included for subsequent renewal periods of the Advisory Agreement.

We carry comprehensive liability and all risk property insurance covering fire, flood, extended coverage, "acts of terrorism," as defined in the Terrorism Risk Insurance Act of 2002 and rental loss insurance with respect to our operating properties where coverage is not provided by our net lease tenants. Under the terms of our net leases, the tenant is obligated to maintain adequate insurance coverage.

Our debt instruments, consisting of mortgage loans secured by our operating properties (which are generally non-recourse to us), contain customary covenants requiring us to maintain insurance. Although we believe that we have adequate insurance coverage under these agreements, we may not be able to obtain an equivalent amount of coverage at reasonable costs in the future. Further, if lenders insist on greater coverage than we are able to obtain at reasonable costs, it could adversely affect our ability to finance and/or refinance our properties and expand our portfolio.

**Results of Operations**

Our results are discussed below by business segment:

- Operating Properties – our wholly and partially owned operating properties and from and after July 1, 2009 our 12 Marc Realty equity investments;
- Loan Assets – our senior and mezzanine real estate loans as well as commercial mortgage-backed securities including, prior to July 1, 2009, our Marc Realty venture properties;
- REIT Securities – our ownership of equity and debt securities in other real estate investment trusts; and
- Corporate – non-segment specific results which includes interest on cash reserves, general and administrative expenses and other non-segment specific income and expense items.

The following table summarizes our year end assets by business segment (in thousands):

| | 2009 | 2008 |
|---|---|---|
| Operating properties (1) | $ 313,682 | $ 286,780 |
| Loan assets (1) | 31,774 | 146,560 |
| REIT securities | 52,597 | 36,796 |
| Corporate | | |
| Cash and cash equivalents | 66,493 | 59,238 |
| Other | 28,646 | 48,720 |
| Total Assets | $ 493,192 | $ 578,094 |

(1) As of July 1, 2009, in conjunction with the restructuring of our preferred equity investment in Marc Realty, our investments in the Included Properties in the Marc Realty portfolio, which were previously included in the loan assets business segment, are now classified as equity investments and are included in the operating properties business segment.

Total assets decreased by $84,902,000, or 14.7%, from $578,094,000 at December 31, 2008 to $493,192,000 at December 31, 2009. Cash and cash equivalents increased by $7,255,000. In addition, we experienced decreases of $30,726,000 in operating property assets and $57,158,000 in loan assets (exclusive of the transfer of $57,628,000 related to the reclassification of our preferred equity investments, tenant improvement and capital expenditure loans in the Marc Realty portfolio from the loan assets segment to the operating properties segment) and of $20,074,000 in other assets.

The decrease in operating property assets was due primarily to a $10,000,000 impairment loss recognized on our Churchill, Pennsylvania property in 2009, normal depreciation and amortization expense of $10,779,000, a $2,500,000 other-than-temporary impairment loss on one of our Marc Realty equity investments and the reclassification of certain assets to discontinued operations in 2009.

The decrease in loan assets was due primarily to a decrease of $73,061,000 in the carrying value of our equity investment in Concord which is carried at zero as of December 31, 2009.

The decrease in other assets resulted primarily from the utilization of $17,081,000 of funds held on deposit for the retirement of 917,105 shares of our Series B-1 Preferred Shares.

The following table summarizes our results from continuing operations by business segment for each of the years ended December 31 (in thousands):

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Operating properties | $ (7,956) | $ 3,055 | $ 4,731 |
| Loan assets | (99,830) | (67,770) | 20,282 |
| REIT securities | 27,002 | 1,346 | (5,073) |
| Corporate expenses | (3,022) | (6,143) | (15,806) |
| Consolidated (loss) income from continuing operations | $ (83,806) | $ (69,512) | $ 4,134 |

**Comparison 2009 to 2008**

*Operating Properties*

The following table summarizes our results from continuing operations for our operating properties business segment for the years ended December 31, 2009 and 2008 (in thousands):

| | 2009 | 2008 |
|---|---|---|
| Rents and reimbursements | $ 40,605 | $ 42,088 |
| Operating expenses | (7,043) | (6,768) |
| Real estate taxes | (2,542) | (2,428) |
| Impairment loss on investments in real estate | (10,000) | (2,100) |
| Equity in income of Marc Realty investments | 281 | - |
| Impairment loss on Marc Realty equity investment | (2,500) | - |
| Equity in loss of Sealy Northwest Atlanta | (457) | (409) |
| Equity in loss of Sealy Airpark Nashville | (1,056) | (1,023) |
| Equity in loss of Sealy Newmarket | (691) | (250) |
| Operating income | 16,597 | 29,110 |
| Depreciation expense | (10,779) | (11,766) |
| Interest expense | (13,774) | (14,289) |
| Net income | $ (7,956) | $ 3,055 |

For purposes of management's discussion of our results of operations, operating income for each business segment is defined as all items of income and expense before depreciation, amortization and interest expense. Operating income from our operating properties decreased by $12,513,000 over the prior year period. The decrease was due primarily to:

- a $10,000,000 impairment loss recorded in 2009 as compared to an impairment loss of $2,100,000 recognized in 2008;
- a $2,500,000 other-than-temporary impairment loss on our Marc Realty equity investment in the property located at 1701 East Woodfield Rd, Schaumburg, Illinois;
- a decrease of $1,021,000 in rents and reimbursements from our net lease portfolio due to the reduced rent pursuant to the restructuring and 10-year extension of the lease for our Plantation, Florida property as of January 1, 2009;
- a decrease of $686,000 in rents and reimbursements at our Jacksonville, Florida property due to the loss of two tenants who occupied approximately 80% of the property;
- a decrease of $529,000 in rents and reimbursements from our Lisle, Illinois properties due to an approximate 12% decrease in average occupancy at one of the properties in 2009;
- a $275,000 increase in operating expenses due primarily to increased cost of $145,000 at our Ontario property, a $380,000 bad debt reserve at our Burlington property as a result of a tenant bankruptcy and a $122,000 increase in legal and professional fees related to tenant disputes which were offset by a $290,000 decrease in costs at our River City property; and
- a $522,000 increase in losses from our Sealy equity investments due primarily to a $441,000 increase in loss related to our Newmarket office complex in Atlanta, Georgia which we held for 12 months in 2009 and only five months in 2008. Losses from the Sealy portfolio are primarily the result of non-cash depreciation and amortization expenses. We received cash distributions of $1,195,000 from the Sealy equity investments for the year ended December 31, 2009.

Partially offset by:

- income of $281,000 in 2009 representing our share of operations from our 12 Marc Realty equity investments since July 1, 2009. We received cash distributions of $1,089,000 from the Marc Realty equity investments during the year ended December 31, 2009;
- an increase of $194,000 in rents and reimbursements at our Ontario property as a result of a $412,000 increase in rental revenue due to an approximate 1% increase in average occupancy which was partially offset by a $218,000 decline in revenue from the parking facility in 2009; and
- an increase of $577,000 in rents and reimbursements at our River City property due to an approximate 6% increase in average occupancy in 2009.

Depreciation and amortization expense decreased by $987,000 primarily as a result of values assigned to leases in place at the time of acquisition being fully amortized during 2009. Interest expenses related to our operating properties decreased by $515,000 primarily as a result of normal amortization of the mortgage loans payable.

*Loan Assets*

The following table summarizes our results from our loan assets business segment for the years ended December 31, 2009 and 2008 (in thousands):

| | 2009 | 2008 |
|---|---|---|
| Interest income | $ 3,442 | $ 1,532 |
| Equity in earnings of preferred equity investment of Marc Realty | 78 | 5,868 |
| Impairment loss on preferred equity investments | (2,186) | (7,513) |
| Impairment loss on Lex-Win Concord | (31,670) | (36,543) |
| Equity in loss of Lex-Win Concord | (66,904) | (30,207) |
| Gain on sale of mortgage backed securities | - | 454 |
| Gain on sale of other assets | - | 24 |
| Impairment loss on available for sale loan | (203) | - |
| Provision for loss on loan receivable | (2,152) | (1,179) |
| Operating loss | (99,595) | (67,564) |
| General and administrative expense | (235) | - |
| Interest expense | - | (206) |
| Net loss | $ (99,830) | $ (67,770) |

Operating loss from loan assets increased by $32,031,000 from a loss of $67,564,000 in 2008 to a loss of $99,595,000 in 2009. The increase was due primarily to:

- a $36,697,000 increase in equity in loss from Lex-Win Concord due primarily to our allocable share of the increased operating loss from Concord for the year ended December 31, 2009 compared to the year ended December 31, 2008. In addition, we recorded a $31,670,000 other-than-temporary impairment loss in 2009 to reduce our equity investment in Lex-Win Concord to zero. In 2008, we recorded a $36,543,000 other-than-temporary impairment loss.
- a $5,790,000 decrease in earnings from our preferred equity investment primarily as a result of the restructuring of the Marc Realty portfolio. Items that affected the decrease included a $2,664,000 loss from the transfer of our interest in three of the properties in the Marc Realty portfolio in May 2009, a $2,624,000 decrease in interest earnings and a $511,000 decrease in gains on sale of real estate; and
- a $973,000 increase in provision for loss on loans receivable related to properties in our Marc Realty portfolio;

Partially offset by:

- a $1,910,000 increase in interest income due primarily to $2,675,000 recognized on loan assets acquired in 2009 which was partially offset by a reduction of $522,000 of interest on our tenant improvement and capital expenditure loans related to the Marc Realty investments which are now reported in the operating properties segment as of July 1, 2009; and
- a $5,327,000 decrease in impairment loss on preferred equity investments. We recognized $2,186,000 of other-than-temporary impairments on four of our Marc Realty preferred equity investments during the year ended December 31, 2009 compared with a $7,513,000 other-than-temporary impairment recognized on four Marc Realty preferred equity investments during the same period in 2008.

*REIT Securities*

The following table summarizes our results from our REIT securities business segment for the years ended December 31, 2009 and 2008 (in thousands):

| | 2009 | 2008 |
|---|---|---|
| Dividends | $ 3,894 | $ 916 |
| Gain on sale of securities carried at fair value | 5,416 | - |
| Gain on sale of available for sale securities | - | 1,580 |
| Impairment loss on available for sale securities | - | (207) |
| Unrealized gain on securities carried at fair value | 17,862 | 24 |
| Equity in loss of Lex-Win Acquisition, LLC | (95) | (878) |
| Operating income | 27,077 | 1,435 |
| Interest expense | (75) | (89) |
| Net income | $ 27,002 | $ 1,346 |

Operating income from REIT securities increased by $25,642,000 over the prior year period. The increase was due primarily to:

- a $2,978,000 increase due primarily to interest and dividends as the result of the increased investment in REIT securities during the year ended December 31, 2009;
- a $17,862,000 unrealized gain on securities carried at fair value recognized in 2009; and
- a $3,836,000 increase in gain on sale of securities.

*Corporate*

The following table summarizes our results from our corporate business segment for the years ended December 31, 2009 and 2008 (in thousands):

| | 2009 | 2008 |
|---|---|---|
| Interest income | $ 172 | $ 1,670 |
| General and administrative | (7,068) | (6,887) |
| Interest expense | (2,815) | (7,379) |
| Gain on extinguishment of debt | 6,846 | 6,284 |
| State and local taxes | (157) | (330) |
| Other | - | 499 |
| Operating loss | $ (3,022) | $ (6,143) |

The decrease in the operating loss from corporate operations for the comparable periods was due primarily to:

- a $4,564,000 decrease in corporate interest expense due primarily to lower aggregate payments in 2009 of $3,470,000 on our Series B-1 Preferred Shares as a result of fewer Series B-1 Preferred Shares outstanding during 2009 and a reduction of interest expense of $1,102,000 related to our KeyBank line of credit;

Partially offset by:

- a $1,498,000 decrease in corporate interest income earned on our cash and cash equivalents due primarily to lower yields on U.S. Treasury securities and other depository accounts during 2009 versus 2008; and
- state income taxes decreased by $173,000 to $157,000 for the year ended December 31, 2009 from $330,000 for the year ended December 31, 2008 due primarily to our anticipated lower taxable income for state purposes, after deductions for dividends paid and after the utilization of net operating loss carryforwards, where applicable.

**Comparison 2008 to 2007**

*Operating Properties*

The following table summarizes our results from continuing operations for our operating properties business segment for the years ended December 31, 2008 and 2007 (in thousands):

| | 2008 | 2007 |
|---|---|---|
| Rents and reimbursements | $ 42,088 | $ 39,460 |
| Operating expenses | (6,768) | (5,132) |
| Real estate taxes | (2,428) | (2,068) |
| Impairment loss on investments in real estate | (2,100) | - |
| Loss on extinguishment of debt | - | (369) |
| Equity in loss of Sealy Northwest Atlanta | (409) | (470) |
| Equity in loss of Sealy Airpark Nashville | (1,023) | (936) |
| Equity in loss of Sealy Newmarket | (250) | - |
| Operating income | 29,110 | 30,485 |
| Depreciation expense | (11,766) | (11,639) |
| Interest expense | (14,289) | (14,115) |
| Net income | $ 3,055 | $ 4,731 |

Operating income from our operating properties decreased by $1,375,000 to $29,110,000 for the year ended December 31, 2008 from $30,485,000 for the year ended December 31, 2007. The decrease was due primarily to:

- a $2,628,000 increase in rents and reimbursements due primarily to increased rental income at our River City property acquired in October 2007;
- a $1,636,000 increase in operating expenses due primarily to our River City property, acquired in October 2007 which we owned for 12 months in 2008 compared to three months in 2007;
- a $360,000 increase in real estate taxes due primarily to our River City property acquired in October 2007;
- a $2,100,000 impairment loss on real estate at our Andover, Massachusetts property as a result of indications from our existing tenant that they will not renew their lease, due to expire in December 2009; and
- a $276,000 increase in losses from our equity investments due primarily to a $250,000 loss related to our Sealy Newmarket office complex in Atlanta, Georgia which we acquired in August 2008. Losses from the Sealy portfolio are primarily the result of non-cash depreciation and amortization expenses. We received cash distributions from these investments of $1,405,000 and $194,000 for the years ended December 31, 2008 and 2007, respectively.

Depreciation and interest expenses related to our operating properties remained relatively constant with the prior year.

*Loan Assets*

The following table summarizes our results from our loan assets business segment for the years ended December 31, 2008 and 2007 (in thousands):

| | 2008 | 2007 |
|---|---|---|
| Interest | $ 1,532 | $ 7,728 |
| Equity in earnings of preferred equity investment of Marc Realty | 5,868 | 11,836 |
| Impairment loss on preferred equity investments | (7,513) | - |
| Equity in (loss) earnings of equity investments | (30,207) | 5,098 |
| Impairment loss on Lex-Win Concord | (36,543) | - |
| Gain on sale of mortgage backed securities | 454 | - |
| Gain on other assets | 24 | - |
| Gain on sale of limited partnership interest | - | 1,997 |
| Provision for loss on loan receivable | (1,179) | - |
| Operating (loss) income | (67,564) | 26,659 |
| Interest expense | (206) | (6,377) |
| Net (loss) income | $ (67,770) | $ 20,282 |

Operating income from loan assets decreased by $94,223,000 from income of $26,659,000 in 2007 to a loss of $67,564,000 in 2008. The decrease was due primarily to:

- a $71,848,000 decrease in equity in earnings from Concord due primarily to:
  - a $62,804,000 increase in impairments on available for sale securities at Concord
  - a $31,053,000 provision for loan loss reserves
  - offset by a $15,603,000 gain on early extinguishment of debt at Concord from the repurchase of $29,125,000 of its CDO-1 debt for $13,110,000, net of deferred costs. See "Concord and Lex-Win Concord" below for further details on Concord's results of operations;
  - a $36,543,000 other-than-temporary impairment loss on our equity investment in Concord;
- a $13,481,000 decrease in equity in earnings from our preferred equity investment, Marc Realty, primarily due to a decrease of $5,194,000 of gains on sales of real estate and a $7,513,000 loss attributable to other-than-temporary impairments recognized in 2008 on four of our mezzanine investments in the Marc Realty portfolio;
- a $6,196,000 decrease in interest income due primarily to:
  - a $4,403,000 decrease on our Fannie Mae and Freddie Mac whole pool mortgage backed securities sold in January 2008
  - a $2,433,000 decrease in interest income on our Toy Building loan sold in May 2007; and

- a $1,997,0000 decrease in gain on the sale of limited partnership interests due to the 2007 sale of our investment in a venture which held an interest in a Chicago office building known as One Financial Place.

The $6,171,000 decrease in loan interest expense from the prior year period was due primarily to lower average loan balances outstanding during 2008 versus 2007, in particular:

- a $4,274,000 decrease on our Fannie Mae mortgage backed securities, sold in January 2008; and
- a $936,000 decrease on our Toy Building loan, sold in May 2007.

*REIT Securities*

The following table summarizes our results from our REIT securities business segment for the years ended December 31, 2008 and 2007 (in thousands):

| | 2008 | 2007 |
|---|---|---|
| Dividends | $ 916 | $ 3,003 |
| Gain on sale of available for sale securities | 1,580 | 10,187 |
| Impairment loss on available for sale securities | (207) | (18,218) |
| Unrealized gain on available for sale securities | 24 | - |
| Equity in loss of Lex-Win Acquisition, LLC | (878) | (45) |
| Operating income | 1,435 | (5,073) |
| Interest expense | (89) | - |
| Net income (loss) | $ 1,346 | $ (5,073) |

Operating income from REIT securities increased by $6,508,000 over the prior year period to income of $1,435,000 in 2008 versus a loss of $5,073,000 in 2007. The $6,508,000 increase was due primarily to:

- a $18,011,000 decrease in impairment losses on available for sale securities due to the recognition in 2007 of a $17,745,000 non-cash impairment loss on our common shares of Lexington;
- a $8,607,000 decrease in gains on sales of available for sale securities due primarily to the sale in 2007 of America First Apartment Investors, Inc. common stock; and
- a $2,087,000 decrease in dividend income due primarily to dividends received in 2007 on our Lexington common shares, which were sold in March 2008.

*Corporate*

The following table summarizes our results from our corporate business segment for the years ended December 31, 2008 and 2007 (in thousands):

| | 2008 | 2007 |
|---|---|---|
| Interest income | $ 1,670 | $ 3,149 |
| General and administrative | (6,887) | (8,336) |
| Interest expense | (7,379) | (10,902) |
| Gain on extinguishment of debt | 6,284 | - |
| State and local taxes | (330) | (417) |
| Other | 499 | 700 |
| Operating loss | $ (6,143) | $ (15,806) |

The decrease in the operating loss from corporate operations for the comparable periods was:

- a $6,284,000 gain on early extinguishment of debt resulting from our October and November 2008 purchases of 1,024,000 shares of our Series B-1 Preferred Shares at a discount of 27.4% to their liquidation value;
- a $3,523,000 decrease in corporate interest expense due primarily to lower aggregate dividend payments in 2008 on our Series B-1 Preferred Shares as a result of fewer Series B-1 Preferred Shares outstanding during 2008;

- a $1,479,000 decrease in corporate interest income earned on our cash and cash equivalents due primarily to lower yields on U.S. Treasury securities during 2008 versus 2007;
- a $1,449,000 decrease in general and administrative expenses due primarily to a credit in the base management fee of $1,500,000. In connection with the resignation by Michael Ashner, our Chairman and Chief Executive Officer, as a trustee and officer of Lexington in March 2008, we agreed to permit FUR Advisors to provide consulting services to Lexington through December 2008. For providing these services, Lexington paid FUR Advisors a fee of $1,500,000. In consideration for granting its consent, we received a credit of $1,500,000 against the base management fee payable by us to FUR Advisors which was used during 2008. Excluding the effect of the credit, general and administrative expenses were consistent with the prior year; and
- state income taxes decreased by $87,000 to $330,000 for the year ended December 31, 2008 from $417,000 for the year ended December 31, 2007 due primarily to our anticipated taxable income for state purposes, after deductions for dividends paid and after the utilization of net operating loss carryforwards, where applicable.

Discontinued Operations

In November 2009 the tenant at our Athens, Georgia retail property notified us that it was exercising its right to purchase the property at the expiration of the current lease term. In accordance with the lease, the purchase price will be equal to the fair market value of the property at the time of sale. We and the tenant have each engaged independent third parties to determine the fair market value of the property. We anticipate that the sale will be consumated on or before October 31, 2010, the current lease expiration date.

In August 2009 the First District Court of Wyandotte County, Kansas appointed a receiver to operate and manage our apartment complex in Kansas City, Kansas, commonly referred to as Creekwood Apartments. In October 2009 a notice of foreclosure was issued on behalf of the first mortgage holder. The property was foreclosed upon in December 2009 and we recorded a gain on the early extinguishment of debt of $292,000.

In December 2008 we sold a shopping center asset located in Biloxi, Mississippi, aggregating approximately 51,000 square feet, for a gross sales price of approximately $3,300,000. We received proceeds of $2,678,000, net of credits for a ground lease purchase option and closing costs, and recognized a gain of $1,807,000 on the sale.

The operations of the foregoing properties are classified as discontinued operations for all periods presented.

Tenant Concentrations

Three tenants contributed approximately 41%, 39% and 41% of our base rental revenues for the years ended December 31, 2009, 2008 and 2007, respectively, and represent approximately 36%, 35% and 35%, respectively, of the total rentable square footage of the net lease property portfolio.

The Jacksonville, Florida property has one tenant that will occupy approximately 94% of the rentable area effective February 2010.

*Off-Balance Sheet Investments*

We have three off-balance sheet investments – our Marc Realty, Lex-Win Concord and Sealy investment platforms. For our three off-balance sheet arrangements, our exposure to loss is limited to our investment balance.

## Critical Accounting Policies and Estimates

*Impairment*

*Operating properties* – We evaluate the need for an impairment loss on real estate assets when indicators of impairment are present and the projected undiscounted cash flows from an asset are not sufficient to recover an asset's carrying amount. The impairment loss is measured by comparing the fair value of the asset to its carrying amount. The projection of cash flows used in the impairment evaluation involves significant judgment by management.

*Preferred equity investments* – We have certain mezzanine loans which are classified as preferred equity investments. Determining whether a preferred equity investment is other-than-temporarily impaired requires significant judgment. This evaluation includes consideration of the length of time and extent to which the fair value of an investment has been less than its cost basis, our intent and ability to hold the investment until a forecasted recovery in value and the collateral underlying the investment.

*Loan assets* – Loan assets are periodically evaluated for possible impairment in order to determine whether it is necessary to establish a loan loss allowance. In some instances if a borrower is experiencing difficulties making loan payments we may assist the borrower to address the problems, which could include extending the loan term, making additional advances, or reducing required payments. A loan asset is considered to be impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the existing contractual terms of the loan. Impairment is then measured based on the present value of expected future cash flows or, if the loan is collateral dependent, the fair value of the collateral. When a loan is considered to be impaired, we will establish an allowance for loan losses and record a corresponding charge to earnings. Significant judgments are required in determining impairment. We do not record interest income on impaired loans. Any cash receipts on impaired loans are recorded as a recovery reducing the allowance for loan losses.

*Available for sale securities* – A decline in the market value of any available for sale marketable equity security below its cost that is deemed to be an other-than-temporary impairment results in a reduction in carrying amount to fair value. The impairment is charged to operations and a new cost basis for the security is established. The determination of whether an available for sale marketable security is other-than-temporarily impaired requires significant judgment and requires consideration of available quantitative and qualitative evidence in evaluating the potential impairment. Factors evaluated to determine whether the investment is other-than-temporarily impaired include significant deterioration in the issuer's earnings performance, credit rating, and asset quality; business prospects of the issuer; adverse changes in the general market conditions in which the issuer operates; length of time that the fair value has been below our cost; our expected future cash flows from the security and our intent and ability to retain the investment for a sufficient period of time to allow for recovery in the market value of the investment. Judgments associated with these factors are subject to future market and economic conditions, which could differ from our assessment.

*Equity investments* – Equity investments are reviewed for impairment periodically. Equity investments for which the carrying value exceeds the fair value, the Trust evaluates if these are other-than-temporarily impaired.

*Contingent Liabilities* – Estimates are used when accounting for the allowance for contingent liabilities and other commitments. Estimating probable losses requires analysis of multiple forecasts that often depend on judgments about potential actions by third parties such as regulators. All of the estimates and evaluations are susceptible to change and actual results could differ from the estimates and evaluations.

*Variable Interest Entities*

We have evaluated our investments to determine whether they are variable interests in a variable interest entity ("VIE"). A VIE is required to be consolidated by its primary beneficiary. The primary beneficiary is the party that incurs a majority of the VIE's anticipated losses and/or a majority of its expected returns. Determination of whether we must consolidate variable interest entities requires significant judgments and assumptions to be made.

At December 31, 2009 we have identified three loans receivable, Concord, and the Marc Realty equity investments and the preferred equity investment to be variable interests in a VIE. We have determined that we are not the primary beneficiary of the underlying borrowing entities of these investments as we do not anticipate absorbing a majority of the expected losses due to our preferred return position.

**Recently Issued Accounting Standards**

See "Item 8. Financial Statements and Supplementary Data - Note 2."

## ITEM 7A – QUANTITATIVE & QUALITATIVE DISCLOSURES ABOUT MARKET RISK

**Interest Rate Risk**

We have exposure to fluctuations in market interest rates. Market interest rates are highly sensitive to many factors beyond our control. Various financial vehicles exist which would allow management to mitigate the potential negative effects of interest rate fluctuations on our cash flow and earnings.

Our liabilities include both fixed and variable rate debt. As discussed in ITEM 7 – Management's Discussion and Analysis of Financial Conditions and Results of Operations, we seek to limit our risk to interest rate fluctuations through match financing on our loan assets as well as through hedging transactions. In this regard, we entered into the following agreements:

- An interest rate swap with a $26,000,000 notional amount that effectively converted the interest rate on that portion of principal of our mortgage loan payable to KeyBank from a floating rate equal to LIBOR plus 1.75% to a fixed rate of 5.80%. This interest rate swap matured on December 1, 2009. The outstanding balance at December 31, 2009 on this loan is approximately $23,761,000.
- Effective June 24, 2009, we entered into an interest rate swap agreement, with a notional amount of $23,000,000, which commenced with the expiration of the aforementioned swap and will cover through June 30, 2010 which effectively converts the interest rate on that portion of principal from a floating rate of 1.75% to a fixed rate of 2.80%.

The fair value of our debt, based on discounted cash flows at the current rate at which similar loans would be made to borrowers with similar credit ratings for the remaining term of such debt, was less than its carrying value by $25,704,000 at December 31, 2009 and exceeded its carrying value by $633,000 at December 31, 2008.

The following table shows what the annual effect a change in the LIBOR rate would have on interest expense based upon the unhedged balances in variable rate debt at December 31, 2009 (in thousands):

| | Change in LIBOR(2) | | | |
|---|---|---|---|---|
| | -0.23% | 1% | 2% | 3% |
| Change in consolidated interest expense | $ (2) | $ 8 | $ 15 | $ 23 |
| Pro-rata share of change in interest expense of debt on non-consolidated entities (1) | (45) | 195 | 390 | 585 |
| (Increase) decrease in net income | $ (47) | $ 203 | $ 405 | $ 608 |

(1) Represents our pro-rata share of a change in interest expense in our Marc Realty equity investment. The amount does not reflect our equity investment in Concord which has been written down to zero.
(2) The one month LIBOR rate at December 31, 2009 was 0.23%.

We may utilize various financial instruments to mitigate the potential negative impact of interest rate fluctuations on our cash flows and earnings, including hedging strategies, depending on our analysis of the interest rate environment and the costs and risks of such strategies. In addition, as of December 31, 2009 our variable rate loans receivable with a face value aggregating $32,504,000 partially mitigate our exposure to change in interest rates.

**Market Value Risk**

Our hedge transactions using derivative instruments also involve certain additional risks such as counterparty credit risk, the enforceability of hedging contracts and the risk that unanticipated and significant changes in interest rates will cause a significant loss of basis in the contract. The one counterparty of these arrangements is KeyBank at the present time. We do not anticipate that this counterparty will fail to meet its obligations. There can be no assurance that we will adequately protect against the foregoing risks and that we will ultimately realize an economic benefit that exceeds the related assets incurred in connection with engaging in such hedging strategies.

## ITEM 8 – FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

**Report of Independent Registered Public Accounting Firm**

To the Board of Trustees and Shareholders of Winthrop Realty Trust

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and comprehensive income, shareholders' equity and cash flows present fairly, in all material respects, the financial position of Winthrop Realty Trust and its subsidiaries at December 31, 2009 and December 31, 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, 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's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits in 2009, 2008 and 2007. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for non-controlling interests in 2009.

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 (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) 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 (iii) 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.

/s/ PricewaterhouseCoopers LLP
Boston, Massachusetts
March 15, 2010

**WINTHROP REALTY TRUST**
**CONSOLIDATED BALANCE SHEETS**

(in thousands, except per share data)

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| **ASSETS** | | |
| Investments in real estate, at cost | | |
| Land | $ 20,659 | $ 21,344 |
| Buildings and improvements | 228,419 | 246,362 |
| | 249,078 | 267,706 |
| Less: accumulated depreciation | (31,269) | (25,901) |
| Investments in real estate, net | 217,809 | 241,805 |
| | | |
| Cash and cash equivalents | 66,493 | 59,238 |
| Restricted cash held in escrows | 9,505 | 14,353 |
| Loans receivable, net of allowances of $0 and $2,445, respectively | 26,101 | 22,876 |
| Accounts receivable, net of allowances of $565 and $225, respectively | 14,559 | 14,028 |
| Securities carried at fair value | 52,394 | 36,516 |
| Loan securities carried at fair value | 1,661 | - |
| Available for sale securities, net | 203 | 184 |
| Preferred equity investment | 4,012 | 50,624 |
| Equity investments | 73,207 | 92,202 |
| Lease intangibles, net | 22,666 | 25,929 |
| Deferred financing costs, net | 1,495 | 3,218 |
| Assets held for sale | 3,087 | - |
| Deposit | - | 17,081 |
| Other assets | - | 40 |
| **TOTAL ASSETS** | $ 493,192 | $ 578,094 |
| | | |
| **LIABILITIES** | | |
| Mortgage loans payable | $ 216,767 | $ 229,737 |
| Series B-1 Cumulative Convertible Redeemable Preferred Shares, $25 per share liquidation preference; 852,000 and 2,413,105 shares authorized and outstanding at December 31, 2009 and 2008, respectively | 21,300 | 60,328 |
| Note payable | - | 9,800 |
| Accounts payable and accrued liabilities | 7,401 | 8,596 |
| Dividends payable | 3,458 | 5,934 |
| Deferred income | 48 | 795 |
| Below market lease intangibles, net | 2,849 | 3,696 |
| **TOTAL LIABILITIES** | 251,823 | 318,886 |
| | | |
| **COMMITMENTS AND CONTINGENCIES** | | |
| | | |
| **NON-CONTROLLING REDEEMABLE PREFERRED INTEREST** | | |
| Series C Cumulative Convertible Redeemable Preferred Shares, $25 per share liquidation preference, 544,000 shares authorized and outstanding at December 31, 2009 | 12,169 | - |
| Total non-controlling redeemable preferred interest | 12,169 | - |
| | | |
| **EQUITY** | | |
| Winthrop Realty Trust Shareholders' Equity**:** | | |
| Common Shares, $1 par, unlimited shares authorized; 20,375,483 and 15,754,495 issued and outstanding in 2009 and 2008, respectively | 20,375 | 15,754 |
| Additional paid-in capital | 498,118 | 460,956 |
| Accumulated distributions in excess of net income | (301,317) | (213,284) |
| Accumulated other comprehensive loss | (87) | (15,176) |
| Total Winthrop Realty Trust Shareholders' Equity | 217,089 | 248,250 |
| Non-controlling interests | 12,111 | 10,958 |
| Total Equity | 229,200 | 259,208 |
| **TOTAL LIABILITIES AND EQUITY** | $ 493,192 | $ 578,094 |

See Notes to Consolidated Financial Statements.

# WINTHROP REALTY TRUST
## CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(in thousands, except per share data)

| | Years Ended December 31, 2009 | 2008 | 2007 |
|---|---|---|---|
| **Revenue** | | | |
| Rents and reimbursements | $ 40,605 | $ 42,088 | $ 39,460 |
| Interest and dividends | 7,336 | 2,448 | 10,731 |
| | 47,941 | 44,536 | 50,191 |
| **Expenses** | | | |
| Property operating | 7,043 | 6,768 | 5,132 |
| Real estate taxes | 2,542 | 2,428 | 2,068 |
| Depreciation and amortization | 10,779 | 11,766 | 11,639 |
| Interest | 16,664 | 21,963 | 31,394 |
| Impairment loss on investments in real estate | 10,000 | 2,100 | - |
| Impairment loss on available for sale securities | - | 207 | 18,218 |
| Provision for loss on loans receivable | 2,152 | 1,179 | - |
| General and administrative | 7,303 | 6,887 | 8,336 |
| State and local taxes | 157 | 330 | 417 |
| | 56,640 | 53,628 | 77,204 |
| **Other income (loss)** | | | |
| Earnings (loss) from preferred equity investments | (2,108) | (1,645) | 11,836 |
| Equity in (loss) earnings of equity investments | (103,092) | (69,310) | 3,647 |
| Gain on sale of available for sale securities | - | 1,580 | 10,187 |
| Gain on sale of mortgage-backed securities | - | 454 | - |
| Gain on sale of securities carried at fair value | 5,416 | - | - |
| Gain on sale of other assets | - | 24 | 1,997 |
| Gain (loss) on extinguishment of debt | 6,846 | 6,284 | (369) |
| Unrealized gain on securities carried at fair value | 17,862 | 24 | - |
| Impairment loss on real estate loan available for sale | (203) | - | - |
| Interest income | 172 | 1,670 | 3,149 |
| Other income | - | 499 | 700 |
| | (75,107) | (60,420) | 31,147 |
| (Loss) income from continuing operations | (83,806) | (69,512) | 4,134 |
| **Discontinued operations** | | | |
| Income (loss) from discontinued operations | 184 | 12 | (1,075) |
| Gain on extinguishment of debt | 292 | - | - |
| Gain on sale of real estate | - | 1,807 | - |
| Income (loss) from discontinued operations | 476 | 1,819 | (1,075) |
| **Consolidated net (loss) income** | (83,330) | (67,693) | 3,059 |
| Income attributable to non-controlling interest | (1,017) | (483) | (578) |
| **Net (loss) income attributable to Winthrop Realty Trust** | (84,347) | (68,176) | 2,481 |
| Income attributable to non-controlling redeemable preferred interest | (147) | - | - |
| **Net (loss) income attributable to Common Shares** | $ (84,494) | $ (68,176) | $ 2,481 |
| **Comprehensive loss** | | | |
| Consolidated net (loss) income | $ (83,330) | $ (67,693) | $ 3,059 |
| Change in unrealized gain (loss) on available for sale securities | 19 | 1,662 | (19,704) |
| Change in unrealized gain on mortgage-backed securities | - | 190 | 1,250 |
| Change in unrealized gain (loss) on interest rate derivative | 543 | (743) | (1,553) |
| Change in unrealized gain (loss) from equity investments | 26,174 | (6,137) | (8,390) |
| Less reclassification adjustment included in net income | - | (2,058) | 15,270 |
| **Comprehensive loss** | $ (56,594) | $ (74,779) | $ (10,068) |
| **Per Common Share Data – Basic:** | | | |
| Income (loss) from continuing operations | $ (5.22) | $ (4.71) | $ 0.27 |
| Income from discontinued operations | 0.03 | 0.12 | ( 0.08) |
| Net income (loss) attributable to Winthrop Realty Trust | $ (5.19) | $ (4.59) | $ 0.19 |
| **Per Common Share Data – Diluted:** | | | |
| Income (loss) from continuing operations | $ (5.22) | $ (4.71) | $ 0.27 |
| Income from discontinued operations | 0.03 | 0.12 | ( 0.08) |
| Net income (loss) attributable to Winthrop Realty Trust | $ (5.19) | $ (4.59) | $ 0.19 |
| **Basic Weighted-Average Common Shares** | 16,277 | 14,866 | 13,165 |
| **Diluted Weighted-Average Common Shares** | 16,277 | 14,866 | 13,178 |

See Notes to Consolidated Financial Statements.

**WINTHROP REALTY TRUST**

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**
**FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007**

(In thousands, except per share data)

| | Common Shares of Beneficial Interest | | Additional Paid-In Capital | Accumulated Distributions in Excess of Net Income | Accumulated Other Comprehensive Income | Non-Controlling Interests | Total |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | | | | | |
| Balance, December 31, 2006 | 13,074 | $ 65,370 | $ 353,719 | $ (100,540) | $ 5,037 | $ 30,051 | $ 353,637 |
| Cumulative effect, change in accounting principle | - | - | - | 1,916 | - | - | 1,916 |
| Net income attributable to Winthrop Realty Trust | - | - | - | 2,481 | - | - | 2,481 |
| Net income attributable to non-controlling interests | - | - | - | - | - | 578 | 578 |
| Distributions to non-controlling interests | - | - | - | - | - | (21,438) | (21,438) |
| Contributions from non-controlling interests | - | - | - | - | - | 787 | 787 |
| Dividends paid or accrued on Common Shares of Beneficial Interest ($2.15 per share) | - | - | - | (28,410) | - | - | (28,410) |
| Change in unrealized loss on available for sale securities, net of reclassification adjustments for amounts included in net income | - | - | - | - | (4,434) | - | (4,434) |
| Change in unrealized loss on mortgage backed securities held for sale | - | - | - | - | 1,250 | - | 1,250 |
| Change in unrealized gain on interest rate derivatives | - | - | - | - | (1,553) | - | (1,553) |
| Change in unrealized loss from equity investments | - | - | - | - | (8,390) | - | (8,390) |
| Conversion of Series B-1 Preferred Shares to Common Shares | 66 | 330 | 1,097 | - | - | - | 1,427 |
| Stock issued under dividend reinvestment plan | 118 | 592 | 3,329 | - | - | - | 3,921 |
| Balance, December 31, 2007 | 13,258 | 66,292 | 358,145 | (124,553) | (8,090) | 9,978 | 301,772 |
| Net loss attributable to Winthrop Realty Trust | - | - | - | (68,176) | - | - | (68,176) |
| Net income attributable to non-controlling interests | - | - | - | - | - | 483 | 483 |
| Distributions to non-controlling interests | - | - | - | - | - | (103) | (103) |
| Contributions from non-controlling interests | - | - | - | - | - | 600 | 600 |
| Dividends paid or accrued on Common Shares of beneficial interest ($1.35 per share) | - | - | - | (20,555) | - | - | (20,555) |
| Change in unrealized loss on available for sale securities, net of reclassification adjustments for amounts included in net income | - | - | - | - | 58 | - | 58 |
| Change in unrealized loss on mortgage backed securities held for sale | - | - | - | - | (264) | - | (264) |
| Change in unrealized gain on interest rate derivatives | - | - | - | - | (743) | - | (743) |
| Change in unrealized loss from equity investments | - | - | - | - | (6,137) | - | (6,137) |
| Effect of the Reverse Split | - | (63,298) | 63,298 | - | - | - | - |
| Partial shares retired due to Reverse Split | (1) | (5) | (5) | - | - | - | (10) |
| Purchase and retirement of Common Shares | (70) | (70) | (860) | - | - | - | (930) |
| Conversion of Series B-1 Preferred Shares to Common Shares | 548 | 2,742 | 9,190 | - | - | - | 11,932 |
| Issuance of Common Shares through rights offering | 1,769 | 8,845 | 28,029 | - | - | - | 36,874 |
| Stock issued under dividend reinvestment plan | 250 | 1,248 | 3,159 | - | - | - | 4,407 |
| Balance, December 31, 2008 | 15,754 | 15,754 | 460,956 | (213,284) | (15,176) | 10,958 | 259,208 |
| Cumulative effect, change in accounting principle | - | - | - | 11,647 | (11,647) | - | - |
| Net loss atributable to Winthrop Realty Trust | - | - | - | (84,347) | - | - | (84,347) |
| Net income attributable to non-controlling interests | - | - | - | - | - | 1,017 | 1,017 |
| Distributions to non-controlling interests | - | - | - | - | - | (843) | (843) |
| Contributions from non-controlling interests | - | - | - | - | - | 979 | 979 |
| Dividends paid or accrued on Common Shares of beneficial interest ($0.9125 per share) | - | - | - | (15,186) | - | - | (15,186) |
| Dividends paid or accrued on Series C Preferred Shares ($0.406 per ahare) | - | - | - | (147) | - | - | (147) |
| Change in unrealized loss on available for sale securities, net of reclassification adjustments for amounts included in net income | - | - | - | - | 19 | - | 19 |
| Change in unrealized gain on interest rate derivatives | - | - | - | - | 543 | - | 543 |
| Change in unrealized loss from equity investments | - | - | - | - | 26,174 | - | 26,174 |
| Issuance of Common Shares through rights offering | 4,451 | 4,451 | 35,717 | - | - | - | 40,168 |
| Stock issued under dividend reinvestment plan | 170 | 170 | 1,445 | - | - | - | 1,615 |
| Balance, December 31, 2009 | 20,375 | $ 20,375 | $ 498,118 | $ (301,317) | $ (87) | $ 12,111 | $ 229,200 |

See Notes to Consolidated Financial Statements.

## WINTHROP REALTY TRUST
## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

| | Years Ended December 31, 2009 | 2008 | 2007 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net (loss) income | $ (83,330) | $ (67,693) | $ 3,059 |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: | | | |
| Depreciation and amortization (including amortization of deferred financing costs) | 7,504 | 8,072 | 8,086 |
| Amortization of lease intangibles | 4,771 | 5,507 | 7,673 |
| Straight-lining of rental income | (1,280) | (1,701) | (1,825) |
| Losses (earnings) of preferred equity investments | 2,758 | 2,805 | (5,481) |
| Distributions from preferred equity investments | 2,373 | 4,804 | 5,469 |
| Losses (earnings) of equity investments | 103,092 | 69,310 | (3,647) |
| Distributions from equity investments | 2,784 | 6,878 | 2,084 |
| Restricted cash held in escrows | (1,824) | (318) | (148) |
| Gain on sale of securities carried at fair value | (5,416) | - | - |
| Gain on sale of available for sale securities | - | (1,580) | (10,187) |
| Gain on sale of mortgage-backed securities available for sale | - | (454) | - |
| Gain on sale of investments in real estate | - | (1,807) | - |
| Unrealized gain on securities carried at fair value | (17,862) | - | - |
| Unrealized gain on available for sale securities | - | (24) | - |
| (Gain) loss on extinguishment of debt | (7,138) | (6,284) | 369 |
| Impairment loss on real estate loan available for sale | 203 | - | - |
| Impairment loss | 10,000 | 2,307 | 18,218 |
| Provision for loss on loan receivable | 2,152 | 1,179 | 1,266 |
| Tenant leasing costs | (2,191) | 795 | - |
| Bad debt expense | 340 | 62 | 71 |
| Net change in interest receivable | (74) | (70) | 435 |
| Net change in loan discount accretion | (1,021) | - | - |
| Net change in other operating assets and liabilities | (873) | 4,084 | (3,288) |
| Net cash provided by operating activities | 14,968 | 25,872 | 22,154 |
| **Cash flows from investing activities** | | | |
| Investments in real estate | (2,522) | (3,901) | (9,716) |
| Proceeds from repayments of mortgage-backed securities available for sale | - | 78,318 | 38,694 |
| Investment in equity investments | (3,358) | (14,093) | (98,201) |
| Investment in preferred equity investments | (487) | (4,973) | (17,669) |
| Return of equity on equity investments | 118 | 19,041 | 10,000 |
| Return of capital distribution from available for sale securities | - | - | 10,047 |
| Proceeds from preferred equity investments | 145 | 21,273 | 16,162 |
| Purchase of available for sale securities | - | (5,055) | (3,172) |
| Purchase of securities carried at fair value | (33,115) | (36,896) | - |
| Proceeds from sale of available for sale securities | - | 58,088 | 24,004 |
| Proceeds from sale of securities carried at fair value | 39,015 | 422 | - |
| Investment in loan receivable available for sale | (35,000) | - | - |
| Proceeds from sale of loan receivable available for sale | 34,797 | - | - |
| Decrease in restricted cash held in escrows | 2,668 | (252) | (1,523) |
| Issuance and acquisition of loans receivable | (31,514) | (24,124) | (9,224) |
| Collection of loans receivable | 11,467 | 12,635 | 64,360 |
| Cash proceeds from foreclosure on property | - | - | 1,347 |
| Net cash provided by (used in) investing activities | (17,786) | 100,483 | 25,109 |

(continued on next page)

**WINTHROP REALTY TRUST**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
(in thousands, continued)

| | Years Ended December 31, 2009 | 2008 | 2007 |
|---|---|---|---|
| **Cash flows from financing activities** | | | |
| Repayment of borrowings under repurchase agreements | - | (75,175) | (36,736) |
| Proceeds from mortgage loans payable | 49 | 875 | 51,693 |
| Principal payments of mortgage loans payable | (6,229) | (8,063) | (47,536) |
| Deposit on Series B-1 Preferred Shares | - | (17,081) | - |
| Redemption of Series B-1 Preferred Shares | (2,000) | (18,583) | - |
| Restricted cash held in escrows | 4,004 | (5,127) | 140 |
| Proceeds from loan payable | 19,818 | - | - |
| Payment of loan payable | (19,818) | - | (30,004) |
| Proceeds from note payable | - | 9,800 | - |
| Payments of note payable | (9,800) | - | - |
| Proceeds from revolving line of credit | 35,000 | 70,000 | - |
| Payment of revolving line of credit | (35,000) | (70,000) | - |
| Deferred financing costs | (61) | (392) | (887) |
| Contribution from non-controlling interest | 979 | 600 | 787 |
| Distribution to non-controlling interest | (843) | (103) | (21,438) |
| Issuance of Common Shares through rights offering | 40,168 | 36,874 | - |
| Issuance of Common Shares under Dividend Reinvestment Plan | 1,615 | 4,407 | 3,921 |
| Purchase of retirement of Common Shares | - | (930) | - |
| Redemption of Common Shares through Reverse Split | - | (10) | - |
| Dividend paid on Common Shares | (17,809) | (30,863) | (20,012) |
| Net change provided by (used in) financing activities | 10,073 | (103,771) | (100,072) |
| Net increase (decrease) in cash and cash equivalents | 7,255 | 22,584 | (52,809) |
| Cash and cash equivalents at beginning of year | 59,238 | 36,654 | 89,463 |
| Cash and cash equivalents at end of year | $ 66,493 | $ 59,238 | $ 36,654 |
| **Supplemental Disclosure of Cash Flow Information** | | | |
| Interest paid | $ 16,324 | $ 25,167 | $ 27,056 |
| Taxes paid | $ 220 | $ 189 | $ 513 |
| **Supplemental Disclosure on Non-Cash Investing and Financing Activities** | | | |
| Dividends accrued on Common Shares | $ 3,311 | $ 5,934 | $ 16,242 |
| Dividends accrued on Series C Preferred Shares | $ 147 | $ - | $ - |
| Capital expenditures accrued | $ 201 | $ 358 | $ 120 |
| Distribution from equity investment | $ 161 | $ - | $ - |
| Conversion of Series B-1 Preferred Shares into Common Shares | $ - | $ 12,339 | $ 1,484 |
| Redemption of Series B-1 Preferred Shares | $ (17,081) | $ - | $ - |
| Deposit on redemption of Series B-1 Preferred Shares | $ 17,081 | $ - | $ - |
| Transfer of preferred equity investments to equity method investments | $ (41,823) | $ - | $ - |
| Transfer of loans to equity method investments | $ (15,805) | $ - | $ - |
| Transfer to equity method investments from loans and preferred equity investments | $ 57,628 | $ - | $ - |
| Impact of adoption of FIN 48 | $ - | $ - | $ 1,916 |
| River City foreclosure: | | | |
| Loan and interest receivable | - | - | 12,082 |
| Land | - | - | (1,149) |
| Building and improvements | - | - | (9,989) |
| Lease intangibles | - | - | (1,944) |
| Below market lease intangibles | - | - | 1,290 |
| Accounts payable and accrued liabilities | - | - | 1,057 |
| Net cash provided by foreclosure of River City | $ - | $ - | $ 1,347 |

See Notes to Consolidated Financial Statements.

Amounts related to number of buildings, square footage and tenant data are unaudited.

**1. Business**

Winthrop Realty Trust ("WRT"), a real estate investment trust ("REIT") under Sections 856-860 of the Internal Revenue Code (the "Code"), is an unincorporated association in the form of a business trust organized in Ohio under a Declaration of Trust dated August 1, 1961, as amended and restated on December 31, 2005 and on May 21, 2009, which has as its stated principal business activity the ownership and management of, and lending to, real estate and related investments.

Effective January 1, 2005, WRT conducts its business through WRT Realty L.P., a Delaware limited partnership (the "Operating Partnership"). WRT is the sole general partner of, and owns directly and indirectly, 100% of the limited partnership interest in the Operating Partnership. All references to the "Trust" refer to WRT and its consolidated subsidiaries, including the Operating Partnership.

The Trust is engaged in the business of owning real property and real estate related assets which it categorizes into three specific areas: (i) ownership of investment properties ("operating properties"); (ii) origination and acquisition of loans and debt securities secured directly or indirectly by commercial real property ("loan assets"), including collateral mortgage-backed securities and collateral debt obligation securities; and (iii) equity and debt interests in other real estate investment trusts ("REIT securities").

**2. Summary of Significant Accounting Policies**

Consolidation and Basis of Presentation

The consolidated financial statements represent the consolidated results of WRT, its wholly-owned taxable REIT subsidiary, WRT-TRS Management Corp. ("TRS"), and the Operating Partnership. TRS' sole asset is a 0.2% ownership interest in the Operating Partnership. All majority-owned subsidiaries and affiliates over which the Trust has financial and operating control and variable interest entities ("VIE"s) in which the Trust has determined it is the primary beneficiary are included in the consolidated financial statements. All significant intercompany balances and transactions have been eliminated in consolidation. The Trust accounts for all other unconsolidated joint ventures using the equity method of accounting. Accordingly, the Trust's share of the earnings of these joint ventures and companies is included in consolidated net income.

Reverse Stock Split

In November 2008 WRT effected a 1-for-5 reverse stock split (the "Reverse Split") of its Common Shares of Beneficial Interest ("Common Shares") pursuant to which five Common Shares issued and outstanding as of the close of the market on November 28, 2008 were automatically combined into one Common Share, subject to the elimination of fractional shares. All references to Common Shares outstanding, per Common Share amounts and stock option data have been restated to reflect the effect of the Reverse Split for all periods presented.

Reclassifications

Certain prior year balances have been reclassified in order to conform to the current year presentation. Discontinued operations for the periods presented include the Trust's properties in Biloxi, Mississippi, Athens, Georgia and Kansas City, Kansas.

Out of Period Adjustment - 2007

During the fourth quarter of 2007, the Trust determined that there was an error in the amortization period of certain in place lease and above market lease assets. The Trust determined that the intangible assets were not being properly amortized over the appropriate tenant lease term. Amortization was understated by approximately $1,024,000 for the year ended December 31, 2006 and approximately $256,000 for each of the quarters ended March 31, June 30 and September 30, 2007. The Trust concluded that the adjustment was not material to any prior period consolidated financial statements, or that the cumulative adjustment was not material to the year ended December 31, 2007. As such, the cumulative effect which totaled approximately $1,792,000 was recorded in the consolidated statement of operations as an out of period adjustment in the fourth quarter of 2007. The effect of this adjustment for the year ended December 31, 2007 was to decrease income from continuing operations by approximately $1,024,000. There was no impact on cash flow from operations for the year ended December 31, 2007.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions in determining the values of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the amounts of revenue and expenses during the reporting period. The estimates that are particularly susceptible to management's judgment include but are not limited to the impairment of real estate, loans and investments in ventures and real estate securities at fair value. In addition, estimates are used in accounting for the allowance for doubtful accounts. All of the estimates and evaluations are susceptible to change and actual results could differ from the estimates and evaluations.

Investments in Real Estate

Real estate assets are stated at historical cost. Expenditures for repairs and maintenance are expensed as incurred. Significant renovations that extend the useful life of the properties are capitalized. Depreciation for financial reporting purposes is computed using the straight-line method. Buildings are depreciated over their estimated useful lives of 40 years, based on the property's age, overall physical condition, type of construction materials and intended use. Improvements to the buildings are depreciated over the shorter of the estimated useful life of the improvement or the remaining useful life of the building at the time the improvement is completed. Tenant improvements are depreciated over the shorter of the estimated useful life of the improvement or the term of the lease of the tenant.

Upon the acquisition of real estate, the Trust assesses the fair value of acquired assets (including land, buildings and improvements, and identified intangibles such as above and below market leases and acquired in-place leases and tenant relationships) and acquired liabilities and the Trust allocates purchase price based on these assessments. The Trust assesses fair value based on estimated cash flow projections and utilizes appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including the historical operating results, known trends, and market/economic conditions that may affect the property.

Real estate investments and purchased intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated from the use and eventual disposition of the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized equal to the amount by which the carrying amount of the asset exceeds the fair value of the asset. In December 2009, based on Management's assessment of impairment indicators, the Trust recorded an impairment charge of $10,000,000 on its Churchill, Pennsylvania property. The Trust also recorded an impairment charge as of December 31, 2008 of $2,100,000 on its Andover, Massachusetts property.

Assets to be disposed of are separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell. The assets and liabilities are classified separately as held for sale in the consolidated balance sheet and are no longer depreciated.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments purchased with maturities of three months or less. The Trust maintains cash and cash equivalents in financial institutions in excess of insured limits, but believes this risk is mitigated by only investing in or through major financial institutions.

Restricted Cash

Restricted cash in escrow accounts and deposits securing a loan payable include cash reserves for tenant improvements, leasing commissions, real estate taxes and other expenses pursuant to the loan agreements.

Loans Receivable

The Trust's policy is to record loans receivable at cost, net of unamortized discount unless such loan receivable is deemed to be impaired. Discounts on loans receivable are amortized over the life of the loan receivable using the effective interest method. The amortization is reflected as an adjustment to interest income. Other costs incurred in connection with acquiring loans, such as marketing and administrative costs, are charged to expense as incurred.

The Trust evaluates the collectability of the interest and principal of each of its loans to determine impairment. A loan receivable is considered to be impaired when, based on current information and events, it is probable that the Trust will be unable to collect all amounts due according to the existing contractual terms of the loan receivable. Impairment is then measured based on the present value of expected future cash flows or the fair value of the collateral. When a loan receivable is considered to be impaired, the Trust will record a loan loss allowance and a corresponding charge to earnings. Significant judgments are required in determining impairment. The Trust does not record interest income on impaired loans receivable. Any cash receipts on impaired loans receivable are recorded as a recovery reducing the allowance for loan losses.

Accounts Receivable

Accounts receivable are recorded at the contractual amount and do not bear interest. The allowance for doubtful accounts is the Trust's best estimate of the amount of probable credit losses in existing accounts receivable. The Trust reviews the allowance for doubtful accounts monthly. Past due balances over 90 days and over a specified amount are reviewed individually for collectibility. Account balances are charged off against the allowance for doubtful accounts after all means of collection have been exhausted and the potential for recovery is considered remote.

Securities and Loan Securities at Fair Value

The Trust elected to adopt a one-time option to apply fair value treatment on its existing financial assets and liabilities on January 1, 2008. For all new financial instruments, the Trust has the option to elect fair value for these financial assets or liabilities on the election date. The Trust elected the fair value option for certain real estate securities to mitigate a divergence between accounting and economic exposure for these assets. These securities are recorded on the consolidated balance sheets as securities carried at fair value. The changes in the fair value of these instruments are recorded in unrealized gain (loss) on investments and other in the Consolidated Statements of Operations and Comprehensive Income.

Available for Sale Securities

The Trust classifies certain investments in securities with readily determinable fair values on the balance sheet as available for sale because these securities are held principally for investment purposes and not for sale in the short term. Accordingly, the Trust records these investments at fair value and unrealized gains and losses are recognized through shareholders' equity, as a component of other comprehensive income (loss). Realized gains and losses and charges for other-than-temporary impairments are included in net income. Sales of securities are recorded on the trade date and gains or losses are determined on the specific identification method.

At each reporting period the Trust assesses whether there are any indicators or declines in the fair value of available for sale securities. An available for sale security is impaired only if the Trust's estimate of fair value of the security is less than the carrying value of the security and such difference is deemed to be other-than-temporary. To the extent impairment has occurred, the loss will be measured as the excess of the carrying amount of the security over the estimated fair value of the security. Any credit-related impairment is recognized in the Consolidated Statement of Operations and any non credit-related impairment is recognized in other comprehensive loss.

Preferred Equity Investment

The Trust invests in mezzanine loans in which the Trust also holds an ownership interest in the borrower that allows the Trust to participate in a percentage of the proceeds from a sale or refinancing of the underlying property. At the inception of each such investment, management must determine whether such investment should be accounted for as a loan, preferred equity, as a venture or as real estate. The Trust classifies its portfolio of mezzanine loans as preferred equity investments and they are accounted for using the equity method because the Trust has the ability to significantly influence, but not control, the entity's operating and financial policies. Earnings for each investment are recognized in accordance with each respective investment agreement and where applicable, based upon an allocation of the investment's net assets at adjusted book value as if the investment was hypothetically liquidated at the end of each reporting period.

At each reporting period the Trust assesses whether there are any indicators or declines in the fair value of preferred equity investments. An investment's value is impaired only if the Trust's estimate of the fair value of the investment is less than the carrying value of the investment and such difference is deemed to be other-than-temporary. To the extent impairment has occurred, the loss shall be measured as the excess of the carrying amount of the investment over the estimated fair value of the investment.

Equity Investments

The Trust accounts for its investments in companies in which it has the ability to significantly influence but does not have a controlling interest, by using the equity method of accounting. Factors that are considered in determining whether or not the Trust exercises control include (i) the right to remove the general partner in situations where the Trust is the general partner, and (ii) substantive participating rights of partners in significant business decisions including dispositions and acquisitions of assets, financing, operations and capital budgets, and other contractual rights. Under the equity method, the investment, originally recorded at cost, is adjusted to recognize the Trust's share of net earnings or losses as they occur and for additional contributions made or distributions received. To recognize the character of distributions from equity investments, the Trust looks as the nature of the cash distribution to determine the proper character of cash flow distributions as either returns on investment, which would be included in operating activities, or returns of investment, which would be included in investing activities. Equity investments are evaluated for other-than-temporary impairment if the fair value of the Trust's investment declines below its carrying amount.

At each reporting period the Trust assesses whether there are any indicators or declines in the fair value of the equity investments. An investment's value is impaired only if the Trust's estimate of the fair value of the investment is less than the carrying value of the investment and such difference is deemed to be other-than-temporary. To the extent impairment has occurred, the loss shall be measured as the excess of the carrying amount of the investment over the estimated fair value of the investment.

Lease Intangibles

The fair value of the tangible assets of an acquired property is determined by valuing the property as if it were vacant, and the "as-if-vacant" value is then allocated to land, building and improvements and fixtures and equipment based on management's determination of the relative fair values of these assets. Factors considered by management in performing these analyses include an estimate of carrying costs during the expected lease-up periods, current market conditions and costs to execute similar leases. In estimating carrying costs, management includes real estate taxes, insurance and other operating expenses and estimates of lost rental revenue during the expected lease-up periods based on current market demand. Management also estimates costs to execute similar leases including leasing commissions.

In allocating the fair value of the identified intangible assets and liabilities of an acquired property, above-market, below-market and in-place lease values are recorded based on the difference between the current in-place lease rent and a management estimate of current market rents. Below-market lease intangibles are recorded as a liability and amortized into rental revenue over the non-cancelable periods of the respective leases. Above-market leases are recorded as part of intangible assets and amortized as a direct charge against rental revenue over the non-cancelable portion of the respective leases.

Deferred Financing Costs

Direct financing costs are deferred and amortized over the terms of the related agreements as a component of interest expense on a basis which approximates the effective interest method.

Financial Instruments

Financial instruments held by the Trust include cash and cash equivalents, restricted cash, real estate securities available for sale, loans receivable, interest rate swap agreements, accounts receivable, revolving line of credit, accounts payable and long term debt. Cash and cash equivalents, restricted cash, real estate securities available for sale and interest rate swap agreements are recorded at fair value. The fair value of accounts receivable and accounts payable approximate their current carrying amounts.

Derivative Financial Instruments

The Trust's interest rate swap agreements are carried on the balance sheet at their fair value, as an asset if the counterparty would be required to pay the Trust, or as a liability if the Trust would be required to pay the counterparty to settle the swap. Since the Trust's derivatives are designated as "cash flow hedges," the change in the fair value of any such derivative is recorded in other comprehensive income or loss for hedges that qualify as effective and the change in the fair value is transferred from other comprehensive income or loss to earnings as the hedged item affects earnings. The ineffective amount of all interest rate swap agreements, if any, is recognized in earnings. The effective portion of the changes in fair value are recorded through other comprehensive income.

Upon entering into hedging transactions, the Trust documents the relationship between the interest rate swap agreements and the hedged item. The Trust also documents its risk management policies, including objectives and strategies, as they relate to its hedging activities. Both at inception of a hedge and on an on-going basis, the Trust assesses whether or not the hedge is highly "effective" in achieving offsetting changes in cash flow attributable to the hedged item. The Trust discontinues hedge accounting on a prospective basis with changes in the estimated fair value reflected in earnings when: (i) it is determined that the derivative is no longer effective in offsetting cash flows of a hedged item (including forecasted transactions); (ii) it is no longer probable that the forecasted transaction will occur; or (iii) it is determined that designating the derivative as a hedge or not is no longer appropriate. To date, the Trust has not discontinued hedge accounting for any of its interest rate swap agreements. The Trust utilizes interest rate swap agreements to manage interest rate risk and does not intend to enter into derivative transactions for speculative or trading purposes.

Revenue Recognition

The Trust accounts for its leases with tenants as operating leases with rental revenue recognized on a straight-line basis. The straight-line rent adjustment increased revenue by $1,280,000 in 2009, $1,701,000 in 2008 and $1,825,000 in 2007. The accrued rent receivable amounts at December 31, 2009 and 2008 were $8,941,000 and $7,661,000, net of allowances, respectively.

Rental income may also include payments received in connection with lease termination agreements. In addition, leases typically provide for reimbursement to the Trust of common area maintenance costs, real estate taxes and other operating expenses. Operating expense reimbursements are recognized as earned.

Pursuant to the terms of the lease agreements with respect to net lease properties, the tenant at each property is required to pay all costs associated with the property including property taxes, ground rent, maintenance costs and insurance. These costs are not reflected in the consolidated financial statements.

Tenant leases that are not net leases generally provide for (i) billings of fixed minimum rental and (ii) billings of certain operating costs. The Trust accrues the recovery of operating costs based on actual costs incurred.

Income Taxes

The Trust operates in a manner intended to enable it to continue to qualify as a REIT. In order to qualify as a REIT, the Trust is generally required each year to distribute to its shareholders at least 90% of its taxable income (excluding any net capital gains). There is also a separate requirement to distribute net capital gains or pay a corporate level tax. The Trust intends to comply with the foregoing minimum distribution requirements.

WRT-TRS is a wholly-owned subsidiary of the Trust and has elected to be treated for federal income tax purposes as a taxable REIT subsidiary. In order for the Trust to continue to qualify as a REIT, the value of the WRT-TRS stock cannot exceed 20% of the value of the Trust's total assets.The net income of WRT-TRS is taxable at regular corporate tax rates. Current income taxes are recognized during the period in which transactions enter into the determination of financial statement income, with deferred income taxes being provided for temporary differences between the carrying values of assets and liabilities for financial reporting purposes and such values as determined by income tax laws. Changes in deferred income taxes attributable to these temporary differences are included in the determination of income. The Trust and WRT-TRS do not file consolidated tax returns.

The Trust reviews its tax positions under accounting guidance which require that a tax position may only be recognized in the financial statements if it is more likely than not that the tax position will prevail if challenged by tax authorities. The Trust believes it is more likely than not that its tax positions will be sustained in any tax examination. The Trust has no income tax expense, deferred tax assets or deferred tax liabilities associated with any such uncertain tax positions for the operations of any entity included in the Consolidated Statement of Operations and Comprehensive Income.

On January 1, 2007, in accordance with accounting guidance, the Trust recorded an adjustment to increase shareholders' equity by $1,916,000 which was classified as a cumulative effect of a change in accounting principle.

Earnings Per Share

The Trust determines basic earnings per share on the weighted average number of Common Shares outstanding during the period and reflects the impact of participating securities. The holders of the Series B-1 Cumulative Convertible Redeemable Preferred Shares ("Series B-1 Preferred Shares") and the Series C Cumulative Convertible Redeemable Preferred Shares ("Series C Preferred Shares") are entitled to receive cumulative dividends on a quarterly basis which have preference to the dividends paid to the Common Shares equal to the greater of (i) $0.40625 per share quarterly (6.5% of the liquidation preference on an annualized basis) or (ii) cash dividends payable on the number of Common Shares into which the Series B-1 Preferred Shares are convertible. The Trust computes diluted earnings per share based on the weighted average number of Common Shares outstanding combined with the incremental weighted average effect from all outstanding potentially dilutive instruments. The reconciliation of shares outstanding for the basic and diluted earnings per share calculation is as follows (in thousands, except per share data):

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Basic | | | |
| (Loss) income from continuing operations | $ (84,823) | $ (69,995) | $ 3,556 |
| Preferred dividend of Series C Preferred Shares | (147) | - | - |
| (Loss) income from continuing operations | (84,970) | (69,995) | 3,556 |
| Income(loss) from discontinued operations | 476 | 1,819 | (1,075) |
| Net (loss) income applicable to Common Shares for earnings per share purposes | $ (84,494) | $ (68,176) | $ 2,481 |
| Basic weighted-average Common Shares | 16,277 | 14,866 | 13,165 |
| (Loss) income from continuing operations | $ (5.22) | $ (4.71) | $ 0.27 |
| Income(loss) from discontinued operations | 0.03 | 0.12 | (0.08) |
| Net (loss) income per Common Share | $ (5.19) | $ (4.59) | $ 0.19 |

| | | | |
|---|---|---|---|
| Diluted | | | |
| (Loss) income from continuing operations | $ (84,823) | $ (69,995) | $ 3,556 |
| Preferred dividend of Series C Preferred Shares | (147) | - | - |
| (Loss) income from continuing operations | (84,970) | (69,995) | 3,556 |
| Income(loss) from discontinued operations | 476 | 1,819 | (1,075) |
| Net (loss) income applicable to Common Shares for earnings per share purposes | $ (84,494) | $ (68,176) | $ 2,481 |
| Basic weighted-average Common Shares | 16,277 | 14,866 | 13,165 |
| Series B-1 Preferred Shares (1) | - | - | - |
| Series C Preferred Shares (2) | - | - | - |
| Stock Options (3) | - | - | 13 |
| Diluted weighted-average Common Shares | 16,277 | 14,866 | 13,178 |
| (Loss) income from continuing operations, net of preferred dividend | $ (5.22) | $ (4.71) | $ 0.27 |
| Income(loss) from discontinued operations | 0.03 | 0.12 | (0.08) |
| Net (loss) income per Common Share | $ (5.19) | $ (4.59) | $ 0.19 |

(1) The Series B-1 Preferred Shares are anti-dilutive for the years ended December 31, 2009, 2008 and 2007 and are not included in the weighted-average shares outstanding for the calculation of diluted earnings per Common Share.
(2) The Series C Preferred Shares were issued November 1, 2009, are anti-dilutive for the year ended December 31, 2009 and are not included in the weighted-average shares outstanding for the calculation of diluted earnings per Common Share.
(3) The Trust's 20 stock options were dilutive for the year ended December 31, 2007. The stock options were anti-dilutive for the years ended December 31, 2009 and 2008 and are not included in the weighted-average shares outstanding for the calculation of diluted earnings per Common Share.

Recently Issued Accounting Standards

In June 2009 the FASB issued an amendment to the accounting and disclosure requirements for the consolidation of VIEs. This amendment requires an enterprise to perform a qualitative analysis when determining whether or not it must consolidate a VIE and requires a continuous reassessment of whether it must consolidate a VIE. Additionally, the amendment requires enhanced disclosures about an enterprise's involvement with VIEs and any significant change in risk exposure due to that involvement, as well as how its involvement with VIEs impacts the enterprise's financial statements. Finally, an enterprise will be required to disclose significant judgments and assumptions used to determine whether or not to consolidate a VIE. This amendment will be effective for the Trust beginning in fiscal 2010. The Trust is currently evaluating the impact of its adoption on its consolidated financial statements.

In June 2009 the FASB issued an amendment to the accounting and disclosure requirements for transfers of financial assets. This amendment requires greater transparency and additional disclosures for transfers of financial assets and the entity's continuing involvement with the assets. In addition, this amendment changes the criteria for the transfer of a financial asset and eliminates the concept of a qualifying special purpose entity. This amendment will be effective for the Trust beginning in fiscal 2010. The Trust has evaluated this amendment and does not anticipate its adoption will have a material impact on its consolidated financial statements.

In April 2009 the FASB amended existing guidance on investments in debt and equity securities related to determining whether an impairment for investments in debt securities is other-than-temporary. It requires a more detailed, risk-oriented breakdown of major security types and related information. In addition, the new guidance expands required disclosures and increases the frequency of certain disclosures by requiring interim rather than annual reporting (such as the aging of securities with unrealized losses). This guidance also requires new disclosures to help users of financial statements understand the significant inputs used in determining a credit loss, as well as a rollforward of that amount each period. The new rules require that the difference between the security's amortized cost basis and fair value on debt securities that the Trust intends to sell or would more-likely-than-not be required to sell before the expected recovery of the amortized costs basis be recognized in the Trust's consolidated statement of income. For available for sale and held to maturity debt securities that the Trust has no intent to sell and believes that it will not more-likely-than-not be required to sell prior to recovery, only the credit loss component of the impairment is recognized in earnings, while the rest of the fair value loss is recognized in other comprehensive loss. The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security based on the Trust's cash flow projections utilizing its base assumptions. The new requirements were effective for the Trust for the quarter ended June 30, 2009. The cumulative effect of the adoption of this new accounting standard included an increase in the opening balance of accumulated distributions in excess of net income at April 1, 2009 of $11,647,000 and corresponding adjustment to accumulated other comprehensive loss primarily as a result of the Trust's investment in Lex-Win Concord LLC.

**3. Fair Value Measurements**

The accounting standards establish a framework for measuring fair value as well as disclosures about fair value measurements. They emphasize that fair value is a market based measurement, not an entity-specific measurement. Therefore a fair value measurement should be determined 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, the standards establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs utilize unadjusted quoted prices in active markets for identical assets or liabilities that the Trust has the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability other than quoted prices, such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability which are typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Trust's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Level 1 securities include highly liquid government bonds, mortgage products and exchange-traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Examples of such instruments, which would generally be classified within Level 2 of the valuation hierarchy, include certain derivative financial instruments. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. Securities classified within Level 3 include, for example, residual interests in securitizations and other less liquid securities.

In October 2008 the Trust adopted an amendment to the guidance for fair value measurements which clarifies that in an inactive market fair market value depends on facts and circumstances and may require the use of significant judgment about whether individual transactions are forced liquidations or distressed sales. In cases where the volume and level of trading activity for an asset has declined substantially, the available prices vary significantly over time or among market participants, or the prices are not current, observable inputs might not be relevant and could require significant adjustment. In addition, the amended guidance also clarifies that broker or pricing service quotes may be appropriate inputs when measuring fair value, but are not necessarily determinative if an active market does not exist for the financial asset. Regardless of the valuation techniques used, the accounting rules require that an entity include appropriate risk adjustments that market participants would make for nonperformance and liquidity risks. The Trust has always considered nonperformance and liquidity risks in its analysis of loan and collateral underlying its securities and the adoption of this new guidance did not have a material impact on its financial position or results of operations.

The following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Recurring Measurements

*Cash, Cash Equivalents and Restricted Cash Held in Escrows*

The Trust's cash, cash equivalents and restricted cash held in escrows are generally classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices. The types of instruments that are valued based on quoted market prices in active markets include most U.S. government treasury bills with original maturities of less than 90 days and money market securities acquired through overnight sweeps.

*Available for Sale Securities*

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. At December 31, 2009 all of the Trust's available for sale securities are classified within Level 1 of the valuation hierarchy.

*Securities Carried at Fair Value*

At December 31, 2009 six of the securities are not actively traded and are classified within Level 3 of the fair value hierarchy. The remaining securities are classified within Level 1 of the fair value hierarchy.

*Loan Securities Carried at Fair Value*

The Trust uses a third party pricing model to establish values for the loan securities in its portfolio. The Trust also performs further analysis of the performance of the loans and collateral underlying the securities, the estimated value of the collateral supporting such loans and a consideration of local, industry and broader economic trends and factors. Significant judgement is utilized in the ultimate determination of fair value. This valuation methodology has been characterized as Level 3 in the fair value hierarchy.

*Derivative Financial Instruments*

The Trust uses interest rate swaps to manage its interest rate risk. The valuation of these instruments is determined using both quantitative and qualitative valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative as well as potential credit risks with the swap counterparty. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves, and implied volatilities. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves.

The Trust incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Trust has considered the impact of netting as well as any applicable credit enhancements, such as collateral postings, thresholds, mutual puts and guarantees.

Although the Trust 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 its derivatives utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by itself and its counterparties. However, as of December 31, 2009, the Trust 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 Trust has determined that the derivative valuations in their entirety should be classified in Level 2 of the fair value hierarchy.

Impaired Loans

All of the Trust's loans are collateral dependent loans and are evaluated for impairment by comparing the fair value of the underlying collateral to the carrying value of each loan. Due to the unique nature of each individual property collateralizing the Trust's loans, the Trust uses a combination of the income approach through internally developed valuation models and an evaluation of recent transactions to estimate the fair value of the collateral. This approach requires the Trust to make significant judgments with respect to discount rates and the timing and amounts of estimated future cash flows that are considered Level 3 inputs in accordance with the guidance. These cash flows include costs of completion, operating costs and lot and unit sale prices.

The table below presents the Trust's assets and liabilities measured at fair value on a recurring basis as of December 31, 2009, according to the level in the fair value hierarchy within which those measurements fall (in thousands):

| Recurring Basis | Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | $ 66,493 | $ - | $ - | $ 66,493 |
| Restricted cash held in escrow | 9,505 | - | - | 9,505 |
| Available for sale securities | 203 | - | - | 203 |
| Securities carried at fair value | 51,702 | - | 692 | 52,394 |
| Loan securities carried at fair value | - | - | 1,661 | 1,661 |
| | $ 127,903 | $ - | $ 2,353 | $ 130,256 |
| **Liabilities** | | | | |
| Derivative liabilities | $ - | $ 84 | $ - | $ 84 |

The table below presents the Trust's assets and liabilities measured at fair value on a recurring basis as of December 31, 2008, according to the level in the fair value hierarchy within which those measurements fall (in thousands):

| Recurring Basis | Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | $ 59,238 | $ - | $ - | $ 59,238 |
| Restricted cash held in escrow | 14,353 | - | - | 14,353 |
| Available for sale securities | 184 | - | - | 184 |
| Securities carried at fair value | 36,516 | - | - | 36,516 |
| | $ 110,291 | $ - | $ - | $ 110,291 |
| **Liabilities** | | | | |
| Derivative liabilities | $ - | $ 765 | $ - | $ 765 |

The table below includes a roll forward of the balance sheet amounts from January 1, 2009 to December 31, 2009, including the change in fair value, for financial instruments classified by the Trust within Level 3 of the valuation hierarchy. When a determination is made to classify a financial instrument within Level 3 of the valuation hierarchy, the determination is based upon the significance of the unobservable factors to the overall fair value measurement.

| Year Ended Ended December 31, 2009 | Securities Carried at Fair Value | Loan Securities Carried at Fair Value |
|---|---|---|
| (in thousands) | | |
| Fair value, January 1, 2009 | $ - | $ - |
| Purchases, issuances and settlements, net | 692 | 1,661 |
| Transfers in/and or out of Level 3 | - | - |
| Fair value, December 31, 2009 | $ 692 | $ 1,661 |

Nonrecurring Measurements

*Equity and Preferred Equity Investments*

Equity and preferred equity investments are assessed for other-than-temporary impairment. The determination of fair value of preferred equity and equity investments is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each asset as well as the income capitalization approach considering prevailing market capitalization rates. The Trust reviews each investment based on the highest and best use of the investment and market participation assumptions. The significant assumptions used in this analysis include the discount rate used in the income capitalization valuation and interest rate volatility. The Trust has determined that the significant inputs used to value its equity investment in Lex-Win Concord LLC fall within Level 3. The Trust recognized impairment losses of $31,670,000 and $36,543,000 on this asset during the years ended December 31, 2009 and 2008, respectively. The Trust has determined that the significant inputs used to value certain of its preferred equity investments fall within Level 3. The Trust recorded impairment losses of $2,186,000 and $7,513,000 on these preferred equity investments during the years ended December 31, 2009 and 2008, respectively. Due to the restructuring of the Trust's investment in the Marc Realty properties, these preferred equity investments were reclassified as equity investments as of July 1, 2009. The Trust recognized an impairment loss of $2,500,000 on one of its Marc Realty equity investments during the period ended December 31, 2009. All of the Trust's remaining equity investments are carried at cost which is equal to or lower than their current fair value at December 31, 2009.

*Investments in Real Estate*

During 2009 and 2008 the Trust recognized non-cash impairment charges of $10,000,000 and $2,100,000, respectively, relative to investments in real estate. The Trust assessed the assets within its portfolio for recoverability based upon its estimate of undiscounted future cash flows expected to result from use and disposition of the assets. For those assets not deemed recoverable, the Trust determines the fair value of those assets using an income capitalization approach based upon assumptions it believes a market participant would utilize. The Trust records impairment charges equal to the difference between its carrying value and the estimated fair value of the asset.

The table below presents as of December 31, 2009 the Trust's assets and liabilities measured at fair value as events dictate, according to the level in the fair value hierarchy within which those measurements fall (in thousands):

| Non Recurring Basis | Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|---|---|---|---|---|
| Equity investments | $ - | $ - | $ 1,582 | $ 1,582 |
| Preferred equity investments | - | - | - | - |
| Investments in real estate | - | - | 10,813 | 10,813 |
| | $ - | $ - | $ 12,395 | $ 12,395 |

The table below presents as of December 31, 2008 the Trust's assets and liabilities measured at fair value as events dictate, according to the level in the fair value hierarchy within which those measurements fall (in thousands):

| Non-Recurring Basis | Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|---|---|---|---|---|
| Equity investments | $ - | $ - | $ 73,061 | $ 73,061 |
| Preferred equity investments | - | - | - | - |
| Investments in real estate | - | - | 4,941 | 4,941 |
| | $ - | $ - | $ 78,002 | $ 78,002 |

*Fair Value Option*

The current accounting guidance for fair value measurement provides a fair value option election that allows companies to irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and liabilities. Changes in fair value for assets and liabilities for which the election is made will be recognized in earnings on a quarterly basis based on the then market price regardless of whether such assets or liabilities have been disposed of at such time. The fair value option guidance permits the fair value option election on an instrument by instrument basis of an asset or liability when initially recorded or upon an event that gives rise to a new basis of accounting for that instrument. The Trust elected the fair value option for all securities acquired subsequent to September 30, 2008.

For the year ended December 31, 2009 and 2008, the Trust recognized a net unrealized gain of $17,862,000 and $24,000, respectively, as a result of the change in fair value of the securities for which the fair value option was elected, which is recorded as an unrealized gain in the Trust's statement of operations. Income related to securities carried at fair value is recorded as interest and dividend income.

The following table presents the Trust's financial assets for which the fair value option was elected (in thousands):

| Financial instruments, at fair value | December 31, 2009 | December 31, 2008 |
|---|---|---|
| **Assets** | | |
| Securities carried at fair value: | | |
| Senior debentures | $ 18,794 | $ 8,631 |
| Preferred shares | 23,950 | 8,352 |
| Common shares | 9,650 | 19,533 |
| Loan securities carried at fair value | 1,661 | - |
| | $ 54,055 | $ 36,516 |

The following table presents the difference between fair values and the aggregate contractual amounts due (senior debentures) for which the fair value option has been elected (in thousands):

| | Fair Value at December 31, 2009 | Amount Due Upon Maturity | Difference |
|---|---|---|---|
| **Assets** | | | |
| Securities carried at fair value: | | | |
| Senior debentures | $ 18,794 | $ 21,191 | $ 2,397 |
| Loan securities carried at fair value | 1,661 | 7,494 | 5,833 |
| | $ 20,455 | $ 28,685 | $ 8,230 |

## 4. Real Estate Acquisitions and Dispositions, REIT Securities, Loans and Financing Activities

At December 31, 2009, consolidated real estate assets were comprised of 18 net lease retail, office and industrial properties, five multi-tenanted office properties, and one multi-tenant warehouse property.

Real Estate Acquisitions

*Sealy Newmarket*

On August 20, 2008, the Trust acquired, through a venture with Sealy, a 68% ownership interest in a six building office-flex campus containing approximately 470,000 square feet in Atlanta, Georgia. The purchase price for the property was $47,000,000 including assumed debt. The venture assumed an existing $37,000,000, 6.12% first mortgage loan encumbering the property, maturing in November 2016. The Trust classifies this investment as an equity method investment (see Note 9).

*River City*

On October 2, 2007, the consolidated venture, in which the Trust owns 60% and an entity owned by the principals of Marc Realty owns the remaining 40%, foreclosed on a commercial loan which was secured by a first leasehold mortgage on approximately 241,000 square feet of commercial space and an indoor parking garage with 133 spaces located at 800 South Wells, Chicago, Illinois, known as River City. Effective October 2, 2007, the Trust includes the results of this property in its consolidated financial statements.

Real Estate Dispositions

In November 2009 the tenant at the Trust's Athens, Georgia retail property notified the Trust that it was exercising its right to purchase the property at the expiration of the current lease term. In accordance with the lease, the purchase price will be equal to the fair market value of the property at the time of sale. Both the Trust and the tenant have engaged independent third-parties to determine the fair market value of the property. The Trust anticipates that the sale will be consumated on or before October 31, 2010, the current lease expiration date.

In August 2009 the First District Court of Wyandotte County, Kansas appointed a receiver to operate and manage the Trust's apartment complex in Kansas City, Kansas, commonly referred to as Creekwood Apartments. In October 2009 a notice of foreclosure was issued on behalf of the first mortgage holder. The property was foreclosed upon in December 2009 and the Trust recorded a gain on the early extinguishment of debt of $292,000.

In December 2008 the Trust sold a shopping center asset located in Biloxi, Mississippi, aggregating approximately 51,000 square feet, for a gross sales price of approximately $3,300,000. The Trust received proceeds of $2,678,000, net of credits for a ground lease purchase option and closing costs, and recognized a gain of $1,807,000 on the sale.

Acquisitions & Dispositions of REIT Securities

During 2009 the Trust received, in the form of additional common shares, dividend payments from one of its investments valued at approximately $1,875,000 at the dates of issuance.

During the year ended December 31, 2009 the Trust sold senior debentures with an original cost basis of $14,290,000 and received net proceeds of approximately $17,354,000. In addition, during the year ended December 31, 2009, the Trust sold preferred shares of other REITs with an original cost basis of $4,094,000 for net proceeds of approximately $6,033,000. Also during the period, the Trust sold common shares of other REITs with an original cost basis of $13,661,000 for net proceeds of approximately $15,628,000. For the year ended December 31, 2009, the Trust recognized a net gain on the sale of these securities of approximately $5,416,000, exclusive of any interest or dividends earned.

Real Estate Loan Acquisitions

*160 Spear Street, San Francisco, CA*

On June 1, 2009, the Trust acquired from Concord for $38,409,000 a $73,796,000 first mortgage loan collateralized by a 19 story, 289,000 square foot office building located at 160 Spear Street, San Francisco, California, referred to as the 160 Spear Loan. In connection with the Trust's acquisition of the 160 Spear Loan, the Trust agreed to make additional advances to the borrower in equal quarterly installments of $600,000 over the next two years up to a maximum of $4,800,000.

On July 14, 2009, the Trust split the 160 Spear Loan into a $35,000,000 A Note which bears interest at 9.75% and a $38,796,000 B Note which bears interest at 6.48% and may be satisfied at a discounted payoff amount of $15,000,000. In addition, the Trust's $4,800,000 future funding obligation was restructured into a mezzanine loan which bears interest at 15% per annum. Simultaneously with the restructuring, the Trust sold to an unrelated third party the A Note at par resulting in the Trust's having a remaining $3,500,000 investment in the 160 Spear Loan together with a commitment to advance up to $4,800,000. As of December 31, 2009, the Trust had advanced $1,200,000 to the borrower.

Both the first mortgage loan and the mezzanine loan require monthly payments of interest only and mature on June 9, 2012, subject to a one-year extension which extension requires the payment of an $850,000 extension fee.

*Siete Square, Pheonix, AZ*

On June 1, 2009, the Trust acquired from Concord for $5,500,000 a $7,219,000 first mortgage loan collateralized by a two-building four story office complex containing 116,000 square feet located at 3737 and 3877 North 7th Street, Phoenix, Arizona, referred to as the Siete Square Loan. The Siete Square Loan has an outstanding principal balance of $7,219,000, bears interest at fixed rate of 9.84% and matures on June 9, 2012. In addition, the borrower has the right to prepay the loan at any time for a discounted payoff amount of $5,500,000.

On February 5, 2010, we sold to Concord Real Estate CDO 2206-1, Ltd. a $3,000,000 8% senior participaton interest at par.

*Beverly Hills Hilton Hotel, Beverly Hills, CA*

On December 9, 2009, the Trust acquired from an unrelated third party for $5,250,000, a $10,000,000 participating interest in a $33,000,000 B Note which is part of the $300,000,000 financing collateralized by the Beverly Hills Hilton Hotel located in Beverly Hills, California. The Trust's participating interest is senior to $23,000,000 of the B Note, bears interest at a rate equal to Libor + 1.74% and matures on August 9, 2013.

*Metropolitan Tower, New York, NY*

On December 16, 2009, the Trust acquired from Concord for $6,500,000, a $15,000,000 B-Note collateralized by 259,000 square feet of office condominium interests in the first 18 floors of a 78-story building located in Manhattan, New York City. This loan bears interest at a rate equal to Libor + 1.50% and matures in November 2011.

*Wellington Tower, New York, NY*

On December 18, 2009, the Trust acquired from Concord for $2,350,000, a $3,500,000 mezzanine loan collateralized by approximately 41,000 square feet of retail space and a garage located in a residential tower on the Upper East Side of New York City. This loan bears interest at a fixed rate of 6.79% and matures in July 2017.

*West Olive Avenue, Burbank, CA*

On December 18, 2009, the Trust acquired from Concord for $1,500,000, four rake bonds in a first mortgage loan with an aggregate par value of $6,364,000. The rake bonds are collateralized by a 10-story, 151,000 square foot office building located at 2600 West Olive Avenue in Burbank, California. The bonds bear interest at a rate ranging from Libor + 0.65% to Libor + 1.60% and mature in December 2010.

Financing Activity

*Rights Offering*

In November 2009 the Trust completed a rights offering pursuant to which each holder of Common Shares and Series B-1 Preferred Shares received one basic subscription right for every three and one-half Common Shares owned, or in the case of Series B-1 Preferred Shares, one basic subscription right for every three and one-half Common Shares issuable upon conversion of such Series B-1 Preferred Shares. The Trust issued 4,450,781 Common Shares in connection with the rights offering and received net proceeds of $40,168,000.

*Preferred Shares*

In January 2009 the Trust acquired 917,105 Series B-1 Preferred Shares for $17,081,000 which represented a 25.5% discount from their liquidation value of $25 per share. The Trust determined that the repurchase of the Series B-1 Preferred Shares qualified as extinguishment of debt and recorded a gain from the early extinguishment of debt of approximately $5,237,000, net of unamortized issuance costs of $609,000.

In July 2009 the Trust acquired 100,000 Series B-1 Preferred Shares for $2,000,000 which represented a 20.0% discount from their liquidation value of $25 per share. The Trust recorded a gain from the early extinguishment of debt of approximately $444,000, net of unamortized issuance costs of $56,000.

In November 2009 the Trust permitted holders of its Series B-1 Preferred Shares to convert any or all of their Series B-1 Preferred Shares into an equivalent number of its newly issued Series C Preferred Shares. The Trust issued 544,000 Series C Preferred Shares and 544,000 Series B-1 Preferred Shares have been retired. Following the consummation of the foregoing, the Trust had 852,000 Series B-1 Preferred Shares and 544,000 Series C Preferred Shares outstanding.

The Trust has recorded the Series C Preferred Shares as mezzanine equity on the Consolidated Balance Sheet at its fair value. Additionally, the conversion of the Series B-1 Preferred Shares to Series C Preferred Shares was treated as extinguishment of debt and the Trust recognized the difference between the book value of the converted Series B-1 Preferred Shares and the fair value of the Series C Preferred Shares as a $1,165,000 gain.

*Mortgage Loan Payable Extensions*

The Trust exercised its one-year extension option of its $24,372,000 mortgage loan payable to KeyBank National Association ("KeyBank") which is collateralized by 14 properties and now matures on June 30, 2010. As of December 31, 2009, the Trust has one one-year extension option remaining on this mortgage loan payable. In accordance with the terms of the loan agreement, as a condition to the extension, the Trust pledged $1,373,000 as cash collateral on the loan and paid a $61,000 extension fee.

In connection with the extension, the Trust was required to provide interest rate protection through June 30, 2010. The Trust obtained an interest rate swap with a $23,000,000 notional amount that will effectively convert the interest rate from a floating rate of Libor + 1.75% to a fixed rate of 2.8%.

The Trust received a one-year extension of its mortgage loan of $9,500,000 on its River City property. The terms of the extension require monthly payments of interest only at a fixed rate of 6% with a new maturity of March 28, 2010. The renewal was subject to a $200,000 principal payment which was made in April.

*Note Payable Payoff*

At December 31, 2008, the Trust had a $9,800,000 loan payable, which bore interest at LIBOR plus 2.5% and matured in December 2011. The loan was made in connection with the Trust's purchase during 2008 of 3,500,000 common shares of Lexington Realty Trust ("Lexington"). The loan required monthly payments of interest only and was subject to margin calls if the loan balance compared to the fair value of the common shares exceeded 57.5%. The Trust repaid the loan in full in March 2009.

*Loan Payable*

On June 24, 2009, the Trust obtained a margin loan in the amount of $19,818,000, bearing interest at LIBOR plus 0.5%. The loan was collateralized by the securities carried at fair value. The funds were used to pay off borrowings under the Trust's revolving line of credit with KeyBank. The loan was repaid on July 15, 2009 in connection with the sale of the 160 Spear Street A Note.

*Preferred Equity Restructuring*

During July 2009 the Trust restructured its preferred equity investment in Marc Realty as discussed in Note 7.

*Lease Extension*

In April 2009 the Trust entered into a lease extension and modification agreement with respect to its 133,000 square foot Plantation, Florida office property which is net leased to BellSouth Telecommunications Inc. Pursuant to the agreement, the lease term was extended for ten years through March 31, 2020, and the current annual rent was reduced to approximately $1,740,000 for the final year of the current lease term. Thereafter, annual rent will be approximately $1,450,000 from April 1, 2010 through March 31, 2015 and approximately $1,500,000 from April 1, 2015 through March 31, 2020. In addition, existing lease intangibles of $1,733,000 will be amortized ratably over the revised remaining lease term.

In November 2009 the Kroger Co., a tenant who occupies 536,000 square feet of retail space in 11 net lease buildings, notified the Trust of their intention to extend the leases on 255,000 square feet in five buildings, to exercise their purchase option on a 52,000 square foot building in Athens, Georgia (accounted for as property held for sale) and not to extend leases expiring in October 2010 on five buildings containing 229,000 square feet.

## 5. Loans Receivable

The following table summarizes the Trust's loans receivable at December 31, 2009 and 2008 (in thousands):

| Property | Location | Interest Rate | Maturity | Carrying Amount (1) 2009 | Carrying Amount (1) 2008 |
|---|---|---|---|---|---|
| Marc Realty properties (2) | Chicago, IL | 8.5% | May 2016 | $ 717 | $ 17,547 |
| Loan loss allowance | | | | - | (1,179) |
| Lex-Win Concord LLC (3) | Various | 0.8% | Dec 2009 | - | 5,000 |
| 600 West Jackson LLC | Chicago, IL | 6.5% | June 2009 | - | 1,508 |
| 160 Spear (6) | San Francisco, CA | (4) | June 2012 | 5,493 | - |
| Siete Square | Phoenix, AZ | 9.8% | June 2012 | 5,505 | - |
| Beverly Hilton (6) | Beverly Hills, CA | Libor + 1.74% | August 2010 | 5,384 | - |
| Wellington Tower | New York, NY | 6.79% | July 2017 | 2,364 | - |
| Metropolitan Tower (6) | New York, NY | Libor + 1.5% | Nov 2010 | 6,638 | - |
| Vision Term Loan (5) | | 15.0% | Dec 2011 | - | 1,266 |
| Loan loss allowance | | | | - | (1,266) |
| | | | | $ 26,101 | $ 22,876 |

(1) The carrying amount includes accrued interest of $197 and $123 at December 31, 2009 and 2008, respectively, and accretion of discount of $1,021 and $0 at December 31, 2009 and 2008, respectively.

(2) Represents tenant improvement and capital expenditure loans collateralized by a subordinate mortgage or the ownership interests in the owner of the applicable property. Effective July 1, 2009, the tenant improvement and capital expenditure loans to certain properties have been reclassified as equity investments in connection with the Marc Realty restructuring.

(3) The Trust made an unsecured working capital loan of $5,000 to Lex-Win Concord in December 2008. This amount was repaid in January 2009.

(4) The Trust holds a B Note in this loan. Interest on the B Note equals the difference between (i) interest on the entire outstanding loan principal balance ($73,796 at December 31, 2009) at a rate of 6.48215% per annum less (ii) interest payable on the outstanding principal balance of the A Note ($35,000 at December 31, 2009) at a rate of 9.75% per annum.

(5) In April 2009, the Trust wrote off this loan and loan allowance.

(6) The Trust has determined that these loan receivables were deemed to be variable interests in VIEs primarily based on the fact that the underlying entities do not have sufficient equity at risk to permit the entity to finance its activities without additional subordinated financial support. The Trust does not exercise control over the entity and does not absorb a majority of the expected losses or the expected residual returns and thus the Trust has determined that it is not the primary beneficiary of these VIEs.

During the year ended December 31, 2009, the Trust recorded a provision for loan loss allowance of $2,152,000 related to loans to the Marc Realty properties. In addition, during the year ended December 31, 2009, the Trust wrote off loans totaling $4,597,000, of which $3,331,000 related to the Marc Realty properties (see Note 7) and $1,266,000 of which was related to the Vision term loan. The Trust had a loan loss reserve of $0 and $2,445,000 at December 31, 2009 and 2008, respectively.

For the year ended December 31, 2009, the Trust recorded discount accretion into interest income of $1,021,000. For the years ended December 31, 2008 and 2007, the Trust did not recognize any discount amortization into interest income.

For the years ended December 31, 2009, 2008 and 2007, the Trust did not recognize any interest income on impaired loans subsequent to the date of their impairment.

Activity related to loans receivable is as follows (in thousands):

| | 2009 | 2008 |
|---|---|---|
| Balance at January 1 | $ 22,876 | $ 12,496 |
| Purchase and advances | 31,514 | 24,124 |
| Interest (received) accrued, net | 74 | 70 |
| Repayments | (11,467) | (12,635) |
| Provision for loan loss allowance | (2,152) | (1,179) |
| Loan accretion | 1,021 | - |
| Reclass from other assets | 40 | - |
| Reclass to equity investments | (15,805) | - |
| Balance at December 31 | $ 26,101 | $ 22,876 |

## 6. Securities

Available for Sale Securities

Available for sale securities are summarized in the table below (in thousands):

**2009**

| | Cost | Unrealized Losses in Other Comprehensive Income | Unrealized Gains in Other Comprehensive Income | Impairment | Fair Value |
|---|---|---|---|---|---|
| Preferred shares | $ 204 | $ (1) | $ - | $ - | $ 203 |

**2008**

| | Cost | Unrealized Losses in Other Comprehensive Income | Unrealized Gains in Other Comprehensive Income | Impairment | Fair Value |
|---|---|---|---|---|---|
| Preferred shares | $ 204 | $ (20) | $ - | $ - | $ 184 |

Net unrealized losses on available for sale securities in the amount of $1,000 and $20,000 for the years ended December 31, 2009 and December 31, 2008, respectively, have been included in other comprehensive loss. The Trust recorded other-than-temporary impairment charges of $207,000 and $18,218,000 in the years ended December 31, 2008 and 2007, respectively.

Securities Carried at Fair Value

Securities carried at fair value are summarized in the table below (in thousands):

**2009**

| | Cost | Fair Value |
|---|---|---|
| Senior debentures | $ 13,597 | $ 18,794 |
| Preferred shares | 14,231 | 23,950 |
| Common shares | 8,234 | 9,650 |
| | 36,062 | 52,394 |
| Loan securities | 1,661 | 1,661 |
| | $ 37,723 | $ 54,055 |

**2008**

| | Cost | Fair Value |
|---|---|---|
| Senior debentures | $ 8,221 | $ 8,631 |
| Preferred shares | 7,405 | 8,352 |
| Common shares | 20,866 | 19,533 |
| | 36,492 | 36,516 |
| Loan securities | - | - |
| | $ 36,492 | $ 36,516 |

During the years ended December 31, 2009 and December 31, 2008, available for sale securities and securities carried at fair value were sold for total proceeds of approximately $39,015,000 and $58,509,000, respectively. The gross realized gains on these sales totaled approximately $5,416,000 and $1,580,000 in 2009 and 2008, respectively. For purpose of determining gross realized gains, the cost of securities sold is based on specific identification.

For the years ended December 31, 2009 and 2008, the Trust recognized net gains of $17,862,000 and $24,000, respectively, as the result of the change in fair value of the financial assets for which the fair value option was elected.

Contractual maturities of debt securities carried at fair value at December 31, 2009 are as follows (in thousands):

| | Estimated Fair Value |
|---|---|
| Due in one year or less | $ - |
| Due in 1-2 years | 2,388 |
| Due in 2-5 years | 6,078 |
| Due after 5 years | 11,989 |
| Total investments in debt securities | $ 20,455 |

Actual maturities may differ from contractual maturities because some borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

**7. Preferred Equity Investments – Marc Realty**

During July 2009 the Trust restructured its preferred equity investment with Marc Realty. Prior to the restructuring, the Trust held loans and equity investments in 20 properties with Marc Realty. The restructuring did not apply to five of the properties (the "Excluded Properties") in which the Trust continued to hold preferred equity investments. The restructuring was applicable to 15 properties, three of which the Trust transferred its interest to Marc Realty effective as of May 1, 2009 (the "Transferred Properties") and 12 of which were reclassified from preferred equity investments to equity investments effective July 1, 2009 (the "Included Properties").

*The Excluded Properties*

The Excluded Properties consist of five convertible mezzanine loans, together with an equity investment in each mezzanine borrower. The mezzanine loans contain conversion rights, and each loan is collateralized by the applicable borrower's ownership interest in a limited liability company (each a "Property Owner") that in turn owns an office building or complex primarily in the Chicago business district or suburban area. Each borrower holds a 100% interest in the applicable Property Owner.

Of the five Excluded Properties, four were suburban properties. Both Marc Realty and the Trust determined they were worth less than the debt and ceased making debt service payments. The lender foreclosed in November 2009. The debt on these properties was non-recourse to the Trust. The Trust fully impaired its investments in these four properties as of June 30, 2009. The Trust recorded impairment expense on the Excluded Properties of $550,000 and $4,926,000 for the year ended December 31, 2009 and 2008, respectively. The remaining Excluded Property is a downtown Chicago property in which the Trust owns a 70% interest. At December 31, 2009 the Trust's investment in the remaining Excluded Property was $4,006,000.

The remaining Excluded Property investment is considered to be a VIE primarily based on the fact that the underlying entity does not have sufficient equity at risk to permit the entity to finance its activities without additional subordinated financing. As a result of the existence of certain provisions in the operating agreement which identify the Trust and Marc Realty as related parties, the Trust determined that Marc Realty, as the primary decision maker and manager of the operating property, is considered to be most closely aligned with the business and is the primary beneficiary of the VIE.

*The Transferred Properties*

The Trust transferred its interest in three properties to Marc Realty as part of the restructuring and recognized a loss of $2,664,000 from preferred equity investments.

*The Included Properties*

For the Included Properties, which are now classified as equity investments, as described in Note 8, the agreement modified the priority of payments between the Trust and Marc Realty so that all earnings, losses and cash distributions are now effectively pari passu. The interest rate on the Trust's convertible mezzanine loans on the Included Properties has been increased to 9% from 7.65% and the interest rate on the tenant improvement and capital expenditure loans made by the Trust and Marc Realty has been increased to 10% from 8.5% effective July 1, 2009. The return payable to Marc Realty on their equity investment has also increased to 9% from 7.65%. The mezzanine loans require monthly payments of interest only and the maturity date for each of the loans has been extended to April 17, 2016. If cash flow from property operations for each property is not sufficient to pay both the Trust and Marc Realty, then the return payable to both parties will be deferred for that property.

On the Included Properties, the Trust is also entitled to participate on a pari passu basis in cash flow. The residual proceeds from a capital transaction as a result of the sale or refinancing of the applicable Included Property are to be allocated 55% to Marc Realty and 45% to the Trust, to the extent that such proceeds exceed all of the debt encumbering the property, including a return to the Trust and Marc Realty of their equity plus a 9% return thereon.

*Impairment of Investments*

As of June 30, 2009, prior to the restructuring, the Trust evaluated its preferred equity investments for impairment and determined that three of its investments which were part of the Included Properties were other-than-temporarily impaired. In addition to the impairments recognized on the Excluded Properties noted above, the Trust recorded impairment charges of $1,636,000 in June 2009 related to its investments in these three properties. During 2008, the Trust also recorded impairment charges of $2,587,000 related to its investment in one property which was foreclosed in May 2009.

*Earnings*

The Trust recognized earnings from preferred equity investments, exclusive of participating interest payments and impairments, of $2,083,000, $4,707,000 and $5,481,000 for the years ended December 31, 2009, 2008 and 2007, respectively. The results for the year ended December 31, 2009 reflects the effects of the restructuring of the Marc Realty portfolio wherein the results of the Included Properties are no longer classified as preferred equity investments after July 1, 2009.

*Sales*

One of the properties in the Marc Realty portfolio, 600 West Jackson, Chicago, Illinois, in which the Trust held a 7.65% convertible mezzanine loan and a preferred interest, was sold on June 12, 2008 to an unaffiliated third party. The Trust received $2,530,000, exclusive of interest, on its original investment of $1,736,000. Further to this transaction, the selling entity, of which the Trust owns 60%, made a $1,500,000 second mortgage loan to the buyer. The loan bore interest at 6.5%, matured on June 30, 2009, and required monthly payments of interest only. In connection with the sale of the property, the Trust received additional proceeds of $795,000. Recognition of gain was deferred until repayment of the second mortgage loan made to the borrower. On June 30, 2009, the second mortgage loan was paid in full and the Trust recorded earnings from preferred equity investments in the form of a participating interest payment of $650,000.

During 2008, two of the properties underlying the convertible mezzanine loans and preferred interests were sold. Upon the sale, exclusive of interest, the Trust recorded participating interest earnings of $1,161,000.

During 2007, two of the properties underlying the convertible mezzanine loans and preferred interests were sold. Upon the sale, exclusive of interest, the Trust recorded participating interest income of $6,355,000.

The following table reflects the activity of the Trust's preferred equity investments for the years ended December 31, 2009 and 2008 (in thousands):

| | Marc Realty |
|---|---|
| Balance at December 31, 2007 | $ 74,573 |
| Impairments | (7,512) |
| Contributions | 4,973 |
| Distributions/capital returns | (21,424) |
| Interest receivable | 14 |
| Balance at December 31, 2008 | 50,624 |
| Transfer to preferred equity | (41,823) |
| Impairments | (4,850) |
| Contributions | 341 |
| Interest receivable | (280) |
| Balance at December 31, 2009 | $ 4,012 |

The following table details the earnings (losses) on our preferred equity investment (in thousands):

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Impairment loss on preferred equity | $ (2,186) | $ (7,512) | $ - |
| Interest earnings | 2,083 | 4,707 | 5,481 |
| Participating interest earnings | 650 | 1,160 | 6,355 |
| Loss on Transferred Properties | (2,664) | - | - |
| Recoveries | 9 | - | - |
| Earnings(loss) from Preferred Equity | $ (2,108) | $ (1,645) | $ 11,836 |

Summary historical cost financial information for the Property Owner entities on a combined basis at December 31, 2009 and 2008 is as follows (in thousands):

| | 2009 | 2008 |
|---|---|---|
| Condensed Balance Sheets | | |
| Investment in real estate, net | $ 24,706 | $ 167,386 |
| Prepaid expenses and deposits | 259 | 7,239 |
| Cash and cash equivalents | 279 | 3,371 |
| Receivables and other assets | 2,900 | 30,485 |
| Total Assets | $ 28,144 | $ 208,481 |
| Nonrecourse mortgage debt | $ 18,517 | $ 190,711 |
| Related party debt | 4,942 | 94,813 |
| Other liabilities | 3,998 | 24,481 |
| Total Liabilities | 27,457 | 310,005 |
| Partners' Capital(Deficit) | 687 | (101,524) |
| Total Liabilities and Partners' Capital(Deficit) | $ 28,144 | $ 208,481 |
| On the Trust's Consolidated Balance Sheets | $ 4,012 | $ 50,624 |

At December 31, 2009, a basis difference exists between the carrying value of the Trust's investment and its share of the underlying net assets as a result of the acquisition of its investment in Marc Realty at a price different from its share of the net assets as recorded on the historical books of the venture.

| | Year Ended December 31, 2009 | Year Ended December 31, 2008 | Year Ended December 31, 2007 |
|---|---|---|---|
| Condensed Statements of Operations | | | |
| Revenues | $ 25,088 | $ 62,635 | $ 60,255 |
| Operating expense | (11,059) | (26,529) | (24,940) |
| Interest expense | (6,663) | (18,154) | (17,873) |
| Real estate taxes | (3,720) | (10,339) | (9,909) |
| Depreciation and amortization | (5,791) | (13,426) | (12,193) |
| Other expenses, net | (1,181) | (2,742) | (2,628) |
| Loss from continuing operations | (3,326) | (8,555) | (7,288) |
| Discontinued operations | | | |
| Income(loss) from discontinued operations | 9,519 | (1,515) | (2,997) |
| Gain on sale of property | 34,278 | 13,777 | 37,823 |
| Income from discontinued operations | 43,797 | 12,262 | 34,826 |
| Net income | $ 40,471 | $ 3,707 | $ 27,538 |
| On the Trust's Consolidated Statements of Operations and Comprehensive Income: | | | |
| Equity in (loss) earnings of Preferred Equity Investment | $ (2,108) | $ (1,645) | $ 11,836 |

The Trust has determined that as of December 31, 2007 the Trust's preferred equity investment in Marc Realty met the conditions of a significant subsidiary under Rule 1-02(w) of Regulation S-X. The separate financial statements of Marc Realty required pursuant to Rule 3-09 of Regulation S-X are filed as Exhibit 99.2 to the Trust's Annual Report on Form 10-K.

## 8. Equity Investments

The Trust's equity investments consist of the following at December 31, 2009 and December 31, 2008 (in thousands):

| Investment Group (1) | Equity Investment | Ownership%(2) | Equity Investment December 31, 2009 | Equity Investment December 31, 2008 |
|---|---|---|---|---|
| Marc Realty | 8 South Michigan LLC | 50% | $ 6,859 | $ - |
| Marc Realty | 11 East Adams Street LLC | 49% | 2,963 | - |
| Marc Realty | 29 East Madison Street LLC | 50% | 7,750 | - |
| Marc Realty | Michigan 30 LLC | 50% | 11,881 | - |
| Marc Realty | High Point Plaza LLC | 50% | 5,986 | - |
| Marc Realty | Brooks Building LLC | 50% | 7,346 | - |
| Marc Realty | 1701 Woodfield LLC | 50% | 1,582 | - |
| Marc Realty | River Road LLC | 50% | 4,075 | - |
| Marc Realty | 3701 Algonquin Road LLC | 50% | 2,827 | - |
| Marc Realty | Enterprise Center LLC | 50% | 3,094 | - |
| Marc Realty | 900 Ridgebrook LLC | 50% | 1,661 | - |
| Marc Realty | Salt Creek LLC | 50% | 1,536 | - |
| Sealy | Sealy Northwest Atlanta Partners LP | 60% | 3,189 | 3,780 |

| | | | | |
|---|---|---|---|---|
| Sealy | Sealy Airpark Nashville GP | 50% | 4,618 | 6,510 |
| Sealy | Sealy Newmarket GP LLC | 68% | 7,840 | 8,756 |
| Concord | Lex-Win Concord LLC | 50% | - | 73,061 |
| Various | Lex-Win Acquisition LLC | 28% | - | 95 |
| | | | $ 73,207 | $ 92,202 |

(1) The Trust has various venture partners which we refer to as investment groups for purposes of explaining our equity investments. Further detail is provided for the equity investments under their respective investment group headings below.
(2) The Trust has determined that with the exception of Lex-Win Acquisition and the three Sealy equity investments, these entities are VIEs.

The following table reflects the activity of the Trust's equity investments for the years ended December 31, 2009 and 2008 (in thousands):

| | Marc Realty Ventures | Sealy Ventures | Lex-Win Concord Venture | Lex-Win Acquisition Venture | Total |
|---|---|---|---|---|---|
| Balance at December 31, 2007 | $ - | $ 13,127 | $ 155,461 | $ 10,887 | $ 179,475 |
| Equity in loss | - | (1,682) | (66,750) | (878) | (69,310) |
| Equity in other comprehensive loss | - | - | (6,137) | - | (6,137) |
| Contributions | - | 9,006 | 5,087 | - | 14,093 |
| Distributions/capital returns | - | (1,405) | (14,600) | (9,914) | (25,919) |
| Balance at December 31, 2008 | - | 19,046 | 73,061 | 95 | 92,202 |
| Transfer from preferred equity | 41,823 | - | - | - | 41,823 |
| Transfer of loans receivable | 15,805 | - | - | - | 15,805 |
| Equity in loss | (2,219) | (2,204) | (98,574) | (95) | (103,092) |
| Equity in other comprehensive income | - | - | 21,479 | - | 21,479 |
| Other comprehensive income reclassifications | - | - | 4,695 | - | 4,695 |
| Contributions | 3,240 | - | 118 | - | 3,240 |
| Distributions/capital returns | (1,089) | (1,195) | (779) | - | (2,945) |
| Balance at December 31, 2009 | $ 57,560 | $ 15,647 | $ - | $ - | $ 73,207 |

Marc Realty

As discussed in Note 7, on July 1, 2009 the Trust restructured certain of its existing investments with Marc Realty and reclassified 12 investments from preferred equity investments to equity investments. In addition, any tenant improvement and capital expenditure loans to these properties have been reclassified from loans receivable to equity investments.

The restructuring of each of the Marc Realty investments was considered to be a reconsideration event under FASB's consolidation guidance due to the material change in the agreements and the exchange of consideration between Marc Realty and the Trust. As a result of the reconsideration, the investments in the Included Properties were deemed to be variable interests in VIE's primarily based on the fact that the underlying entities do not have sufficient equity at risk to permit the entity to finance its activities without additional subordinated financial support and that the Trust, which holds mezzanine loans in each of the underlying entities, has an obligation to absorb losses and has the right to residual returns equal to that of the equity holder. As a result of the existence of certain provisions in the operating agreements identifying the Trust and Marc Realty as related parties, the Trust determined that Marc Realty, as the primary decision maker and manager of the operating properties, is considered to be most closely aligned with the business and is the primary beneficiary of the VIE's.

Although the legal structure of the investments with Marc Realty is as loans, the characteristics of both the mezzanine loans and the tenant improvement and capital expenditure loans indicate that equity method accounting is most appropriate. In addition to earning interest income on the loans, the Trust is also entitled to residual proceeds and net operating cash flows which are more representative of an equity investment. The Trust's level of participation at 50% also supports venture accounting treatment with a 45%/55% split for residual proceeds upon capital transactions. There are also provisions in the agreements for future funding of additional tenant improvement and capital expenditure loans for which both parties will fund in accordance with their deemed equity percentages. The additional funding will be used to fund either capital expenditures or operating losses, as necessary, which can be viewed akin to capital contributions.

As a result, the investments with Marc Realty are deemed to be equity investments for which the Trust now recognizes its pro-rata share of income or loss on 12 separate 50% owned equity investments. The Trust recorded net loss from the 12 equity investments of $2,219,000, inclusive of a $2,500,000 other-than-temporary impairment loss on one of the equity investments, for the period from July 1, 2009 through December 31, 2009. Additionally, the Trust received cash distributions of $1,089,000 from the investments during the year ended December 31, 2009.

The Marc Realty properties are encumbered with $94,969,000 of mortgage debt currently with $23,627,000 maturing in 2010, $30,111,000 maturing in 2011 and the remainder in 2012 or later. The Trust is currently negotiating with the lender to extend the total debt maturing in 2010.

The combined summarized balance sheets of the Trust's Marc Realty venture investments are as follows (in thousands):

| | December 31, 2009 |
|---|---|
| **ASSETS** | |
| Real estate, net | $ 174,310 |
| Cash and cash equivalents | 1,100 |
| Receivables and other assets | 25,287 |
| Total Assets | $ 200,697 |
| | |
| **LIABILITIES AND MEMBERS' CAPITAL** | |
| Mortgage and notes payable | $ 94,969 |
| Other liabilities | 12,722 |
| Members' Capital | 93,006 |
| Total Liabilities and Members' Capital | $ 200,697 |
| | |
| Trust's share of equity | $ 46,497 |
| Basis differentials (1) | 13,563 |
| Other-than-temporary impairment | ( 2,500) |
| Carrying value of the Trust's investments in the equity investments | $ 57,560 |

(1) This amount represents the aggregate difference between the Trust's historical cost basis and the basis reflected at the equity investment level, which is typically amortized over the life of the related assets and liabilities. The basis differentials are the result of other-than-temporary impairments at the investment level and a reallocation of equity at the venture level as a result of the restructuring. In addition, certain acquisition, transaction and other costs may not be reflected in the net assets at the equity investment level.

The combined summarized statements of operations of the Trust's Marc Realty venture investments are as follows (in thousands):

| | For the Period July 1 - December 31, 2009 |
|---|---|
| Total revenue | $ 20,179 |
| Expenses | |
| Operating | 9,279 |
| Interest | 2,284 |
| Real estate taxes | 2,847 |
| Depreciation and amortization | 4,740 |
| Other expense | 175 |
| Total expenses | 19,325 |
| Net income | $ 854 |
| Trust's share of net income | $ 425 |
| Amortization of basis differential | (144) |
| Income from equity investments | $ 281 |

Sealy Northwest Atlanta

On December 12, 2006, the Trust acquired, through a venture with Sealy, a 60% non-controlling ownership interest in 12 flex properties in Atlanta, Georgia containing an aggregate of 472,000 square feet of space for approximately $35,845,000. The Trust invested approximately $5,470,000 and the general partner, an affiliate of Sealy, invested approximately $3,647,000 for their 40% interest in the venture. The venture obtained a first mortgage loan of $28,750,000 bearing interest at 5.7% and maturing in January 2012. The Trust accounts for this investment on the equity basis and recorded equity in loss of approximately $457,000, $409,000 and $470,000 for the years ended December 31, 2009, 2008 and 2007, respectively. The Trust received distributions of $135,000 and $566,000 in the years ended December 31, 2009 and 2008, respectively.

Sealy Airpark Nashville

On April 17, 2007, the Trust acquired, through a venture with Sealy, a 50% non-controlling ownership interest in 13 light distribution and service center properties in Nashville, Tennessee. The purchase price of $87,200,000 was financed through approximately $65,383,000 of proceeds, net of escrows and closing costs, from a $74,000,000 5.77% first mortgage loan maturing in May 2012 and a $3,600,000 bridge loan from Sealy. Both Sealy and the Trust contributed $9,308,000 for a 50% ownership in the venture. The Trust accounts for this investment on the equity basis and recorded equity in loss of approximately $1,056,000, $1,023,000 and $936,000 for the years ended December 31, 2009, 2008 and 2007, respectively. The Trust received distributions of $836,000 and $839,000 in the years ended December 31, 2009 and 2008, respectively.

Sealy Newmarket

On August 20, 2008, the Trust acquired, through a venture with Sealy, a 68% non-controlling ownership interest in a six building office-flex campus containing approximately 470,000 square feet in Atlanta, Georgia. The purchase price for the property was $47,000,000 including assumed debt. The venture assumed an existing $37,000,000, 6.12% first mortgage loan encumbering the property, maturing in November 2016. The Trust contributed approximately $9,006,000 for its ownership in the venture. The Trust accounts for this investment on the equity basis and recorded equity in loss of approximately $691,000 and $250,000 for the years ended December 31, 2009 and 2008, respectively. The Trust received distributions of $224,000 in the year ended December 31, 2009.

The combined summarized balance sheets of the Sealy venture equity investments are as follows (in thousands):

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| **ASSETS** | | |
| Real estate, net | $ 153,565 | $ 157,813 |
| Cash and cash equivalents | 971 | 3,002 |
| Receivables and other assets | 14,658 | 14,326 |
| Total Assets | $ 169,194 | $ 175,141 |
| **LIABILITIES AND MEMBERS'/PARTNERS' CAPITAL** | | |
| Mortgage and notes payable | $ 139,750 | $ 139,750 |
| Other liabilities | 3,373 | 3,196 |
| Members'/Partners' capital | 26,071 | 32,195 |
| Total Liabilities and Members'/Partners' Capital | $ 169,194 | $ 175,141 |
| Carrying value of the Trust's equity investments | $ 15,647 | $ 19,046 |

The combined summarized statements of operations of the Sealy venture equity investments are as follows (in thousands):

| | For the Year Ended December 31, 2009 | 2008 |
|---|---|---|
| Total revenue | $ 17,246 | $ 15,568 |
| Expenses | | |
| Operating | 3,765 | 3,550 |
| Real estate taxes | 1,758 | 1,601 |
| Interest | 8,345 | 6,851 |
| Depreciation and amortization | 7,110 | 6,546 |
| Other expense | 157 | 115 |
| Total expenses | 21,135 | 18,663 |
| Net loss | $ (3,889) | $ (3,095) |
| Trust's share of net loss | $ (2,204) | $ (1,682) |

Lex-Win Concord LLC – "Concord"

At June 30, 2009, the Trust wrote down its investment in Concord to zero and recognized an impairment loss of $31,670,000 primarily as a result of recurring operating losses and the overall lack of clarity on future recovery of the underlying collateral in these assets. Specific factors that impacted the decision to write down the investment in Concord included the continued deterioration in the value of Concord's loan and bond portfolio, Concord's debt covenant violations, the distressed sale of assets required to satisfy accelerated principal repayments to lenders, the failure of Inland American Real Estate Trust, Inc. ("Inland") to make its capital call, and certain litigation initiated by Inland.

The aggregate impairments consisted of both a proportionate share of Concord's operating losses plus a decline in the fair value that management assigned to the remaining equity in the investment. The Trust determined the fair value of its investment in Concord by calculating its share of net asset value, as adjusted for various risks. The fair value of Concord's assets and liabilities was determined using the income approach based upon the expected future cash flow of each asset and liability discounted at market rates of return in accordance with accounting standards related to fair value measurements.

Concord is in violation of certain debt covenants to its lenders for the year ended December 31, 2009 as a result of the continued deterioration of the value of its assets and cumulative operating losses. Concord's debt is non-recourse to the Trust and Concord's lenders' sole recourse with respect to defaults is limited to the value of Concord's assets collateralized by the debt. The lenders do not have recourse against the Trust's assets.

On May 22, 2009, a wholly-owned subsidiary of Inland filed a legal action against Lex-Win Concord and Concord generally seeking declaratory relief that Inland should not be required to satisfy the May 11, 2009 capital call made by Concord in the amount of $24,000,000 and that Inland is entitled to a priority return of its capital. Lex-Win Concord filed counterclaims against Inland which state, in general, that Inland is in material breach of their agreements with Lex-Win Concord and seeking to recover all losses incurred by it as a result of such breach.

On December 21, 2009, the applicable parties and certain of their affiliates entered into a settlement agreement to resolve the action which would provide for, among other things, no obligation on any of the parties to make additional capital contributions to Concord, the allocation of distributions equally among Inland, Lexington, and Winthrop and the formation of a new entity to be owned by subsidiaries of Inland, Lexington and Winthrop which, under certain circumstances, would contribute assets to Concord Real Estate CDO 2006-1, Ltd. ("CDO-1"). The implementation of the settlement agreement is conditioned on certain events including the ability of certain CDO-1 bonds held by Concord Debt Funding Trust, a subsidiary of Concord, to be cancelled.

If Concord Debt Funding Trust is unable to cancel the CDO-1 bonds, CDO-1 will likely fail its financial covenants, Concord will be in default of the CDO indenture and any excess cash flow of CDO-1 that previously went to Concord will be directed to accelerate the repayment of the senior debt tranches of the CDO-1 bonds.

Certain capital transactions which were executed between the Trust and Concord during the year ended December 31, 2009 were considered reconsideration events. It was determined that the investment in Concord was now a variable interest in a VIE primarily due to a significant decline in value of the assets of the entity and the resulting insufficient equity within Concord to finance its activities. As a result of the existence of certain provisions in the operating agreements providing that the Trust and its venture partner in the investment, Lexington, are not related parties and that each share equally in the economics and the decision-making of the investment, a primary beneficiary does not exist for this investment, and therefore, the Trust accounts for this investment under the equity method.

The summarized consolidated balance sheets of Lex-Win Concord are as follows (in thousands):

| | As of December 31, 2009 | As of December 31, 2008 |
|---|---|---|
| Condensed Consolidated Balance Sheets | | |
| **ASSETS** | | |
| Cash and restricted cash | $ 26,116 | $ 15,134 |
| Real estate debt investments, net of loss allowance | 447,270 | 863,144 |
| Real estate debt investments held for sale | 66,311 | - |
| Available for sale securities, net | 83,977 | 118,491 |
| Other assets | 10,834 | 10,353 |
| Total assets | $ 634,508 | $ 1,007,122 |
| **LIABILITIES AND MEMBERS' CAPITAL** | | |
| Repurchase agreements | 135,064 | 240,604 |
| Revolving credit facility | 58,850 | 80,000 |
| Collateralized debt obligations | 347,525 | 347,525 |
| Collateral support obligation | 9,757 | - |
| Sub-participation obligation | 4,500 | - |

| | | |
|---|---|---|
| Accounts payable and other liabilities | 14,198 | 43,230 |
| Non-controlling redeemable preferred interest | 5,720 | 76,441 |
| Members' capital | 113,928 | 248,262 |
| Accumulated other comprehensive loss | (55,148) | (29,054) |
| Non-controlling interest | 114 | 114 |
| Total Liabilities and Members' Capital | $ 634,508 | $ 1,007,122 |
| Trust's share of equity | $ 29,390 | $ 109,604 |
| Basis differential (1) | (29,390) | (36,543) |
| Carrying value of the Trust's investment in Lex-Win Concord | $ - | $ 73,061 |

(1) At December 31, 2009, this amount represents other-than-temporary impairments recognized by the Trust of $68,213 adjusted for suspended losses of $11,249 and accumulated other comprehensive losses of $27,574. At December 31, 2008 this amount represents other-than-temporary impairments recognized by the Trust of $36,543.

Results of operations for Lex-Win Concord are summarized below (in thousands):

| | Year Ended December 31, 2009 | Year Ended December 31, 2008 | Year Ended December 31, 2007 |
|---|---|---|---|
| Condensed Consolidated Statement of Operations | | | |
| Interest and other income | $ 38,948 | $ 71,307 | $ 65,854 |
| Interest expense | (17,335) | (36,410) | (41,675) |
| Impairment loss on available for sale securities, net | (16,302) | (73,832) | (11,028) |
| Provision for loss allowance on real estate debt investments | (80,620) | (31,053) | - |
| Impairment loss on real estate debt investments held for sale | (101,027) | - | - |
| Realized loss on sale of investments | (32,246) | - | - |
| Interest income on bank deposits | 7 | 426 | 2,599 |
| Gain on extinguishment of debt | - | 15,603 | - |
| Collateral support expense | (9,757) | - | - |
| General and administrative | (5,712) | (4,824) | (5,541) |
| Loss from discontinued operations | (959) | - | - |
| Consolidated net income(loss) | (225,003) | (58,783) | 10,209 |
| Loss (income) attributable to non-controlling redeemable preferred interest | 68,709 | (1,619) | - |
| Income attributable to non-controlling interest | (12) | (12) | (13) |
| Net income (loss) attributable to Lex-Win Concord | $ (156,306) | $ (60,414) | $ 10,196 |
| Trust's share of net income (loss) | $ (78,153) | $ (30,207) | $ 5,098 |
| Suspended loss | 11,249 | - | - |
| Other-than-temporary impairment | (31,670) | (36,543) | - |
| Income (loss) from equity investment in Lex-Win Concord | $ (98,574) | $ (66,750) | $ 5,098 |

The Trust has determined that as of December 31, 2009, 2008 and 2007 Lex-Win Concord met the conditions of a significant subsidiary under Rule 1-02(w) of Regulation S-X. The separate financial statements of Lex-Win Concord required pursuant to Rule 3-09 of Regulation S-X are filed as Exhibit 99.1 to the Trust's Annual Report on Form 10-K.

Lex-Win Acquisition

At December 31, 2007, Lex-Win Acquisition LLC ("Lex-Win") held 3,885,616 shares in Piedmont Office Realty Trust, Inc. at a cost per share of $9.30. During 2008 Lex-Win recorded an other-than-temporary impairment loss of $3,847,000. In August 2008 Lex-Win sold all its shares of Piedmont and made a distribution to the Trust of its 28% pro-rata share of approximately $9,041,000. The Trust accounts for this investment on the equity basis and recorded equity in loss of approximately $95,000, $878,000 and $45,000 for the years ended December 31, 2009, 2008 and 2007, respectively.

## 9. Debt

*Mortgage Loans Payable*

The Trust had outstanding mortgage loans payable of $216,767,000 and $229,737,000 at December 31, 2009 and 2008, respectively. The mortgage loan payments of principal and interest are generally due monthly, quarterly or semi-annually and are collateralized by applicable real estate of the Trust.

The Trust's mortgage loans payable at December 31, 2009 and 2008 are summarized as follows (in thousands):

| Location | Maturity | Spread Over LIBOR/Prime | Interest Rate at December 31, 2009 | Balance as of December 31, 2009 | Balance as of December 31, 2008 |
|---|---|---|---|---|---|
| Fixed Interest Rate: | | | | | |
| Amherst, NY | October 2013 | -- | 5.65% | $ 16,526 | $ 16,913 |
| Indianapolis, IN | April 2015 | -- | 5.82% | 4,317 | 4,384 |
| Houston, TX | April 2016 | -- | 6.40% | 63,869 | 67,009 |
| Andover, MA | March 2011 | -- | 6.60% | 6,266 | 6,389 |
| S. Burlington, VT | March 2011 | -- | 6.60% | 2,686 | 2,738 |
| Chicago, IL | March 2016 | -- | 5.75% | 21,118 | 21,391 |
| Lisle, IL | June 2016 | -- | 6.26% | 24,176 | 24,452 |
| Lisle, IL | March 2017 | -- | 5.55% | 5,600 | 5,600 |
| Kansas City, KS | June 2012 | -- | 7.04% | - | 6,798 |
| Orlando, FL | July 2017 | -- | 6.40% | 39,148 | 39,610 |
| Chicago, IL (1) | March 2010 | - | 6.00% | 9,300 | 9,500 |
| Variable Interest Rate: | | | | | |
| Various (2) | June 2010 | LIBOR+1.75% | (3) | 23,761 | 24,983 |
| | | | | $ 216,767 | $ 229,737 |

(1) The Trust is currently negotiating with the lender for a one-year renewal to March 28, 2011.
(2) The mortgage loan payable to KeyBank (the "KeyBank Loan"), is collateralized by 14 properties. The Trust has a one-year extension option.
(3) The Trust entered into an interest rate swap agreement in the notional amount of $26,000, effectively converting the floating interest rate to a fixed rate of 5.8% through December 1, 2009. Effective June 24, 2009, the Trust entered into an interest rate swap agreement, with a notional amount of $23,000,000, which commenced with the expiration of the aforementioned swap, matures June 30, 2010 and effectively converts the interest rate to a fixed rate of 2.8%.

The following table summarizes future principal repayments as of December 31, 2009 (in thousands):

| | |
|---|---|
| 2010 | $ 38,323 |
| 2011 | 14,347 |
| 2012 | 6,171 |
| 2013 | 21,536 |
| 2014 | 6,924 |
| Thereafter | 129,466 |
| | $ 216,767 |

The fair value of the Trust's mortgage loans payable, loans payable and revolving line of credit are less than their current carrying value by $25,704,000 at December 31, 2009 and exceeded their current carrying amounts by $633,000 at December 31, 2008.

Note Payable

At December 31, 2008 the Trust had a $9,800,000 loan payable, which bore interest at LIBOR plus 2.5% and matured in December 2011. The loan was made in connection with the Trust's purchase during 2008 of 3,500,000 common shares of Lexington and was repaid in March 2009.

**10. Revolving Line of Credit**

The Trust has a revolving line of credit with KeyBank pursuant to which the Trust can borrow on a revolving basis up to $35,000,000. The revolving credit line matures December 16, 2010 with the option by the Trust to extend the term for an additional year. Amounts borrowed under the credit facility bear interest at LIBOR plus 3.0%. To the extent the Trust maintains cash balances at KeyBank in excess of a certain threshold, the interest rate is reduced to LIBOR plus 2.25%.

The revolving line of credit requires the Trust to maintain (i) a minimum consolidated debt service coverage ratio, (ii) a maximum leverage ratio, (iii) liquid assets of $17,500,000 and (iv) a minimum net worth. Additionally, the Trust is limited to payment of dividends not to exceed 100% of adjusted earnings on a trailing 12-month basis, as defined, except to the extent necessary to maintain its tax status as a REIT. The revolving credit line is collateralized by substantially all of the Trust's assets. The revolving credit line requires monthly payments of interest only. To the extent that the amounts outstanding under the facility are in excess of the borrowing base (as calculated), the Trust is required to make a principal payment to reduce such excess. The Trust may prepay from time to time without premium or penalty and re-borrow amounts prepaid.

As a result of the Trust's repurchase of Series B-1 Preferred Shares and the impairment charges taken by the Trust on its investment in Lex-Win Concord, the Trust did not meet the net worth covenant as defined under the line of credit at June 30, 2009 and September 30, 2009. Consequently, the Trust was not eligible to borrow under the line. On October 30, 2009, KeyBank modified the net worth covenant such that the Trust meets the modified net worth covenant and is eligible to borrow under the line.

At December 31, 2009 and 2008, there were no amounts outstanding under the facility. The Trust is required to pay a commitment fee on the unused portion of the line, which amounted to approximately $83,000 and $119,000 for the years ended December 31, 2009 and 2008, respectively.

**11. Derivative Financial Instruments**

The Trust has exposure to fluctuations in market interest rates. The Trust seeks to limit its risk to interest rate fluctuations through match financing on its assets as well as through hedging transactions. Specifically, the Trust enters into derivative financial instruments.

The Trust's objective in using interest rate derivatives is to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Trust primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable rate amounts from a counterparty in exchange for the Trust making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

The effective portion of changes in fair value of the interest rate swap designated and that qualifies as a cash flow hedge is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the years ended December 31, 2009 and 2008, the interest rate swap was used to hedge the variable cash flows associated with existing variable-rate debt. The Trust also assesses and documents, both at the hedging instruments inception and on an ongoing basis, whether the derivative instrument is highly effective in achieving offsetting changes in the cash flows attributable to the hedged item. The Trust has recorded changes in fair value related to the effective portion of its interest rate swap contracts designated and qualifying as cash flow hedges totaling $681,000 of other comprehensive loss and $562,000 of other comprehensive income for the years ended December 31, 2009 and 2008, as a component of comprehensive income.

Effective June 24, 2009, the Trust entered into an interest rate swap agreement, with a notional amount of $23,000,000, which commenced December 1, 2009, matures on June 30, 2010 and effectively converts the interest rate to a fixed rate of 2.8%.

The table below presents information about the Trust's interest rate swaps at December 31, 2009 (dollars in thousands):

| Maturity | Swap Rate | Notional Amount of Hedge | Cost of Hedge | Estimated Fair Value of Swap in Other Comprehensive Income | Unrealized Gain on Settled Swap in Other Comprehensive Income | Change in Swap Valuations Included in Other Comprehensive Income For the Year Ended December 31, 2009 |
|---|---|---|---|---|---|---|
| December 2009 | 4.05% | $ 26,000 (1) | $ - | $ - | $ - | $ - |
| June 2010 | 1.05% | $ 23,000 (1) | $ - | $ (84) | $ - | $ - |

(1) Represent swap agreements related to the KeyBank Loan.

The table below presents information about the Trust's interest rate swaps at December 31, 2008 (in thousands):

| Maturity | Swap Rate | Notional Amount of Hedge | Cost of Hedge | Estimated Fair Value of Swap in Other Comprehensive Income | Unrealized Gain on Settled Swap in Other Comprehensive Income | Change in Swap Valuations Included in Other Comprehensive Income For the Year Ended December 31, 2008 |
|---|---|---|---|---|---|---|
| December 2009 | 4.05% | $ 26,000 | $ - | $ (765) | $ 138 | $ (713) |
| January 2008 | 4.055% | $ - | $ - | $ - | $ - | (30) |
| | | | | | | $ (743) |

## 12. Preferred Shares

*Series B-1 Preferred Shares*

In February 2005 and June 2005 the Trust sold an aggregate of 4,000,000 shares of its Series B-1 Preferred Shares for $100,000,000, resulting in proceeds of approximately $94,164,000, net of costs of $5,836,000 for underwriting, placement agent and legal fees. The Series B-1 Preferred Shares were sold pursuant to an exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended. The Series B-1 Preferred Shares have a liquidation value of $25 per share, pay cumulative dividends at a minimum rate of 6.5% and are convertible into Common Shares at a conversion price of $22.50, subject to anti-dilution adjustments. The Trust may convert all of the Series B-1 Preferred Shares if the closing price for the Common Shares for any 20 consecutive trading days within the 25-day period commencing on the date of mailing of the conversion notice exceeds 125% of the then conversion price.

The Trust has classified the Series B-1 Preferred Shares as liabilities pursuant to accounting guidance applicable at the time of issuance. Upon the conversion of the Series B-1 Preferred Shares to Common Shares, the shares converted will be classified as equity.

During 2008, at the request of holders of Series B-1 Preferred Shares, 493,552 Series B-1 Preferred Shares were converted into 548,389 Common Shares. There were no requests to convert Series B-1 Preferred Shares to Common Shares during the year ended December 31, 2009. Through December 31, 2009, a total of 562,895 Series B-1 Preferred Shares have been converted into 625,436 Common Shares. Conversions are treated as equity transactions and any fees incurred in connection with a conversion are recorded as a reduction to paid-in-capital.

During the fourth quarter of 2008 the Trust acquired 1,024,000 Series B-1 Preferred Shares with a liquidation value of approximately $25,600,000 at a 25.5% discount from their liquidation value of $25 per share. The Trust determined that the repurchase of the Series B-1 Preferred Shares qualified as extinguishment of debt and recognized a gain of $6,284,000 and accounted for as extinguishment of debt.

During 2009 the Trust acquired an additional 1,017,105 Series B-1 Preferred Shares at a discount of 25.0% from their liquidation value of $25 per share. As a result, the Trust recorded a gain from the early extinguishment of debt of approximately $5,681,000 in 2009.

*Series C Preferred Shares*

In November 2009 the Trust permitted holders of its Series B-1 Preferred Shares to convert any or all of their Series B-1 Shares into an equivalent number of its newly issued Series C Preferred Shares. The Trust has issued 544,000 Series C Preferred Shares and 544,000 Series B-1 Preferred Shares have been retired. Following the consummation of the foregoing, at December 31, 2009 the Trust has 852,000 Series B-1 Preferred Shares and 544,000 Series C Preferred Shares outstanding.

The Series C Preferred Shares contain a liquidation preference, senior to the Common Shares but subordinate to the Series B-1 Preferred Shares, of $25 per share and each Series C Preferred Share is presently convertible into approximately 1.786 common shares at any time at the option of the holder. In addition, the Series C Preferred Shares contain a mandatory redemption feature requiring the Trust to redeem any remaining Series C Preferred Shares outstanding on February 12, 2012. Since the Trust will be required to redeem the Series C Preferred Shares only if they are not converted by holders prior to the redemption date, the Trust has recorded the Series C Preferred Shares at fair value in mezzanine equity on the Consolidated Balance Sheet. Additionally, the conversion of the Series B-1 Preferred Shares to Series C Preferred Shares was treated as extinguishment of debt and the Trust recognized the difference between the book value of the converted Series B-1 Preferred Shares and the fair value of the Series C Shares as a $1,165,000 gain.

## 13. Common Shares

Share Repurchase

In September 2008 the Board of Trustees approved a stock repurchase plan pursuant to which the Trust is authorized to acquire up to one million of its Common Shares. During 2008, the Trust acquired 70,000 of its Common Shares pursuant to the repurchase plan at an average price of $13.30 per share, aggregating approximately $930,000. These shares were retired at December 31, 2008. No additional Common Shares were repurchased during 2009.

The following table sets forth information relating to sales of Common Shares:

| Issue Date | Shares Issued | Price per Share | Type of Offering |
|---|---|---|---|
| 1/16/07 | 35,600 | 33.65 | DRIP (1) |
| 4/16/07 | 27,000 | 32.80 | DRIP |
| 7/16/07 | 25,600 | 34.75 | DRIP |
| 10/15/07 | 30,400 | 31.34 | DRIP |
| 1/15/08 | 64,308 | 25.35 | DRIP |
| 4/15/08 | 41,026 | 20.65 | DRIP |
| 5/15/08 | 1,768,987 | 21.35 | Rights Offering (2) |
| 7/15/08 | 58,354 | 16.10 | DRIP |
| 10/15/08 | 85,950 | 11.52 | DRIP |
| 1/15/09 | 61,292 | 10.85 | DRIP |
| 4/15/09 | 7,462 | 8.27 | DRIP |
| 7/15/09 | 37,982 | 8.72 | DRIP |
| 10/15/09 | 63,471 | 8.96 | DRIP |
| 11/27/09 | 4,450,781 | 9.05 | Rights Offering (3) |

(1) The Trust's Dividend Reinvestment and Stock Purchase Plan.
(2) Rights offering pursuant to which each holder of Common Shares and Series B-1 Preferred Shares received one basic subscription right for every ten Common Shares owned, or in the case of Series B-1 Preferred Shares, one basic subscription right for every ten Common Shares issuable upon conversion of such Series B-1 Preferred Shares.
(3) Rights offering pursuant to which each holder of Common Shares and Series B-1 Preferred Shares received one basic subscription right for every three and one-half Common Shares owned, or in the case of Series B-1 Preferred Shares, one basic subscription right for every three and one-half Common Shares issuable upon conversion of such Series B-1 Preferred Shares.

## 14. Warrants and Share Options

In May 2007 the Trust's shareholders approved the Winthrop Realty Trust 2007 Long Term Incentive Plan (the "2007 Plan") pursuant to which the Trust can issue options to acquire Common Shares and restricted share awards to its Trustees, directors and consultants. There are 100,000 Common Shares reserved for issuance under the 2007 Plan and as of December 31, 2009, no stock options or restricted stock awards have been issued.

In December 2003 the Board of Trustees granted 20,000 options under a Long Term Incentive Performance Plan to a Trustee who was Interim Chief Executive Officer and Interim Chief Financial Officer. The options have an exercise price of $11.15 and expire on December 16, 2013, no options have been exercised. There were no other options granted, cancelled or expired and in March 2005 the plan was terminated.

In November 1998 the Trust issued warrants to a third party to purchase 100,000 Common Shares at an exercise price of $41.85 per Common Share. The warrants expired in November 2008.

## 15. Discontinued Operations

In November 2009 the tenant at the Trust's Athens, Georgia retail property notified the Trust that it was exercising its right to purchase the property at the expiration of the current lease term. In accordance with the lease, the purchase price will be equal to the fair market value of the property at the time of sale. Both the Trust and the tenant have engaged independent third parties to determine the fair market value of the property. The Trust anticipates that the sale will be consumated on or before October 31, 2010, the current lease expiration date.

In August 2009 the First District Court of Wyandotte County, Kansas, appointed a receiver to operate and manage the Trust's apartment complex in Kansas City, Kansas commonly referred to as Creekwood Apartments. In October 2009 a notice of foreclosure was issued on behalf of the first mortgage holder. The property was foreclosed upon in December 2009 and the Trust recorded a gain on the early extinguishment of debt of $292,000.

In December 2008 the Trust sold a shopping center asset located in Biloxi, Mississippi aggregating approximately 51,000 square feet, for a gross sales price of approximately $3,300,000. The Trust received proceeds of $2,678,000, net of credits for a ground lease purchase option and closing costs, and recognized a gain of $1,807,000 on the sale.

The operations of the foregoing properties are classified as discontinued operations for all periods presented.

Under an agreement related to a former property, VenTek Transit, Inc ("VenTek"), the Trust is entitled to receive royalty payments through 2009 equal to 5% of VenTek's annual gross revenues. The Trust received royalties of $0, $23,000 and $22,000 during the years ended 2009, 2008 and 2007, respectively. At December 31, 2006 the Trust had $828,000 accrued for a contingent sales tax liability related to Ventek. In September 2007 the statute of limitations expired and the Trust wrote off this contingent liability, recording $828,000 in other income.
There were no liabilities related to discontinued operations at December 31, 2009 and 2008.

Results for discontinued operations for the years ended December 31, 2009, 2008 and 2007 are as follows (in thousands):

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Operating revenues | $ 1,642 | $ 1,463 | $ 2,175 |
| Total expenses | 1,458 | 1,451 | 3,250 |
| Income (loss) from discontinued operations | $ 184 | $ 12 | $ (1,075) |

## 16. Federal and State Income Taxes

The Trust has made no provision for regular current or deferred federal income taxes and no deferred state income taxes have been provided for on the basis that the Trust operates in a manner intended to enable it to continue to qualify as a real estate investment trust under Sections 856-860 of the Code. In order to qualify as a REIT, the Trust is generally required each year to distribute to its shareholders at least 90% of its taxable income (excluding any net capital gain). The Trust intends to comply with the foregoing minimum distribution requirements. As of December 31, 2009, the Trust has net operating loss carryforwards of approximately $24,040,000 after utilizing $8,234,000 to offset 2008 taxable income, which will expire from 2021 through 2023. This Trust does not expect to utilize any net operating loss carryforwards to offset 2009 taxable income. As a result of the February 28, 2005 issuance of the Series B-1 Preferred Shares (see Note 14), the Trust's net operating loss carryforwards are subject to annual limitations pursuant to Section 382 of the Code. The Trust treats certain items of income and expense differently in determining net income reported for financial and tax purposes.

Prior to 2007 the Trust had offset a portion of its federal taxable income by utilizing capital loss carryforwards. However, the capital loss carryforwards are not available in certain states and localities where the Trust has an obligation to pay income taxes. In addition, certain states and localities disallow state income taxes as a deduction and exclude interest income from United States obligations when calculating taxable income. Federal and state tax calculations can differ due to differing recognition of net operating losses. Accordingly, the Trust has recorded, $157,000, $330,000 and $417,000 in state and local taxes for the years ended December 31, 2009, 2008 and 2007, respectively.

The 2009, 2008 and 2007 cash dividends per Series B-1 Preferred Share for an individual shareholder's income tax purposes were as follows:

| | Ordinary Dividends | Capital Gains 15% Rate | Nontaxable Distribution | Total Dividends Paid |
|---|---|---|---|---|
| 2009 | $ 1.22 | $ - | $ - | $ 1.22 |
| 2008 | 1.38 | 0.25 | - | 1.63 |
| 2007 | 0.96 | 1.43 | - | 2.39 |

The 2009, 2008 and 2007 cash dividends per Common Share for an individual shareholder's income tax purposes were as follows:

| | Ordinary Dividends | Capital Gains 15% Rate | Nontaxable Distribution | Total Dividends Paid |
|---|---|---|---|---|
| 2009 | $ 0.65 | $ - | $ 0.10 | $ 0.75 |
| 2008 | 0.48 | 0.09 | - | 0.57 |
| 2007 | 0.85 | 1.30 | - | 2.15 |

## 17. Commitments and Contingencies

The Trust is involved from time to time in litigation on various matters, including disputes with tenants and disputes arising out of agreements to purchase or sell properties. Given the nature of the Trust's business activities, these lawsuits are considered routine to the conduct of its business. The Trust does not expect that the liabilities, if any, that may ultimately result from such legal actions will have a material adverse effect on the consolidated financial position, results of operations or cash flows of the Trust. As of December 31, 2009, the Trust was not involved in any material litigation.

## 18. Related-Party Transactions

The following table sets forth the fees and reimbursements paid by the Trust for the years ended December 31, 2009, 2008 and 2007 to FUR Advisors LLC ("FUR Advisors") and Winthrop Management L.P. ("Winthrop Management") (in thousands):

| | 2009 | | 2008 | | 2007 | |
|---|---|---|---|---|---|---|
| Asset Management (1) | $ 3,233 | (3) | $ 5,616 | (4) | $ 5,263 | (5) |
| Property Management (2) | 262 | | 264 | | 269 | |
| Construction Management (2) | 38 | | 23 | | 9 | |
| | $ 3,533 | | $ 5,903 | | $ 5,541 | |

(1) Payable to FUR Advisors.
(2) Payable to Winthrop Management.
(3) Before a credit of $255, discussed below.
(4) Before credits of $1,763, discussed below.
(5) Before a credit of $189, discussed below.

*FUR Advisors*

The activities of the Trust and its subsidiaries are administered by FUR Advisors pursuant to the terms of the Advisory Agreement between the Trust and FUR Advisors. FUR Advisors is controlled by and partially owned by the executive officers of the Trust. Pursuant to the terms of the Advisory Agreement, FUR Advisors is responsible for providing asset management services to the Trust and coordinating with the Trust's shareholder transfer agent and property managers. FUR Advisors is entitled to receive a base management fee and an incentive fee. In addition, FUR Advisors or its affiliate is also entitled to receive property and construction management fees at commercially reasonable rates.

*Base Management Fee*

For providing services to the Trust, FUR Advisors receives a quarterly base management fee that is calculated as follows: (i) 1.5% of our issued and outstanding equity securities plus (ii) 0.25% of any equity contribution by an unaffiliated third party to a venture managed by the Trust. During the years ended December 31, 2008 and 2007, (i) the 6,211,783 Common Shares outstanding at January 1, 2005 were valued as follows: $11.50 (the tender offer price paid by an affiliate of the Trust's Advisor in its December 2003 tender offer) with respect to 5,211,783 Common Shares and $13.00 (the purchase price paid by such affiliate) with respect to the 1,000,000 Common Shares acquired on December 31, 2003, (ii) the Common Shares issued upon the conversion of the Series A Preferred Shares were valued at $25.4125 per Common Share, their conversion price, and (iii) all Preferred and Common Shares issued subsequent to January 1, 2005 were valued at the net issuance price, including any Common Shares issued in connection with the conversion of Preferred Shares, as adjusted for the November 2008 1-for-5 Common Share reverse split. Effective January 1, 2009 the calculation of the base management fee was amended to provide that (i) all Common Shares and Series B-1 Preferred Shares then issued and outstanding would be valued at a price of $11.00 per Common Share and $25.00 per Series B-1 Preferred Share, (ii) any additional future conversions, redemptions or repurchases of the Series B-1 Preferred Shares would not reduce the base equity for purposes of the base management fee calculation and (iii) any future issuances of common shares or preferred shares will increase the equity as per the existing agreement for purposes of the base management fee calculation.

Effective January 1, 2010, the Advisory Agreement was amended to revert the determination of the issuance price of Common Shares back to the pre 2009 definition. This change will result in an increase to the annual advisory fee payable to the Advisor of approximately $2,100,000, which increase will be phased in with 54% of the increase being paid during 2010 and then 100% of the increase being paid commencing in 2011.

*Incentive Fee*

The incentive fee entitles FUR Advisors to receive (a) an amount equal to 20% of all distributions paid to beneficiaries of Common Shares after December 31, 2003 in excess of the Threshold Amount, hereinafter defined, and, (b) upon the termination of the Advisory Agreement, an amount equal to 20% of the "liquidation value" of the Trust in excess of the Threshold Amount at the termination date. As defined in the Advisory Agreement, the Threshold Amount is equal to (x) $71,300,000, increased by the net issuance price of all Common Shares, with an adjustment for Preferred Shares converted, issued after December 31, 2003, and decreased by the redemption price of all Common Shares redeemed after December 31, 2003, plus (y) a return on the amount, as adjusted, set forth in (x) equal to 7% per annum compounded annually. The incentive fee is reduced by any direct damages to the Trust if the Advisory Agreement is terminated by the Trust for cause.

If the Advisory Agreement were terminated, the actual incentive fee payable would be based on an appraised valuation or the liquidation proceeds received for the Trust's assets, which may be substantially in excess of the amount calculated based on the market price of the Common Shares.

*Winthrop Management*

Winthrop Management, an affiliate of FUR Advisors and the Trust's executive officers, assumed property management responsibilities for various properties owned by the Trust. Pursuant to the terms of the property management agreement, Winthrop Management receives a property management fee equal to 3% of the monthly revenues.

*Credits*

In connection with the resignation by Michael L. Ashner, the Trust's Chairman and Chief Executive Officer, as an officer and trustee of Lexington which was effective March 20, 2008, the Trust consented to FUR Advisors entering into a consulting agreement with Lexington pursuant to which FUR Advisors was to provide consulting services to Lexington through December 31, 2008. For providing these services, FUR Advisors was entitled to a fee of $1,500,000 (the "Consulting Fee"), which was to be paid in monthly installments of approximately $167,000, and the Trust received a credit against the base management fee payable by the Trust to FUR Advisors equal to the Consulting Fee. Accordingly, the Trust received a credit of $1,500,000 for the year ended December 31, 2008.

WRP Sub-Management LLC ("WRP Sub-Management"), an affiliate of FUR Advisors has been retained to provide accounting, collateral management and loan brokerage services to Concord and its subsidiaries, including CDO-1. WRP Sub-Management received reimbursement of direct and indirect expenses totaling $1,108,000, $1,402,000 and $2,571,000 for the years ended December 31, 2009, 2008 and 2007, respectively, in accordance with the terms of the agreement. Of these amounts, $511,000, $526,000 and $378,000 were paid to reimburse it for costs associated with providing accounting and other "back-office" services for the benefit of Concord (the "Affiliate Amount"). Because the Trust pays an advisory fee to FUR Advisors whereas Lexington does not, the advisory fee payable to FUR Advisors by the Trust is reduced by 50% of the Affiliate Amount to ensure equal treatment of the Trust and Lexington with respect to the reimbursements paid by Concord. For the years ended December 31, 2009, 2008 and 2007, the Trust received and utilized a credit of $255,000, $263,000 and $189,000, respectively, against the base management fee.

In connection with the Newkirk/Lexington merger, the advisory agreement between NKT Advisors and Newkirk was terminated, and NKT Advisors received a payment of $5,500,000 attributable to its incentive fee. As a result of the incentive fee being paid by Newkirk and in accordance with the Advisory Agreement between the Trust and FUR Advisors, the Trust received a $4,400,000 credit (80% of total fee paid) in 2006 to be utilized on a go forward basis in offsetting the quarterly advisory fees payable under the Advisory Agreement, or in cash if the credit was not fully utilized after eight fiscal quarters. To offset the base management fee payable the Trust utilized approximately $3,241,000 of the credit for the year ended December 31, 2007 thereby fully utilizing the credit.

*Other Transactions*

On March 24, 2008, the Trust acquired for the benefit of Concord two classes of securities issued by CDO-1 with a face value of $10,000,000 for approximately $4,850,000 and transferred legal ownership of these securities to Concord on March 31, 2008 and received reimbursement equal to the acquisition cost.

**19. Future Minimum Lease Payments**

Future minimum lease payments scheduled to be received under non-cancellable operating leases are as follows (amounts in thousands):

| | |
|---|---|
| 2010 | $ 33,132 |
| 2011 | 27,329 |
| 2012 | 27,092 |
| 2013 | 26,437 |
| 2014 | 23,678 |
| Thereafter | 72,586 |
| | $ 210,254 |

Three tenants contributed approximately 41%, 39% and 41% of the base rental revenues of the Trust for the years ended December 31, 2009, 2008 and 2007, respectively, and represent approximately 36%, 35% and 35%, respectively, of the total rentable square footage of the net lease property portfolio. The Jacksonville, Florida property has one tenant that will occupy approximately 94% of the rentable area effective February 2010.

**20. Business Segments**

FASB guidance on segment reporting establishes standards for the way that public business enterprises report information about operating segments in financial statements and requires that those enterprises report selected financial information about operating segments in financial reports issued to shareholders.

Based on the Trust's method of internal reporting, management determined that is has three operating segments: (i) the ownership of operating properties; (ii) the origination and acquisition of loans and debt securities secured directly or indirectly by commercial and multi-family real property – collectively, loan assets; and (iii) the ownership of equity and debt securities in other REITs – REIT securities. The accounting policies of the segments are identical to those described in Note 2.

The operating properties segment includes all of the Trust's wholly and partially owned operating properties. Prior to July 1, 2009, the loan assets segment includes all of the Trust's activities related to real estate loans, which consists primarily of the Trust's investment in Lex-Win Concord and its tenant improvement and capital expenditure loans to properties in the Marc Realty portfolio. As of July 1, 2009, in conjunction with the restructuring of its preferred equity investment in Marc Realty, the Trust's preferred equity investments and tenant improvement and capital expenditure loans to the Included Properties in the Marc Realty portfolio are now classified as equity investments and are included in the operating properties segment. The REIT securities segment includes all of the Trust's activities related to the ownership of securities in other publicly traded real estate companies. In addition to its three business segments, the Trust reports non-segment specific income and expense under corporate income (expense).

One tenant provided revenues of $7,860,000, $7,860,000 and $7,809,000 for the years ended December 31, 2009, 2008 and 2007, respectively. This tenant accounted for 16.4%, 17.6% and 15.6% of total revenues for the years ended December 31, 2009, 2008 and 2007, respectively. These revenues are reported in the operating properties business segment.

The following table summarizes the Trust's assets by business segment and capital expenditures incurred for the Trust's operating properties for the periods ended December 31, 2009 and 2008 (in thousands):

| | 2009 | 2008 |
|---|---|---|
| Operating properties | $ 313,682 | $ 286,780 |
| Loan assets | 31,774 | 146,560 |
| REIT securities | 52,597 | 36,796 |
| Cash and other | 95,139 | 107,958 |
| **Total Assets** | $ 493,192 | $ 578,094 |
| **Capital Expenditures** | | |
| Operating Properties | $ 2,548 | $ 3,377 |

The following table summarizes revenues and expenses by segment for the periods ended December 31, 2009, 2008 and 2007. Net operating income for each segment is defined as the segment's revenue and other income, less operating expenses. Non segment specific income and expense items such as interest on cash reserves and administrative expenses are reported under the heading Corporate Income (Expense).

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| | | (in thousands) | |
| **Operating Properties** | | | |
| Rents and reimbursements | $ 40,605 | $ 42,088 | $ 39,460 |
| Operating expenses | (7,043) | (6,768) | (5,132) |
| Real estate taxes | (2,542) | (2,428) | (2,068) |
| Impairment loss on investments in real estate | (10,000) | (2,100) | - |
| Loss on extinguishment of debt | - | - | (369) |
| Equity in income of Marc Realty investments | 281 | - | - |
| Impairment loss on Marc Realty equity investment | (2,500) | - | - |
| Equity in loss of Sealy Northwest Atlanta | (457) | (409) | (470) |
| Equity in loss of Sealy Airpark Nashville | (1,056) | (1,023) | (936) |
| Equity in loss of Sealy Newmarket | (691) | (250) | - |
| Net operating income | 16,597 | 29,110 | 30,485 |
| Depreciation and amortization expense | (10,779) | (11,766) | (11,639) |
| Interest expense | (13,774) | (14,289) | (14,115) |
| Operating properties net income (loss) | (7,956) | 3,055 | 4,731 |

| | | | |
|---|---|---|---|
| **Loan Assets** | | | |
| Interest income | 3,442 | 1,532 | 7,728 |
| Equity in earnings of preferred equity investment of Marc Realty | 78 | 5,868 | 11,836 |
| Impairment loss on preferred equity investment | (2,186) | (7,513) | - |
| Equity in (loss) earnings of Lex-Win Concord | (66,904) | (30,207) | 5,098 |
| Impairment loss on investment in Lex-Win Concord | (31,670) | (36,543) | - |
| Gain on sale of mortgage backed securities | - | 454 | - |
| Gain on sale of other assets | - | 24 | - |
| Gain on sale of limited partnership interest | - | - | 1,997 |
| Impairment loss on available for sale loans | (203) | - | - |
| Provision for loss on loan receivable | (2,152) | (1,179) | - |
| Net operating (loss) income | (99,595) | (67,564) | 26,659 |
| General and administrative expense | (235) | - | - |
| Interest expense | - | (206) | (6,377) |
| Loan assets net income (loss) | (99,830) | (67,770) | 20,282 |
| **REIT Securities** | | | |
| Dividends | 3,894 | 916 | 3,003 |
| Gain on sale of available for sale securities | - | 1,580 | 10,187 |
| Gain on sale of securities carried at fair value | 5,416 | - | - |
| Impairment loss on available for sale securities | - | (207) | (18,218) |
| Unrealized gain on available for sale securities | - | 24 | - |
| Unrealized gain on securities carried at fair value | 17,862 | - | - |
| Equity in loss of Lex-Win Acquisition, LLC | (95) | (878) | (45) |
| Net operating income (loss) | 27,077 | 1,435 | (5,073) |
| Interest expense | (75) | (89) | - |
| REIT securities net income (loss) | 27,002 | 1,346 | (5,073) |
| **Net Income (Loss)** | (80,784) | (63,369) | 19,940 |
| **Reconciliations to GAAP Net Income (Loss):** | | | |
| **Corporate Income (Expense)** | | | |
| Interest income | 172 | 1,670 | 3,149 |
| General and administrative (1) | (7,068) | (6,887) | (8,336) |
| Interest expense | (2,815) | (7,379) | (10,902) |
| Gain on extinguishment of debt | 6,846 | 6,284 | - |
| State and local taxes | (157) | (330) | (417) |
| Other | - | 499 | 700 |
| Income (loss) from continuing operations before non-controlling interest | (83,806) | (69,512) | 4,134 |
| Non-controlling interest | (1,017) | (483) | (578) |
| Income (loss) from continuing operations attributable to Winthrop Realty Trust | (84,823) | (69,995) | 3,556 |
| Income (loss) from discontinued operations attributable to Winthrop Realty Trust | 476 | 1,819 | (1,075) |
| **Net Income (Loss) Attributable to Winthrop Realty Trust** | $ (84,347) | $ (68,176) | $ 2,481 |

(1) After credits – See Note 20.

**21. Quarterly Results of Operations (Unaudited)**

The following is an unaudited condensed summary of the results of operations by quarter for the years ended December 31, 2009 and 2008. The Trust believes all adjustments (consisting of normal recurring accruals) necessary to present fairly such interim combined results in conformity with accounting principles generally accepted in the United States of America have been included.

| | Quarters Ended | | | |
|---|---|---|---|---|
| **(In thousands, except per-share data)** | **March 31** | **June 30** | **September 30** | **December 31** |
| **2009** | | | | |
| Revenues | $ 12,407 | $ 12,319 | $ 12,783 | $ 10,432 |
| Net income (loss) | $ (22,433) | $ (71,196) | $ 15,157 | $ (5,875) |
| Net income (loss) applicable to Common Shares | $ (22,433) | $ (71,196) | $ 14,318 | $ (6,022) |
| Per share | | | | |
| Net income (loss) applicable to Common Shares, basic | $ (1.42) | $ (4.50) | $ 0.90 | $ (0.34) |
| Net income (loss) applicable to Common Shares, diluted | $ (1.42) | $ (4.50) | $ 0.90 | $ (0.34) |
| **2008** | | | | |
| Revenues | $ 10,881 | $ 11,065 | $ 10,928 | $ 11,662 |
| Net income (loss) | $ 6,312 | $ (24,057) | $ 2,229 | $ (52,660) |
| Net income (loss) applicable to Common Shares | $ 5,973 | $ (24,057) | $ 2,229 | $ (52,660) |
| Per share | | | | |
| Net income (loss) applicable to Common Shares, basic | $ 0.45 | $ (1.65) | $ 0.14 | $ (3.34) |
| Net income (loss) applicable to Common Shares, diluted | $ 0.45 | $ (1.65) | $ 0.14 | $ (3.34) |

As discussed in Note 2, the Trust determined that intangible assets were not being amortized over the appropriate tenant lease term. Amortization was understated by approximately $1,024,000 for the year ended December 31, 2006 and by approximately $256,000 for each of the quarters ended March 31, June 30 and September 30, 2007. The Trust has concluded that the cumulative adjustment was not material to the quarter or the year ended December 31, 2007. As such, the cumulative effect which totaled approximately $1,792,000 was recorded in the consolidated statement of operations as an out of period adjustment in the fourth quarter of 2007. There was no associated net impact on the Trust's cash flow from operations for the year ended December 31, 2007.

## 22. Subsequent Events

*Andover, Massachusetts* – In January 2010, the Trust executed a lease agreement with PAETEC Communications, Inc. for 93,000 square feet, representing 100% of the rentable square footage of the property, through September 2022. The annual rent is $742,000 for the first year, $969,000 for the second year, increasing 3% every two years thereafter. The tenant has the option to purchase the building for $10,500,000 effective after January 10, 2011 through March 19, 2013.

*South Burlington, Vermont* – In January 2010, the Trust executed a lease agreement with FairPoint Communications, Inc., for 56,000 square feet, representing 100% of the rentable square footage of the property, through January 1, 2015. The rent is $800,000 annually through January 2012 and increases to $820,000, $840,000 and $861,500 each subsequent year.

*Jacksonville, Florida* – In January 2010, the Trust executed a lease agreement with Football Fanatics, Inc. for 558,000 square feet of space at this property through July 2015. The lease has an initial term of 66 months, with three, three-year renewal options. Net rent payable under the lease commences in August 2010 at an annual rent of $648,000, increasing to $669,000 annually for August 2011 through July 2012 and thereafter increasing by an average of approximately 16% per year for the balance of the initial term.

*Siete Square Loan* - On February 5, 2010, the Trust restructured its Siete Square loan into a $3,000,000 Sub-Participation A Note and a $4,219,000 Sub-Participation B Note. The Trust sold the Sub-Participation A Note at par to CDO-1.

## ITEM 9 – CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

## ITEM 9A – CONTROLS AND PROCEDURES

### Evaluation of Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of December 31, 2009. Based on such evaluation, the Trust's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Trust's disclosure controls and procedures are effective.

### Management's Report on Internal Control Over Financial Reporting

The Trust's management is responsible for establishing and maintaining adequate internal control over financial reporting. The Trust's internal control over financial reporting is a process which was designed under the supervision of the Trust's principal executives and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Trust's financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the Trustees of the Trust; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Trust's assets that could have a material affect on our financial statements.

As of December 31, 2009 the Trust's management conducted an assessment of the effectiveness of the Trust's internal control over financial reporting. The Trust's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in "Internal Control - Integrated Framework." Based on that assessment and those criteria, we concluded that our internal control over financial reporting is effective as of December 31, 2009.

The effectiveness of the Trust's internal control over financial reporting as of December 31, 2009 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report appearing in this Form 10-K.

### Changes in Internal Controls Over Financial Reporting

There has been no change in our internal control over financial reporting during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## ITEM 9B – OTHER INFORMATION

None

## PART III

### ITEM 10 – DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information about Trustees of the Trust may be found under the caption "Election of Trustees" presented in our Proxy Statement for the Annual Meeting of Shareholders, expected to be held in May 2010, which we refer to as the Proxy Statement. That information is incorporated herein by reference.

The information in the Proxy Statement under the captions "Executive Officers" “Section 16(a) Beneficial Ownership Reporting Compliance”, “Audit Committee Financial Expert” and “Code of Ethics” presented in the Proxy Statement is incorporated herein by reference.

### ITEM 11 – EXECUTIVE COMPENSATION

The information in the Proxy Statement under the captions "Compensation of Trustees" and "Executive Compensation" presented in the Proxy Statement is incorporated herein by reference.

### ITEM 12 – SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information in the Proxy Statement under the caption "Security Ownership of Trustees, Officers and Others" presented in the Proxy Statement is incorporated herein by reference.

### ITEM 13 – CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information in the Proxy Statement under the caption "Certain Transactions and Relationships" and “Independence of Trustees” presented in the Proxy Statement is incorporated herein by reference.

### ITEM 14 – PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information in the Proxy Statement under the captions "Compensation of Trustees" and "Principal Accountant Fees and Services" presented in the Proxy Statement is incorporated herein by reference.

## PART IV

### ITEM 15 – EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

**(a) Financial Statements and Financial Statement Schedules.**

**(1) Financial Statements:**



**(2) Financial Statement Schedules:**

Schedule III - Real Estate and Accumulated Depreciation.

All Schedules, other than III, are omitted, as the information is not required or is otherwise furnished.

**(b) Exhibits.**

The exhibits listed on the Exhibit Index on page 104 are filed as a part of this Report or incorporated by reference.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Trust has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WINTHROP REALTY TRUST

| | |
|---|---|
| Dated: March 15, 2010 | By: /s/ Michael L. Ashner<br>Michael L. Ashner<br>Chief Executive Officer |
| Dated: March 15, 2010 | By: /s/ Thomas Staples<br>Thomas Staples<br>Chief Financial Officer |

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| **Name** | **Title** | **Date** |
|---|---|---|
| /s/ Michael L. Ashner | Trustee | March 15, 2010 |
| /s/ Carolyn Tiffany | Trustee | March 15, 2010 |
| Arthur Blasberg, Jr.<br>Howard Goldberg<br>Thomas McWilliams<br>Lee Seidler<br>Steven Zalkind | Trustee | March 15, 2010 |

By: /s/ Carolyn Tiffany
Carolyn Tiffany,
as attorney-in fact

**WINTHROP REALTY TRUST**
**SCHEDULE III**
**REAL ESTATE AND ACCUMULATED DEPRECIATION**
**At December 31, 2009**
(amounts in thousands)

| Description | Location | Location | Mortgage Encumbrances | Initial Cost to Registrant: Land | Initial Cost to Registrant: Building and Improvements | Cost capitalized/(impaired) subsequent to acquistion: Land/Building and Improvements | As of December 31, 2009: Land | As of December 31, 2009: Building and Improvements | As of December 31, 2009: Total | Accumulated Depreciation | Date Acquired | Life |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Continuing Operations:** | | | | | | | | | | | | |
| Office | Orlando | FL | $ 39,148 | $ - | $ 17,248 | $ 42 | $ - | $ 17,290 | $ 17,290 | $ 2,215 | 11/2004 | 40 yrs |
| Office | Plantation | FL | - | - | 8,915 | 20 | - | 8,935 | 8,935 | 1,145 | 11/2004 | 40 yrs |
| Office | Indianapolis | IN | 4,317 | 270 | 1,609 | 5,876 | 1,763 | 5,992 | 7,755 | 3,407 | 10/1974 | 40 yrs |
| Office | Chicago | IL | 21,118 | - | 23,635 | 1,687 | - | 25,322 | 25,322 | 2,832 | 10/2005 | 40 yrs |
| Office | Amherst | NY | 16,526 | 1,591 | 18,027 | - | 1,591 | 18,027 | 19,618 | 2,084 | 5/2005 | 40 yrs |
| Office | Andover | MA | 6,266 | - | 7,611 | -2,097 | - | 5,514 | 5,514 | 706 | 12/2005 | 40 yrs |
| Office | South Burlington | VT | 2,686 | - | 3,099 | 2 | - | 3,101 | 3,101 | 311 | 12/2005 | 40 yrs |
| Office | Chicago | IL | 9,300 | 1,149 | 9,989 | 2,525 | 1,149 | 12,514 | 13,663 | 674 | 10/2007 | 40 yrs |
| Office | Houston | TX | 63,869 | 7,075 | 62,468 | - | 7,075 | 62,468 | 69,543 | 7,939 | 1/2005 | 40 yrs |
| Office | Lisle | IL | 17,165 | 3,774 | 16,371 | 304 | 3,774 | 16,675 | 20,449 | 1,603 | 2/2006 | 40 yrs |
| Office | Lisle | IL | 7,011 | 2,361 | 6,298 | 290 | 2,361 | 6,588 | 8,949 | 618 | 2/2006 | 40 yrs |
| Office | Lisle | IL | 5,600 | 780 | 2,803 | 463 | 780 | 3,266 | 4,046 | 289 | 2/2006 | 40 yrs |
| | | | 193,006 | 17,000 | 178,073 | 9,112 | 18,493 | 185,692 | 204,185 | 23,823 | | |
| Retail | Atlanta | GA | - | - | 4,633 | 5 | - | 4,638 | 4,638 | 594 | 11/2004 | 40 yrs |
| Retail | Louisville | KY | - | - | 2,722 | 4 | - | 2,726 | 2,726 | 349 | 11/2004 | 40 yrs |
| Retail | Lafayette | LA | - | - | - | 1 | - | 1 | 1 | - | 11/2004 | 40 yrs |
| Retail | Sherman | TX | - | - | 820 | 2 | - | 822 | 822 | 104 | 11/2004 | 40 yrs |
| Retail | St. Louis | MO | - | - | 990 | 2 | - | 992 | 992 | 127 | 11/2004 | 40 yrs |
| Retail | Greensboro | NC | - | - | 3,797 | 4 | - | 3,801 | 3,801 | 487 | 11/2004 | 40 yrs |
| Retail | Knoxville | TN | - | - | 2,121 | 3 | - | 2,124 | 2,124 | 272 | 11/2004 | 40 yrs |
| Retail | Memphis | TN | - | - | 760 | 2 | - | 762 | 762 | 98 | 11/2004 | 40 yrs |
| Retail | Denton | TX | - | - | 1,574 | 3 | - | 1,577 | 1,577 | 202 | 11/2004 | 40 yrs |
| Retail | Seabrook | TX | - | - | 1,393 | 2 | - | 1,395 | 1,395 | 178 | 11/2004 | 40 yrs |
| | | | - | - | 18,810 | 28 | - | 18,838 | 18,838 | 2,411 | | |
| Other | Jacksonville | FL | - | 2,166 | 8,684 | 1,334 | 2,166 | 10,018 | 12,184 | 1,977 | 11/2004 | 40 yrs |
| Other | Churchill | PA | - | - | 23,834 | -9,963 | - | 13,871 | 13,871 | 3,058 | 11/2004 | 40 yrs |
| Other (1) | | | 23,761 | - | - | - | - | - | - | - | | |
| | | | 23,761 | 2,166 | 32,518 | -8,629 | 2,166 | 23,889 | 26,055 | 5,035 | | |
| **Total from Continuing Operations** | | | $ 216,767 | $ 19,166 | $ 229,401 | $ 511 | $ 20,659 | $ 228,419 | $ 249,078 | $ 31,269 | | |

(1) Represents a first mortgage loan collateralized by the Finova properties.
The aggregate cost in the properties for federal income tax purposes w as approximately $173,165

SCHEDULE III
REAL ESTATE AND ACCUMULATED DEPRECIATION
(amounts in thousands)

The following is a reconciliation of real estate assets and accumulated depreciation:

| | Year Ended December 31, 2009 | 2008 | 2007 |
|---|---|---|---|
| **Real Estate** | | | |
| Balance at beginning of period | $ 267,706 | $ 266,290 | $ 247,401 |
| Additions during the period: | | | |
| Land | - | - | 666 |
| Buildings and improvements | 2,548 | 3,376 | 7,085 |
| Consolidation of River City | - | - | 11,138 |
| Transfer (to) from discontinued operations, net (1) | (10,811) | 140 | - |
| Impairments during the period | (10,000) | (2,100) | - |
| Disposal of fully amortized assets | (365) | - | - |
| Balance at end of period | $ 249,078 | $ 267,706 | $ 266,290 |
| **Accumulated Depreciation** | | | |
| Balance at beginning of period | $ 25,901 | $ 19,214 | $ 12,932 |
| Additions charged to operating expenses | 6,652 | 6,701 | 6,282 |
| Transfer (to) from discontinued operations, net (1) | (919) | (14) | - |
| Disposal of fully amortized assets | (365) | - | - |
| Balance at end of period | $ 31,269 | $ 25,901 | $ 19,214 |

(1) In the current year, the Athens, Georgia property was placed into discontinued operations and the Kansas City, Kansas property was foreclosed.

| Exhibit | Description | Page Number |
|---|---|---|
| 3.1 | Second Amended and Restated Declaration of Trust as of May 21, 2009 - Incorporated by reference to Exhibit 3.1 to the Trust's Quarterly Report on Form 10-Q for the period ended June 30, 2009. | |
| 3.2 | By-laws of Winthrop Realty Trust as amended and restated on November 3, 2009 - Incorporated by reference to Exhibit 3.1 to the Trust's Current Report on Form 8-K filed November 6, 2009 | - |
| 3.3 | Amendment to By-laws - Incorporated by reference to Exhibit 3.1 to the Trust's Current Report on Form 8-K filed March 6, 2010 | - |
| 4.1 | Form of certificate for Common Shares of Beneficial Interest. Incorporated by reference to Exhibit 4.1 to the Trust's Annual Report on Form 10-K for the year ended December 31, 2008 | - |
| 4.2 | Warrant to purchase 500,000 shares of Beneficial Interest of Trust - Incorporated by reference to Exhibit 4(l) to the Trust's Annual Report on Form 10-K for the year ended December 31, 1998. | - |
| 4.3 | Agreement of Limited Partnership of WRT Realty L.P., dated as of January 1, 2005 - Incorporated by reference to Exhibit 4.1 to the Trust's Form 8-K filed January 4, 2005. | - |
| 4.4 | Amended and Restated Certificate of Designations for Series B-1 Cumulative Convertible Redeemable Preferred Shares of Beneficial Interest ("Series B-1 Certificate of Designations") - Incorporated by reference to Exhibit 4.1 to the Trust's Form 8-K filed June 21, 2005. | - |
| 4.5 | Amendment No. 1 to Series B-1 Certificate of Designations - Incorporated by reference to Exhibit 4.1 to the Trust's Form 8-K filed November 13, 2007. | - |
| 4.6 | Certificate of Designations for Series C Cumulative Convertible Redeemable Preferred Shares of Beneficial Interest - Incorporated by reference to Exhibit 4.1 to the Trust's Form 8-K filed November 2, 2009. | |
| 10.1 | Indemnification Agreement with Neil Koenig, dated as of April 29, 2002 - Incorporated by reference to Exhibit 10.Q to the Trust's Annual Report on Form 10-K for the year ended December 31, 2002. | - |
| 10.2 | Stock Purchase Agreement between the Trust and FUR Investors, LLC, dated as of November 26, 2003, including Annex A thereto, being the list of Conditions to the Offer - Incorporated by reference to Exhibit 10.1 to the Trust's Form 8-K filed December 1, 2003. | - |
| 10.3 | Second Amended and Restated Advisory Agreement dated March 5, 2009, between the Trust, WRT Realty L.P. and FUR Advisors LLC. Incorporated by reference to Exhibit 10.3 to the Trust's Annual Report on Form 10-K for the year ended December 31, 2008 | - |
| 10.4 | Amendment No. 1 to Second Amended and Restated Advisory Agreement - Incorporated by reference to Exhibit 10.30 to the Trust's Quarterly Report on Form 10-Q for the period ended March 31, 2009. | |
| 10.5 | Amendment No. 2 to Second Amended and Restated Advisory Agreement - Incorporated by reference to Exhibit 10.1 to the Trust's Form 8-K filed January 29, 2010 | |

| | | |
|---|---|---|
| 10.6 | Exclusivity Services Agreement between the Trust and Michael L. Ashner - Incorporated by reference to Exhibit 10.4 to the Trust's Form 8-K filed December 1, 2003. | - |
| 10.7 | Amendment No. 1 to Exclusivity Agreement, dated November 7, 2005 - Incorporated by reference to Exhibit 10.7 to the Trust's Form 8-K filed November 10, 2005. | - |
| 10.8 | Covenant Agreement between the Trust and FUR Investors, LLC - Incorporated by reference to Exhibit 10.5 to the Trust's Form 8-K filed December 1, 2003. | - |
| 10.9 | Loan Agreement, dated November 18, 2004, among FT-Fin Acquisition LLC, Keybank National Association, Newstar CP Funding LLC, Keybank National Association, as agent for itself and such other lending institutions, and Keybanc Capital Markets, as the Arranger - Incorporated by reference to Exhibit 10.1 to the Trust's Form 8-K filed November 23, 2004. | - |
| 10.10 | Loan Modification Agreement, dated June 30, 2006, among FT-Fin Acquisition LLC, Keybank National Association, Newstar CP Funding LLC, Keybank National Association, as agent for itself and such other lending institutions, and Keybank Capital Markets, as the Arranger - Incorporated by reference to Exhibit 10.11 to the Trust's Quarterly report on Form 10-Q for the period ended June 30, 2006. | - |
| 10.11 | Form of Mortgage, dated November 18, 2004, in favor of Keybank National Association - Incorporated by reference to Exhibit 10.2 to the Trust's Form 8-K filed November 23, 2004. | - |
| 10.12 | Ownership Interest Pledge Agreement, dated November 18, 2004, from FT-Fin Acquisition LLC to Keybank National Association - Incorporated by reference to Exhibit 10.3 to the Trust's Form 8-K filed November 23, 2004. | - |
| 10.13 | Guaranty, dated as of November 18, 2004, by First Union Real Estate Equity and Mortgage Investments in favor of Keybank National Association, as the agent - Incorporated by reference to Exhibit 10.4 to the Trust's Form 8-K filed November 23, 2004. | - |
| 10.14 | Indemnity Regarding Hazardous Materials, dated as of November 18, 2004, by First Union Real Estate Equity and Mortgage Investments in favor of Keybank National Association, as the agent - Incorporated by reference to Exhibit 10.5 to the Trust's Form 8-K filed November 23, 2004. | - |
| 10.15 | Amended and Restated Omnibus Agreement, dated March 16, 2005, among Gerald Nudo, Laurence Weiner and WRT Realty L.P. - Incorporated by reference to Exhibit 10.1 to the Trust's Form 8-K filed March 18, 2005 | - |
| 10.16 | Agreement, dated as of July 1, 2009, among Gerald Nudo, Laurence Weiner and WRT Realty L.P. | - |
| 10.17 | Securities Purchase Agreement, dated February 16, 2005, between First Union Real Estate Equity and Mortgage Investments and Kimco Realty Corporation - Incorporated by reference to Exhibit 10 to the Trust's Form 8-K filed February 18, 2005. | - |
| 10.18 | Securities Purchase Agreement, dated February 25, 2005, between First Union Real Estate Equity and Mortgage Investments, Perrin Holden & Davenport Capital Corp. and the Investors named therein - Incorporated by reference to Exhibit 10.1 to the Trust's Form 8-K filed March 3, 2005. | - |
| 10.19 | Securities Purchase Agreement, dated June 15, 2005, between First Union Real Estate Equity and Mortgage Investments, Perrin Holden & Davenport Capital Corp. and the Investors named therein - Incorporated by reference to Exhibit 10.1 to the Trust's Form 8-K filed June 21, 2005. | - |

| | | |
|---|---|---|
| 10.20 | Amended and Restated Registration Rights Agreement, dated June 20, 2005, between First Union Real Estate Equity and Mortgage Investments and the Investors named therein - Incorporated by reference to Exhibit 10.2 to the Trust's Form 8-K filed June 21, 2005. | - |
| 10.21 | Amended and Restated Investor Rights Agreement, dated June 20, 2005, between First Union Real Estate Equity and Mortgage Investments and the Investors named therein - Incorporated by reference to Exhibit 10.3 to the Trust's Form 8-K filed June 21, 2005. | - |
| 10.22 | Securities Purchase Agreement, dated November 7, 2005, between the Trust and Vornado Investments L.L.C. ("Vornado") - Incorporated by reference to Exhibit 10.1 to the Trust's Form 8-K filed November 10, 2005. | - |
| 10.23 | Registration Rights Agreement, dated November 7, 2005, between the Trust and Vornado - Incorporated by reference to Exhibit 10.2 to the Trust's Form 8-K filed November 10, 2005. | - |
| 10.24 | Loan Agreement, dated as of December 16, 2005, between WRT Realty L.P. and KeyBank, National Association - Incorporated by reference to Exhibit 10.1 to the Trust's Form 8-K filed December 21, 2005. | - |
| 10.25 | Guaranty from Winthrop Realty Trust in favor of KeyBank, National Association- Incorporated by reference to Exhibit 10.2 to the Trust's Form 8-K filed December 21, 2005. | - |
| 10.26 | Second Amendment to Loan Agreement, dated as of December 16, 2008- Incorporated by reference to Exhibit 10.1 to the Trust's Form 8-K filed December 22, 2008. | - |
| 10.27 | Third Amendment to Loan Agreement, dated as of December 16, 2008- Incorporated by reference to Exhibit 10.2 to the Trust's Form 8-K filed December 22, 2008 | - |
| 10.28 | Agreement between Michael L. Ashner and Winthrop Realty Trust dated July 23, 2006 - Incorporated by reference to Exhibit 10.2 to the Trust's Form 8-K filed July 25, 2006. | - |
| 10.29 | Winthrop Realty Trust 2007 Long Term Stock Incentive Plan - Incorporated by reference to the Trust's Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on March 30, 2007. | - |
| 10.30 | Second Amended and Restated Limited Liability Company Agreement of Concord Debt Holdings LLC, dated August 2, 2008, between Lex-Win Concord LLC and Inland American (Concord) Sub LLC - Incorporated by reference to Exhibit 10.1 to the Trust's Form 8-K filed August 4, 2008 | - |
| 10.31 | Limited Liability Company Agreement of Lex-Win Concord LLC, dated August 2, 2008, among WRT Realty L.P., The Lexington Master Limited Partnership and WRP Sub-management LLC - Incorporated by reference to Exhibit 10.2 to the Trust's Form 8-K filed August 4, 2008 | - |
| 10.32 | Form of Series B-1 and Series C Preferred Share Purchase Agreement, dated November 1, 2009 - Incorporated by reference to Exhibit 10.1 to the Trust's Form 8-K filed November 2, 2009 | |
| 10.33 | Investor Rights Agreement (Series C Preferred Shares), dated November 1, 2009, between Winthrop Realty Trust and the investors party thereto - - Incorporated by reference to Exhibit 10.2 to the Trust's Form 8-K filed November 2, 2009 | |

| | | |
|---|---|---|
| 21 | List of Subsidiaries | * |
| 23.1 | Consent of Independent Accounting Firm – PricewaterhouseCoopers LLP | * |
| 23.2 | Consent of Independent Accounting Firm – PricewaterhouseCoopers LLP (Lex-Win Concord financials) | * |
| 23.3 | Consent of Independent Accounting Firm – Habif, Arogeti & Wynne LLC | |
| 24 | Power of Attorney | * |
| 31 | Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | * |
| 32 | Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | * |
| 99.1 | Consolidated Financial Statements of Lex-Win Concord LLC | * |
| 99.2 | Combined Financial Statements of Chicago Properties | * |

* filed herewith

| Name Of Entity | State Of Formation |
|---|---|
| 5400 Westheimer Court, LLC | Delaware |
| 5400 Westheimer Holding L.P. | Delaware |
| 5400 Westheimer Limited Partnership | Delaware |
| 8750 Stoney Island LLC | Delaware |
| Concord Debt Holdings LLC | Delaware |
| FT-5400 New Unit Lender LLC | Delaware |
| FT-5400 Westheimer LLC | Delaware |
| FT-Amherst Property LLC | Delaware |
| FT-Amherst Property Manager LLC | Delaware |
| FT-Churchill Property LLC | Delaware |
| FT-Circle Tower LLC | Delaware |
| FT-Circle Tower Manager LLC | Delaware |
| FT-Fin Acquisition LLC | Delaware |
| FT-Fin GP LLC | Delaware |
| FT-Florida Property LLC | Delaware |
| FT-KRG Property L.P. | Delaware |
| FT-KRG (Athens) LLC | Delaware |
| FT-KRG (Denton) LLC | Delaware |
| FT-KRG (St. Louis) LLC | Delaware |
| FT-KRG (Knoxville) LLC | Delaware |
| FT-KRG (Greensboro) LLC | Delaware |
| FT-KRG (Sherman) LLC | Delaware |
| FT-KRG (Atlanta) LLC | Delaware |
| FT-KRG (Lafayette) LLC | Delaware |
| FT-KRG (Louisville) LLC | Delaware |
| FT-KRG (Memphis) LLC | Delaware |
| FT-KRG (Seabrook) LLC | Delaware |
| FT-KRG (Biloxi) LLC | Delaware |
| FT-Marc Class B LLC | Delaware |
| FT-Marc Loan LLC | Delaware |
| FT-Ontario Holdings LLC | Delaware |
| FT-Ontario Parking LLC | Delaware |
| FT-Ontario Parking Manager LLC | Delaware |
| FT-Ontario Property LLC | Delaware |
| FT-Ontario Property Manager LLC | Delaware |
| FT-Orlando Property LLC | Delaware |
| FT-Orlando Property Manager LLC | Delaware |
| FT-WD Property LLC | Delaware |
| Lex-Win Concord LLC | Delaware |
| WRP Management LLC | Delaware |
| WRT-1050 Corporetum Holdings LLC | Delaware |
| WRT-1050 Corporetum Property LLC | Delaware |
| WRT-1050 Corporetum Property Manager LLC | Delaware |
| WRT-550/650 Corporetum Property LLC | Delaware |
| WRT-550/650 Corporetum Property Manager LLC | Delaware |
| WRT-701 Arboretum Property LLC | Delaware |
| WRT-701 Arboretum Property Manager LLC | Delaware |
| WRT CDH II LLC | Delaware |
| WRT-Concord LLC | Delaware |
| WRT MT LLC | Delaware |
| WRT Realty L.P. | Delaware |
| WRT-Andover Property LLC | Delaware |

| | |
|---|---|
| WRT-Andover Property Manager LLC | Delaware |
| WRT-Atlanta LLC | Delaware |
| WRT-Lender LLC | Delaware |
| WRT-Marc RC Holding LLC | Delaware |
| WRT-Marc RC Land LLC | Illinois |
| WRT-Marc RC LLC | Illinois |
| WRT-Nashville Airpark LLC | Delaware |
| WRT-Property Holdings LLC | Delaware |
| WRT-South Burlington Property LLC | Delaware |
| WRT-South Burlington Property Manager LLC | Delaware |
| WRT-Springing Member LLC | Delaware |
| WRT-TALF LLC | Delaware |
| WRT-TRS Management Inc. | Delaware |

Exhibit 23.1

## CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-163157 and 333-125987), Form S-3/A (No. 333-155761) and Form S-3D (No. 333-161664) of Winthrop Realty Trust and subsidiaries of our report dated March 15, 2010, relating to the consolidated financial statements, financial statement schedule, and the effectiveness of internal control over financial reporting, which appears in this Annual Report on Form 10-K.

/s/ PricewaterhouseCoopers LLP
Boston, Massachusetts
March 15, 2010

Exhibit 23.2

# CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-163157 and 333-125987), Form S-3/A (No. 333-155761) and Form S-3D (No. 333-161664) of Winthrop Realty Trust of our report dated February 19, 2010, which includes an explanatory paragraph relating to Lex-Win Concord LLC's ability to continue as a going concern as described in Note 3 to the consolidated financial statements of Lex-Win Concord LLC, which appears in this Annual Report on Form 10-K.

/s/ PricewaterhouseCoopers LLP
Boston, Massachusetts
March 15, 2010

Exhibit 23.3

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (File Numbers 333-163157 and 333-125987), Form S-3/A (File Number 333-155761) and Form S-3D (File Number 333-161664) of Winthrop Realty Trust and subsidiaries of our report dated March 24, 2008 relating to the financial statements of The Chicago Properties which appears in this Annual Report on Form 10-K.

/s/ Habif, Arogeti & Wynne, LLP (formerly Tauber & Balser, PC)
Atlanta, GA
March 12, 2010

Exhibit 24

**WINTHROP REALTY TRUST (FORMERLY KNOWN AS FIRST UNION REAL ESTATE EQUITY AND MORTGAGE INVESTMENTS)**

**ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2009**

Power of Attorney – Trustees

Each of the undersigned, a Trustee of Winthrop Realty Trust (formerly known as First Union Real Estate Equity and Mortgage Investments), an Ohio business trust (the "Trust"), which anticipates filing with the Securities and Exchange Commission, Washington, D.C., under the provisions of the Securities Exchange Act of 1934, an Annual Report on Form 10-K for the fiscal year ended December 31, 2009 (the "Form 10-K"), does hereby constitute and appoint Carolyn Tiffany, with full power of substitution and resubstitution, as attorney to sign for him and in his name the Form 10-K and any and all amendments and exhibits thereto, and any and all other documents to be filed with the Securities and Exchange Commission pertaining to the Form 10-K, with full power and authority to do and perform any and all acts and things whatsoever required or necessary to be done in the premises, as fully to all intents and purposes as he could do if personally present, hereby ratifying and approving the acts of said attorney and any such substitute.

IN WITNESS WHEREOF, each of the undersigned has hereunto set his hand this 2nd day of March, 2010.

/s/ Arthur Blasberg, Jr.
Arthur Blasberg, Jr.

/s/ Howard Goldberg
Howard Goldberg

/s/ Thomas McWilliams
Thomas McWilliams

/s/ Lee Seidler
Lee Seidler

/s/ Steven Zalkind
Steven Zalkind

Exhibit 31.1

**WINTHROP REALTY TRUST**
**FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2009**

CERTIFICATIONS

I, Michael L. Ashner, certify that:

1. I have reviewed this Annual Report on Form 10-K of Winthrop Realty Trust;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2010

/s/ Michael L. Ashner
Michael L. Ashner
Chief Executive Officer

Exhibit 31.2

**WINTHROP REALTY TRUST**
**FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2009**

CERTIFICATIONS

I, Thomas C. Staples, certify that:

1. I have reviewed this Annual Report on Form 10-K of Winthrop Realty Trust;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2010

/s/ Thomas C. Staples
Thomas C. Staples
Chief Financial Officer

Exhibit 32

**CERTIFICATION PURSUANT TO**

**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Winthrop Realty Trust (formerly known as First Union Real Estate Equity and Mortgage Investments (the "Company") on Form 10-K for the annual period ended December 31, 2009, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, in the capacities and on the date indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that: (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 15, 2010

/s/ Michael L. Ashner
Michael L. Ashner
Chief Executive Officer

Date: March 15, 2010

/s/ Thomas C. Staples
Thomas C. Staples
Chief Financial Officer

# Lex-Win Concord LLC

## Consolidated Financial Statements

## For the Years Ended December 31, 2009, December 31, 2008 and December 31, 2007

**LEX-WIN CONCORD LLC**

**Index to Consolidated Financial Statements**

## Report of Independent Registered Public Accounting Firm

To the Members of Lex-Win Concord LLC:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive income, changes in members' capital and cash flows present fairly, in all material respects, the financial position of Lex-Win Concord LLC and its subsidiaries at December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 5 to the consolidated financial statements, the Company changed the manner in which it accounts for non-controlling interests and other-than-temporary impairment of available for sale securities in 2009.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in the financial statements, the Company has suffered losses from operations and is in violation of certain debt covenants that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also discussed in the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ PricewaterhouseCoopers LLP
Boston, Massachusetts
February 19, 2010

## LEX-WIN CONCORD LLC

## CONSOLIDATED BALANCE SHEETS

(In thousands)

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| **Assets:** | | |
| Cash and cash equivalents | $ 747 | $ 12,315 |
| Restricted cash | 25,369 | 2,819 |
| Real estate debt investments, net of allowance for loss | 447,270 | 863,144 |
| Real estate debt investments held for sale, at fair value | 66,311 | - |
| Available for sale securities, net | 83,977 | 118,491 |
| Interest and other receivables | 1,756 | 3,524 |
| Deferred financing costs, net of accumulated amortization | 5,306 | 6,619 |
| Real estate properties held for sale | 3,634 | - |
| Other assets | 138 | 210 |
| Total assets | $ 634,508 | $ 1,007,122 |
| **Liabilities and Members' Capital:** | | |
| Liabilities: | | |
| Repurchase agreements | $ 135,064 | $ 240,604 |
| Revolving credit facility | 58,850 | 80,000 |
| Collateralized debt obligations | 347,525 | 347,525 |
| Collateral support obligation | 9,757 | - |
| Sub-participation obligation | 4,500 | - |
| Liabilities of discontinued operations | 142 | - |
| Other liabilities | 14,056 | 33,230 |
| Note payable to related parties | - | 10,000 |
| Total liabilities | 569,894 | 711,359 |
| Non-controlling redeemable preferred interest: | | |
| Non-controlling redeemable preferred interest | 5,720 | 76,441 |
| Total non-controlling redeemable preferred interest | 5,720 | 76,441 |
| Members' Capital: | | |
| Lex-Win Concord LLC members’ capital | 113,928 | 248,262 |
| Accumulated other comprehensive loss | (55,148) | (29,054) |
| Total Lex-Win Concord LLC members’ capital | 58,780 | 219,208 |
| Non-controlling equity interest | 114 | 114 |
| Total members' capital | 58,894 | 219,322 |
| Total liabilities and members' capital | $ 634,508 | $ 1,007,122 |

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

## LEX-WIN CONCORD LLC

## CONSOLIDATED STATEMENTS OF OPERATIONS
**For the Years Ended December 31, 2009, 2008 and 2007**

(In thousands)

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| **Income:** | | | |
| Interest income on real estate debt investments and available for sale securities | $ 38,948 | $ 71,307 | $ 65,854 |
| Total income | 38,948 | 71,307 | 65,854 |
| **Expenses:** | | | |
| Interest | 17,335 | 36,410 | 41,675 |
| Provision for loss on real estate debt investments | 80,620 | 31,053 | - |
| Realized loss on sale of real estate debt investments | 9,606 | - | - |
| Impairment loss on real estate debt investments held for sale | 101,027 | - | - |
| Realized loss on sale of real estate debt investments held for sale | 17,566 | - | - |
| Other-than-temporary impairment losses on available-for-sale securities | | | |
| Gross impairment losses | 29,770 | 65,905 | 19,380 |
| Less: Impairments recognized in other comprehensive losses | (13,468) | 7,927 | (8,352) |
| Net impairment losses recognized in earnings | 16,302 | 73,832 | 11,028 |
| Realized loss on sale of available for sale securities | 5,074 | - | - |
| Fees and expenses paid to related party | 1,108 | 1,637 | 2,571 |
| Collateral support expense | 9,757 | - | - |
| General and administrative | 4,604 | 3,187 | 2,970 |
| Total expenses | 262,999 | 146,119 | 58,244 |
| **Other income (loss):** | | | |
| Interest income on bank deposits | 7 | 426 | 2,599 |
| Gain on extinguishment of debt | - | 15,603 | - |
| Total other income (loss) | 7 | 16,029 | 2,599 |
| Income (loss) from continuing operations | (224,044) | (58,783) | 10,209 |
| **Discontinued operations:** | | | |
| Loss from discontinued operations | (959) | - | - |
| Total discontinued operations | (959) | - | - |
| Consolidated net income (loss) | (225,003) | (58,783) | 10,209 |
| (Income) loss attributable to the non-controlling redeemable preferred interest | 68,709 | (1,619) | - |
| Income attributable to the non-controlling interest | (12) | (12) | (13) |
| Net income (loss) attributable to Lex-Win Concord LLC | $ (156,306) | $ (60,414) | $ 10,196 |

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

**LEX-WIN CONCORD LLC**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**
**For the Year Ended December 31, 2009, 2008 and 2007**

(In thousands)

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Consolidated net income (loss) | $ (225,003) | $ (58,783) | $ 10,209 |
| Other comprehensive loss: | | | |
| Unrealized gain (loss) on cash flow hedges | 10,668 | (20,200) | (9,580) |
| Unrealized loss on available for sale securities | (29,770) | (65,905) | (19,380) |
| Reclassification of unrealized loss to impairment loss | 16,302 | 73,832 | 11,028 |
| Other comprehensive loss | (2,800) | (12,273) | (17,932) |
| Comprehensive loss | (227,803) | (71,056) | (7,723) |
| Comprehensive income attributable to non-controlling interest | (12) | (12) | (13) |
| Comprehensive (income) loss attributable to non-controlling redeemable preferred interest | 68,709 | (1,619) | - |
| Comprehensive loss attributable to Lex-Win Concord LLC | $ (159,106) | $ (72,687) | $ (7,736) |

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

**LEX-WIN CONCORD LLC**

**CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' CAPITAL**
**For the Year Ended December 31, 2009, 2008 and 2007**

(In thousands)

| | Winthrop | Lexington | Accumulated Other Comprehensive Income (Loss) | Non-Controlling Interest | Total |
|---|---|---|---|---|---|
| Balance at December 31, 2006 | $ 92,682 | $ 92,682 | $ 1,151 | $ 100 | 186,615 |
| Contributions from Members | 76,071 | 76,071 | - | - | 152,142 |
| Distributions to Members | (10,000) | (10,000) | - | - | (20,000) |
| Contributions from non-controlling interests | | | | 2 | 2 |
| Net income allocated to non-controlling interests | - | - | - | 13 | 13 |
| Distributions to non-controlling interests | - | - | - | (13) | (13) |
| Unrealized loss on cash flow hedges | - | - | (9,580) | - | (9,580) |
| Unrealized loss on available for sale securities | - | - | (8,352) | - | (8,352) |
| Net income allocation | 5,098 | 5,098 | - | - | 10,196 |
| Balance at December 31, 2007 | 163,851 | 163,851 | (16,781) | 102 | 311,023 |
| Contributions from Members | 5,087 | 5,087 | - | - | 10,174 |
| Distributions to Members | (14,600) | (14,600) | - | - | (29,200) |
| Net income allocated to non-controlling interests | - | - | - | 12 | 12 |
| Distributions to non-controlling interests | - | - | - | - | - |
| Unrealized loss on cash flow hedges | - | - | (20,200) | - | (20,200) |
| Unrealized loss on available for sale securities | - | - | 7,927 | - | 7,927 |
| Net loss allocation | (30,207) | (30,207) | - | - | (60,414) |
| Balance at December 31, 2008 | 124,131 | 124,131 | (29,054) | 114 | 219,322 |

(continued on next page)

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

## LEX-WIN CONCORD LLC

## CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' CAPITAL
**For the Year Ended December 31, 2009, 2008 and 2007**

(In thousands, continued)

| | Winthrop | Lexington | Accumulated Other Comprehensive Income (Loss) | Non-Controlling Interest | Total |
|---|---|---|---|---|---|
| Balance at December 31, 2008 | 124,131 | 124,131 | (29,054) | 114 | 219,322 |
| Adjustment to opening balance for cumulative effect of adopting new accounting method | 11,647 | 11,647 | (23,294) | - | - |
| Net income allocated to non-controlling interests | - | - | - | 12 | 12 |
| Contributions from Members | 118 | 118 | - | - | 236 |
| Distributions to Members | (779) | (779) | - | - | (1,558) |
| Distributions to non-controlling interests | - | - | - | (12) | (12) |
| Unrealized gain on cash flow hedges | - | - | 10,668 | - | 10,668 |
| Unrealized loss on available for sale securities | - | - | (13,468) | - | (13,468) |
| Net loss allocation | (78,153) | (78,153) | - | - | (156,306) |
| Balance, December 31, 2009 | $ 56,964 | $ 56,964 | $ (55,148) | $ 114 | $ 58,894 |

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

## LEX-WIN CONCORD LLC

## CONSOLIDATED STATEMENTS OF CASH FLOWS
**For the Years Ended December 31, 2009, 2008 and 2007**

(In thousands)

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Consolidated net income (loss) | (225,003) | $ (58,783) | $ 10,209 |
| Adjustments to reconcile net income (loss) to cash provided by operating activities | | | |
| Amortization and accretion of interest | (4,866) | (7,686) | (1,580) |
| Amortization of deferred financing costs | 1,945 | 1,469 | 922 |
| Impairment loss on available for sale securities | 16,302 | 73,832 | 11,028 |
| Provision for loss on real estate debt investments | 80,620 | 31,053 | - |
| Impairment loss on real estate debt investments held for sale | 101,027 | - | - |
| Realized loss on sale of real estate debt investments | 9,606 | - | - |
| Realized loss on sale of real estate debt investments held for sale | 17,566 | - | - |
| Realized loss on sale of available for sale securities | 5,074 | - | - |
| Gain on extinguishment of debt | - | (15,603) | - |
| Changes in operating assets and liabilities: | | | |
| Interest and other receivables | 1,842 | 1,579 | (2,888) |
| Other assets | (36) | 455 | (697) |
| Other liabilities | (904) | 442 | 1,258 |
| Liabilities of discontinued operations | 142 | - | - |
| Collateral support obligation | 9,757 | - | - |
| Net cash provided by operating activities | 13,072 | 26,758 | 18,252 |
| Cash flows from investing activities: | | | |
| Proceeds from sale of real estate debt investments | 18,817 | - | - |
| Proceeds from sale of real estate debt investments held for sale | 86,481 | - | - |
| Proceeds from sale of available for sale securities | 3,670 | - | - |
| Proceeds from sale of real estate properties held for sale - discontinued operations | 6,721 | - | - |
| Purchase of real estate debt investments | - | (14,534) | (715,660) |
| Funding of commitments on real estate debt investments | (1,714) | - | - |
| Real estate debt investments repaid | 30,168 | 78,496 | 117,699 |
| Available for sale securities purchased | (6,856) | - | (120,269) |
| Available for sale securities repaid | 3,935 | 5,296 | 11,193 |
| Change in restricted cash | (22,550) | 2,770 | 90,541 |
| Net cash provided by (used in) investing activities | 118,672 | 72,028 | (616,496) |

(continued on next page)

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

## LEX-WIN CONCORD LLC

### CONSOLIDATED STATEMENTS OF CASH FLOWS
### For the Years Ended December 31, 2009, 2008 and 2007

(In thousands, continued)

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Cash flows from financing activities: | | | |
| Proceeds from repurchase agreements and line of credit | - | - | 563,224 |
| Proceeds from related party notes payable | 8,360 | 20,000 | - |
| Repayment of related party notes payable | (18,360) | (10,000) | (134,793) |
| Repayments on repurchase agreements | (105,540) | (231,720) | - |
| Proceeds from revolving line of credit facility | - | 80,000 | - |
| Repayment of revolving credit facility | (21,150) | - | - |
| Payment to terminate derivative contract | (8,221) | - | - |
| Payment on collateralized debt obligation | - | (13,111) | - |
| Proceeds from sub-participation arrangement | 4,500 | - | - |
| Payment of deferred financing costs | (87) | (1,401) | (95) |
| Distributions to non-controlling redeemable preferred interest | (3,152) | - | - |
| Contributions from non-controlling interest | - | - | 2 |
| Distributions to non-controlling interests | (12) | (1,178) | (13) |
| Distribution to members | (1,240) | (29,200) | (20,000) |
| Contributions from non-controlling redeemable preferred interest | 1,354 | 76,000 | - |
| Contributions from members | 236 | 10,174 | 152,142 |
| Interest rate contract settlement | - | - | (389) |
| Net cash provided by (used in) financing activities | (143,312) | (100,436) | 560,078 |
| Net decrease in cash and cash equivalents | (11,568) | (1,650) | (38,166) |
| Cash and cash equivalents at beginning of year | 12,315 | 13,965 | 52,131 |
| Cash and cash equivalents at end of year | $ 747 | $ 12,315 | $ 13,965 |
| Supplemental cash flow information: | | | |
| Interest paid | $ 16,505 | $ 33,798 | $ 40,453 |
| Collateral support arrangement | $ - | $ 231 | $ - |
| Non-cash investing activity: | | | |
| Investment in real estate debt investment by issuance of first mortgage seller financing on real estate property sold | $ 955 | $ - | $ - |
| Non-cash financing activities: | | | |
| Distribution of available for sale security to members | $ 318 | $ - | $ - |
| Distribution of available for sale security to non-controlling redeemable preferred interest | $ 214 | $ - | $ - |
| Accrued dividend payable to non-controlling interest | $ 12 | $ 12 | $ - |
| Accrued dividend payable to non-controlling redeemable preferred interest | $ 5,720 | $ 441 | $ - |

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

**Note 1 - Description of Business and Basis of Presentation**

Lex-Win Concord LLC (the "Company" and "Lex-Win") was created on August 2, 2008. Prior to the Company's formation, its subsidiary Concord Debt Holdings LLC ("Concord"), a Delaware limited liability company, was formed on March 31, 2006 to acquire real estate whole loans and subordinate real estate debt investments such as B-notes, mezzanine loans and preferred equity, and commercial real estate securities including commercial mortgage backed securities, collateralized debt obligations and real estate mortgage investment conduits. Concord upon its formation was owned 50% each by Winthrop Realty Trust ("Winthrop") and Lexington Realty Trust ("Lexington"), collectively the Members. In connection with the formation of Concord, Lexington contributed existing real estate debt investments and other assets totaling $54,279,000 and repurchase agreements and other liabilities of $32,251,000, which had been acquired in anticipation of the formation of the venture. Concurrently with the formation of Concord, Winthrop contributed $10,864,000 in exchange for 50% of the net equity of Concord.

Concord Debt Funding Trust is a majority owned subsidiary of the Company through its investment in Concord and was formed November 3, 2006. Concord Debt Funding Trust issued 100,000 common shares and 102 shares of 12% cumulative redeemable preferred shares and Concord owns 100% of the common shares while the preferred shares are owned by individuals associated with Winthrop and Lexington.

In connection with the formation of the Company, both Winthrop and Lexington contributed their 50% interests in Concord and WRP Management LLC ("WRP Management"), the entity that provides management services to Concord Real Estate CDO 2006-1, Ltd ("CDO-1"and "the Issuer"), a wholly-owned subsidiary of Concord. WRP Management contracted with WRP Sub-Management LLC ("WRP Sub Management") to act as Administrative Manager to the Company. The Second Amended and Restated Limited Liability Company Joint Venture Agreement (the "Joint Venture Agreement") of Concord was amended and restated reflect this change in legal structure and to admit Inland America Concord Sub LLC ("Inland") with a redeemable preferred membership interest in Concord. Inland committed to invest up to $100,000,000 in Concord over a 12-18 month investment period subject to certain conditions. The Company will hold 100% of the common membership interests in Concord and will serve as its managing member.

The Company has determined that, at the time of its formation and transfer of interests from Winthrop and Lexington to the Company, both Concord and the Company were under the common control of Winthrop and Lexington. Accordingly, the Company has accounted for the formation of the Company and the related transfer of membership interests under the Financial Accounting Standards Board ("FASB") guidance for business combinations of entities under common control. The entity receiving equity interests initially recognizes the assets and liabilities at their carrying amounts at the date of transfer and report results of operations as though the transfer occurred at the beginning of the period. FASB disclosure rules require that financial statements for prior years be restated to present comparative information. Accordingly, the results of operations presented herein comprise those of Concord and the Company for the years ended December 31, 2009, 2008 and 2007.

In connection with its investment in Concord, Inland is entitled to receive a priority return of 10% on its contributed and unreturned capital. With respect to cash flow, after Inland receives a 10% priority return and the Company receives a return of 10% on its unreturned capital, the Company is entitled to a promoted interest equal to 30% of amounts otherwise distributable to Inland. With respect to capital proceeds (principal repayments on loan assets and loan securities), after Inland receives a 10% priority return on unreturned capital, the Company is entitled to either (x) the next $125,000,000 of distributions or (y) if Inland is no longer obligated to make capital contributions an amount which would reduce the Company's unreturned capital to the greater of (i) $100,000,000 and (ii) 200% of Inland's unreturned capital contributions. Further, after all capital is returned to both Inland and the Company; the Company is entitled to a promoted interest equal to 30% of amounts otherwise distributable to Inland.

For serving as the managing member of Concord, the Company is entitled to receive a fee equal to 1% of the total unreturned capital contributions of Inland and the Company as well as 27.5 basis points of the purchase price or loan amount of all loans acquired or originated by Concord. These fees are offset by any fees payable directly from CDO-1 to WRP Management. In turn, the Company and WRP Management will continue to retain WRP Sub-Management to perform management services. WRP Sub-Management will be entitled to a management fee in an

**Note 1 - Description of Business and Basis of Presentation (continued)**

amount equal to 5 basis points of the total assets of the Company based on the weighted average of such assets during each calendar quarter, (ii) reimbursement for payments made to loan originators which amounts are approved in connection with the annual budget each year, and (iii) a reimbursement of all direct expenses of employees, other than loan originators dedicated solely to the business of Concord.

**Note 2 - Inland Litigation and Pending Settlement**

On May 22, 2009, a wholly-owned subsidiary of Inland filed a legal action against the Company and Concord generally seeking declaratory relief that Inland should not be required to satisfy the May 11, 2009 capital call made by Concord in the amount of $24,000,000 and that Inland is entitled to a priority return of its capital. The Company filed counterclaims against Inland which state, in general, that Inland is in material breach of their agreements with the Company and seeking to recover all losses incurred by it as a result of such breach.

On December 21, 2009, the applicable parties and certain of their affiliates entered into a settlement agreement to resolve the action which would provide for, among other things, no obligation on any of the parties to make additional capital contributions to Concord, the allocation of distributions equally among Inland, Lexington, and Winthrop and the formation of a new entity to be owned by subsidiaries of Inland, Lexington and Winthrop which, under certain circumstances, would contribute assets to CDO-1. The implementation of the settlement agreement is conditioned on certain events including the ability of certain CDO-1 bonds held by Concord Debt Funding Trust to be cancelled. See Note 13.

If the Concord Debt Funding Trust is unable to cancel the CDO-1 bonds, CDO-1 will likely fail its financial covenants, the Company will be in default of the CDO indenture and any excess cash flow of CDO-1 that previously went to the Company will be directed to accelerate the repayment of the senior debt tranches of the CDO-1 bonds.

**Note 3 – Going Concern Considerations**

The conditions that exist as of December 31, 2009, as described below are indicative of the entity's potential inability to continue as a going concern. The financial information included in this report does not include any adjustments that might result from the outcome of this uncertainty.

The real estate markets have been significantly impacted by the continued deterioration of the global credit markets and other macro economic factors. As a result of these and other factors including increased margin calls on Concord's repurchase agreements, the Company has experienced further declines in values during the year ended December 31, 2009 to its real estate debt investments and available for sale securities. This has generated significant impairment charges and difficulty in executing sales of select investments pursuant to certain repurchase agreements. The initial strategy to issue CDOs and the availability of new financing has effectively been eliminated, making the execution of the Company's initial strategy unachievable.

Accordingly, the Company is unable to satisfy certain of its financial covenants under its loan documents for which it has not yet received waivers and is in technical default under these loans. In addition the Company has near-term repayment obligations under its repurchase agreements. The Company is working with the lenders, but there can be no assurance that the lenders will grant long-term forbearance and could exercise their remedies at any time.

In addition, a continued decline in the operating performance of the underlying collateral of certain of the Company's available for sale securities and real estate loans may result in borrowers' inability to meet its debt service coverage, which could result in additional impairments of loan assets. Such defaults could significantly reduce the cash flow available to the Company for its obligations and also necessitate additional asset sales at disadvantageous terms.

In response to the declining real estate and capital markets the Company may be unable to consummate certain activities that would improve the Company's financial flexibility such as the sale of encumbered assets for fair

**Note 3 – Going Concern Considerations (Continued)**

value. Uncertainties also exist around the ability for the Company to obtain capital from Inland based on the recent litigation and the pending settlement agreement described above.

In addition to the Company's plans as discussed in Note 2, management is continuing to pursue the sales of certain non-CDO assets and the repayment and / or restructuring of its repurchase agreements and revolving line of credit.

**Note 4 - Summary of Significant Accounting Policies**

***Principles of Consolidation***

The consolidated financial statements include the accounts of the Company, and its subsidiaries, which are either majority owned or controlled by the Company. The Company identifies entities for which control is achieved through means other than through voting rights (a "variable interest entity" or "VIE") and determines when and which business enterprise, if any, should consolidate the VIE. In addition, the Company discloses information pertaining to such entities wherein the Company is the primary beneficiary or other entities wherein the Company has a significant variable interest. All significant intercompany transactions and balances have been eliminated.

***Out of Period Adjustment***

During 2009, the Company determined that there was an error in the recognition of fees paid to the party which originated certain loans purchased by the Company which is recorded as a reduction of interest income. The Company determined that interest income was overstated by approximately $594,000 and $12,000 for the years ended December 31, 2008 and 2007, respectively. The Company has recorded an adjustment to correct this error in 2009 and determined that adjustment does not materially affect the financial statements for any of the years presented.

***Use of Estimates***

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions in determining the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates in the consolidated financial statements include the valuation of the Company's real estate debt investments and available for sale securities and estimates pertaining to credit. Actual results could differ materially from those estimates.

***Cash and Cash Equivalents***

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

***Concentration of Credit Risk***

The Company maintains cash deposits and restricted cash deposits with major financial institutions, which from time to time may exceed federally insured limits. The Company believes it mitigates its risk of loss by maintaining its cash deposits with major financial institutions. To date, the Company has not experienced any losses of its cash deposits. Real estate debt investments and available for sale securities can potentially subject the Company to concentrations of credit risk. Management of the Company performs ongoing credit evaluations of borrowers and valuations of the real property and interests that collateralize the Company's investments.

**Note 4 - Summary of Significant Accounting Policies (Continued)**

Within its real estate debt investment portfolio, the Company holds 11 impaired loans with related loan loss allowances, six of which are non-performing loans that subject the Company to a concentration of credit risk. See Note 7.

***Restricted Cash***

The Company had restricted cash of $25,369,000 and $2,819,000 at December 31, 2009 and 2008, respectively. Restricted cash at December 31, 2009 includes $20,726,000 in proceeds from the repayment of principal of real estate debt investments that the Company is required to reinvest under the terms of its CDO indenture. The remaining balance of $4,643,000 at December 31, 2009 represents funding of future lending commitments for certain real estate debt investments as well as amounts held in escrow accounts as collateral.

***Real Estate Debt Investments***

The majority of real estate debt investments are considered to be held for investment. Such investments are recorded at cost. Discounts and premiums on purchased assets are amortized over the life of the investment using the effective interest method. The amortization is reflected as an adjustment to interest income. Other costs incurred in connection with acquiring loans, such as marketing and administrative costs, are charged to expense as incurred.

***Real Estate Debt Investment Impairment***

The Company considers a real estate debt investment ("loan") impaired when, based upon current information and events, it is probable that it will be unable to collect all amounts due for both principal and interest according to the contractual terms of the loan agreement. The Company believes its loans are collateral dependent and, accordingly, it generally utilizes the fair value of the loan collateral when assessing its loans for impairment. If the fair value of the collateral is equal to or greater than the recorded investment in the loan, no impairment is recognized. Specific valuation allowances are established for impaired loans based on the fair value of collateral on an individual loan basis. The fair value of the collateral is determined by selecting the most appropriate valuation methodology. These methodologies include the evaluation of operating cash flow from the collateral during the projected holding period, and the estimated sales value of the collateral computed by applying an expected capitalization rate to the stabilized net operating income of the specific property, discounted at market discount rates. If upon completion of the valuation, the fair value of the underlying real estate collateralizing the impaired loan is less than the net carrying value of the loan, a specific loan allowance is created with a corresponding charge to the provision for loan losses. The allowance for each loan is maintained at a level deemed adequate by management to absorb potential losses.

In addition, a formula specific loss allowance may be established to cover performing loans when (i) available information indicates that it is probable a loss has occurred in the portfolio and (ii) the amount of the loss can be reasonably estimated in accordance with FASB guidance on loss contingencies. Required loss allowance balances for the performing loan portfolio are derived from probabilities of default and loss severity estimates assigned to each loan as part of the Company's quarterly internal risk rating assessment. Probabilities of principal loss and severity factors are based on industry and/or internal experience and may be adjusted for significant factors that, based on management's judgment, impact the collectability of the loans.

***Income Recognition for Impaired Real Estate Debt Investments***

The Company recognizes interest income on impaired, non-performing real estate debt investments using the cash-basis method.

***Real Estate Debt Investments Held for Sale***

The Company reports real estate debt investments held for sale at the lower of cost or fair value.

**Note 4 - Summary of Significant Accounting Policies (Continued)**

***Available for Sale Securities***

The Company evaluates its portfolio of available for sale securities for other-than-temporary impairment by conducting and documenting periodic reviews of all securities with unrealized losses to evaluate whether the impairment is other than temporary. Any credit-related impairment on debt securities the Company does not plan to sell and is not more-likely-than-not to be required to sell is recognized in the Consolidated Statement of Operations, with the non-credit-related impairment recognized in other comprehensive loss. For other impaired debt securities, the entire impairment is recognized in the Consolidated Statement of Operations.

The Company recognizes interest income on its portfolio of available for sale securities by estimating the excess of all cash flows attributable to the security estimated at the measurement date over the Company's initial investment in the security using the effective yield method. Discounts attributable to previously recognized other-than-temporary impairment charges are recognized in interest income on the effective interest method based upon the excess of all estimated prospective cash flows over the investment balance in the loan security at the measurement date. The Company will accrete certain impairment discounts over the remaining life of the securities using the effective interest method.

During the years ended December 31, 2009 and 2008, the Company recognized in interest income accretion of previous other-than-temporary impairment discounts totaling $1,071,000 and $1,215,000 respectively. There was no interest income accretion for the year ended December 31, 2007.

***Deferred Financing Costs***

Fees and costs incurred to obtain long-term financing have been deferred and are being amortized over the terms of the related financing, on a basis which approximates the effective interest method.

***Real Estate Properties Held For Sale – Discontinued Operations***

Real estate properties held for sale are comprised of real property collateralizing certain loans that was acquired by foreclosure. Real estate that is acquired by foreclosure and held for sale is recorded at the lower of its carrying amount or fair value less cost to sell and is not depreciated.

Impairment charges, when applicable, are recorded as a valuation allowance with a loss from foreclosed assets held for sale recognized in the income statement. Any expenditure that significantly improves the estimated fair value of the assets may be capitalized.

***Non-Controlling Interests***

Effective January 1, 2009, the Company adopted new FASB provisions on non-controlling interests (previously known as “minority interests”). The adoption of this new accounting standard resulted in (i) the reclassification of minority interests in consolidated subsidiaries to non-controlling interests in consolidated subsidiaries, a component of permanent equity on the Company’s consolidated balance sheets, (ii) the reclassification of minority interest expense to net income attributable to non-controlling interests on the Company’s consolidated statements of operations and comprehensive income, and (iii) additional disclosures, including consolidated statements of changes in members' capital. The implementation of this standard had no effect on the Company’s results of operations. However on the Consolidated Balance Sheets as a result of the adoption, the Company reclassified certain non-controlling interests to permanent equity from the mezzanine section which totaled approximately $114,000 as of December 31, 2009 and 2008, respectively. The remaining non-controlling interests related to redeemable preferred interests which continue to be classified in the mezzanine section were $5,720,000 and $76,441,000 as of December 31, 2009 and 2008, respectively.

**Note 4 - Summary of Significant Accounting Policies (Continued)**

Allocations of members' capital and the non-controlling redeemable preferred interest are determined in accordance with the governing documents of Concord. At each reporting period, Concord performs a hypothetical liquidation of the members' capital and non-controlling redeemable preferred interests as a basis for these allocations. As a result of this analysis, the Company was allocated net losses from operations for the year ended December 31, 2009 of $156,306,000 and net losses of $68,709,000 were allocated to the non-controlling redeemable preferred interest. The unpaid accrued preferred return was $5,720,000 and $441,000 at December 31, 2009 and 2008, respectively.

As of December 31, 2009, Concord did not distribute $5,720,000 of the total $8,427,000 to satisfy the 10% preferred return on Inland's invested capital and was not in compliance with the Total Debt Limit as defined in Concord's operating agreement. As a result, Concord is required to accrue and distribute to Inland its priority return at a rate of 13% per annum until such time as Concord is able to comply with these covenants.

***Members' Capital***

Capital contributions, distributions and profits and losses are allocated in accordance with the terms of the Joint Venture Agreement.

***Other Comprehensive Income (Loss)***

Comprehensive income (loss) is comprised of net income, as presented in the consolidated statements of operations, adjusted for changes in unrealized gains or losses on debt securities available for sale and changes in the fair value of derivative financial instruments accounted for as cash flow hedges.

***Income Taxes***

Concord Debt Funding Trust is organized and conducts its operations to qualify as a real estate investment trust and to comply with the provisions of the Internal Revenue Code with respect thereto. A real estate investment trust is generally not subject to federal income tax on the portion of its REIT taxable income ("Taxable Income"), which is distributed to its stockholders, provided that at least 90% of Taxable Income is distributed and certain other requirements are met.

Income taxes are not considered in the accompanying consolidated financial statements since the Company is not a taxable entity. Taxes on income, as applicable, are the responsibility of the individual Members; accordingly, no provision for federal or state income taxes has been recorded.

The Company reviews its tax positions under accounting guidance which requires that a tax position may only be recognized in the financial statements if it is more likely than not that the tax position will prevail if challenged by tax authorities. The Company believes it is more likely than not that our tax positions will be sustained in any tax examination. We have no income tax expense, deferred tax assets or deferred tax liabilities associated with any such uncertain tax positions for the operations of any entity included in the consolidated results of operations.

***Derivatives and Hedging Activities***

The Company measures its designated and qualifying derivative instruments at fair value and records them in the Consolidated Balance Sheets as an asset or liability, depending on the Company's rights or obligations under the applicable derivative contract. Fair value adjustments will be recorded in accumulated other comprehensive income or earnings in the current period based on whether the derivative financial instrument is designated and qualifies as a hedging instrument. The effective portions of changes in fair value of designated and qualifying instruments are reported in other comprehensive income and are subsequently reclassified into earnings when the hedged item affects earnings.

**Note 4 - Summary of Significant Accounting Policies (Continued)**

The changes in fair value of derivative instruments which are not designated as hedging instruments and the ineffective portions of hedges are recorded in earnings for the current period.

The Company utilizes derivative financial instruments to reduce exposure to fluctuations in interest rates. The Company has not entered, and does not plan to enter, into financial instruments for trading or speculative purposes. Additionally, the Company has a policy of only entering into derivative contracts with major financial institutions. The principal financial instruments used by the Company are interest rate swaps.

***Recently Issued Accounting Standards***

In June 2009 the FASB issued an amendment to the accounting and disclosure requirements for the consolidation of VIEs. This amendment requires an enterprise to perform a qualitative analysis when determining whether or not it must consolidate a VIE and requires a continuous reassessment of whether it must consolidate a VIE. Additionally, the amendment requires enhanced disclosures about an enterprise's involvement with VIEs and any significant change in risk exposure due to that involvement, as well as how its involvement with VIEs impacts the enterprise's financial statements. Finally, an enterprise will be required to disclose significant judgments and assumptions used to determine whether or not to consolidate a VIE. This amendment will be effective for the Company beginning in fiscal 2010. The Company has evaluated this amendment and does not anticipate its adoption will have a material impact on its consolidated financial statements.

In June 2009 the FASB issued an amendment to the accounting and disclosure requirements for transfers of financial assets. This amendment requires greater transparency and additional disclosures for transfers of financial assets and the entity's continuing involvement with the assets. In addition, this amendment changes the criteria for the transfer of a financial asset and eliminates the concept of a qualifying special-purpose entity. This amendment will be effective for the Company beginning in fiscal 2010. The Company has evaluated this amendment and does not anticipate its adoption will have a material impact on its consolidated financial statements.

**Note 5- Changes in Accounting Principles**

*Other-than-temporary impairments*

On April 1, 2009, the Company adopted newly issued accounting guidance that amended the existing accounting model for evaluating whether declines in the fair value of debt securities are other-than-temporary in nature. Previously, declines in the fair value of a debt security were generally considered to be other-than-temporary in nature unless the investor could positively assert that it had the intent and ability to hold the security long enough to recover its amortized cost basis. The newly issued guidance requires that an investor recognize other-than-temporary impairment for (a) those securities that the investor has the present intent to sell or (b) those securities that it will more likely than not be required to sell before the anticipated recovery. For those securities that the Company does not have the present intent to sell or for which it is not more likely than not it will be required to sell, the Company must recognize only credit losses in earnings. Non-credit losses are recognized as a charge to other comprehensive income.

For other-than-temporary impairment charges recognized in prior periods, the newly issued accounting guidance required the Company to assess whether (a) it had the intent to sell, (b) more likely than not would have been required to sell the related securities and (c) for those not meeting these criteria (a) and (b), determine the decline in fair value attributable to non-credit factors and recognize the cumulative of initially applying the newly issued guidance as an adjustment to the opening balance of members' capital with a corresponding adjustment to accumulated other comprehensive income.

The cumulative effect of the Company's adoption of the newly issued accounting guidance resulted in an increase to members' capital of $23,294,000 and a corresponding decrease to other comprehensive income totaling $23,294,000.

**Note 5- Changes in Accounting Principles (Continued)**

*Non-controlling interests*

The consolidated financial statements reflect certain retrospective revisions of prior period amounts, resulting from the adoption and retrospective application of newly adopted accounting guidance on related to non-controlling interests. The revisions had no impact on previously reported net income.

Effective January 1, 2009, the Company adopted accounting guidance which establishes and expands accounting and reporting standards for entities that have outstanding minority interests which are re-characterized as non-controlling interests in a subsidiary. It requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. It also requires disclosure on the face of the consolidated statements of operations and comprehensive income, of the amounts of consolidated net income attributable to the parent and to the non-controlling interest. Previously, net income attributable to the non-controlling interest generally was reported as an expense in arriving at consolidated net income. This adoption resulted in (i) the reclassification of minority interests in consolidated subsidiaries to non-controlling interests in consolidated subsidiaries, a component of permanent equity on the Company's consolidated balance sheets, (ii) the reclassification of minority interest expense to net income attributable to non-controlling interests on the Company's consolidated statements of operations and comprehensive income, and (iii) additional disclosure relating to non-controlling interests.

**Note 6 - Fair Value Measurement**

On January 1, 2008, the Company adopted new guidance for fair value measurements and the fair value option for financial assets and liabilities. This guidance defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The guidance applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements. Accordingly, the standard does not require any new fair value measurements of reported balances. Cash equivalents, available for sale securities, derivative financial instruments, impaired real estate debt investments and real estate debt investments held for sale are reported at fair value.

The accounting standards emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined 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, the standards establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs utilize unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability other than quoted prices, such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability which are typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Level 1 securities include highly liquid government bonds, mortgage products and exchange-traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows, which would generally be classified within Level 2

**Note 6 - Fair Value Measurement (Continued)**

of the valuation hierarchy. Examples of such instruments include certain derivative financial instruments. In cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. Securities classified within Level 3 include, for example, residual interests in securitizations and other less liquid securities.

In October 2008 the Company adopted amendments to the guidance for fair value measurements which provide clarification that determination of fair value in an inactive market depends on facts and circumstances and may require the use of significant judgment to determine whether certain individual transactions are forced liquidations or distressed sales. In cases where the volume and level of trading activity for an asset has declined substantially, the available prices vary significantly over time or among market participants, or the prices are not current, observable inputs might not be relevant and could require material adjustment. In addition, the amended guidance also clarifies that broker or pricing service quotes may be appropriate inputs when measuring fair value, but are not necessarily determinative if an active market does not exist for the financial asset. Regardless of the valuation techniques used, the accounting rules require that an entity include appropriate risk adjustments that market participants would make for nonperformance and liquidity risks. The Company has always considered nonperformance and liquidity risks in its analysis of loans and collateral underlying its securities and the adoption of this new guidance did not have a material impact on its consolidated financial statements.

The following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Recurring Measurements

*Cash, Cash Equivalents and Restricted Cash*

The Company's cash, cash equivalents and restricted cash are generally classified within Level 1 or Level 2 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. The types of instruments valued based on quoted market prices in active markets include most U.S. government securities and most money market securities. Such instruments are generally classified within Level 1 of the fair value hierarchy.

*Available for Sale Securities*

Broker quotations within Level 1 or Level 2 of the hierarchy are obtained if available and practicable. Management typically obtains counterparty quotations for certain of its securities that are pledged under certain repurchase agreements. Such counterparty quotations are predominantly based on the use of unobservable inputs that are considered Level 3 inputs. In addition, the Company uses a third-party pricing model to establish values for the securities in its portfolio. Management also performs further analysis of the performance of the loans and collateral underlying the securities, the estimated value of the collateral supporting such loans and a consideration of local, industry, and broader economic trends and factors. Significant judgment is utilized in the ultimate determination of fair value. This valuation methodology has been characterized as Level 3 in the fair value hierarchy as defined by FASB guidance for fair value measurements.

*Derivative Financial Instruments*

The Company has determined that the inputs used to value its derivatives fall primarily within Level 2 of the fair value hierarchy. Currently, the Company uses interest rate swaps to manage its interest rate risk. 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. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves, and implied volatilities. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments

**Note 6 - Fair Value Measurement (Continued)**

(or receipts). The variable cash payments (or receipts) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves.

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. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

*Impaired Real Estate Debt Investments*

All of the Company's loans identified as being impaired are collateral dependent loans and are evaluated for impairment by comparing the fair value of the underlying collateral to the carrying value of each loan. Due to the unique nature of the individual property collateralizing the Company's loans, the Company uses the income or market approach, as deemed appropriate, through internally developed valuation models to estimate the fair value of the collateral. This approach requires the Company to make significant judgments in respect to discount rates and the timing and amounts of estimated future cash flows that are considered Level 3 inputs.

*Real Estate Debt Investments Held For Sale*

At December 31, 2009, the Company had identified four loans meeting the criteria for held-for-sale treatment. These loans are carried at their fair value of $66,311,000, which represents a decline of $64,143,000 from the Company's cost basis of $130,454,000. This decline in fair value has been charged to impairment loss on real estate debt investments in the Company's consolidated statements of operations.

The Company has estimated the fair value of these investments using current market spreads which are reflective of exit prices using market participant assumptions. These assets fall within Level 3 of the fair value hierarchy.

The tables below presents the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2009 and 2008 aggregated by the level in the fair value hierarchy within which those measurements fall.

| (in thousands) | Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Balance at December 31, 2009 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | $ 747 | $ - | $ - | $ 747 |
| Restricted cash | 25,369 | - | - | 25,369 |
| Impaired real estate debt investments | - | - | 15,473 | 15,473 |
| Real estate debt investments held for sale | - | - | 66,311 | 66,311 |
| Available for sale securities | - | - | 83,977 | 83,977 |
| **Liabilities** | | | | |
| Derivative financial instruments | $ - | $ 12,274 | $ - | $ 12,274 |

**Note 6 - Fair Value Measurement (Continued)**

| (in thousands) | Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Balance at December 31, 2008 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | $ 12,315 | $ - | $ - | $ 12,315 |
| Restricted cash | 2,819 | - | - | 2,819 |
| Impaired real estate debt investments | - | - | 65,638 | 65,638 |
| Available for sale securities | - | - | 118,491 | 118,491 |
| **Liabilities** | | | | |
| Derivative financial instruments | $ - | $ 31,232 | $ - | $ 31,232 |

*Changes in Level Three Fair Value Measurements*

The tables below includes a roll forward of the balance sheet amounts from January 1, 2009 to December 31, 2009, and January 1, 2008 to December 31, 2008, including the change in fair value, for financial instruments classified by the Company within level 3 of the valuation hierarchy. When a determination is made to classify a financial instrument within level 3 of the valuation hierarchy, the determination is based upon the significance of the unobservable factors to the overall fair value measurement.

| Year Ended December 31, 2009<br>(in thousands) | Available For Sale Securities | Impaired Real Estate Debt Investments | Real Estate Debt Investments Held for Sale |
|---|---|---|---|
| Fair value, January 1, 2009 | $ 118,491 | $ 65,638 | $ - |
| Transfers in/and or out of level 3 | - | 11,731 | 276,243 |
| Included in statement of operations: | | | |
| Accretion income on realized losses | 1,071 | - | - |
| Impairment losses on real estate debt investments held for sale | - | - | (101,027) |
| Net impairment losses recognized in earnings | (16,302) | - | - |
| Provision for loan loss contingencies | - | (52,141) | - |
| Amortization of discount | 538 | 170 | - |
| Unrealized impairment losses | (13,468) | - | - |
| Purchases, issuances and settlements, net | 11 | 75 | (4,857) |
| Sale of investments | (6,364) | (10,000) | (104,048) |
| Fair value, December 31, 2009 | $ 83,977 | $ 15,473 | $ 66,311 |

**Note 6 - Fair Value Measurement (Continued)**

| Year Ended December 31, 2008 (in thousands) | Available For Sale Securities | Impaired Real Estate Debt Investments |
|---|---|---|
| Fair value, January 1, 2008 | $ 188,073 | $ 89,884 |
| Included in statement of operations: | | |
| Total unrealized reversal in other comprehensive income | 7,927 | - |
| Accretion income on realized losses | 1,367 | - |
| Net impairment losses recognized in earnings | (73,832) | - |
| Provision for loan loss contingencies | - | (26,021) |
| Amortization of discount | 253 | 242 |
| Purchases, issuances and settlements, net | (5,297) | 1,533 |
| Fair value, December 31, 2008 | $ 118,491 | $ 65,638 |

**Note 7 – Real Estate Debt Investments**

Real estate debt investments, consisting of whole loans, B-note participation interests, and mezzanine loans, are intended to be held for investment and, accordingly, are carried at the Company's investment cost basis, net of unamortized loan purchase discounts and allowances for loan losses when such investments are deemed to be impaired. Whole loans are loans to borrowers who are typically seeking capital for use in property acquisition and are predominantly collateralized by first mortgage liens on real property. B-Notes are junior positions of whole loans. Mezzanine loans are loans that are subordinate to a conventional first mortgage loan, including B Notes and senior to the borrower's equity in a transaction. These loans may be in the form of a junior participating interest in the senior debt. Mezzanine financing may take the form of loans collateralized by pledges of ownership interests in entities that directly or indirectly control the real property or subordinated loans collateralized by second mortgage liens on the property.

The following table is a summary of the Company's real estate debt investments at December 31, 2009 and 2008 (in thousands):

| | Real Estate Debt Investments, Net of Allowance December 31, 2009 | Loan Count | Real Estate Debt Investments, Net of Allowance December 31, 2008 | Loan Count |
|---|---|---|---|---|
| Whole loans | 50,836 | 4 | 199,339 | 9 |
| B-notes | 184,550 | 13 | 300,710 | 18 |
| Mezzanine loans | 303,979 | 23 | 405,454 | 31 |
| Loan loss allowance | (86,035) | - | (31,053) | - |
| Discounts on loans | (6,060) | - | (11,306) | - |
| Total loans | $ 447,270 | 40 | $ 863,144 | 58 |

**Note 7 – Real Estate Debt Investments (Continued)**

The Company has $70,937,000 and $91,659,000 of impaired principal real estate debt investments with loan loss allowances of $55,464,000 and $26,021,000 at December 31, 2009 and 2008, respectively. The Company recorded a provision for loss allowance in real estate debt investments of $80,620,000 and $31,053,000 for the years ended December 31, 2009 and 2008, respectively. No provision for losses was recognized for the year ended December 31, 2007.

The fair value of the Company's real estate debt investments was $244,313,000 and 731,577,000 at December 31, 2009 and 2008, respectively.

The following table sets forth the maturity dates for the Company's real estate debt investments at December 31, 2009 (in thousands):

| Year of Maturity (1) | Number of Loan Assets Maturing | Principal Balance (2) | Loan Loss Allowance | Carrying Value (3) | % of Total |
|---|---|---|---|---|---|
| 2010 | 22 | $ 347,540 | $ (23,089) | $ 324,451 | 72.54% |
| 2011 | 1 | 6,300 | - | 6,300 | 1.41% |
| 2012 | 4 | 59,530 | (7,575) | 51,955 | 11.62% |
| 2013 | 1 | 4,512 | (903) | 3,609 | 0.81% |
| 2014 and thereafter | 12 | 115,423 | (23,897) | 91,526 | 20.46% |
| Total before formula specific loss allowance | 40 | 533,305 | (55,464) | 477,841 | 106.84% |
| Formula specific loss allowance | - | - | (30,571) | (30,571) | -6.84% |
| Total real estate debt investments | 40 | $ 533,305 | $ (86,035) | $ 447,270 | 100.00% |

(1) Weighted-average maturity is 2.16 years. The calculation of weighted-average maturity is based upon the remaining initial term and does not take into account any maturity extension period or the ability to prepay the investment after a negotiated lock-out period, which may be available to the borrower. The weighted average maturity with the exercise of any extension options is 2.97 years. Most of the loans maturing in the next twelve months have extension options which the Company anticipates will be exercised.

(2) Principal balance is shown net of discounts of $6,060,000 at December 31, 2009.

(3) Of the 40 real estate debt investments there are six loans that are not performing and their carrying value has been written down to zero. Therefore, the remaining 34 loans included in the carrying value at December 31, 2009 above are performing loans.

**Note 7 – Real Estate Debt Investments (Continued)**

The following table sets forth the activity in the loan allowance for credit losses account balance as of December 31, 2009 and 2008 (in thousands):

| | 2009 | 2008 |
|---|---|---|
| Balance at beginning of year | $ (26,021) | $ - |
| Charge-offs (1) | 17,900 | - |
| Recoveries | - | - |
| Valuation allowance | (51,343) | (26,021) |
| Transfers (2) | 4,000 | - |
| Balance at end of year | $ (55,464) | $ (26,021) |

(1) The charge-offs of $17,900,000 for the year ended December 31, 2009 represent allowances for which the Company foreclosed on and the collateral of which was sold or obtained through foreclosure sale.
(2) Transfers represent loan allowances on real estate debt investments that were transferred to real estate loan assets held for sale.

***Credit Risk Concentrations***

Concentration of credit risk arises when a number of borrowers, tenants or issuers related to the Company's investments are engaged in similar business activities or located in the same geographic location and are similarly affected by changes in economic conditions. The Company monitors its portfolio to identify potential concentrations of credit risk. The Company's real estate debt investments contain concentrations in the following asset types, categorized by industry as a percentage of the unpaid principal balance of real estate debt investments before discounts and loan loss allowance, as of December 31, 2009:

| Asset Type | |
|---|---|
| Office | 32.01% |
| Hospitality | 47.27% |
| Mixed Use | 6.90% |
| Industrial | 4.65% |
| Multifamily | 9.17% |
| Total | 100.00% |

As of December 31, 2009 and 2008, no loan exceeded 10% of the Company's assets and for the years ended December 31, 2009 and 2008 no single loan generated more than 10% of the Company's revenue.

**Note 8 – Real Estate Debt Investments Held For Sale**

Due to the disruption in the capital and credit markets, the continued decline in the fair value of the Company's assets, and the covenant failures on its debt facilities, the Company was required to identify certain assets to be sold in order to reduce its outstanding balances on its debt.

During 2009 the Company sold six loans that were designated as real estate debt investments held for sale which resulted in losses of $17,566,000.

**Note 8 – Real Estate Debt Investments Held For Sale (Continued)**

The Company was not able to completely satisfy its repayment obligation on the Column facility of $60,000,000 by December 31, 2009 and has identified four real estate debt investments to be sold, the proceeds from which will be used to repay the remaining required reductions on the Column facility in accordance with the contractual terms of the modification. The Company has reported these loans as held for sale at the lower of cost or fair value at $66,311,000 on December 31, 2009 which includes fair value adjustments of $64,143,000.

Subsequent to year end, two real estate debt investments held for sale were sold with a carrying value of $56,311,000. The Company recognized a loss of $545,000 and used the proceeds to repay Column and satisfy the remaining accelerated repayment schedule required by the modification.

**Note 9 - Available for Sale Securities**

The Company has a portfolio of loan securities (also referred to as available for sale securities) which includes investments in CDO securities, pooled collateralized mortgage backed securities (“CMBS”), and rake bonds. These bonds are accounted for as available for sale securities and, accordingly, are marked to fair value on a quarterly basis based upon management’s assessment of fair value. The Company's portfolio of available for sale securities was comprised of purchased beneficial interests in 36 CMBS consisting of both Pool and Rake bonds and three CDOs at December 31, 2009.

In April 2009 the Company adopted new accounting guidance on investments in debt and equity securities related to determining whether an impairment for investments in debt securities is other-than-temporary. As a result of the adoption, the Company recognized a cumulative-effect adjustment to retained earnings of $23,294,000 as of April 1, 2009, with a corresponding adjustment to accumulated other comprehensive loss.

**Note 9 - Available for Sale Securities (Continued)**

The amortized cost and fair value of securities available-for-sale at December 31, 2009 and 2008 were as follows (in thousands):

| December 31, 2009 | Amortized Cost (1) | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| CMBS | | | | |
| Rake Bonds | $ 60,668 | $ - | $ (13,804) | $ 46,864 |
| Pool Bonds | 59,521 | 2,176 | (25,044) | 36,653 |
| Total CMBS | 120,189 | 2,176 | (38,848) | 83,517 |
| CDO | 460 | - | - | 460 |
| Total available for sale securities | $ 120,649 | $ 2,176 | $ (38,848) | $ 83,977 |

| December 31, 2008 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| CMBS | | | | |
| Rake Bonds | $ 62,096 | $ 526 | $ (275) | $ 62,347 |
| Pool Bonds | 50,950 | 40 | (200) | 50,790 |
| Total CMBS | 113,046 | 566 | (475) | 113,137 |
| CDO | 5,354 | - | - | 5,354 |
| Total available for sale securities | $ 118,400 | $ 566 | $ (475) | $ 118,491 |

(1) Amortized cost basis includes adjustments made to the cost of an investment for accretion, amortization, collection of cash, and previous other-than-temporary impairments recognized in earnings.

**Note 9 - Available for Sale Securities (Continued)**

The table below shows the fair value of investments in available for sale securities that have been in an unrealized loss position for less than 12 months or for 12 months or longer (in thousands).

| | Less than 12 months | | 12 months or longer | | Total | |
|---|---|---|---|---|---|---|
| December 31, 2009 | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| CMBS | | | | | | |
| Rake Bonds | $ 52 | $ (986) | $ 45,231 | $ (12,819) | $ 45,283 | $ (13,805) |
| Pool Bonds | 4,513 | (3,126) | 20,183 | (21,918) | 24,696 | (25,044) |
| Total CMBS | 4,565 | (4,112) | 65,414 | (34,737) | 69,979 | (38,849) |
| CDO | - | - | - | - | - | - |
| Total available for sale securities | $ 4,565 | $ (4,112) | $ 65,414 | $ (34,737) | $ 69,979 | $ (38,849) |

| | Less than 12 months | | 12 months or longer | | Total | |
|---|---|---|---|---|---|---|
| December 31, 2008 | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| CMBS | | | | | | |
| Rake Bonds | $ 22,876 | $ (275) | $ - | $ - | $ 22,876 | $ (275) |
| Pool Bonds | 14,042 | (200) | - | | 14,042 | (200) |
| Total CMBS | 36,918 | (475) | - | - | 36,918 | (475) |
| CDO | - | - | - | - | - | - |
| Total available for sale securities | $ 36,918 | $ (475) | $ - | $ - | $ 36,918 | $ (475) |

**Note 9 - Available for Sale Securities (Continued)**

The following table presents the amortized cost and fair value of debt securities available for sale by contractual maturity dates as of December 31, 2009 and December 31, 2008 (in thousands).

| | December 31, 2009 | | December 31, 2008 | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| CMBS - Rake Bonds | | | | |
| Due within 1 year | $ 36,506 | $ 28,107 | $ 29,239 | $ 29,304 |
| After 1 but within 5 years | 13,089 | 9,750 | 22,775 | 22,791 |
| After 5 but within 10 years | 11,072 | 9,007 | 10,082 | 10,252 |
| After 10 years | - | - | - | - |
| Total CMBS - Rake Bonds | 60,667 | 46,864 | 62,096 | 62,347 |
| CMBS - Pool Bonds | | | | |
| Due within 1 year | 33,736 | 17,277 | $ 16,925 | $ 16,960 |
| After 1 but within 5 years | 18,609 | 10,023 | 34,026 | 33,830 |
| After 5 but within 10 years | 7,177 | 9,353 | - | - |
| After 10 years | - | - | - | - |
| Total CMBS - Pool Bonds | 59,522 | 36,653 | 50,951 | 50,790 |
| CDO | | | | |
| Due within 1 year | - | - | - | - |
| After 1 but within 5 years | - | - | - | - |
| After 5 but within 10 years | 460 | 460 | 5,354 | 5,354 |
| After 10 years | - | - | - | - |
| Total | 460 | 460 | 5,354 | 5,354 |
| Total available for sale securities | $ 120,649 | $ 83,977 | $ 118,401 | $ 118,491 |

Interest income on the available for sale securities for the years ended December 31, 2009, 2008 and 2007 was $4,320,000, $9,496,000 and $11,961,000, respectively.

*Evaluating Investments for Other-than-Temporary Impairments*

The Company conducts periodic reviews to identify and evaluate each investment that has an unrealized loss. An unrealized loss exists when the current fair value of an individual security is less than its amortized cost basis. Unrealized losses that are determined to be temporary in nature are recorded in accumulated other comprehensive loss for available-for-sale securities.

The Company has assessed each position for credit impairment. Securities for which the amortized cost basis exceeds fair value are assessed to determine whether the Company has the present intent to sell the security in which case the entire difference between the amortized cost basis and fair value is recognized in earnings as an other than temporary impairment ("OTTI"). If the Company determines that it will more likely than not be required to sell

**Note 9 - Available for Sale Securities (Continued)**

securities for which the amortized cost basis exceed fair value then the entire difference between fair value and amortized cost basis is recognized in earnings as an other than temporary impairment.

For securities that the Company does not intend to sell, and does not believe it is more likely than not that it will be required to sell, management performs additional analysis to determine whether or not it will recover its amortized cost basis in the investment. Declines in fair value attributable to credit events are recognized as other than temporary impairment recognized in earnings while declines attributable to other factors are recognized in other comprehensive loss.

Factors considered in determining whether a loss is temporary or other than temporary include:

- The length of time and the extent to which fair value has been below amortized cost basis;
- Adverse conditions specifically related to the security, an industry, or a geographic area;
- The historical and implied volatility of the fair value of the security;
- The payment structure of the debt security;
- Failure of the issuer of the security to make scheduled interest or principal payments;
- Any changes to the rating of the security by the rating agency; and
- Recoveries or additional declines in fair value subsequent to the balance sheet date.

The Company's review for impairment generally entails:

- Identification and evaluation of investments that have indications of possible impairment;
- Analysis of individual investments that have fair values less than amortized cost, including consideration of the length of time the investment has been in an unrealized loss position and expected recovery period;
- Discussion of evidential matter, including an evaluation of factors or triggers that could cause individual investments to qualify as having other-than-temporary impairment and those that would not support other-than-temporary impairment; and
- Documentation of the results of these analyses, as required under business policies.

A critical component of the evaluation for other-than-temporary impairments is the identification of credit impaired securities where management does not expect to receive cash flows sufficient to recover the entire amortized cost basis of the security. The extent of the Company's analysis regarding credit quality and the stress on assumptions used in the analysis has been refined for securities where warranted by the current fair value or other characteristics of the security.

The following table presents the total other-then-temporary impairments recognized for the year ended December 31, 2009 (in thousands).

| | | |
|---|---|---|
| Impairment losses related to securities which the Company does not intend to sell or is not more likely than not that it will be required to sell : | | |
| Total OTTI losses recognized during the year ended December 31, 2009 | $ | 24,826 |
| Less: portion of OTTI loss recognized in other comprehensive loss | | (13,468) |
| Net impairment losses recognized in earnings for securities that the Company does not intend to sell or is more likely than not that will not be required to sell | | 11,358 |
| Plus OTTI Losses recognized in earnings for securities that the Company intends to sell or is more-likely-than-not will be required to sell | | 4,944 |
| Total impairment losses recognized in earnings | $ | 16,302 |

**Note 9 - Available for Sale Securities (Continued)**

The roll forward of the credit-related position recognized in earnings for all securities still held as of December 31, 2009 is as follows: (in thousands)

Cumulative Other-Than-Temporary Impairment Credit Losses Recognized in Earnings for Available-for-Sale Debt Securities

| | December 31, 2008 Balance | Beg Balance Adjustment to Other Comprehensive Loss | Credit impairments recognized in earnings on securities not previously impaired | Credit impairments recognized in earnings on securities that have been previously impaired | Reductions due to sales or maturities of credit impaired securities | December 31, 2009 Balance |
|---|---|---|---|---|---|---|
| CMBS | | | | | | |
| Rake Bonds | $ 10,938 | $ (9,095) | $ 689 | $ 949 | $ - | $ 3,481 |
| Pool Bonds | 45,896 | (15,491) | - | 9,705 | (3,009) | 37,101 |
| Total CMBS | 56,834 | (24,586) | 689 | 10,654 | (3,009) | 40,582 |
| CDO | 27,875 | - | - | 4,959 | - | 32,834 |
| Total | $ 84,709 | $ (24,586) | $ 689 | $ 15,613 | $ (3,009) | $ 73,416 |

The Company does not intend to sell nor does it believe it will be required to sell bonds with losses currently deferred in accumulated other comprehensive loss.

**Note 10 - Variable Interest Entities**

The Company has evaluated its investments to determine whether they constitute a variable interest in a variable interest entity ("VIE"). The FASB's accounting guidance on consolidation requires a VIE to be consolidated by its primary beneficiary. The primary beneficiary is the party that absorbs a majority of the VIE's anticipated losses and/or a majority of the expected returns.

In connection with and subsequent to the formation of the Company, Concord was determined not to be a VIE entity but rather consolidated Concord pursuant to alternative FASB guidance related to partnerships since the Company is the functional equivalent of a general partner. On August 19, 2009, Concord received an infusion of additional capital totaling approximately $10,150,000 million in the form of a capital contribution of $1,700,000 million made by the Company and short-term demand notes totaling $8,360,000 million, which were subsequently repaid upon the sale of certain of Concord's assets. These proceeds, which were used to pay down debt and settle five interest rates swaps, resulted in the reconsideration of Concord's VIE status. In connection with this reconsideration event, the Company determined that Concord is a VIE since it is not sufficiently capitalized to finance its activities primarily due to the significant decline in the fair value of its assets.

The Company determined that it was the primary beneficiary of this VIE since it absorbs the majority of expected residual returns and therefore continued to consolidate Concord.

Under the accounting guidance on consolidations there is a requirement to measure the assets, liabilities and non-controlling interests of the newly consolidated VIE at their fair values at the date that the reporting entity becomes the primary beneficiary. However, because the primary beneficiary of the VIE, the Company, and the VIE,

**Note 10 - Variable Interest Entities (Continued)**

Concord, are under common control and, as discussed above, Concord was already consolidated in prior periods, albeit under different guidance, no fair value adjustment was necessary.

At December 31, 2009 and 2008, the Company identified certain real estate debt investments with aggregate carrying values of $21,465,000 and $35,469,000, respectively. These investments were deemed VIEs primarily based on the fact that the equity investment at risk is not sufficient to permit the entity to finance its activities without additional financial support. The Company has determined that it is not the primary beneficiary of the VIEs as it does not have voting or other rights that allow the Company to exercise control over the borrower entity nor do they have participation features which the Company would be required to absorb expected losses or be entitled to receive expected residual returns of the borrower entities. For the year ended December 31, 2009 no events occurred that would cause the Company to reconsider the VIE status of these debt investments.

**Note 11 – Repurchase Agreements**

The following table outlines borrowings under the Company's repurchase agreements as of December 31, 2009 and December 31, 2008:

| | December 31, 2009 | | December 31, 2008 | |
|---|---|---|---|---|
| (in thousands) | Debt Carrying Vaue | Collateral Carrying Value (3) | Debt Carrying Vaue | Collateral Carrying Value (3) |
| Royal Bank of Scotland, PLC, successor in interest to Greenwich Capital Financial Products, Inc., matures on February 1, 2012, interest is variable based on 1-month LIBOR rate plus 1% or 1.23% and 2.04% respectively. | $ 59,550 | $ 71,530 | $ 59,613 | $ 71,417 |
| Royal Bank of Scotland, PLC, successor in interest to Greenwich Capital Financial Products, Inc., matures on January 15, 2011, interest is variable based on 1-month LIBOR rate plus 1% or 1.23% and 1.51% respectively. | 3,543 | 6,452 | 21,516 | 36,452 |
| Column Financial Inc., variable interest based on 1-month LIBOR plus 1%, the rate was 1.47% at December 31, 2008. (1) | - | - | 15,000 | 25,880 |
| Column Financial Inc., expiration December 31, 2010, interest is variable based on 1-month LIBOR plus 0.85% to 1.35%, the weighted average was 1.27%, and 1.49%, respectively. (2) | 71,971 | 74,276 | 144,475 | 263,587 |
| Total repurchase agreements | $ 135,064 | $ 152,258 | $ 240,604 | $ 397,336 |

(1) In February 2009, the repurchase agreement was terminated and the asset which was subject to this repurchase agreement was added to the multiple loan asset repurchase agreement. The multiple loan asset repurchase agreement was modified to provide that the interest rate, maturity date and advance rate, with respect to the asset added to the multiple loan asset repurchase facility, would remain as it was under the specific repurchase agreement.

(2) On April 14, 2009, the multiple loan asset repurchase agreement was modified as discussed above.
(3) Collateral carrying value equals face value less bond discounts, unrealized gains and losses and other-than-temporary impairment losses plus bond premiums and unrealized gains.

**Note 11 – Repurchase Agreements (Continued)**

The fair value of the Company's repurchase agreements was $79,358,000 and 224,143,000 at December 31, 2009 and 2008, respectively.

In certain circumstances, the Company financed the purchase of its real estate debt investments and available for sale securities from a counterparty through a repurchase agreement with the same counterparty. The Company records these investments in the same manner as other investments financed with debt whereby the investment recorded is as an asset and the related borrowing as a liability on the Company's consolidated balance sheets. Interest income earned on the investments and interest expense incurred on the repurchase obligations are reported separately on the consolidated statements of operations.

The Company's repurchase agreements contain covenants that are both financial and non-financial in nature. Significant financial covenants require the Company to maintain certain loan to asset value ratios, a minimum net worth and minimum liquidity. In addition, all of the repurchase facilities require that the Company pay down borrowings under these facilities as principal payments on the loan assets and loan securities pledged to these facilities are received.

Under the terms of the repurchase facility with Column, the Company was required to maintain minimum liquidity, comprised of cash and cash equivalents, of at least $10,000,000 at all times. At certain times during the years ended December 31, 2009 and 2008 Concord's cash balance declined to an amount below the $10,000,000 minimum liquidity requirements. In February 2009 this requirement was eliminated from the Column repurchase facility and the Company's prior failure to comply was waived.

As part of the modification of the Column agreement in April 2009, Column required the Company to maintain a minimum tangible net worth and a maximum indebtedness to tangible net worth. The Company was in compliance of these covenants during 2008 but has failed them during 2009 and is in technical default. As a remedy of default the Company is required to direct all repayments on purchased assets directly to Column. Although under the default provisions, Column also has the right to immediately sell all purchased assets and liquidate all repurchase assets under the agreement, Column has issued a reservation of rights letter and has not exercised such rights.

Under the repurchase facilities with Royal Bank of Scotland PLC ("RBS"), the Company has a similar $10,000,000 minimum liquidity requirement. As discussed above, at certain times during the years ended December 31, 2009 and 2008 Concord's cash balance declined to an amount below the $10,000,000 minimum liquidity requirements.

In addition, the RBS repurchase facility required the Company to maintain a minimum net worth and a maximum indebtedness to tangible net worth. The Company was in compliance with these covenants during 2008, however during 2009 the Company failed these covenant tests as well.

In July 2009 RBS agreed to restructure its agreement with the Company. The restructuring of the agreement required a reduction of the outstanding balance by $11,500,000, which was satisfied on July 31, 2009 as a result of the sale of a real estate debt investment. The new provisions also include i) extending the maturity to January 2011 ii) eliminating the covenant that precludes the Company from receiving from its auditors an opinion that is qualified or limited by reference to the Company as a going concern iii) reducing the net worth requirement to $100 million and iv) waiving the covenants for all prior periods and until March 31, 2010. The Company has not met the net worth requirement at December 31, 2009 and has not received a waiver of this covenant.

**Note 12 - Revolving Credit Facility**

On March 7, 2008, the Company entered into a $100,000,000 Senior Secured Revolving Credit Facility. The facility had an initial maturity date of March 7, 2010, with a provision for a one-year extension at the option of the Company, subject to certain conditions. The facility is a recourse obligation of the Company. Under the terms of the facility, an administration agent fee of $50,000 is payable annually in advance. Unused facility fees ranging

**Note 12 - Revolving Credit Facility (Continued)**

from 15 basis points ("bps") if greater than 50% of the facility capacity has been used to 30 basis points if less than 50% of the facility capacity has been used are payable quarterly in arrears.

As of December 31, 2008, under the terms of the line of credit facility with KeyBank, the Company was required to maintain minimum liquidity, comprised of cash and cash equivalents, of at least $10,000,000 at all times. At certain time during the year ended December 31, 2008 and at certain times subsequent to the year ended December 31, 2008, the Company's cash balances declined to an amount below the $10,000,000 liquidity requirements. On February 24, 2009, the Company received a waiver from KeyBank of the covenant violation. In addition, the covenant was waived until June 30, 2009.

In exchange for the waiver, Concord agreed to the following modifications:

All regular cash flow of Concord from interest payments on the KeyBank collateral shall be applied in the following manner:

a) First, to payments due to KeyBank;
b) Second, together with other available cash flow of Concord, for distribution by Concord for payment of the preferred distribution to holders of preferred membership interests;
c) Third, together with other available cash flow of Concord, up to $6,000,000 annually for distribution by Concord for payment of common distribution to Lex-Win;
d) Fourth, available cash flow in an amount such that not less than $10,000,000 shall have been deposited and maintained in account at KeyBank as a cash reserve; and
e) Any remaining cash flow shall be paid to KeyBank to reduce outstanding loan balance.

On September 23, 2009, the Company amended and restated its agreement with KeyBank. Under the terms of this amendment the credit line was reduced from the original $100,000,000 to the actual outstanding balance of $73,666,000 as of the date of the agreement. Key Bank received as additional collateral all remaining unpledged assets including cash and any previously unencumbered loans and bonds the Company had repurchased. Under the conditions of the agreement, no distributions are allowed to be made to the Company's members until KeyBank is fully repaid. The bank has allowed for a maximum of $650,000 per month in operating expenses, however a mandatory monthly principal payment of $300,000 plus an additional annual principal repayment of $10,000,000 is required or the Company will be in default of the loan. The agreement expires on December 31, 2010 with rights for three – one year extensions through December 31, 2013 at the Company's option subject to the satisfaction of certain conditions.

Borrowings under the facility bear interest rates based upon prevailing LIBOR plus an applicable spread or an Alternative Base Rate ("ABR"), as defined. At December 31, 2009, the Company's borrowings bear interest at LIBOR plus 300 bps.

The Company had an outstanding balance on the revolving credit facility of approximately $58,850,000 at December 31, 2009, which was collateralized by a first priority lien on certain of the Company's equity interests as well as first priority perfected liens in certain of the Company's loan assets and bonds with a carrying value of $113,959,000. The weighted-average interest rate on amounts outstanding was approximately 3.24% during the year ended December 31, 2009.

The terms of the restructured agreement with KeyBank require the Company to maintain a number of customary financial and other covenants on an ongoing basis including: i) maximum leverage ratio not to exceed 75%, ii) minimum fixed charge ratio not less than 1:50 to 1:00, iii)tangible net worth cannot be less than twice the aggregate principal balance of all loans (minimum net worth), iv) cannot payout any restricted payments in excess of 100% of net income (maximum payout ratio), v) prohibition on additional indebtedness.

**Note 12 - Revolving Credit Facility (Continued)**

The Company has failed certain of its covenants during the year ended December 31, 2009, and therefore was in default of its agreement with KeyBank. Under the default provisions, KeyBank has the right to accelerate repayments and all amounts of principal and accrued interest immediately become due and payable. KeyBank has not exercised such rights.

The fair value of the revolving credit facility was $48,657,000 and $76,821,000 at December 31, 2009 and 2008, respectively.

**Note 13 – Collateralized Debt Obligations**

CDO-1 holds assets, consisting primarily of whole loans, mezzanine loans and available for sale securities totaling approximately $444,849,000, which serve as collateral for the CDO. The CDO-1 issued investment grade rated notes with a principal amount of approximately $347,525,000 and a wholly-owned subsidiary of the Company purchased the G and H tranches and preferred equity interests of CDO-1. The seven investment grade tranches were issued with floating rate coupons with a combined weighted average rate of 0.71% and 0.95% at December 31, 2009 and 2008, respectively, and has a maturity of December 2016. The Company has the ability to contribute additional assets to the CDO-1 through December 31, 2011 in order to replenish the assets of the CDO-1 to the extent that an asset of the CDO-1 is repaid prior to such date. Thereafter, the outstanding debt balance will be reduced as loans are repaid. The Company incurred approximately $7,774,000 of issuance costs which are being amortized over the average estimated life of the CDO-1, estimated to be approximately 10 years or when debt is satisfied on a pro rata basis. For accounting purposes, the CDO-1 is consolidated in the Company's financial statements. The seven investment grade tranches are treated as a secured financing and are non-recourse to the Company. Interest proceeds received from investments collateralizing the CDO are distributed to holders of the CDO notes on a monthly basis.

For the year ended December 31, 2008, the Company purchased $11,200,000 of Tranche D, $5,000,000 of Tranche E, $10,925,000 of Tranche C and $2,000,000 of Tranche F of its CDO-1 notes for $13,110,000. The Company determined that the repurchase of the CDO-1 tranches qualified as an extinguishment of debt pursuant to the guidance for transfers and servicing of financial instruments and recognized a gain on extinguishment of $15,603,000. For the year ended December 31, 2008, unamortized deferred issuance costs of $411,000 were charged against the gains.

The fair value of the collateralized debt obligations was $201,719,000 and $270,046,000 at December 31, 2009 and 2008, respectively.

CDO-1 contains covenants that are both financial and non-financial in nature. Significant covenants include cash coverage and collateral quality tests. CDO-1 was in compliance with its financial covenants at December 31, 2009 and 2008.

**Note 14 - Collateral Support Obligation**

The borrower of a $44,000,000 first mezzanine note owned by Concord (the "Note") failed to satisfy its obligation when the Note matured in February 2008. On March 28, 2008 Concord sold the Note at par together with accrued interest and late charges to an unaffiliated third party. Concord concluded that this transaction qualified as a sale pursuant to the accounting guidance for transfers of financial assets. Concurrently with the sale of the Note, the Company entered into a credit support arrangement with Deutsche Bank (the "Bank") for which Concord, subject to certain terms and conditions, was required to return a portion of the purchase price of the Note equal to 2.75% of any shortfall received by the buyer of the Note on the sale of the underlying real property in satisfaction of the loan. As consideration for the collateral support arrangement, Concord has received cumulative fees of $1,589,000 through July 2009. Upon entering into the collateral support arrangement, Concord determined that it meets the criteria of a guarantee pursuant to the accounting guidance for guarantees and estimated the fair value of the guarantee at inception to be approximately $50,000.

**Note 14 - Collateral Support Obligation (Continued)**

During July 2009 the Concord received notice that pursuant to the credit support arrangement, a collateral deficiency was realized on the aggregate net proceeds from the sale of the underlying collateral of the Note for which Concord was allocated 2.75% of the total deficiency. Accordingly, a collateral support obligation has been recorded for the aggregate liability amount of $9,757,000 at December 31, 2009.

On December 10, 2009, a final arbitration ruling was issued and a settlement amount for Concord’s share of the shortfall of $9,598,000 plus per diem interest and expenses of $159,000 was awarded to the Bank.

**Note 15 - Sub-participation obligation**

On October 14, 2009, the Company received a principal repayment of $6,000,000 in partial satisfaction of a loan collateralized by a hotel located in New York, NY. In exchange, the Company granted to the borrower waivers of certain loan conditions and agreed to exercise its rights under the loan in accordance with instructions furnished by the borrower. Concurrently with the execution of the agreement, the borrower also purchased sub-participation interests in certain bonds owned by the Company for approximately $4,500,000. The sub-participation obligation requires the Company to remit to the borrower principal and interest payments received from the bonds. The collateral for the bonds that are subject to the sub-participation obligation are controlled by the borrower.

In addition, the Company has written certain call options giving the borrower the right to purchase the bonds that are subject to the sub-participation obligation. The call options are exercisable at the discretion of the borrower at anytime through the maturity date of the bonds for a specified strike price. The Company has also written a call option for one of the bonds to an unaffiliated third party that is only exercisable upon either the expiration of the borrower's call option or the event of default by the borrower as specified in the option agreement. The Company has determined that the call options are not derivative instruments, but should be marked to fair value with changes in fair value recognized in earnings. The fair value of the call options written to both the borrower and the unaffiliated third party were not considered material and therefore have not been recorded at December 31, 2009.

**Note 16 - Derivative Financial Instruments**

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its debt funding and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and expected cash amounts, the value of which are determined by interest rates. The Company’s derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company’s known or expected cash receipts and its known or expected cash payments principally related to the Company’s investments and borrowings.

*Cash Flow Hedges of Interest Rate Risk*

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in Accumulated Other Comprehensive Income (Loss) and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the years ended December 31, 2009, 2008 and 2007, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. The Company also assesses and documents, both at the hedging instruments inception and on an ongoing basis, whether

**Note 16 - Derivative Financial Instruments (Continued)**

the derivative instruments are highly effective in achieving offsetting changes in the cash flows attributable to the hedged items. The Company has recorded changes in fair value related to the effective portion of its interest swap contracts designated and qualifying as cash flow hedges totaling a decrease of $16,539,000 for the year ended December 31, 2009 and increases of $20,257,000 and $9,164,000 for the years ended December 31, 2008 and 2007, respectively. This change was a component of other liabilities and accumulated other comprehensive loss within the Company's consolidated balance sheets.

*Designated Hedges*

On August 19, 2009, the Company terminated five interest rate swap agreements consisting of four designated cash flow hedging instruments with a notional value of $54,375,000 and one hedging derivative not designated as a cash flow hedge with a notional value of $11,000,000. The cost to terminate the five hedges was $ 8,221,000. A loss of $74,000 which includes a termination fee was recognized for the period ended December 31, 2009.

The Company has recorded changes in fair value related to the deferred loss on the cancellation of interest rate swaps totaling an increase of $5,870,000 for the year ended December 31, 2009, a decrease of $63,000 for the year ended December 31, 2008 and an increase of $395,000 for the year ended December 31, 2007. This change was a component of other liabilities and accumulated other comprehensive loss within the Company's Consolidated Balance Sheets.

There was no ineffective portion of the change in fair value of the designated hedges recognized directly in earnings during the year ended December 31, 2009, 2008 and 2007, respectively. If the Company completes the restructuring contemplated in Note 2, a significant portion of the deferred loss would be reclassified as loss and be recognized in earnings.

As of December 31, 2009, the Company had the following outstanding interest rate derivatives that were designated as cash flow hedges of interest rate risk which mature in August 2016:

| Interest Rate Derivative | Number of Instruments | Notional |
|---|---|---|
| Interest Rate Swaps | 2 | $137,887,000 |

*Non-designated Hedges*

Derivatives not designated as hedges are not speculative and are used to manage the Company's exposure to interest rate movements and other identified risks but do not meet the strict hedge accounting requirements of derivatives. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings and were equal to $683,686 of income for the year ended December 31, 2009 and $1,478,000 and $455,000 of expense for the years ended December 31, 2008 and 2007, respectively.

**Note 16 - Derivative Financial Instruments (Continued)**

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the Balance Sheet as of December 31, 2009 and December 31, 2008 (in thousands):

| Liability Derivatives (in thousands) | December 31, 2009 | | December 31, 2008 | |
|---|---|---|---|---|
| | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| Derivatives designated as hedging instruments under SFAS 133 | | | | |
| Interest Rate Swap | Other Liabilities | $ 8,714 | Other Liabilities | $ 14,549 |
| Interest Rate Swap | Other Liabilities | 3,560 | Other Liabilities | 5,117 |
| Interest Rate Swap | Other Liabilities | - | Other Liabilities | 607 |
| Interest Rate Swap | Other Liabilities | - | Other Liabilities | 2,954 |
| Interest Rate Swap | Other Liabilities | - | Other Liabilities | 2,106 |
| Interest Rate Swap | Other Liabilities | - | Other Liabilities | 3,480 |
| Total derivatives designated as hedging instruments under SFAS 133 | | $ 12,274 | | $ 28,813 |
| Derivatives not designated as hedging instruments under SFAS 133 | | | | |
| Interest Rate Swap | Other Liabilities | - | Other Liabilities | 2,419 |
| Total derivatives not designated as hedging instruments under SFAS 133 | | $ - | | $ 2,419 |

**Note 17 – Accumulated Other Comprehensive Income**

Accumulated other comprehensive loss reflected in members' capital is comprised of the following:

| (in thousands) | December 31, 2009 | December 31, 2008 |
|---|---|---|
| Unrealized losses on cash flow hedges | $ (12,274) | $ (28,813) |
| Deferred loss on cancellation of interest rate swaps | (6,203) | (332) |
| Unrealized gains/(losses) on available-for-sale securities | (13,377) | 91 |
| Adjustment for cumulative effect of adopting new accounting pronoucement | (23,294) | - |
| | $ (55,148) | $ (29,054) |

**Note 18 – Discontinued Operations**

The Company was granted a decree of foreclosure from the United States District Court of Ohio on April 15, 2009 on a mortgage loan asset with a face value of $20,900,000 and carrying value of $12,000,000 at the date of foreclosure. As a result of the decree, the Court granted the Company a permanent order of possession over six properties, which represented the collateral on the loan, and a foreclosure sale occurred on October 7, 2009 at which time the Company was the successful bidder and received title to six multi-family Ohio residential properties with an estimated fair value of $11,202,000.

**Note 18 – Discontinued Operations (Continued)**

Management determined that the properties obtained through the foreclosure sale would be held for sale. During the period ended December 31, 2009, four of the six properties were sold for an aggregate net selling price of $7,676,000 which includes $955,000 of short-term seller financing provided on one of the properties. Two properties remain unsold at December 31, 2009, one of which is under contract for approximately $1,100,000 and the other is being marketed for sale.

The combined results related to discontinued operations for the year ended December 31, 2009 are as follows (in thousands):

| | | |
|---|---|---|
| Total revenues | $ | 332 |
| Total expenses | | 1,291 |
| Loss from discontinued operations | $ | (959) |

**Note 19 – Dividends**

In order for the Company's consolidated subsidiary, Concord Debt Funding Trust, to maintain its election to qualify as a REIT, it must distribute, at a minimum, an amount equal to 90% of its taxable income to its shareholders. For the years ended December 31, 2009, 2008 and 2007 dividends were comprised of 100% ordinary dividends. Because taxable income differs from cash flow from operations due to non-cash revenues and expenses, the Company may generate operating cash flow in amounts below or in excess of its dividends.

At December 31, 2009, the Company's members' capital was $289,798,000 for federal tax reporting purposes as compared to $58,780,000 for financial reporting purposes.

**Note 20 – Related Party Transactions**

<u>*WRP Sub-Management LLC*</u>

Since January 1, 2007, WRP Management has retained WRP Sub-Management to perform accounting collateral management and loan brokerage services.

On August 2, 2008, the Company, WRP Management and WRP Sub-Management entered into an Administration and Advisory Agreement whereby WRP Sub-Management became the Administrative Manager to provide day-to-day management, collateral management and administrative services for the Company. For providing these management services, WRP Sub-Management is entitled to receive a base management fee equal to five basis points multiplied by the total assets of the Company. The Administrative Manager is also entitled to receive loan acquisition fees based on pre-determined budgeted amount and reimbursement for actual out-of-pocket expenses. Related party fees and expenses paid for the year ended December 31 are as follows (in thousands):

| | 2009 | | 2008 | | 2007 | |
|---|---|---|---|---|---|---|
| Base management fee | $ | 533 | $ | - | $ | - |
| Employee wages and benefits | | 647 | | 1,960 | | 2,014 |
| Total related party fees and expenses paid | $ | 1,180 | $ | 1,960 | $ | 2,014 |

Related party fees and expenses recorded on an accrual basis were $1,108,000, $1,637,000 and $2,571,000 for the year ended December 31, 2009, 2008, and 2007, respectively.

**Note 20 – Related Party Transactions (Continued)**

At December 31, 2009 and 2008, the Company owed WRP Sub-Management $163,000 and $234,000, respectively.

*Note Payable to Related Parties*

On December 31, 2008, Winthrop and Lexington each advanced proceeds of $5,000,000 to the Company pursuant to short-term demand notes bearing interest at 1.36%. These notes were subsequently repaid to each of Winthrop and Lexington in January 2009 along with accrued interest.

On August 19, 2009, Winthrop and Lexington each advanced proceeds of $ 4,160,000 to the Company pursuant to short-term demand notes bearing interest of 5.44%. These notes were subsequently repaid to each of Winthrop and Lexington in September 2009 along with accrued interest.

*Sale of Assets to Winthrop*

During 2009, the Company sold four real estate debt investments and four bonds with an aggregate carrying value of $84,302,000 to Winthrop for net proceeds of $53,339,000.

**Note 21 – Commitments and Contingencies**

*Legal matters*

The Company is subject to various legal proceedings and claims that arise in the ordinary course of business. These matters are generally covered by insurance. Management believes that the final outcome of such matters will not have a material adverse effect on the financial position, results of operations or liquidity of the Company. Also see Note 2 on pending Inland litigation.

*Future Funding Amount*

With respect to two of the loans that are held by the Company, there are future funding obligations relating to tenant improvements, leasing commissions and debt service payments totaling approximately $11,559,000 (the "Future Funding Amount"). On one of the loans, the Future Funding Amount of $8,096,000 was to have been forwarded on June 19, 2009. However, the Company is disputing its obligation to fund the Future Funding Amount due to alleged breaches of the loan documents by the borrower and the guarantor. In this regard, the Company has brought an action in California State Court seeking, among other things, declaratory relief that the Company is required to fund the Future Funding Amount. If the court awards the declaratory relief sought, the Company will have no obligation to fund this amount.

**Note 22 – Subsequent Events**

On February 5, 2010, the Company purchased from Winthrop a $3,000,000 real estate debt investment at par, bearing interest at 8%.

The Company has evaluated all subsequent events through February 19, 2010 and all relevant events or transactions that occurred after the balance sheet date have been disclosed and incorporated in the Notes to the Consolidated Financial Statements.

**CHICAGO PROPERTIES**
**Combined Financial Statements**
**December 31, 2009 and 2008**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Partners of
Chicago Properties

In our opinion, the accompanying combined statements of revenues, expenses and members' deficit, and cash flows for the year ended December 31, 2007 of the properties known as the Chicago Properties, present fairly, in all material respects, the results of operations of Chicago Properties and its cash flows as of December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Properties' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit of these statements 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. Chicago Properties is not required to have, nor were we engaged to perform, an audit of internal control over financial reporting. 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, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ Tauber & Balser, P.C.
Atlanta, Georgia
March 24, 2008

**CHICAGO PROPERTIES**
**COMBINED BALANCE SHEETS**
**DECEMBER 31, 2009 AND 2008**
**(DOLLAR AMOUNTS IN THOUSANDS)**

| | (Not Covered By Auditors' Report) 2009 | (Not Covered By Auditors' Report) 2008 |
|---|---|---|
| ASSETS | | |
| Investments in real estate, at cost | | |
| Land | $ 25,308 | $ 35,273 |
| Buildings and improvements | 137,266 | 177,955 |
| Construction in progress | - | 29 |
| | 162,574 | 213,257 |
| Less: accumulated depreciation | (36,664) | (45,871) |
| Investments in real estate, net | 125,910 | 167,386 |
| | | |
| Cash | 1,395 | 3,371 |
| Restricted cash | 6,170 | 6,654 |
| Tenant receivables, net of allowance of $4,160 and $4,639, respectively | 573 | 547 |
| Deferred rent receivable | 8,888 | 10,943 |
| Lease commissions and loan fees, net | 9,284 | 11,894 |
| Lease intangibles, net | 3,126 | 7,101 |
| Prepaid expenses | 181 | 554 |
| Other assets | 20 | 31 |
| | | |
| TOTAL ASSETS | $ 155,548 | $ 208,481 |
| | | |
| LIABILITIES AND MEMBERS' DEFICIT | | |
| | | |
| Mortgages and other notes payable | $ 198,986 | $ 285,524 |
| Accounts payable and accrued expenses | 14,007 | 17,815 |
| Below market lease intangibles, net | 2,427 | 3,949 |
| Tenant security deposits and advanced rental deposits | 2,232 | 2,717 |
| TOTAL LIABILITIES | 217,651 | 310,005 |
| | | |
| MEMBERS' DEFICIT | (62,103) | (101,524) |
| | | |
| TOTAL LIABILITIES AND MEMBERS' DEFICIT | $ 155,548 | $ 208,481 |

**CHICAGO PROPERTIES**
**COMBINED STATEMENTS OF REVENUES, EXPENSES AND MEMBERS' DEFICIT**
**FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007**
**(DOLLAR AMOUNTS IN THOUSANDS)**

| | (Not Covered By Auditors' Report) 2009 | (Not Covered By Auditors' Report) 2008 | 2007 |
|---|---|---|---|
| RENTAL INCOME AND FEES | $ 45,267 | $ 46,000 | $ 42,244 |
| OPERATING EXPENSES | | | |
| Interest expense | 12,315 | 12,124 | 11,332 |
| Real estate taxes | 6,567 | 6,702 | 6,506 |
| Depreciation | 6,264 | 6,470 | 5,818 |
| Amortization | 3,736 | 3,589 | 3,084 |
| Management fees | 2,112 | 2,023 | 1,877 |
| Property operating expense | 18,781 | 19,475 | 17,986 |
| | 49,775 | 50,382 | 46,603 |
| OPERATING LOSS | (4,508) | (4,382) | (4,359) |
| Interest income | 13 | 39 | 79 |
| Loss from continuing operations | (4,494) | (4,343) | (4,281) |
| DISCONTINUED OPERATIONS | | | |
| Loss from discontinued operations | (2,322) | (5,727) | (6,004) |
| Gain on extinguishment of related party debt | 11,841 | - | - |
| Gain on disposal of properties | 34,278 | - | - |
| Gain on sales of properties | - | 13,777 | 37,823 |
| Income from discontinued operations | 43,797 | 8,050 | 31,819 |
| NET INCOME | 39,303 | 3,707 | 27,538 |
| MEMBERS' DEFICIT, BEGINNING OF PERIOD | (101,524) | (94,067) | (100,297) |
| CURRENT YEAR CONTRIBUTIONS OF CAPITAL | 3,148 | 2,132 | 4,746 |
| DISTRIBUTIONS | (3,031) | (13,296) | (26,054) |
| MEMBERS' DEFICIT, END OF PERIOD | $ (62,103) | $ (101,524) | $ (94,067) |

**CHICAGO PROPERTIES**
**COMBINED STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007**
**(DOLLAR AMOUNTS IN THOUSANDS)**

| | (Not Covered By Auditors' Report) 2009 | (Not Covered By Auditors' Report) 2008 | 2007 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net income | $ 39,303 | $ 3,707 | $ 27,538 |
| Adjustments: | | | |
| Depreciation | 6,264 | 8,550 | 8,554 |
| Amortization | 4,122 | 5,150 | 5,975 |
| Bad debt expense (recovery) | (488) | 364 | (637) |
| Gain on sales, disposals of properties, and extinguishment of related party debt | (46,119) | (13,777) | (37,823) |
| Changes in assets and liabilities: | | | |
| Tenant receivables | 772 | (404) | 175 |
| Deferred rent receivable | 4,005 | 1 | (233) |
| Lease commissions and loan fees | - | (4,776) | (7,624) |
| Prepaid expenses | 589 | 34 | (184) |
| Other assets | 14 | 54 | 965 |
| Accounts payable and accrued expenses | (7,024) | (941) | 561 |
| Tenant security deposits and advanced rental deposits | (1,141) | (117) | (1,407) |
| Net cash (used in) provided by operating activities | 298 | (2,155) | (4,140) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of investments in real estate | (9,019) | (19,221) | (37,895) |
| Proceeds from sale of properties | - | 25,499 | 47,819 |
| Increase in restricted cash | 1,300 | 1,204 | (2,367) |
| Net cash (used in) provided by investing activities | (7,719) | 7,482 | 7,557 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from mortgages and notes payable | 12,420 | 66,903 | 94,465 |
| Principal payments on mortgages payable | (2,977) | (60,247) | (75,144) |
| Payment of loan fees | (2,762) | (738) | (1) |
| Contributions from members | - | 2,132 | 4,746 |
| Distributions to members | (1,237) | (13,296) | (26,054) |
| Net cash (used in) provided by financing activities | 5,445 | (5,246) | (1,988) |
| NET DECREASE IN CASH | (1,976) | 81 | 1,429 |
| CASH, BEGINNING OF PERIOD | 3,371 | 3,290 | 1,861 |
| CASH, END OF PERIOD | $ 1,395 | $ 3,371 | $ 3,290 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | | |
| Cash paid for interest- continuing and discontinued operations | $ 14,899 | $ 18,395 | $ 19,342 |

**CHICAGO PROPERTIES**
**COMBINED STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007**
**(DOLLAR AMOUNTS IN THOUSANDS)**

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

The Properties disposed of eight properties during 2009, as discussed in Note G, resulting in the following noncash transaction (unaudited):

| | |
|---|---|
| Foreclosures during 2009: | |
| Net carrying value of investments in real estate disposed of | $(43,509) |
| Assets and liabilities transferred, other than cash | (10,634) |
| Mortgages and notes payable disposed of | 95,981 |
| Distributions of excess basis in investments– result of foreclosure | 952 |
| Properties relinquished by Trust during 2009: | |
| Contributions of excess basis in investments | $ (3,148) |
| Distributions of excess basis in investments | 842 |

## CHICAGO PROPERTIES
## NOTES TO COMBINED FINANCIAL STATEMENTS

### NOTE A - ORGANIZATION AND BASIS OF PRESENTATION

The accompanying financial statements include the results of operations of 21 properties for the year ended December 31, 2009, 23 properties for the year ended December 31, 2008 and 24 properties for the year ended December 31, 2007. During 2009, no properties were acquired, three properties were removed from the portfolio and five properties were foreclosed by their primary lenders. During 2008 one property was acquired and two properties were sold. The 13 properties owned as of December 31, 2009 contain approximately 2,206,000 square feet, substantially all of which are located in the Chicago metropolitan and suburban area (the "Chicago Properties"). The individual entities are combined on the basis of common ownership and management. All intercompany balances and transactions have been eliminated. The carrying values of the assets are at historical cost net of accumulated depreciation and amortization.

On April 19, 2005, FT-MARC Loan LLC, a wholly-owned subsidiary of Winthrop Realty Trust (the "Trust"), made convertible mezzanine loans (the "Loans") to 22 borrowers in the aggregate amount of $69,326,000 ($39,347,000 balance outstanding at December 31, 2009). Each of the borrowers is owned primarily by the principals of Marc Realty, a Chicago-based real estate company. Each of the Loans is collateralized by the applicable borrower's ownership interest in a limited liability company, which we refer to as a Property Owner, which in turn owns an office building/complex. One of the Loans is further collateralized by a second mortgage directly on the Property. Prior to July 1, 2009, each of the Loans bore interest at 7.65%, matured on April 18, 2012 and required monthly payments of interest only. The amount advanced under each of the Loans together with the equity investment, as described below, was equal to 49% of the difference between the agreed upon value of the property and the existing debt encumbering the property.

During July 2009, the Trust restructured its investment with Marc Realty pertaining to fifteen of the properties. The Trust increased its ownership in nine properties, decreased its ownership in three properties and transferred its interest in the remaining three properties to Marc Realty. The transfer of interest in the three properties was effective May 1, 2009. In exchange, Marc Realty gave up its deferred return due them on the twelve properties that the Trust remained invested in. The interest rate on the Trust's loans and the preferred return due to Marc Realty on its equity were both increased from 7.65% to 9% effective July 1, 2009 and the maturity date of the loans was extended to April 17, 2016. In addition, it was agreed that the interest due the Trust on its loans would only be paid if there was sufficient cash flow to pay both the interest due the Trust and the preferred return due to Marc Realty. If there is not sufficient cash flow, then the return payable to both parties will be deferred.

On February 21, 2006, the Trust made a loan in the amount of $1,484,000 with respect to an additional property located at 900 Ridgebrook, North Brooke, Illinois on the same terms as the Loans except that the amount advanced under the Loans together with the equity investment, as described below, was equal to 60% of the difference between the agreed upon value of the property and the existing debt encumbering the property.

## CHICAGO PROPERTIES
## NOTES TO COMBINED FINANCIAL STATEMENTS

### NOTE A - ORGANIZATION AND BASIS OF PRESENTATION (CONTINUED)

On December 28, 2006, the Trust made a loan in the amount of $351,000 with respect to an additional property located at 2860 River Road, Des Plaines, Illinois. The amount advanced under the loan together with the equity investment, as described below, was equal to 60% of the difference between the agreed upon value of the property and the existing debt encumbering the property. During 2009, as a result of the restructuring agreement with the Trust, the Loan was forgiven, this property was relinquished and the equity interest was eliminated by the Trust.

On June 20, 2007, the Trust made a loan in the amount of $17,669,000 with respect to an additional property located at 180 North Michigan Avenue, Chicago, Illinois. The loan was secured by a first mortgage on the property, bore interest at 7.32%, required monthly payments of interest only and matured on June 20, 2008. On March 27, 2008, the property securing this loan was refinanced and the loan from the Trust was repaid in full. On April 14, 2008, the Trust made a new loan in the amount of $3,825,000 with respect to this property. The amount advanced under the loan, together with the equity investment, as described below, was equal to 70% of the difference between the agreed upon value of the property and the existing mortgage debt encumbering the property. The loan bears interest at 8.50%, matures on April 18, 2012, and requires monthly payments of interest only.

On July 7, 2008, the Trust made a loan in the amount of $1,023,750 with respect to an additional property located at 180 North Wacker Dr., Chicago, Illinois. The amount advanced under the loan together with the equity investment, as described below, was equal to 42% of the difference between the agreed upon value of the property and the existing debt encumbering the property. During 2009, as a result of the restructuring agreement with the Trust, the Loan was forgiven, this property was relinquished and the equity interest was eliminated by the Trust.

As part of the above transactions, the Trust acquired an equity interest in each of the borrowers in the form of Class B equity. The original owners maintained a Class A interest in the properties which receive the net income or loss from the properties after the mezzanine and tenant improvement loans have been serviced. The Class B equity interest entitles the Trust to participate in capital proceeds derived from the sale or refinancing of the applicable property to the extent such proceeds generate amounts sufficient to fully satisfy all of the debt encumbering the property, including the Trust's loan and a return to the borrower of its deemed equity plus a 7.65% or 8.50% return thereon as applicable. The agreement between the Trust and Marc Realty related to the Chicago Properties will terminate April 19, 2025.

In addition, in connection with the original Marc Realty transaction, the Trust and Marc Realty each committed to provide up to $7,350,000 in additional financing to cover the costs of tenant improvements and capital expenditures at the Chicago Properties. During 2007, advances in excess of the $7,350,000 commitments were required. During 2009, Marc Realty and the Trust committed to advance an additional $16,000,000 in total to be made equally by both parties and to revise the interest rates and maturities of the previously outstanding amounts for all but one Property Owner. At December 31, 2009 and 2008, together, the Trust and Marc Realty had advanced a total of approximately $38,265,000 and $33,797,000, respectively. Through June 30, 2009, the advances bore interest of 8.5% per annum and matured seven years from the date of the advance (except for the Property Owner for which no revision was made which remains at 8.5% interest per annum and matures April 13, 2015) and are secured by subordinate loans on the applicable properties. The Trust and Marc Realty modified the agreements effective July 1, 2009 such that the advances now bear interest of 10% and mature on April 17, 2016.

## NOTE A - ORGANIZATION AND BASIS OF PRESENTATION (CONTINUED)

During 2007, the Trust elected to redeem its Class B interest in two properties. On February 13, 2007, the Trust redeemed its interest in one property for $4,919,000 and the property was subsequently sold on February 14, 2007 for $34,000,000. On September 10, 2007, the Trust redeemed its interest in one property for $1,614,000 and the property was subsequently sold on September 11, 2007 for $22,650,000.

During 2008 two additional properties were sold. The property located at 600 West Jackson was sold for $14,500,000 under an installment agreement initiated January 2, 2008 and the sale was consummated June 12, 2008. On March 20, 2008 the property located at 999 East Touhy Avenue, Des Plaines, Illinois was sold for $11,600,000.

As part of the July 1, 2009 restructuring of the agreement between Marc Realty & the Trust, the Trust's interest in three of the properties, 183 Euclid Center, 180 North Wacker and 2860 River Road, was transferred to Marc Realty and all related debt between Marc Realty & the Trust was forgiven. See Note G for further discussion.

During 2009, five properties were foreclosed by their primary lenders. The buildings and related improvements were returned to the lenders and the outstanding balances due to the Trust were forgiven during 2009.

The results of discontinued operations related to properties which were disposed of by transfer to Marc Realty or foreclosure by the primary lender have been aggregated and presented separately in the combined statements of revenues, expenses and members' deficit as of December 31, 2009, 2008, and 2007, respectively.

## NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *Accounting Standards Codification:*

The Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") became the sole authoritative source of generally accepted accounting principles in the United States for periods ending after September 15, 2009. The FASB ASC incorporates all authoritative accounting literature previously issued by a standard setter. Adoption of the FASB ASC had no effect on the Properties' financial position, results from operations, members' deficit or cash flows.

### *Investments in Real Estate*

Real estate assets are stated at cost less accumulated depreciation or amortization. Expenditures for repairs and maintenance are expensed as incurred. Significant renovations that extend the useful life of the properties are capitalized. Depreciation for financial reporting purposes is computed using the straight-line method. Buildings and building improvements are depreciated over their estimated useful lives of 5 to 39 years based on the property's age, overall physical condition, type of construction materials and intended use. Tenant improvements, which amounted to $36,299,000 and $44,018,000 at December 31, 2009 and 2008, respectively, are depreciated over the term of the tenant's lease.

CHICAGO PROPERTIES
NOTES TO COMBINED FINANCIAL STATEMENTS

## NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

***Cash***

Cash balances are maintained with financial institutions and may exceed the applicable limits for FDIC depository insurance. Restricted cash consists of real estate tax reserves, various deposits and construction reserves.

***Tenant Receivables***

Tenant receivables are stated at the amount that management expects to collect. Management evaluates accounts receivable for each property to provide an allowance for uncollectible amounts at the time payment becomes unlikely. The estimate is based on the history of tenant payment experience, tenant creditworthiness and a review of current economic developments.

***Lease commissions and loan fees***

Lease commissions and loan fees are capitalized and amortized on the straight line method over the duration of the underlying lease or loan. Loan fee amortization expense under the straight line method is not materially different than the expense that would be recognized using the interest method. Amortization expense related to lease commissions and loan fees was $3,092,000, $3,141,000 and $3,284,000 for the years ended December 31, 2009, 2008 and 2007, respectively.

***Revenue Recognition***

The Trust accounts for its leases with tenants as operating leases with rental revenue recognized on a straight-line basis from the later of the date of the commencement of the lease or the date of acquisition of the property subject to existing leases, which averages minimum rents over the terms of the leases. The cumulative difference between lease revenue recognized under this method and contractual lease payment terms is recorded as deferred rent receivable on the accompanying balance sheets. Accordingly, deferred rent receivables are recorded from tenants for the amount that is expected to be collected over the lease term rather than currently. When a property is acquired, the term of existing leases is considered to commence as of the acquisition date.

***Property Operating Expense***

Property operating expense consists of direct expenses of the underlying properties which include utilities, insurance, repairs and maintenance, security and safety, cleaning, bad debt expense, and other expenses.

***Income Taxes***

No provision for income taxes is reflected in the accompanying financial statements since income taxes are assessed at the individual member level.

## NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *Fair Value of Financial Instruments*

The carrying amounts for cash, restricted cash, tenant receivables, accounts payable and accrued expenses approximate fair value as they are short-term in nature. The fair value of mortgages and other notes payable at 2009 and 2008 could not be determined.

### *Management's Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosures of contingent assets and liabilities. Actual results could differ from those estimates.

## NOTE C – LEASE INTANGIBLES

The fair value of the tangible assets of an acquired property is determined by valuing the property as if it were vacant, and the "as-if-vacant" value is then allocated to land, building and improvements and fixtures and equipment based on management's determination of the relative fair values of these assets. Factors considered by management in performing these analyses include an estimate of carrying costs during the expected lease-up periods, current market conditions and costs to execute similar leases. In estimating carrying costs, management includes real estate taxes, insurance and other operating expenses and estimates of lost rental revenue during the expected lease-up periods based on current market demand. Management also estimates costs to execute similar leases including leasing commissions.

In allocating the fair value of the identified intangible assets and liabilities of an acquired property, above-market, below-market and in-place lease values are recorded based on the difference between the current in-place lease rent and a management estimate of current market rents. Above-market lease intangibles are recorded as assets and below-market lease intangibles are recorded as liabilities and both are amortized into rental revenue over the non-cancelable periods of the respective leases. In-place lease values are recorded as part of intangible assets and charged to amortization expense over the non-cancelable portion of the respective leases. Any capitalized lease incentives are also included as a lease intangible on the balance sheet and are amortized to rental revenue over the non-cancelable portion of the respective leases.

The gross amount allocated to the acquired in-place leases was $11,395,000 and $17,331,000 as of December 31, 2009 and 2008, respectively. The accumulated amortization as of December 31, 2009 and 2008 was $9,177,000 and $11,972,000. The gross amount allocated to the above-market leases was $952,000 and $1,555,000 as of December 31, 2009 and 2008, respectively. The accumulated amortization as of December 31, 2009 and 2008 was $831,000 and $1,393,000, respectively. The gross amount allocated to lease incentives was $952,000 and $1,863,000 as of December 31, 2009 and 2008, respectively. Accumulated amortization on the lease incentives was $165,000 and $283,000, as of December 31, 2009 and 2008, respectively.

## NOTE C – LEASE INTANGIBLES (CONTINUED)

The estimated future amortization of lease intangible assets by year is as follows (dollar amounts in thousands):

| | Amortization | Revenue | Total |
|---|---|---|---|
| 2010 | $ 839 | $ 21 | $ 860 |
| 2011 | 677 | 20 | 697 |
| 2012 | 426 | 20 | 446 |
| 2013 | 267 | 17 | 284 |
| 2014 | 226 | 17 | 243 |
| Thereafter | 575 | 21 | 596 |
| Total | $ 3,010 | $ 116 | $ 3,126 |

The gross amount allocated to the below-market leases was $6,620,000 and $8,312,000 as of December 31, 2009 and 2008, respectively. The accumulated amortization as of December 31, 2009 and 2008 was $4,193,000 and $4,363,000, respectively.

The estimated future amortization of lease intangible liabilities by year is as follows (dollar amounts in thousands):

| | |
|---|---|
| 2010 | $ 750 |
| 2011 | 589 |
| 2012 | 354 |
| 2013 | 224 |
| 2014 | 190 |
| Thereafter | 320 |
| Total | $ 2,427 |

## NOTE D – RENTAL REVENUES

Rental revenues are obtained from tenant operating leases. The leases mature on various dates from January 30, 2010 to June 30, 2036. Future minimum base rental payments during the non-cancellable terms of all tenant operating leases as of December 31, 2009 are as follows (dollar amounts in thousands):

| | |
|---|---|
| 2010 | $ 36,690 |
| 2011 | 31,264 |
| 2012 | 26,214 |
| 2013 | 21,284 |
| 2014 | 17,685 |
| Thereafter | 72,071 |
| Total | $ 205,208 |

## NOTE E – MORTGAGES & OTHER NOTES PAYABLE

Mortgages and other notes payable consisted of the following (dollar amounts in thousands):

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| Mortgage notes payable, stated interest rates ranging from 4.55% to 6.87%, various maturities from April 20, 2010 through December 17, 2017, secured by land and buildings | $ 113,486 | $ 190,717 |
| FT-Marc Loans, bearing interest at 8.50% and 9.00%, monthly interest only payments, maturing on April 13, 2015 and April 17, 2016, secured by borrower's interest in the LLC | 47,235 | 57,010 |
| Wraparound mortgages with NW Loan, LLC, an affiliate of Marc Realty, variable interest rate with a floor of 5.5% and a ceiling of 6.5%, maturing April 30, 2009 | - | 4,000 |
| Tenant improvement and capital expenditure loans from FT-Marc Loan, bearing interest at 8.50% and 10%, monthly interest only payments, maturing April 13, 2015 and May 1, 2016 | 38,265 | 33,797 |
| Total | $ 198,986 | $ 285,524 |

Required principal payments for the next five years and in total thereafter are as follows (dollar amounts in thousands):

| | |
|---|---|
| 2010 | $ 26,080 |
| 2011 | 50,370 |
| 2012 | 11,446 |
| 2013 | 10,870 |
| 2014 | 12,487 |
| Thereafter | 87,733 |
| Total | $ 198,986 |

## NOTE F - RELATED PARTY TRANSACTIONS

The Properties are managed by Marc Realty. The management fee is equal to 5% of rental revenue, expense recoveries and other miscellaneous charges paid by tenants. Total fees incurred for continuing operations and properties classified as discontinued operations were $2,570,000 for 2009, $2,839,000 for 2008, and $3,042,000 for 2007.

## CHICAGO PROPERTIES
## NOTES TO COMBINED FINANCIAL STATEMENTS

### NOTE F - RELATED PARTY TRANSACTIONS (CONTINUED)

Marc Realty also receives a fee for construction management services of 8% for the first $250,000 of construction costs incurred during the applicable Chicago Properties owner's fiscal year, 7% for the next $750,000 of costs and 6% for costs over $1,000,000. These fees are capitalized and amortized over the lives of the applicable projects. Construction management fees were $665,000 for 2009, $896,000 for 2008 and $1,268,000 for 2007.

Marc Realty was reimbursed for all reasonable expenses incurred in carrying out the Chicago Properties' operating activities under the terms of the management agreement. The Chicago Properties paid reimbursements for payroll and overhead expenses of approximately $2,792,000 for 2009, $3,229,000 for 2008 and $3,117,000 for 2007.

Marc Realty also receives lease commissions for new leases signed and tenant lease renewals. The commissions are based on the square footage rented for office leases and on a percentage of the average annual rent for retail leases. These amounts are capitalized and were included in lease commissions and loan fees at December 31, 2009 and 2008. Marc Realty receives lease administration fees of up to $1,500 per renewal of a lease and $5,000 per new lease to cover its internal legal expenses. Lease administration fees were $798,000 for 2009, $1,113,000 for 2008 and $1,352,000 for 2007.

The Chicago Properties owed Marc Realty approximately $0 and $1,217,000 at December 31, 2009 and 2008, respectively, for expenses paid by Marc Realty on their behalf. This amount is included in accounts payable.

During 2009, as part of the restructuring, it was determined that a fee would be paid to the Property Owners in return for guaranteeing the mortgage debt of certain of the properties. As a result $675,000 of expense and $661,000 of accounts payable were reflected in these financial statements for the year ended December 31, 2009.

### NOTE G – GAIN ON SALE OR DISPOSAL OF PROPERTIES

The land, buildings and associated improvements for five properties were foreclosed on by their primary lenders during 2009. A gain on forgiveness of debt of $11,841,000 was recorded during 2009 for the entire amount of the outstanding balances due to the Trust and to Marc Realty at the date of the foreclosure as no amounts are recoverable by either the Trust or Marc Realty. A gain on disposal of assets of $34,278,000 was also recorded for the amount in excess of the mortgage debt extinguished over the assets relinquished in the transaction.

Also during 2009, the Trust relinquished its ownership in three properties as a provision of the restructuring of the Loan agreements executed during 2009 resulting in a net contribution of equity in the amount of $2,306,000.

## NOTE G – GAIN ON SALE OR DISPOSAL OF PROPERTIES (CONTINUED)

The land, buildings and associated improvements were sold for two properties in 2008 and for two properties in 2007. There were no sales during 2009. A gain was recorded as follows (dollar amounts in thousands):

| | 2008 | 2007 |
|---|---|---|
| Sales price of land, buildings and associated improvements | $ 26,100 | $ 56,650 |
| Closing costs, credits and prorations associated with sales | (601) | (8,831) |
| Net book value of land, building and associated improvements | (11,722) | (9,996) |
| Gain on sale of properties | $ 13,777 | $ 37,823 |

## NOTE H - LITIGATION

The Chicago Properties are exposed to various risks of loss related to torts, theft, damage to and destruction of assets, errors and omissions and natural disasters for which the Chicago Properties carry commercial insurance. The Chicago Properties are a party to certain legal proceedings arising in the ordinary course of its business. Marc Realty, after consulting with legal counsel, currently believes that the ultimate outcome of these proceedings, individually and in the aggregate, will not have a material adverse effect on the Chicago Properties' financial position or results of operations.

## NOTE I – SUBSEQUENT EVENT

The Company is not aware of any significant events that occurred subsequent to the balance sheet date but prior to the filing of this report that would have a material impact on the financial statements.

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## CORPORATE OFFICERS

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**PRESIDENT**
Carolyn B. Tiffany

**EXECUTIVE VICE PRESIDENT**
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