

WINTHROP REALTY TRUST

FORM 10-K (Annual Report)

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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, 2012

or

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

For the transition period from _____ to _____

Commission File Number 1-6249

WINTHROP REALTY TRUST

(Exact name of Registrant as specified in its certificate of incorporation)

Ohio

**(State or other jurisdiction of
incorporation or organization)**

34-6513657

**(IRS Employer
Identification Number)**

7 Bulfinch Place, Suite 500, Boston, Massachusetts

(Address of principal executive offices)

02114

(Zip Code)

(617) 570-4614

(Registrant's telephone number, including area code)

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

<u>Title of Each Class</u>	<u>Name of Exchange on Which Registered</u>
Common Shares, \$1.00 par value	New York Stock Exchange
9.25% Series D Cumulative Redeemable 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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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 ☐ (Do not check if a smaller reporting company) 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, 2013, there were 33,128,853 Common Shares outstanding.

At June 30, 2012, the aggregate market value of the Common Shares held by non-affiliates was \$353,865,000.

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, 2012, are incorporated by reference into Part III hereof.

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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 dividends 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.

PART I

ITEM 1. BUSINESS

General

Winthrop Realty Trust is a real estate investment trust 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 reportable segments: (i) the ownership of investment properties, including properties in joint ventures consolidated or accounted for on an equity method basis, which we refer to as operating properties; (ii) the origination and acquisition of senior loans, mezzanine loans and debt securities collateralized directly or indirectly by commercial and multi-family real property, including collateral mortgage-backed securities and collateral debt obligation securities, which we refer to as loan assets; and (iii) the ownership of equity and debt interests in other real estate investment trusts (REITs), which we refer to as REIT securities.

At December 31, 2012 we held (i) interests in operating properties totaling \$562,822,000 containing approximately 7.4 million square feet of rentable space and 5,439 apartment units; (ii) loan assets totaling \$239,534,000 (iii) REIT securities with a market value of \$19,694,000 and (iv) cash and cash equivalents of \$97,682,000.

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 website is located at <http://www.winthropreit.com>. The information contained on our website does not constitute part of this Annual Report on Form 10-K. On our website 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 and changed our name to Winthrop Realty Trust in 2005. Since January 1, 2004, we have been externally managed by FUR Advisors LLC, which we refer to as FUR Advisors or our Advisor. FUR Advisors is an entity owned by our current executive officers and senior management, including Michael L. Ashner who is the managing member of FUR Advisors and members of senior management of AREA Property Partners, a New York based real estate investment advisor.

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 REIT securities. 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, 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 thereby enabling us to structure transactions which may defer tax gains for a seller while preserving our available cash for other purposes.

Management

We have engaged FUR Advisors to administer our affairs including seeking, servicing and managing our investments. For providing these and other services, FUR Advisors is entitled to a base management fee and, in certain instances, an incentive fee and termination fee. See “Employees” below for a description of the fees payable to FUR Advisors.

Pursuant to our bylaws, the consent of our Board of Trustees is required to acquire or dispose of an investment with a value in excess of \$10,000,000. Our executive officers are permitted to acquire or dispose of an investment with an aggregate value of \$10,000,000 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 of beneficial interest which

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we refer to as our Common Shares, either directly or upon the conversion of any of our 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

We are 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 which emphasizes yield superior risk adjusted returns. These investments may have returns weighted towards the back end of the invested life which may negatively impact current earnings. 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. While this approach may result in short-term uneven earnings, we believe this approach will ultimately result in long term increased share value.

We are a diversified REIT and as such we are able to invest in transactions which a dedicated REIT with narrow investment parameters would be unable to consider resulting in a broad range of investment opportunities. These opportunities include different investment types, sectors and geographic areas all at varying levels in the capital stack. In addition, because of our size we are able to make investments in transactions that are smaller and would generally be disregarded by larger real estate investors. Further, we also acquire assets through joint ventures and strategic alliances which allows us to employ third party co-investment capital to maximize diversification of risk and reduce capital concentration and, in certain instances, leverage off our joint venture partner's experience and expertise in specific geographic areas and/or specific asset types.

As value investors we will focus and aggressively pursue our investment activity in the segment we believe will generate the greater overall return to us given market conditions at the time. In prior years we have demonstrated our ability to adjust our business plan to capitalize on evolving market conditions both with respect to business segment and capital structure. Based on market conditions in 2012, we focused our investment activity in our loan asset segment and to a lesser extent, our operating properties segment with a view toward investing in assets that provided a current yield as well as the potential for long term appreciation. Two significant transactions in 2012 which highlight our strategy were our investment in the Sullivan Center property in Chicago, Illinois, and our recently completed venture with respect to 701 Seventh Avenue in the Times Square area of New York City, both of which were done in joint ventures.

We expect to be able to continue to execute on this strategy during 2013 and currently we expect to concentrate our investment activities in assets that we believe are higher quality office, retail and multi-family properties, along with high-end hospitality assets. We will mine our existing portfolio for follow-on opportunities and will seek to timely realize returns on such investments subject only to the disposition restrictions under the Internal Revenue Code in order to maintain our REIT status.

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 using the same criteria for operating properties, as well as consideration of loan assets that may present an opportunity for us to acquire through foreclosure an equity interest in the underlying real estate collateral;
- 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 in order to 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.

We believe that the economic recovery, while slow, will continue throughout 2013 with gradually increasing rental demand across most asset classes in most major markets. We also believe that lenders will continue to take advantage of their improved balance sheets by accelerating the disposition of their real estate related assets, both debt and real property. Accordingly, we anticipate no diminishment in value opportunities for investing in 2013, and we believe that new investments in loan assets as well as preferred equity will continue to provide the most opportunity.

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Our primary sources of income are rental income and tenant recoveries from leases of our operating properties, interest income and discount accretion from our loan assets, and interest and dividend income and appreciation from our investments in REIT securities.

To enhance our total return, we utilize leverage. We seek to limit risk associated with utilization of leverage 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 and, in certain instances, interest guarantees as credit enhancements, the debt of our single purpose subsidiaries, thereby limiting the risk of loss to that particular investment or joint venture.

As a REIT, we are primarily dependent on external equity and debt financing to fund the growth of our business because of the dividend requirements for a REIT which significantly limits our ability to re-invest cash flow and capital proceeds. We have historically used public equity markets, joint venture equity, and secured financing as our primary sources of capital including raising capital through public offerings of equity and debt securities. In this regard, during 2012 we issued an additional 3,220,000 shares of our 9.25% Series D Cumulative Redeemable Preferred Shares, which we refer to as Series D Preferred Shares and \$86,250,000 of 7.75% Senior Notes due August 2022, which we refer to as our Senior Notes. 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 securities and 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

See Item 2. Properties for a description of our Operating Properties

Operating Property Acquisition Activities

Deer Valley Operating Property – Non-Controlling Interest - On March 29, 2012 we purchased the 3.5% non-controlling ownership interest of our consolidated office property joint venture, WRT-DV LLC, for \$400,000. As a result of this transaction, we now own 100% of WRT-DV LLC which holds title to our operating property located in Deer Valley, Arizona.

Waterford Place Apartments – On April 17, 2012 we acquired for a purchase price of approximately \$21,473,000 a 320 unit class A multi-family property situated on 27.9 acres in the Germantown/Collierville submarket of Memphis, Tennessee commonly referred to as Waterford Place. The property which had been foreclosed on by the mortgage lender in May 2011 was constructed in 2001 and was 87% occupied at acquisition.

One East Erie Operating Property – Non-Controlling Interest - On June 1, 2012 we purchased from Marc Realty its 20% non-controlling interest in FT-Ontario Holdings LLC (“One East Erie”) for \$5,850,000. The property contains 126,000 square feet of retail and office space consisting of the first six floors in a mixed use building together with 208 parking spaces located at One East Erie, Chicago, Illinois. As a result of this transaction, we now own 100% of One East Erie.

Cerritos – On October 4, 2012 we purchased from an affiliate of FUR Advisors for \$75,000 (the affiliate’s cost) a 100% membership interest in the entity that holds fee simple title to a nine story, 187,000 square foot, 53% occupied, Class B office building located 20 miles south of Los Angeles in Cerritos, California. In addition, we funded a \$1,500,000 leasing reserve and a \$264,000 loan restructuring fee as part of the transaction. Concurrently with the acquisition of the property, we entered into a modification agreement with the first mortgage lender pursuant to which the loan was split into a \$23,000,000 non-recourse A Note and a \$14,500,000 non-recourse B Note. The A Note bears interest at 5.0691% per annum and requires monthly payments of interest only. The B Note bears interest at 6.6996% per annum and requires monthly payments of approximately \$12,000 with the balance of the interest accruing. In connection with the modification, after payment of required monthly debt service on the A Note and the B Note, we are entitled to receive from property cash flow a 9.0% return on any additional funding to the property (including the \$1,500,000 leasing reserve). With respect to a capital transaction, all net proceeds go first to satisfy the A Note, second to us until we receive a return of our additional funding to the property plus our 9.0% return thereon, third 50-50 to us and the first mortgage lender until the principal amount of the B Note and accrued interest thereon is fully satisfied and fourth to us. The loan modification agreement provides for a participation feature whereby the B Note can be fully satisfied with proceeds from the sale of the property, after we receive a 9.0% priority return of capital, during a specified time period as defined in the loan modification document. The property is currently 77% leased.

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Lake Brandt - On November 2, 2012 we acquired for a purchase price of \$17,500,000 a 284 unit multi-family property located in Greensboro, North Carolina. The purchase price consisted of approximately \$3,900,000 of cash and the assumption of \$13,600,000 of indebtedness. The assumed debt is a non-recourse mortgage loan which bears interest at 6.22% per annum, matures on August 1, 2016 and requires payments of interest only.

Houston, Texas Operating Property – Non-Controlling Interest – During the fourth quarter of 2012 we conducted a tender offer to acquire additional limited partner units in 5400 Westheimer Holding LP (“Westheimer”). Westheimer is a consolidated entity which holds title to a 100% leased, 614,000 square foot office property located in Houston, Texas. In connection with the tender offer we acquired an additional 5.5 limited partner units representing 22% of Westheimer for a purchase price of \$1,650,000 (\$300,000 per unit). The units were acquired effective November 30, 2012. As a result of this transaction, we now own 30% of Westheimer.

Operating Property Acquisitions through our Equity Investments

Sullivan Center – Equity Investment Operating Property – On February 3, 2012 we entered into a joint venture arrangement with Elad Canada Inc. (“Elad”) pursuant to which two joint venture entities, WRT-Elad Lender LP and WRT-Elad Equity LP (collectively “WRT-Elad”), were formed to acquire for approximately \$128,000,000 an existing \$140,300,000 first mortgage loan and accrued interest of \$6,886,000 (the “Prior Mortgage Loan”). The Prior Mortgage Loan was secured by the 942,000 square foot, office and retail property located at One South State Street in downtown Chicago, Illinois (“Sullivan Center”). Concurrently, the loan was restructured into a \$100,000,000 non-recourse mortgage loan provided by a third party lender, a \$47,458,000 mezzanine loan made to One South State Street Investors, L.L.C. (“OSSS”) and held by WRT-Elad and a 65% future profits participation in favor of WRT-Elad in OSSS. We contributed a total of \$24,201,000 for a 50% interest in WRT-Elad which consolidates the operations of OSSS.

Mentor Building – Equity Investment Operating Property - On May 10, 2012 we acquired for \$300,000 a 20% interest in the entity which owns the Mentor Building located in Chicago, Illinois. The interest was purchased from a third party member and we simultaneously made a \$200,000 capital contribution to acquire an additional interest in the entity which resulted in a 49.9% aggregate equity investment for \$500,000.

Vintage Housing Holdings LLC – Equity Investment and Preferred Equity Investment - On June 1, 2012 we contributed an additional \$5,500,000 to our Vintage Housing Holdings LLC (“VHH”) equity investment platform consisting of \$1,500,000 in common equity and \$4,000,000 in preferred equity with a 12% return. In connection with the transaction, VHH acquired a general partner interest and development fees relating to a residential development project referred to as Vintage at Urban Center, a tax credit apartment community in Lynwood, Washington with a proposed village development of 395 multi-family rental units and 4,000 square feet of retail space.

On November 8, 2012 we made an additional \$750,000 preferred equity investment in VHH. The contribution was used by VHH to acquire the general partner interest in a residential development project referred to as Quilceda Creek, a tax credit apartment community in Marysville, Washington with a proposed development of 204 residential units.

701 Seventh Avenue – Equity Investment Operating Property – On October 16, 2012 we entered into a joint venture to acquire and redevelop a 120,000 square foot property and associated air rights located at 701 Seventh Avenue in New York City. The property is on the northeast corner of Seventh Avenue and 47th Street in Times Square. The proposed redevelopment will include an expansion of the retail space to approximately 80,000 square feet, installation of an approximately 22,000 square foot state of the art LED sign, and potential development of a hotel. We made an initial contribution of \$28,971,000 on a preferred equity basis to acquire a 60.9% interest in the venture. We have committed to invest up to \$68,000,000 on a preferred equity basis.

Wateridge Pavilion – Equity Investment Operating Property – On December 21, 2012 we entered into a venture with Fenway Properties pursuant to which the venture acquired for \$9,200,000 a 62,152 square foot class B office building located in Sorrento Mesa (San Diego), California. We contributed a total of \$7,522,000 of which \$6,000,000 is a preferred equity investment which entitles us to a 12% priority return which is to be paid 8% currently from operating cash flow and the remaining 4% is deferred. The additional \$1,522,000 was contributed for a 50% common equity interest in the venture.

Operating Property Disposition Activity

Churchill – Operating Property - On May 14, 2012 we sold the portion of the Churchill, Pennsylvania property that was not leased to Westinghouse for \$914,000. We agreed to provide financing to the buyer to cover property operating expenses. At

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closing, we provided \$324,000 of financing to cover buyers expenses and real estate taxes due. An additional \$179,000 was advanced in each of August 2012 and November 2012 directly to the taxing authority to cover real estate taxes due on the sold parcel. At December 31, 2012 the total loan outstanding was \$683,000. The loan is interest only and bears interest at LIBOR plus 3.75%, matures on June 1, 2015 and is collateralized by the property.

Memphis (Kroger) - Operating Property – The Kroger Co., a tenant which net leased 100% of the space of our Memphis, Tennessee retail property, vacated the building in October 2011 but continued to pay rent as contractually required. On September 28, 2012, the Kroger Co. terminated its lease and paid a cancellation fee of \$600,000. On the same date, we sold the Memphis property for \$600,000 to a third party buyer.

Indianapolis (Circle Tower) - Operating Property - On September 28, 2012 we sold our Indianapolis, Indiana property referred to as Circle Tower for approximately \$6,300,000. A portion of the proceeds of the sale were used to satisfy the \$4,655,000 first mortgage on the property.

Operating Property Dispositions through our Equity Investments

Marc Realty – Sale of Equity Investment Operating Properties – During 2012 we sold our equity investments in six of our Marc Realty joint ventures to Marc Realty, our joint venture partner. Details of the sales are as follows:

- On March 1, 2012 we sold our 50% interest in the property located at 3701 Algonquin Road, Rolling Meadow, Illinois for \$250,000.
- On May 31, 2012 we sold our 50% equity interests in River Road LLC (Des Plaines, Illinois), Salt Creek LLC (Schaumburg, Illinois) and 900 Ridgebrook LLC (Northbrook, Illinois) for \$1,000,000, \$0 and \$1,100,000, respectively.
- On May 31, 2012 we sold our 50% equity interest in Michigan 30 LLC (Chicago, Illinois) for \$10,300,000. The purchase price was financed with a \$6,550,000 secured promissory note which bore interest at 10% per annum, required payments of interest only and matured on May 31, 2015. This note was fully satisfied on August 3, 2012.
- On November 30, 2012 we sold our 70% equity investment in 180 North Michigan (Chicago, Illinois) for \$7,200,000. The purchase price was paid \$2,000,000 in cash and the remainder was financed with a \$5,200,000 secured promissory note which bears interest at 8.25% per annum, requires monthly payments of interest only and matures on December 1, 2015.

Operating Property Financing Activity

Waterford Place - Operating Property - On July 19, 2012 we obtained a \$13,500,000 first mortgage loan collateralized by our 320 Unit Class A multi-family Memphis, Tennessee (Waterford Place) property that was acquired on April 17, 2012. The loan bears interest at LIBOR plus 2.5% annually with a LIBOR floor of 0.5%, requires monthly payments of principal and interest and matures on August 1, 2014, subject to two, one-year extensions. On the same date we purchased an interest rate cap which caps LIBOR at 0.5%. The loan will have an outstanding balance at the initial maturity date of \$12,928,000.

Newbury Apartments – Operating Property – On October 2, 2012 we refinanced the first mortgage debt on our 180 unit multi-family property located in Meriden, Connecticut. The new loan has a principal amount of \$21,000,000, bears interest at 3.95% per annum and matures on October 2, 2022. The loan requires payments of interest only for the first 24 months and then payments of principal and interest for the remaining term. After repayments on the existing debt and settlement expenses we received net proceeds of approximately \$7,308,000.

701 Arboretum – Operating Property - On October 2, 2012 we fully satisfied our mortgage loan payable of \$1,657,000 collateralized by our Lisle, Illinois property referred to as 701 Arboretum.

223 West Jackson - Equity Investment - On July 2, 2012 together with Marc Realty, we each contributed \$3,524,000 to our unconsolidated joint venture investment property located at 223 West Jackson in Chicago, Illinois. The proceeds were used to pay off the existing first mortgage loan collateralized by this property. On September 25, 2012 the joint venture obtained a \$9,500,000 first mortgage on this property. As a result of the financing we received a return of capital cash distribution of \$3,524,000.

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Operating Property Leasing Activity

Westheimer - On September 17, 2012 Westheimer executed a lease amendment with the existing net lease tenant, Spectra Energy, which leases the entire 614,000 square foot premises. The initial lease was signed in 2004 and was scheduled to expire April 30, 2018. The new lease extends the lease through April 30, 2026. The Westheimer property is encumbered by a mortgage with a maturity date of April 2016. Negotiated annual lease payments on the modified lease remain unchanged (\$7,974,000 to \$8,255,000 annually) through the maturity date of the mortgage debt, then the base rate decreases to \$4,260,000 annually, subject to annual increases thereafter up to \$5,478,000 in annual rent.

Crossroads I - On September 5, 2012 we executed a new lease with Hitachi Data Systems for 53,000 square feet of the Crossroads I office property located in Englewood, Colorado. The lease was negotiated for a ten year lease term commencing in March 2013 at market rates. As a result of leasing activity the Crossroads I property is 90% leased at December 31, 2012.

Loan Assets

The following table sets forth certain information relating to our loans receivable, and loan securities carried at fair value. All information presented is as of December 31, 2012 (in thousands).

Name	Loan Position	Asset Type	Location	Stated Interest Rate (1)	Carrying Amount (2)	Par Value	Maturity Date (3)	Senior Debt (4)
<u>Loans Receivable</u>								
1515 Market Street*	Whole loan	Office	Philadelphia, PA	5.828%	\$ 58,650	\$70,000	01/09/12	\$ —
Hotel Wales	Whole loan	Hotel	New York, NY	LIBOR + 4% (6)	20,101	20,000	10/05/14	—
Shops at Wailea *	B Note	Retail	Maui, HI	6.150%	5,376	7,692	10/06/14	108,055
Legacy Orchard	Secured	Corporate Loan	n/a	15.00%	9,750	9,750 (5)	10/31/14	—
Renaissance Walk	Mezzanine	Mixed use	Atlanta, GA	LIBOR + 12%	3,000	3,000	01/01/15	4,000
San Marbeya	Whole loan	Multi-Family	Tempe, AZ	5.88%	27,149	29,903	01/01/15	—
Fenway Shea *	Whole loan	Office	Phoenix, AZ	12.00%	2,273	2,250	04/05/15	—
127 W 25th Street*	Mezzanine	Mixed use	New York, NY	14.00%	8,687	8,583	04/30/15	35,180
Churchill *	Whole loan	Mixed use	Churchill, PA	LIBOR + 3.75%	683	683	06/01/15	—
Queensridge Towers *	Whole loan	Multi-Family	Las Vegas, NV	LIBOR + 11.5% (7)	39,170	38,771	11/15/15	—
180 N. Michigan *	Mezzanine	Office	Chicago, IL	8.25%	5,237	5,200	12/01/15	17,090
Rockwell	Mezzanine	Industrial	Shirley, NY	12.00%	323	1,489	05/01/16	16,560
500-512 7th Ave	B Note	Office	New York, NY	7.19%	10,009	11,146	07/11/16	244,887
Pinnacle II *	B Note	Office	Burbank, CA	6.313%	4,652	5,131	09/06/16	84,701
Poipu Shopping Village *	B Note	Retail	Kauai, HI	6.618%	1,948	2,854	01/06/17	28,856
Disney Building *	B Note	Office	Burbank, CA	5.897%	9,043	10,000	04/06/17	135,000
Wellington Tower	Mezzanine	Mixed use	New York, NY	6.79%	2,687	3,502	07/11/17	22,500
Mentor Building*	Whole loan	Retail	Chicago, IL	10.00%	2,512	2,497	09/10/17	—
					<u>\$211,250</u>			
<u>Loan Securities</u>								
WBCMT 2007 WHL8	CMBS	Hotel	Various	LIBOR + 1.75%	\$ 11	1,130	06/09/12	1,231,544
					<u>\$ 11</u>			
<u>Loans in Equity Investment (8)</u>								
Stamford Office *	Mezzanine	Office	Stamford, CT	LIBOR + 3.25%	\$ 8,501	9,400	08/06/14	400,000
10 Metrotech *	Whole	Office	Brooklyn, NY	9.00%	10,845	13,333	08/06/14	—
					<u>\$ 19,346</u>			

* *Loan Asset was acquired in 2012. Additional loan asset details are described below.*

- (1) Represents contractual interest rates without giving effect to loan discount and accretion. The stated interest rate may be significantly different than our effective interest rate on certain loan investments.
- (2) Carrying amount includes all applicable accrued interest and accretion of discount.
- (3) After giving effect to all contractual extensions.
- (4) Debt which is senior in payment and priority to our loan.
- (5) Par Value is presented at the borrowers discounted payoff option (DPO) amount.
- (6) Minimum rate of 7.0%.
- (7) Minimum rate of 12.0%.
- (8) Does not include our equity interests in Concord, RE CDO Management and WRT-Elad.

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Loan Asset Acquisition Activity

Mentor Building – Loan Asset - On March 6, 2012 we purchased a first mortgage loan at par for \$2,521,000 with a fixed interest rate of 7.5% per annum, required monthly payments of principal and interest, and a maturity date of September 10, 2012. The loan is collateralized by a 6,571 square foot retail condominium building known as the Mentor Building located in Chicago, Illinois which is adjacent to the Sullivan Center property held by our WRT-Elad joint venture. On May 10, 2012, we modified the terms of the loan increasing the interest rate to 10% per annum, requiring payments of interest only and extending the maturity date to September 10, 2017.

Broward Financial Center – Loan Asset - On May 23, 2012 we acquired for approximately \$42,800,000 a matured first mortgage loan with a face value of \$42,098,000 collateralized by a 326,000 square-foot commercial building located at 500 East Broward Boulevard, Ft. Lauderdale, Florida, containing approximately 47,000 square feet of retail space and 279,000 square feet of office space. Following the acquisition of this loan, we entered into a modification with the borrower, pursuant to which the maturity date was extended until October 15, 2012, the interest rate was increased to 9.836% per annum and the borrower made a payment of approximately \$12,800,000, which reduced the outstanding principal balance of the loan to \$30,000,000. This loan was repaid in full on October 9, 2012.

B-Note Portfolio Acquisition – On September 27, 2012 we acquired for approximately \$20,696,000 a portfolio of four performing B-Note loan assets with an aggregate par value of approximately \$25,725,000. The loans are collateralized by four separate office and retail assets located in California and Hawaii as follows:

- *Burbank Centre* - We acquired for \$9,000,000 a performing B Note with a face value of \$10,000,000 collateralized by a 421,990 square foot Class A office building located in Burbank, California that is currently 100% leased to Walt Disney Company affiliates with leases expiring in 2014 and 2017. The loan bears interest at 5.897% per annum, requires monthly payments of interest only and matures in April 2017. The B Note is subordinate to \$135,000,000 of senior financing. On January 25, 2013 we sold this loan to an affiliate of the borrower for \$9,000,000.
- *Pinnacle II* - We acquired for approximately \$4,631,000 a performing B Note with a face value of \$5,145,000 collateralized by a 230,000 square foot Class A office building located in Burbank, California that is currently 100% leased to Warner Brothers through 2021. The loan bears interest at 6.313% per annum, requires monthly payments of principal and interest, and matures in September 2016. The B Note is subordinate to \$84,701,000 of senior financing.
- *The Shops at Wailea* - We acquired for approximately \$5,154,000 a performing B Note with a face value of \$7,719,000 collateralized by 166,000 square feet of premier shopping and dining establishments, with more than 70 boutiques, shops, restaurants and galleries located on the island of Maui, Hawaii. The property is 97% leased. The loan bears interest at 6.15% per annum, requires monthly payments of principal and interest, and matures in April 2017. The B Note is subordinate to \$108,055,000 of senior financing.
- *Poipu Shopping Village* - We acquired for approximately \$1,911,000 a performing B Note with a face value of \$2,861,000 collateralized by 40,800 square feet of retail space on the island of Kauai, Hawaii. The property is 97% leased. The loan bears interest at 6.618% per annum, requires monthly payments of principal and interest and matures in January 2017. The B Note is subordinate to \$28,856,000 of senior financing.

1515 Market Street – Loan Asset – On December 12, 2012 we acquired for \$58,650,000 a \$70,000,000 non-performing first mortgage loan collateralized by a 20 story, 514,000 square foot office building located in Philadelphia, Pennsylvania. The loan was in maturity default and was accruing interest at the default rate of 10.83% per annum. On February 1, 2013 in lieu of foreclosing, we restructured the loan to increase the outstanding principal balance to \$71,629,000 (which included accrued and unpaid interest and expenses and an additional advance of \$925,000), adjust the interest rate to be the greater of 7.5% per annum or LIBOR plus 6.5%, extend the maturity date to February 1, 2016 and provide for a 40% participation in all capital event proceeds. In addition, we acquired for \$10,000 an indirect 49% interest in the property and became the general partner of the property owner.

Loan Asset Origination Activity

Fenway Shea – Loan Asset - On April 5, 2012 we originated a \$2,250,000 first mortgage loan which bears interest at 12% per annum and matures on April 5, 2014, with one, one-year extension right. The loan requires monthly payments of interest only with a balloon payment due at maturity. The loan is collateralized by a 45,655 square foot, two-story multi-tenant office building located at 4545 East Shea Boulevard, Phoenix, Arizona.

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127 West 25th Street – Loan Asset - On May 14, 2012 we originated a \$9,000,000 mezzanine loan collateralized by 100% of the member interests in the entity that holds title to the 104,000 square foot, 12-story building located at 127 West 25th Street, Manhattan, New York. The loan bears interest at a rate equal to the greater of 14% per annum or LIBOR plus 10%, requires payment of principal and interest and matures on April 30, 2015. The loan is subordinate to a mortgage loan of \$35,180,000 which bears interest at a rate of 4.5% per annum and requires payments of interest only. On March 1, 2013 this loan was repaid in full.

Queensridge Towers – Loan Asset – On November 15, 2012 we originated a \$40,000,000 first mortgage loan collateralized by 67 luxury condominium units at Queensridge Towers located in Las Vegas, Nevada. The loan bears interest at LIBOR plus 11.5% with a LIBOR floor of 0.5%, requires monthly payments of interest only and matures on November 15, 2014, subject to one twelve month extension. Principal payments are required to be made based on predetermined release prices upon the sale of the individual units. During 2012 we received aggregate principal payments of \$1,230,000 on this loan.

Simultaneously with the loan origination, we obtained a \$25,000,000 loan from KeyBank National Corporation (“KeyBank”) which is collateralized by the Queensridge Towers loan. The KeyBank loan bears interest at LIBOR plus 4%, requires monthly payments of interest only and is co-terminus with the Queensridge Towers loan. Principal payments are required to be made in accordance with principal payments received on the Queensridge Towers loan. As such, during 2012 we made aggregate principal payments of \$1,230,000. The KeyBank loan is recourse to us and our wholly owned operating partnership.

Loan Asset Repayment Activity

160 Spear Street – Loan Asset - On May 9, 2012 our 160 Spear loans receivable with a par value of \$19,645,000 were paid off at par by the borrower. Our outstanding investment in these loans prior to payoff was \$8,054,000.

Magazine - Loan Asset - On May 9, 2012 our Magazine loan receivable with a par value of \$20,000,000 was paid off at par by the borrower. Our outstanding investment in this loan prior to payoff was \$17,525,000.

Loan Asset Activity through our Equity Investments

Southern California Office Portfolio – Equity Investment Loan Asset– On January 6, 2012 our venture that holds the \$117,900,000 C Note in a \$798,000,000 first mortgage encumbering a 4,500,000 square foot 31 property office portfolio in southern California (the “SoCal Loan”), obtained a \$40,000,000 recourse repurchase facility (the “Facility”) with an affiliate of Blackstone Real Estate Debt Strategies. The Facility bore interest at LIBOR plus 11% per annum with a LIBOR floor of 1%. The SoCal Loan venture received net proceeds of approximately \$38,100,000 after origination fees, interest reserves and closing expenses, which was distributed entirely to us in partial redemption of our interest in the SoCal Loan venture resulting in a decrease in our ownership interest from approximately 73% to approximately 56%.

On April 6, 2012 WRT-SoCal Lender LLC (“SoCal Lender”), a consolidated joint venture that holds an interest in the SoCal Loan venture, amended and restated its operating agreement to allow for the admission of IX SoCal Holdings LP (“Starwood”) as a member. Starwood contributed \$3,500,000 for a 10.2178% interest in SoCal Lender. We received a special distribution from SoCal Lender equal to Starwood’s contribution. As a result, we owned a 50.2% effective interest in the SoCal Loan investment on a fully-diluted basis for a net investment of \$29,754,000.

On September 28, 2012 SoCal Loan received a loan payoff at par by the borrower. After repayment of the related repurchase agreement, we received \$38,407,000 in cash proceeds.

Stamford Portfolio – Equity Investment Loan Asset – On February 17, 2012 we invested \$8,036,000 and acquired a 20% interest in a venture with Mack-Cali Realty Corporation that acquired for \$40,000,000 a senior mezzanine loan with a face value of \$50,000,000. The venture’s investment is subordinate to \$400,000,000 in senior debt. The loan provides for a credit to the borrower of up to \$3,000,000 of any principal proceeds above \$47,000,000. The loan bears interest at LIBOR plus 3.25% per annum and matures on August 6, 2013, subject to one one-year extension. The loan is collateralized by the equity interests in a seven building portfolio containing 1,670,000 square feet of Class A office space and 106 residential rental units totaling 70,500 square feet, all located in the Stamford, Connecticut Central Business District.

RE CDO Management - Additional Equity Investment – During March 2012 we and our joint venture partner in RE CDO Management LLC (“RE CDO”) each contributed \$550,000 to the joint venture. RE CDO acquired a 5.52% interest in (i) a first priority mortgage loan collateralized by land located in Las Vegas, Nevada (the “Land”), which loan bears interest at LIBOR plus 40% with a current pay rate of 7.5% and the balance accruing and compounding and which had an outstanding

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balance of \$18,218,000 at March 30, 2012, (ii) a second priority mortgage loan collateralized by the Land which bears interest at 10% per annum, all of which accrues, and which had an outstanding balance of \$32,177,000 at March 30, 2012 and (iii) a 5.52% membership interest in the entity that was formed to acquire the Land.

10 Metrotech – Equity Investment Loan Asset - On April 18, 2012 we funded \$75,000 for a 33.33% interest in a joint venture (“10 Metrotech JV”). These funds were used to acquire from Sorin Real Estate CDO IV Ltd., a \$21,000,000, B Participation in the whole loan secured by a 364,968 square foot, seven story, Class B/C office building on a 0.58 acre land parcel in Brooklyn, New York referred to as 10 Metrotech. On August 6, 2012 10 Metrotech JV acquired the \$39,300,000 senior participation in the loan secured by 10 Metrotech for \$32,500,000. As a result of these transactions, 10 Metrotech JV now holds the entire mortgage loan. Following consummation of the acquisition, 10 Metrotech JV entered into a forbearance agreement with the borrower pursuant to which, among other things, (i) the interest rate on the loan was increased to 9%, (ii) the principal amount of the loan was reset to \$40,000,000 and (iii) 10 Metrotech JV agreed to forbear from foreclosing on the property pursuant to the current maturity default for two years, subject to any further defaults by the borrower.

Concord - Additional Equity Investment - On May 1, 2012 we acquired from Lexington Realty Trust its 33.33% interest in both Concord Debt Holdings LLC (“Concord”) and CDH CDO LLC (“CDH CDO”) and its 50% interest in the collateral manager of Concord Real Estate CDO 2006-1, Ltd. for an aggregate purchase price of \$7,000,000. As a result, we now hold a 66.67% interest in both Concord and CDH CDO and 100% of the economics of the collateral manager. In the event of a sale of our interest in CDH CDO or our interest in the collateral manager, additional proceeds may be payable to Lexington Realty Trust if the sales price exceeds the purchase price paid by us.

Riverside – Equity Investment Loan Asset - On September 18, 2012 our 50% owned joint venture WRT-ROIC Riverside LLC, which held an investment in a loan collateralized by Riverside Plaza retail property received a loan pay off at par by the borrower. We received \$7,800,000 in cash proceeds from this loan which was originally purchased at par.

REIT Securities

During the first half of 2012 we acquired an additional 1,054,686 shares of common stock in Cedar Realty Trust, Inc. (“Cedar”) for an aggregate purchase price of approximately \$5,038,000. Accordingly, as of June 30, 2012 we held 6,250,716 shares of common stock in Cedar representing approximately 8.7% of Cedar’s total outstanding common stock. On October 18, 2012 we sold approximately 52% of our holdings of Cedar in a block sale at a price of \$5.28 per share. As of December 31, 2012 we held 3,000,716 shares of common stock, or approximately 4.2% of Cedar.

Also during 2012 we sold all of our remaining REIT preferred share holdings and received net proceeds of \$4,302,000.

At December 31, 2012 our investments in REIT securities consisted of the following (in thousands):

	Cost	Fair Value
REIT Common Shares	\$15,876	\$19,964
	<u>\$15,876</u>	<u>\$19,964</u>

Revolving Line of Credit

On March 3, 2011 we amended our existing revolving line of credit with KeyBank National Association such that (i) the maximum borrowing was increased to \$50,000,000 with an accordion feature of up to \$150,000,000 and (ii) the maturity date was extended to March 2014 with an option to extend the maturity date to March 2015. The amended credit facility bears interest at LIBOR plus 3%.

Employees

As of December 31, 2012 we had no employees. Our affairs are administered by our Advisor pursuant to the terms of an advisory agreement which on February 1, 2013 was amended and restated to, among other things, extended the term for five years (subject to earlier termination by us for both cause (as defined) and without cause), modified the required return on the threshold amount for which the incentive fee is payable as discussed below and provided for a supplemental fee payable to our Advisor in the event of an early termination of the advisory agreement under certain circumstance or on the liquidation or disposition of the Trust. We refer to the advisory agreement, as the same may be amended from time to time, as the “Advisory Agreement.”

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Under the Advisory Agreement, we pay to our Advisor a quarterly base management fee equal to 1.5% of (i) the issuance price of our outstanding equity securities plus (ii) 0.25% of any equity contribution by an unaffiliated third party to a venture managed by us. The Advisory Agreement provides that any dividends paid on account of Common Shares that result in a reduction of the threshold amount (as described below) at the date of our liquidation or disposition are deemed a reduction in the aggregate issuance price of the Common Shares, thereby resulting in a reduction of the base management fee. In addition to receiving a base management fee, our Advisor is entitled to receive an incentive fee for administering the Trust and, in certain instances, a supplemental fee upon an early termination of the Advisory Agreement under certain circumstances or the liquidation or disposition of the Trust. Further, our advisor, or its affiliate, is also entitled to receive property management fees and construction management fees at commercially reasonable rates.

The incentive fee is equal to 20% of any amounts available for distribution in excess of the threshold amount and is only payable at such time, if at all, (i) when holders of our Common Shares receive aggregate dividends above the threshold amount or (ii) upon termination of the Advisory Agreement, if the net value of our assets exceeds 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 dividends in excess of the threshold amount (set at \$534,224,000 on December 31, 2012 plus the issuance price for any equity interests in the Trust issued from and after January 1, 2013 plus an annual return thereon equal to the greater of (x) 4% or (y) the 5 year U.S. Treasury Yield plus 2.5% (such return, the “Growth Factor”) less any dividends paid from and after January 1, 2013). The incentive fee will also be payable if the Advisory Agreement is terminated, other than for cause (as defined) by us or with cause by our Advisor, and if on the date of termination the net value of the Trust’s assets exceeds the threshold amount. At December 31, 2012 the threshold amount required to be distributed before any incentive fee would be payable to FUR Advisors was \$534,224,000, which was equivalent to \$16.18 per diluted Common Share.

With respect to the supplemental fee, it is only payable if there is (i) a termination of the Advisory Agreement for any reason other than for cause (as defined) by us or with cause by our Advisor, (ii) a disposition of all or substantially all of our assets, or (iii) an election by us to orderly liquidate our assets. The supplemental fee, if payable, is equal to the lesser of (i) the base management fee paid to our Advisor for the prior twelve month period or (ii) either (x) in the case of a termination of the Advisory Agreement, 20% of the positive difference, if any between (A) the appraised net asset value of our assets at the date of termination and (B) the threshold amount less \$104,980,000, or (y) in the case of a disposition or liquidation, 20% of any dividends paid on account of our Common Shares at such time as the threshold amount is reduced to \$104,980,000, which will be achieved at such time as aggregate distributions of approximately \$13.00 in excess of the Growth Factor have been paid. For example, if the Trust had been liquidated at January 1, 2013, the supplemental fee would only have been payable if total dividends of approximately \$13.00 per Common Share had been paid, and then only until the total supplemental fee paid would have equaled \$8,953,000 (the base management fee for calendar 2012), which amount would be achieved when total dividends paid per Common Share equaled approximately \$14.36.

In the event that the supplemental fee is payable in connection with a disposition, the entire fee is payable upon such disposition. In all other cases where the supplemental fee is payable, we are permitted to defer payment of the first \$3,000,000 of the supplemental fee for 30 days and the balance, if any, for a period of six months. If it is determined that the supplemental fee is less than \$3,000,000, our Advisor is obligated to promptly return to us the difference between the \$3,000,000 paid to it and the actual supplemental fee.

Upon the termination of the Advisory Agreement in connection with a disposition, all the fees payable to our Advisor are required to be paid in immediately available funds. In all other cases where the Advisory Agreement is terminated, we are required to pay the supplemental fee, if any, in immediately available funds and the incentive fee, if any, may be paid in a number of freely tradable Common Shares (subject only to standard securities law restrictions) equal to the amount due to our Advisor divided by the greater of (x) the closing price for the Common Shares on the date of termination of the Advisory Agreement or (y) \$11.05 (which was the closing price of the Common Shares on December 31, 2012).

In connection with the modifications entered into in February 2013 with respect to the Advisory Agreement, we issued to Michael L. Ashner, our Chairman and Chief Executive Officer, and Carolyn Tiffany, our President, 66,667 and 33,333 restricted Common Shares, respectively, which Common Shares were issued under our 2007 Long Term Incentive Plan. In addition, our Board has authorized the issuance of an additional 500,000 restricted Common Shares which will be issued at such time, if at all, as we are authorized to issue additional restricted Common Shares to our officers, our Advisor and

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employees of our Advisor or its affiliates that provide services to us. The Common Shares issued to Mr. Ashner and Ms. Tiffany and, if and when issued, the additional Common Shares, are subject to the following restrictions:

- The Common Shares awarded to any person will be forfeited if such person does not remain in continuous service with our Advisor through January 1, 2018.
- The Common Shares will immediately vest and no longer be subject to forfeiture on the earlier of (i) January 1, 2018, (ii) upon a change in control, (iii) if the Advisory Agreement is terminated by us for any reason other than cause, or by our Advisor for cause, or (iv) the death or disability of the holder. Change in control is defined as the occurrence of any of the following, in one transaction or a series of related transactions: (1) any “person” (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) becoming a “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of our securities representing more than 50% of the voting power of our then outstanding securities; (2) our consolidation, equity exchange, reorganization or merger resulting in our equity holders immediately prior to such event not owning at least a majority of the voting power of the resulting entity’s securities outstanding immediately following such event; (3) the sale or other disposition of all or substantially all of our assets; or (4) our dissolution.
- So long as the Common Shares awarded are subject to forfeiture, our secretary has the sole and exclusive right to exercise all voting rights with respect to the awarded Common Shares.
- Until the Common Shares awarded are no longer subject to forfeiture, all cash dividends payable thereon will be payable as follows: (i) the holder will receive a portion of the dividend equal to (i) five percent, multiplied by (ii) the number of full calendar quarters that have transpired between January 1, 2013 and the applicable dividend payment date, less any required tax withholding and (ii) the remaining portion of the dividend will be held by us in escrow and will only be paid to the holder thereof if and when the Common Shares awarded are no longer subject to forfeiture. If the Common Shares awarded are forfeited, then the dividends held in escrow will similarly be forfeited.

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. 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 21.

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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.

New York Stock Exchange Certification

As required by applicable New York Stock Exchange listing rules, on May 8, 2012, following our 2012 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.

Risks incidental to 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 properties, 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;
- fluctuations in interest rates;
- reduced 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;

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- 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.

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 dividends 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 pay dividends.

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

As of December 31, 2012, we had approximately \$97.7 million of cash and cash equivalents available for investment. Our ability to increase our overall net worth 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 returns in excess of our cost of capital.

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

As a REIT, we are in a capital intensive business that is dependent primarily on third party debt and equity 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. Access to third party capital sources depends, in part, on general market conditions, the market's perception of our growth potential, our current and expected future earnings, our cash flow and the market price of our Common Shares. Additionally, we may not be able to obtain debt or equity financing on favorable terms. Accordingly, if we cannot obtain capital from third parties or if such access is on unfavorable terms, 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 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 and maintain effective internal controls over financial reporting 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.

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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 face risks associated with property acquisitions.

We acquire properties and portfolios of properties, including large portfolios that would increase our size and potentially alter our capital structure. Although we enter into these acquisitions with the belief that they will enhance our future financial performance, the success of such transactions is subject to a number of factors, including the risk that:

- we may not be able to obtain financing for acquisitions on favorable terms;
- acquired properties may fail to perform as expected;
- the actual costs of repositioning or redeveloping acquired properties may be higher than our estimates;
- acquired properties may be located in new markets where we may have limited knowledge and understanding of the local economy, an absence of business relationships in the area or unfamiliarity with local governmental and permitting procedures; and
- we may not be able to efficiently integrate acquired properties, particularly portfolios of properties, into our organization and manage new properties in a way that allows us to realize cost savings and synergies.

In the future we may acquire properties or portfolios of properties through tax deferred contribution transactions in exchange for partnership interests in our Operating Partnership. This acquisition structure has the effect, among other factors, of reducing the amount of tax depreciation we can deduct over the tax life of the acquired properties, and typically requires that we agree to protect the contributors' ability to defer recognition of taxable gain through restrictions on our ability to dispose of the acquired properties and/or the allocation of partnership debt to the contributors to maintain their tax bases. These restrictions on dispositions could limit our ability to sell an asset during a specified time, or on terms, that would be favorable absent such restrictions.

Acquired properties may subject us to known and unknown liabilities.

Properties that we acquire may be subject to known and unknown liabilities for which we would have no recourse, or only limited recourse, to the former owners of such properties. As a result, if a liability were asserted against us based upon ownership of an acquired property, we might be required to pay significant sums to settle it, which could adversely affect our financial results and cash flow. Unknown liabilities relating to acquired properties could include:

- liabilities for clean-up of pre-existing disclosed or undisclosed environmental contamination;
- claims by tenants, vendors or other persons arising on account of actions or omissions of the former owners of the properties; and
- liabilities incurred in the ordinary course of business.

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 of December 31, 2012, our 13 single tenant properties, containing an aggregate of approximately 2,238,000 square feet of space are net leased to 10 different tenants. Gross leases accounting for approximately 8% of the aggregate annual base rent from our operating properties for 2012, representing approximately 7% of the net rentable square feet at the properties, were scheduled to expire in 2013. 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.

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We are subject to risks associated with the financial condition of our tenants 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 experience increased operating costs, which might reduce our profitability.

Our properties are subject to increases in operating expenses such as for cleaning, electricity, heating, ventilation and air conditioning, administrative costs and other costs associated with security, landscaping and repairs and maintenance of our properties. In general, under our leases with tenants, we pass through all or a portion of these costs to them. There can be no assurance that tenants will actually bear the full burden of these higher costs, or that such increased costs will not lead them, or other prospective tenants, to seek office space elsewhere. If operating expenses increase, the availability of other comparable office space in the geographic markets of our properties might limit our ability to increase rents; if operating expenses increase without a corresponding increase in revenues, our profitability could diminish and limit our ability to pay dividends to shareholders.

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 to pay dividends to holders of our Series D 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, including interest payable on our Senior Notes, reduce the cash available to pay dividends to holders of Series D 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 the ability to obtain replacement financing, to satisfy such repayments.

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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 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 dividends 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. 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 dividends 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 dividend requirements.

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 or our loan assets may be subject to unfavorable treatment in a borrower bankruptcy.

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 or loss on the investment. Further, if a borrower were to file for bankruptcy protection, a plan could be approved over our objection that would extend our loan for a period of time at an interest rate that is less than our cost of funds, thereby having a negative impact on our cash flow.

The subordinate loan assets in which 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 debt holder. 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.

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The widening of credit spreads could have a negative impact on the value of our loan assets 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 many 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.

Deterioration of the credit markets may have 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.

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 affected 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.

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.

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.

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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.

We have significant interest obligations to holders of our Senior Notes and dividend obligations to holders of our Series D Preferred Shares.

The provisions of our Senior Notes require us to pay quarterly interest presently aggregating \$1,671,094 or \$6,684,375 annually. The provisions of our Series D Preferred Shares require us to pay quarterly dividends presently aggregating \$2,786,562 or \$11,146,250 annually before any dividends may be paid on our Common Shares.

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

Debt instruments under which we are an obligor contain customary covenants such as those that limit our ability, without the prior consent of the lender, to further encumber, directly or indirectly, 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 earnings before interest, taxes, depreciation and amortization (which is commonly referred to as “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. In addition, the Indenture governing our Senior Notes provides that it is an event of default under the Indenture if (i) our consolidated leverage ratio (as defined in the Indenture) is equal to or greater than 60% on the last day of any calendar quarter or (ii) subject to certain exceptions, we or any of our consolidated subsidiaries do not pay when due, after the expiration of any applicable grace period, the principal of indebtedness in the aggregate principal amount of \$7,500,000 or more, or the acceleration of our or our consolidated subsidiary’s indebtedness in the aggregate principal amount of \$7,500,000 or more so that it becomes due and payable before the date on which it would otherwise have become due and payable. 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.

Increased market interest rates may hurt the value of our common and preferred shares.

We believe that investors consider the dividend rate on REIT shares, expressed as a percentage of the price of the shares, relative to market interest rates as an important factor in deciding whether to buy or sell the shares. If market interest rates go up, prospective purchasers of REIT shares may expect a higher dividend rate. Higher interest rates would likely increase our borrowing costs and might decrease funds available to pay dividends. Thus, higher market interest rates could cause the market price of our common and preferred shares to decline.

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.

We can issue preferred and Common Shares without common shareholder approval. 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.

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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.

The change of control conversion feature of our Series D Preferred Shares may make it more difficult for a party to take over our company or discourage a party from taking over our company.

Upon the occurrence of a change of control, holders of the Series D Preferred Shares will have the right (unless we timely provide notice of our election to redeem the Series D Preferred Shares) to convert some or all of their Series D Preferred Shares into our Common Shares (or equivalent value of alternative consideration). Upon such a conversion, the holders will be limited to a maximum number of our Common Shares equal to the applicable share cap multiplied by the number of Series D Preferred Shares converted. If the Common Share price is less than \$4.44, subject to adjustment, the holders will receive a maximum of 5.6306 Common Shares per share of Series D Preferred Shares, which may result in a holder receiving a value that is less than the liquidation preference of the Series D Preferred Shares. In addition, the change of control conversion feature of the Series D Preferred Shares may have the effect of discouraging a third party from making an acquisition proposal for our company or of delaying, deferring or preventing certain change of control transactions of our company under circumstances that otherwise could provide the holders of our Common Shares and Series D Preferred Shares with the opportunity to realize a premium over the then-current market price or that shareholders may otherwise believe is in their best interests.

We may fail to remain qualified as a REIT, which would reduce the cash available for dividends 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 dividends paid 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 to pay dividends 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 dividend 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.

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From time to time, we may have taxable income greater than our cash available to pay dividends 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 pay dividends sufficient to enable us to pay out enough of our taxable income to satisfy the REIT dividend 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 New York Stock Exchange depending on a number of factors, including failure to qualify as a REIT, or our not meeting the New York Stock Exchange'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 and the certificate of designations for our Series D Preferred Shares contain ownership limitations that are designed to prohibit any transfer of Common Shares or Series D 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 or Series D Preferred Shares. Our Board of Trustees has waived this ownership limitation in the past where there is believed to be a benefit derived by us from granting such waiver and the party obtaining the waiver provides assurances that the issuance of the waiver will not result in us becoming, or likely becoming, "closely held." Unless the Board of Trustees waives the restrictions or approves a bylaw amendment, Common Shares or Series D Preferred Shares owned by a person or group of persons in excess of 9.8% of our outstanding Common Shares or Series D Preferred 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.

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.

Certain of our subsidiaries are required to comply with the Investment Advisers Act of 1940.

RE CDO Management LLC, an entity in which we hold a 50% economic interest, and WRP-Management LLC, an entity in which we hold a 100% economic interest, are registered as investment advisers under the Investment Advisers Act of 1940, as amended (the "Advisers Act") because they provide collateral management services to private funds as defined under the Advisers Act. As registered investment advisors, these subsidiaries are required to operate in compliance with the Advisers Act which results in increased cost to us. Further, if we were to fail to comply with the Advisers Act, we could be subject to sanctions, up to and including no longer being permitted to provide services to private funds which could have an adverse effect on our results.

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.

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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 effect 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. In 2011 we were conveyed title to the land underlying our Churchill, Pennsylvania property. Prior to the conveyance of the land, a Phase II environmental study was performed. The study found that there were certain contaminants at the property all of which were within permitted ranges. In addition, given the nature and use of the property currently and in the past, it is possible that additional contamination could occur which could require remediation. We believe that based on applicable law and existing agreements any such remediation costs would be the responsibility of a prior owner or tenant.

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 with us 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 supplemental fee and incentive fee payable to our Advisor may be substantial.

Pursuant to the terms of our Advisory Agreement with our Advisor, our Advisor is entitled to receive an incentive fee and, in certain instances, a supplemental 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 dividends above a threshold amount or (ii) upon termination of our Advisory Agreement, if the value of our net 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 net assets of the Trust exceed the threshold amount. At December 31, 2012, the threshold amount required to be distributed before any incentive fee would be payable to FUR Advisors was approximately \$534,224,000 which was equivalent to \$16.18 for each of our Common Shares on a fully diluted basis. The threshold amount required to be distributed before any supplemental fee payable to FUR Advisors was approximately \$429,243,000 which was equivalent to \$13.00 for each of our Common Shares on a fully diluted basis. At such time as shareholders' equity in accordance with generally

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accepted accounting principles exceeds the applicable threshold amount, we will record a liability in our financial statements equal to approximately 20% of the excess of shareholders' equity in accordance with generally accepted accounting principles and the applicable threshold amount.

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

Termination of the Advisory Agreement either by us without cause or by our Advisor for cause may be costly. Upon termination of the Advisory Agreement, our Advisor would be entitled to the incentive fee that would be paid as if we sold all of our assets for an amount based on appraised valuation of our assets assuming we were then liquidated. In addition, unless the Advisory Agreement is terminated by us for cause or by our Advisor without cause, our Advisor will also be entitled to the supplemental fee upon the termination of the Advisory Agreement or the liquidation or disposition of all or substantially all of our assets. The amount payable on termination of the Advisory Agreement, or liquidation or disposition, could be substantial which may have a negative effect on the price of our Common Shares. Further, affiliates of our Advisor hold approximately 11.6% 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 result in other adverse effects to us and the price of our Common Shares.

ITEM 1B – UNRESOLVED STAFF COMMENTS

None.

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ITEM 2 – PROPERTIES

CONSOLIDATED OPERATING PROPERTIES

The following table sets forth a schedule of consolidated operating properties at December 31, 2012. Our portfolio of consolidated properties consists of 23 commercial properties consisting of 3,509,000 square feet and three residential apartment complexes consisting of 784 units.

Description and Location	Year Acquired	Trust's Owner-ship	Rentable Square Feet	(**) % Leased	Major Tenants (Lease /Options Expiration)	Major Tenant Sq. Ft.	(\$000's) Depreciated Cost Basis	Cost per Square Foot or Unit	Owner-ship of Land	(\$000's) Debt Balance	Debt Maturity & Int Rate
Office											
Amherst, NY (2)	2005	100%	200,000	100%	Ingram Micro Systems (2013/2023)	200,000	\$ 16,189	\$ 81	Fee	\$ 15,225	10/2013 5.65%
Andover, MA	2005	100%	93,000	100%	PAETEC Comm. (2022/2037)	93,000	6,912	74	Fee	(1)	(1)
Cerritos, CA	2012	100%	187,000	60%	Marina Medical Billing (2018)	44,000	21,423	115	Fee	23,184	01/2017 5.07%
Chicago, IL (One East Erie)	2005	100%	126,000	94%	The Gettys Group (2012/2016) River North Surgery (2015/ n/a)	13,000 15,000	21,038	167	Fee	20,200	03/2016 5.75%
Chicago, IL (River City / Marc Realty)	2007	60%	253,000	50%	ITAV (2024/2029) MFS/Worldcom (2019/2023)	35,000 60,000	14,719	58	Fee	8,700	04/2015 6.25%
Deer Valley, AZ	2010	100%	82,000	96%	United Healthcare (2017/2027) Premier Research (2016/2026) Southwest Desert Cardiology (2022/2037)	42,000 14,000 9,000	10,600	129	Fee	(1)	(1)
Englewood, CO Crossroads I	2010	100%	118,000	90%	Hitachi Data (2024) RGN-Denver LLC (2015/ 2025)	53,000 17,000	7,554	64	Fee	(1)	(1)
Englewood, CO Crossroads II	2010	100%	118,000	87%	TIC Holdings (2019 / 2044)	74,000	10,419	88	Fee	(1)	(1)
Houston, TX	2004	30%	614,000	100%	Spectra Energy (2018/2028)	614,000	56,919	93	Fee	52,052	04/2016 6.15%

Lisle, IL	2006	100%	169,000	82%	United Healthcare (2014/n/a)	41,000	19,385	115	Fee	5,752	10/2014 Libor+2.5%
Lisle, IL	2006	100%	67,000	1%	No tenants over 10%	—	5,286	79	Fee	—	—
Lisle, IL (Marc Realty)	2006	60%	54,000	100%	Ryerson (2018/2028)	54,000	3,716	69	Fee	5,543	03/2017 5.55%
New York, NY (450 West 14th)	2011	70%	105,000	82%	Alice + Olivia (2021/2031)	27,000	58,438	557	Ground Lease	51,982	05/2016 Libor +2.5%
					Fast Retailing (2026/2036)	23,000					
					Access Industries (2021/2031)	14,000					
Orlando, FL	2004	100%	257,000	100%	Siemens Real Estate, Inc. (2017/2042)	257,000	13,778	54	Ground Lease	37,580	07/2017 6.40%
Plantation, FL	2004	100%	120,000	100%	AT&T Service, Inc. (2020/2035)	120,000	11,121	93	Fee	10,811	04/2018 6.48%
South Burlington, VT	2005	100%	54,000	100%	Fairpoint Comm. (2014/2029)	54,000	2,829	52	Ground Lease	(1)	(1)
Subtotal - Office			2,617,000				\$ 280,326			\$231,029	

(Continued on next page)

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CONSOLIDATED OPERATING PROPERTIES (Continued)

	Description and Location	Year Acquired	Trust's		Rentable Square Feet	(**) % Leased	Major Tenants (Lease /Options Expiration)	Major Tenant Sq. Ft.	(\$000's)	Cost per Square	Owner-	(\$000's) Debt	Debt
			Owner- ship	Depreciated					Foot or Unit	ship of Land	Balance	Maturity & Int Rate	
Retail													
	Atlanta, GA	2004	100%	61,000	100%	The Kroger Co. (2016/2026)	61,000	\$ 1,958	\$ 32	Ground Lease	(1)	(1)	
	Denton, TX	2004	100%	46,000	100%	Diesel Fitness (2016)	29,000	1,775	39	Fee	(1)	(1)	
	Greensboro, NC	2004	100%	46,000	100%	Harbor Freight Tools (2022)	17,000			Ground Lease	(1)	(1)	
	Louisville, KY	2004	100%	47,000	100%	The Kroger Co. (2017/2037)	46,000	3,029	66	Fee	(1)	(1)	
	Seabrook, TX	2004	100%	52,000	100%	The Kroger Co. (2015/2040)	47,000	2,545	54	Fee	(1)	(1)	
						The Kroger Co. (2015/2040)	52,000	1,729	33	Fee	(1)	(1)	
	Subtotal Retail			252,000				\$ 11,036					
Other Warehouse													(1)
	Jacksonville, FL					Football Fanatics							
		2004	100%	588,000	100%	(2015/2024)	561,000	10,426	18	Fee	(1)		
Mixed Use													
	Churchill, PA	2004	100%	52,000	100%	Westinghouse (2024)	52,000	5,745	110	Fee	—	—	
Residential													
	Meriden, CT	2010	100%	180 units	97%	n/a	n/a	23,673	132	Fee	21,000	11/2022 3.95%	
	Memphis, TN	2012	100%	320 units	94%	n/a	n/a	20,896	65	Fee	13,408	08/2014 Libor + 2.5%	
	Greensboro, NC	2012	100%	284 units	92%	n/a	n/a	18,334	65	Fee	15,139	08/2016 6.22%	
	Subtotal - Other			640,000				\$ 79,074			\$ 49,547		
	Total Consolidated Properties			3,509,000				\$ 370,436			\$ 280,576		

(**) Occupancy rates include all signed leases, including space undergoing tenant improvements.

Notes to Consolidated Properties - Selected Data

- (1) These properties collateralize our revolving line of credit.
- (2) The Amherst, New York office property consists of two 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 the ground will vest with us.

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UNCONSOLIDATED OPERATING PROPERTIES

The following table sets forth a schedule of unconsolidated operating properties at December 31, 2012. Our portfolio of unconsolidated properties is accounted for under the equity method of accounting. These properties consist of 11 commercial properties consisting of 3,893,000 square feet and 27 residential apartment complexes consisting of 4,655 units.

	Year Acquired	Trust's Ownership	Rentable Square Feet	(**) % Leased	Major Tenants (Lease / Options Expiration)	Major Tenants Sq. Ft.	(\$000's) Equity Investment Balance	Ownership of Land	(\$000's) Debt Balance (1)	Debt Maturity & Int Rate
<i>Marc Realty Portfolio - Equity Investments</i>										
223 West Jackson Chicago, IL (Brooks Building)	2005	50%	168,000	76%	No tenants over 10%	—	\$ 7,983	Fee	\$ 6,967	09/2017 Libor + 2.75%
4415 West Harrison Hillside, IL (High Point)	2005	50%	192,000	62%	North American Medical Mgmt (2015/2020)	20,400	2,241	Fee	4,432	12/2015 5.62%
1701 E. Woodfield, Schaumburg, IL	2005	50%	175,000	87%	No tenants over 10%	—	1,977	Fee	5,504	09/2015 Libor + 3% (2)
2205-55 Enterprise Westchester, IL	2005	50%	130,000	91%	Consumer Portfolio (2014/2019)	18,900				
					Uro Partners (2015/ NA)	14,500	2,679	Fee	8,966	10/2019 4.30%
<i>Total - Marc Realty Portfolio</i>			<u>665,000</u>				<u>\$ 14,880</u>		<u>\$ 25,869</u>	
<i>Sealy Venture Properties - Equity Investments</i>										
Atlanta, GA (Northwest Atlanta)	2006	60%	472,000	77%	Original Mattress (2020/2025)	57,000	\$ 8,104	Fee	\$ 13,773	09/2015 Libor + 5.35% (3)
Atlanta, GA (Newmarket)	2008	68%	470,000	52%	No tenants over 10%	—	—	Fee	37,000	11/2016 6.12%
Nashville, TN (Airpark)	2007	50%	<u>1,155,000</u>	83%	No tenants over 10%	—	—	Fee	<u>74,000</u>	05/2012 5.77%
<i>Total - Sealy Venture Properties</i>			<u>2,097,000</u>				<u>\$ 8,104</u>		<u>\$ 124,773</u>	
<i>Mentor Retail LLC - Equity Investment</i>										
39 South State Street Chicago, IL	2012	50%	<u>7,000</u>	100%	American Apparel (2022/ NA)	7,000	<u>\$ 551</u>	Fee	<u>\$ 2,497</u>	09/2017 10%

WRT-Elad One South State - Equity Investment

One South State

Street					Target					02/2015
Chicago, IL	2012	50%	<u>942,000</u>	91%	(2038 / 2063)	147,000	<u>\$ 25,104</u>	Fee	<u>\$ 105,575</u>	11%
					Walgreens (2022/2027)	95,000				
					Illinois Dept. of Employment (2014/2019)	243,000				
					Art Institute of Chicago (2020/2030)	153,000				

701 Seventh WRT Investor - Equity Investment

701 Seventh

Avenue										10/2015
New York, NY	2012	61%	<u>120,000</u>		(11)	—	<u>\$ 28,735</u>	Fee	<u>\$ 375,000</u>	LIBOR + 10.20% (4)

WRT-Fenway Wateridge - Equity Investment

10525 Vista

Sorrento

Parkway San

Diego, CA

2012	50%	<u>62,000</u>	94%	Verint Americas (2018 / NA)	6,500	<u>\$ 1,522</u>	Fee	<u>\$ —</u>
				Flores Lund (2017 / NA)	10,000			
				Quidel Corp. (2013 / NA)	11,000			
				Verizon Wireless (2013 / NA)	15,000			

(**) Occupancy rates include all signed leases including space undergoing tenant improvements

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UNCONSOLIDATED OPERATING PROPERTIES - (Continued)

	Year Acquired	Trust's Ownership	Units	% Leased	Ownership of Land	(\$000's) Debt Balance (1)	Debt Maturity & Int Rate (6)	Subordinated Debt (\$000's)	Subordinated Debt Maturity
Vintage Housing Holdings LLC - Equity Investment									
Agave Associates Elk Grove, CA	2011	(5)	188	95%	Fee	\$ 14,600	10/2036 SIFMA + 1.17%	\$ 2,500	12/2036 3.50%
Vintage at Bend Bend, OR	2011	(5)	106	97%	Fee	5,500	12/2036 SIFMA + 1.20%		
The Bluffs Apartments Reno, NV	2011	(5)	300	95%	Fee	18,700	10/2035 SIFMA + 1.38%	8	7/2033 3%
Bouquet Canyon Seniors Santa Clarita, CA	2011	(5)	264	99%	Fee	11,062	7/2028 6.38%		
Vintage at Bremerton Bremerton, WA	2011	(5)	143	91%	Fee	6,200	3/2033 SIFMA + 1.09%		
Vintage at Burien Burien, WA	2011	(5)	101	97%	Ground Lease	6,780	1/2038 SIFMA + 1.47%		
Vintage at Chehalis Chehalis, WA	2011	(5)	150	94%	Fee	8,190	6/2040 SIFMA + 1.62% (7)		
Elk Creek Apartments Sequim, WA	2011	(5)	138	99%	Fee	7,352	11/2039 6.54%		
Vintage at Everett Everett, WA	2011	(5)	259	97%	Fee	16,395	1/2038 SIFMA + 1.44%		
Falls Creek Apartments Couer d' Alene, ID	2011	(5)	170	91%	Fee	8,330	12/2040 6.26%		
Forest Creek Apartments Spokane, WA	2011	(5)	252	95%	Fee	13,680	6/2040 SIFMA + 1.62%		
Hamilton Place Seniors Bellingham, WA	2011	(5)	94	98%	Fee	3,590	7/2033 SIFMA + 1.43%	105	7/2014 5.88%
Heritage Place Apartments St. Ann, MO	2011	(5)	113	95%	Fee	1,776	7/2015 8.37%	506	5/2039 1.0%
Holly Village Apartments Everett, WA	2011	(5)	149	100%	Fee	7,035	7/2032 SIFMA + 1.44%		
Larkin Place Apartments Bellingham, WA	2011	(5)	101	94%	Fee	4,825	7/2033 SIFMA + 1.40%		
Vintage at Mt. Vernon Mt. Vernon, WA	2011	(5)	154	97%	Fee	7,500 1,040	1/2037 SIFMA + 1.65% (8) SIFMA + 1.65% (9)		
Vintage at Napa Napa, CA	2011	(5)	115	96%	Fee	6,043	6/2034 6.21%		
Vintage at Richland Richland, WA	2011	(5)	150	93%	Fee	7,535	1/2038 SIFMA + 1.76%		
Rosecreek Senior Living Arlington, WA	2011	(5)	100	99%	Fee	3,327	12/2037 SIFMA + 0.43%		
Vintage at Sequim Sequim, WA	2011	(5)	118	99%	Fee	6,306	3/2038 SIFMA + 2.30%		
Silver Creek Apartments Pasco, WA	2011	(5)	242	93%	Fee	12,985	1/2018 SIFMA + 1.66%		
Vintage at Silverdale Silverdale, WA	2011	(5)	240	96%	Fee	14,880	9/2039 SIFMA + 2.87% (10)		
Vintage at Spokane Spokane, WA	2011	(5)	287	95%	Fee	16,295	8/2040 SIFMA + 1.37%		
Seven Hills/St Rose Henderson, NV	2011	(5)	244	96%	Fee	14,770	10/2035 SIFMA + 1.37%		
Twin Ponds Apartments Arlington, WA	2011	(5)	134	95%	Fee	5,515 1,297	1/2038 SIFMA + 1.60%		
Vintage at Vancouver Vancouver, WA	2011	(5)	154	98%	Fee	7,725 646	1/2035 SIFMA + 2.16%		
Vista Sonoma Seniors Apts Santa Rosa, CA	2011	(5)	189	94%	Fee	10,050	1/2032 6.562%		
Subtotal - Vintage Properties			4,655	units		\$ 249,929		\$ 3,119	

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UNCONSOLIDATED OPERATING PROPERTIES - (Continued)

Notes to Unconsolidated Operating Properties Table

- (1) Debt balance shown represents the property level debt encumbering the properties.
- (2) An interest rate swap agreement with a notional amount of \$5,632 effectively converts the interest rate to a fixed rate of 4.78%.
- (3) An interest rate cap was purchased that caps LIBOR at 1%.
- (4) There is a LIBOR floor of 1%.
- (5) The Vintage equity investment of \$30,534 represents a 75% interest in Vintage Housing Holdings LLC, an entity which owns the general partnership interests in the properties listed above.
- (6) SIFMA = Securities Industry and Financial Markets Association Municipal Swap Index. Each of the Vintage floating rate debt instruments is subject to an interest rate cap ranging from 5.50% and 8.25%.
- (7) An interest rate swap agreement with a notional amount of \$7,951 effectively converts the interest rate to a fixed rate of 4.68%.
- (8) An interest rate swap agreement with a notional amount of \$7,500 effectively converts the interest rate to a fixed rate of 5.23%.
- (9) An interest rate swap agreement with a notional amount of \$1,039 effectively converts the interest rate to a fixed rate of 5.98%.
- (10) An interest rate swap agreement with a notional amount of \$14,464 effectively converts the interest rate to a fixed rate of 5.70%.
- (11) There are no major tenants as the property is currently in development.

LEASE EXPIRATIONS

The following table sets forth a schedule of lease expirations at our consolidated and unconsolidated properties respectively, with respect to leases in place at December 31, 2012 for each of the next five years and thereafter (assuming that no tenants exercise renewals or cancellation options and that there are no tenant bankruptcies or other tenant defaults). Annual contractual rent under expiring leases represents base rent charges for the year ended December 31, 2012 and does not reflect any straight-line rent adjustments or expense reimbursements. The average annualized revenue per square foot as of December 31, 2012 was \$17.47 for consolidated multi-tenant operating properties and \$8.79 for consolidated single tenant operating properties. Annualized revenue represents contractual base rent for December multiplied by twelve.

The following tables set forth certain information concerning lease expirations:

<u>Year of Lease Expirations</u>	<u>Number of Expiring Leases</u>	<u>Net Rentable Square Feet Subject to Expiring Leases</u>	<u>Percentage of Leased Square Footage Represented by Expiring Leases (%)</u>	<u>Annual Contractual Rent Under Expiring Leases (\$)</u>	<u>Annual Rent Per Leased Square Foot of Expiring Leases (\$)</u>
<i>Consolidated Multi Tenant Operating Properties:</i>					
2013	16	52,000	6%	\$ 875,000	\$ 16.83
2014	19	122,000	14%	1,937,000	15.88
2015	16	67,000	7%	1,218,000	18.18
2016	10	97,000	11%	1,267,000	13.06
2017 and Thereafter	49	562,000	62%	10,426,000	18.55
			<u>100%</u>		
<i>Consolidated Single Tenant Operating Properties:</i>					
2013	1	200,000	9%	2,016,000	10.08
2014	1	54,000	2%	820,000	15.19
2015	3	660,000	30%	1,163,000	1.76
2016	2	88,000	4%	380,000	4.32
2017 and Thereafter	7	1,236,000	55%	15,301,000	12.38
			<u>100%</u>		
<i>Unconsolidated Operating Properties:</i>					
2013	125	539,000	19%	4,998,000	9.27
2014	59	564,000	20%	7,899,000	14.00
2015	74	440,000	16%	4,453,000	10.12
2016	34	222,000	8%	2,508,000	11.30
2017 and Thereafter	45	1,014,000	37%	14,133,000	13.94
			<u>100%</u>		

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TENANT DIVERSIFICATION

The following table sets forth information regarding the leases with respect to the five largest tenants in our consolidated properties portfolio, based on the amount of square footage leased by our tenants at December 31, 2012.

Tenant	Property	Remaining Lease Term in months	Total Leased Square Feet	Percentage of Aggregate Portfolio Leased Square Feet (%) (1)	Percentage of Aggregate Portfolio Annual Rent (%) (2)
Spectra Energy	Houston, TX	160	614,000	19.5%	19.6%
Football Fanatics, Inc.	Jacksonville, FL	31	561,000	17.8%	1.9%
Siemens Real Estate, Inc.	Orlando, FL	60	257,000	8.1%	8.8%
The Kroger Company	Various (3)	41	206,000	6.5%	2.9%
Ingram Micro, Inc.	Amherst, NY	10	200,000	6.3%	5.1%

- (1) Represents percentage of square footage leased excluding month to month leases.
(2) Represents base rent plus straight line rent adjustments less concessions and abatements.
(3) The Kroger Company is a tenant in four net leased properties located in Georgia, Kentucky, North Carolina and Texas. Remaining lease term represents a weighted average based on square footage and percentage of annual rent represents an aggregate of all four properties.

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
Atlanta, GA	09/30/16	Two 5-Year Renewal Options (Extended Term 2026)	Ground lease calls for \$30,000/yr. plus 1/2 of 1% of sales greater than \$27,805,800. (1)
Greensboro, NC	12/31/17	Two 5-Year and 15 one-year Renewal options (Extended Term 2042)	Ground lease calls for \$83,041/yr. increased by approximately \$12,000 for each successive renewal period plus 1% of sales over \$37,405,200. (1)
Orlando, FL	12/31/17	Five 5-Year Renewal Options (Extended Term 2037)	Ground lease calls for \$2/yr. of rent though the current term and then fair market value for each successive renewal period. (1)
South Burlington, VT	01/02/15	Three 5-Year and One 10-Year Renewal Options (Extended Term 2040)	Ground lease calls for \$51,854/yr. though the current term and then fair market value. (1)
450 West 14th Street New York, NY	05/31/53	None	Ground Lease calls for \$103,591/month plus increases of 3% per annum each June as well as \$100,000 increases of 3% per annum on November 1, 2013, 2015 and 2017.

- (1) The lease requires the tenant to perform all covenants under the ground lease including the payment of ground rent.

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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, 2012, the Trust was not involved in any material litigation.

ITEM 4 – MINE SAFETY DISCLOSURES

Not Applicable.

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, under the symbol “FUR.”

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

	<u>High</u>	<u>Low</u>
Year Ended December 31, 2011:		
First quarter	\$13.15	\$11.42
Second quarter	12.46	11.59
Third quarter	12.03	8.54
Fourth quarter	10.55	8.16
Year Ended December 31, 2012:		
First Quarter	12.28	10.32
Second Quarter	12.28	10.04
Third Quarter	12.67	10.55
Fourth Quarter	11.50	10.32

Holders

As of December 31, 2012 there were 536 record holders of our Common Shares. This does not include beneficial owners for whom Cede & Co. or others act as nominee.

Dividends

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. Dividends declared on Common Shares in each quarter for the last two years are as follows:

<u>Quarter Ended</u>	<u>2012</u>	<u>2011</u>
March 31	\$0.1625	\$0.1625
June 30	0.1625	0.1625
September 30	0.1625	0.1625
December 31	0.1625	0.1625

Pursuant to the terms of our Series D Preferred Shares, we are required to pay quarterly dividends of \$0.578125 per Series D Preferred Share.

While we intend to continue paying regular quarterly dividends to holders of our Common Shares, future dividend declarations will be at the discretion of our Board of Trustees and will depend on our actual cash flow, our financial condition, capital requirements, the annual dividend requirements under the REIT provisions of the Code and such other factors as our Board of Trustees deems relevant. The actual cash flow available to pay dividends will be affected by a number of factors, including, among others, the risks discussed under “Risk Factors” in Part I, Item 1A and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7 of this Annual Report.

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We do not believe that the financial covenants contained in our loan agreements will have any adverse impact on our ability to pay dividends in the normal course of business to our common and preferred shareholders or to distribute amounts necessary to maintain our qualifications as a REIT.

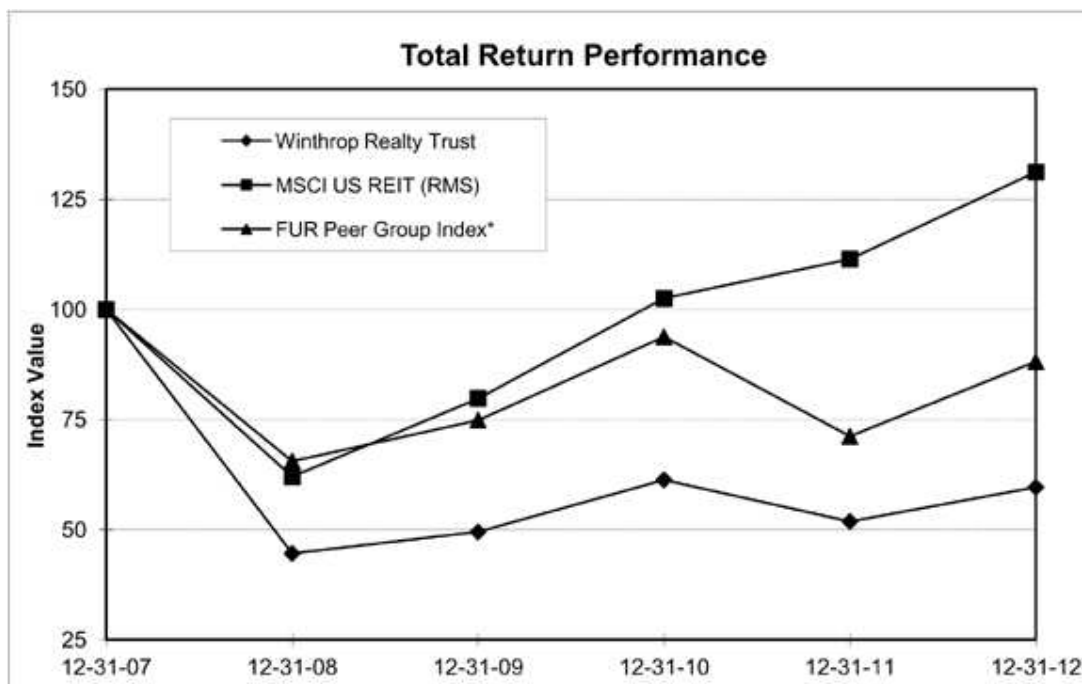
See Item 7 – Common and Preferred Share Dividends for a further description of our dividend policy.

The following table sets forth the shares repurchased during the fourth quarter of 2012.

Period	Total Number of Common Shares Purchased	Average Price Paid per Common Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
11/1/12 – 11/30/12	70,040	\$ 10.52	70,040	1,429,960

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 (“MSCI US REIT”) 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 24, 2013 under \$750,000,000. The graph assumes that \$100 was invested on December 31, 2007 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, 2007, the results depicted would not have been the same.



Index	Period Ending					
	12/31/07	12/31/08	12/31/09	12/31/10	12/31/11	12/31/12
Winthrop Realty Trust	100.00	44.60	49.48	61.31	51.85	59.63
MSCI US REIT (RMS)	100.00	62.03	79.78	102.50	111.41	131.20
FUR Peer Group Index*	100.00	65.53	74.85	93.76	71.17	88.14

* Peer Group consists of REITs with a diversity and other property focus and have a current market value as of January 3, 2013 of Less than \$750M.

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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,				
	2012	2011	2010	2009	2008
Operating Results					
(in thousands, except per share data)					
Revenue	\$ 72,498	\$ 68,247	\$ 53,402	\$ 45,335	\$ 41,875
Income (loss) from continuing operations (1)	\$ 24,698	\$ 10,278	\$ 18,218	\$ (85,542)	\$ (70,601)
Income (loss) from discontinued operations (2)	(67)	655	(1,741)	1,195	2,425
Net income (loss)	24,631	10,933	16,477	(84,347)	(68,176)
Preferred dividends	(9,285)	(924)	(288)	(147)	—
Net income (loss) applicable to Common Shares	\$ 15,346	\$ 10,009	\$ 16,189	\$ (84,494)	\$ (68,176)
Per Common Share					
Income (loss) from continuing operations, basic	\$ 0.46	\$ 0.30	\$ 0.80	\$ (5.26)	\$ (4.75)
Income (loss) from discontinued operations, basic (2)	—	0.02	(0.08)	0.07	0.16
Net income (loss) applicable to Common Shares, basic	\$ 0.46	\$ 0.32	\$ 0.72	\$ (5.19)	\$ (4.59)
Income (loss) from continuing operations per Common Share, diluted	\$ 0.46	\$ 0.30	\$ 0.80	\$ (5.26)	\$ (4.75)
Income (loss) from discontinued operations, diluted	—	0.02	(0.08)	0.07	0.16
Net income (loss) applicable to Common Shares, diluted (3)	\$ 0.46	\$ 0.32	\$ 0.72	\$ (5.19)	\$ (4.59)
Dividends declared per Common Share (3)	\$ 0.65	\$ 0.65	\$ 0.65	\$ 0.9125	\$ 1.35
Balance Sheet Data:					
(in thousands)					
Total Assets	\$923,163	\$733,933	\$610,128	\$493,192	\$578,094
Total Debt	\$421,422	\$300,090	\$277,193	\$238,067	\$299,865
Non-Controlling redeemable preferred interest	\$ —	\$ —	\$ 3,221	\$ 12,169	\$ —
Total Shareholders' Equity	\$454,510	\$387,802	\$295,771	\$217,089	\$248,250

- (1) Income (loss) from continuing operations, including per share data, are net of non-controlling interests.
- (2) The results of Ventek and the Biloxi, Mississippi property were classified as discontinued operations for 2008. The results of the Athens, Georgia property were classified as discontinued operations for 2008 through 2010. The results of the Lafayette, Louisiana; Knoxville, Tennessee; Sherman, Texas; and St. Louis, Missouri properties were classified as discontinued operations for 2008 through 2011. The results of the Creekwood apartment property were classified as discontinued operations for 2008 and 2009. The results of the Indianapolis, Indiana and Memphis, Tennessee properties were classified as discontinued operations for 2008 through 2012.
- (3) In November 2008 Winthrop Realty Trust effected a 1-for-5 reverse stock split of its Common Shares of Beneficial Interest 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.

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

As a diversified REIT, we operate in three strategic segments: (i) operating properties; (ii) loan assets; and (iii) REIT securities. As value investors we will focus and aggressively pursue our investment activity in the segment we believe will generate the greater overall return to us given market conditions at the time. In prior years we have demonstrated our ability to adjust our business plan to capitalize on evolving marketing conditions both with respect to business segment and capital structure. Based on market conditions in 2012, we focused our investment activity in our loan asset segment and to a lesser extent our operating properties segment with a view toward investing in assets that provided a current yield as well as the potential for long term appreciation. We will continue to invest in opportunities which we believe will yield superior risk adjusted returns. These investments may have returns weighted towards the back end of the invested life which may negatively impact current earnings.

We expect to be able to continue to execute on this strategy during 2013. We will mine our existing portfolio for follow-on opportunities and will seek to timely realize returns on such investments subject only to the disposition restrictions under the Internal Revenue Code in order to maintain our REIT status.

We believe that the economic recovery, while slow, will continue throughout 2013 with gradually increasing rental demand across most asset classes in most major markets. We also believe that lenders will continue to take advantage of their improved balance sheets by accelerating the disposition of their non-performing real estate related assets, both debt and real property. Accordingly, we anticipate no diminishment in value opportunities for investing in 2013, and we believe that new investments in loan assets as well as preferred equity will continue to provide the most opportunity.

During 2012 we invested \$295,162,000. See Item 8 – Financial Statements and Supplementary Data, Note 4 for a description of our acquisitions. In light of the favorable investing environment, we supplemented our cash reserves with \$77,563,000 of net proceeds from our offering of 9.25% Series D Cumulative Redeemable Preferred Shares, which we refer to as our Series D Preferred Shares, in March 2012, and with \$83,228,000 in net proceeds from our issuance of 7.75% Senior Notes due August 2022 which we refer to as our Senior Notes. Additionally, during 2012 we received \$166,915,000 from loan repayments and a return of our capital investment from our equity investments. See additional details in our “Liquidity and Capital Resources” section below.

We often acquire assets through joint ventures which allow us to employ third party co-investment capital to maximize diversification of risk and reduce capital concentration and in certain instances, leverage off of our joint venture partner’s experience and expertise in specific geographic areas and/or specific asset types. Our most notable joint venture investments made in 2012 include our investment in the Sullivan Center property in Chicago, Illinois and our recently completed venture with respect to 701 Seventh Avenue in the Times Square area of New York City.

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With respect to our operating results for 2012, net income attributable to Common Shares was \$15,346,000 or \$0.46 per Common Share as compared with net income in 2011 of \$10,009,000 or \$0.32 per Common Share. The most significant factors in this change in net income were the impairment charges of \$7,600,000 taken on our consolidated properties and other-than-temporary impairment charges of \$21,058,000 on our equity investments in 2011. Funds From Operations attributable to Common Shares was \$46,187,000 or \$1.40 per Common Share for 2012 as compared to Funds From Operations of \$58,236,000 or \$1.85 per Common Share in 2011. See “Results of Operations” below.

Loan Assets

Our investment strategy in 2012 focused heavily on our loan asset segment which we believed would generate the greatest overall return to us through interest payments as well as appreciation either through acquiring loan assets at a discount or acquiring loan assets with the expectation of a borrower default or recapitalization that will lead to an equity ownership interest.

During 2012 we received repayment in full on five loans receivable for a total repayment of \$80,350,000. We also had two loans held in equity investments that were fully repaid resulting in return of capital distributions to us totaling \$84,026,000. Additionally, our West Olive bonds which are classified as loan securities were paid at par resulting in proceeds to us of \$6,359,000.

In addition, during 2012 we invested approximately \$191,136,000 in new loan assets consisting of whole loans, B-notes, mezzanine loans and preferred equity as well as loans held in joint ventures. As a result of our loan repayments, operating income from loan assets decreased by \$2,819,000 to \$33,401,000 for the year ended December 31, 2012 compared to \$36,220,000 for the year ended December 31, 2011. For a description of our loan assets acquired during 2012 see Item 8. Financial Statements, Note 4.

We intend to continue our loan asset acquisition and origination strategy in 2013 with a focus on loans with underlying collateral value, future income return potential and in certain cases, acquisitions of non-performing loans in the fulcrum position which have a high possibility that our debt position in the capital stack will be converted into equity participation. An example of this strategy is our recent acquisition of the first mortgage loan on a 514,000 square foot office building located at 1515 Market Street in Philadelphia, Pennsylvania. This loan was in maturity default at the time of our acquisition. Subsequent to year end we restructured this loan, acquired for \$10,000 an indirect 49% interest in the property, including an additional 40% profits participation and became the general partner of the property owner.

Operating Properties

In addition to the opportunities captured in our loan asset segment, we are experiencing growth in our operating properties portfolio. This growth can also be attributed to distressed loans as lenders seek to divest of real estate on which they previously foreclosed or loans which have a maturity default under which we are able to foreclose and take ownership of the property. For instance, our 320 unit multi-family property located in Memphis, Tennessee, Waterford Place, was acquired in April 2012 from a lender who had previously foreclosed on the property.

During 2012 we acquired three new consolidated operating properties and purchased non-controlling interests in three additional consolidated operating properties. We also made equity investments in five operating properties in 2012. During 2012 we sold three consolidated operating properties and four of our Marc Realty equity investments. For details of our operating property activity see Item 8 – Financial Statements, Note 4.

Consolidated Operating Properties

During 2012 we saw increases in our operating income from our operating properties as a result of favorable operating results from same store properties, that is, properties held for all 12 months of both 2012 and 2011, complemented by our new store property operating results. As of December 31, 2012 our consolidated properties were approximately 89.9% leased compared to approximately 74.2% leased at December 31, 2011.

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Tenant Concentration – At December 31, 2012, we had two tenants, Spectra Energy and Siemens Real Estate, which represented approximately 19.6% and 8.8%, respectively, of our annualized base rental revenues from consolidated commercial operating properties and 10.6% and 4.8% , respectively, of total revenue.

Equity and Preferred Equity Investments

Vintage Housing – During 2012 we invested an additional \$6,779,000 in our Vintage platform. These investments were utilized to acquire the general partnership interests in two development stage multi-family properties. During the years ended December 31, 2012 and 2011, we recorded net income from our investment in Vintage Housing of \$4,603,000 and \$113,000, respectively and received cash distributions of \$6,023,000 and \$1,561,000, respectively. The Vintage properties were 96% occupied at November 30, 2012. We have elected to recognize our earnings on a one month lag.

Sullivan Center - During the first quarter of 2012 we increased our equity investment operating property portfolio with our investment in Sullivan Center, a 942,000 square foot, office and retail property in downtown Chicago. Our contribution of \$24,201,000 represents a 50% interest in (i) a \$47,458,000 mezzanine loan collateralized by the borrower's equity in the property and (ii) a 65% future profits participation. We recognized income of \$903,000 in 2012 on our aggregate investment in Sullivan Center. The Sullivan Center was 91% leased at November 30, 2012. We have elected to recognize our earnings on a one month lag.

701 Seventh Avenue – In October 2012 we entered into a joint venture to acquire and redevelop a 120,000 square foot property and associated air rights located at 701 Seventh Avenue, New York, New York. We made an initial investment of \$28,971,000 in the venture. We have elected to recognize our earnings on a three month lag.

Sealy - Two of the investment properties are located in Atlanta, Georgia, (Northwest Business Park and Newmarket), which had occupancies, inclusive of leases signed not yet commenced, of 70% and 50% respectively, at December 31, 2012 as compared to occupancy of 77% and 52%, respectively at December 31, 2011. The third Sealy investment is located in Nashville, Tennessee and was 84% and 83% occupied at December 31, 2012 and December 31, 2011, respectively.

The loans secured by the Newmarket property and the Nashville, Tennessee property continue to be in special servicing. We, together with our venture partner, are attempting to negotiate a restructuring of the debt with the special servicers. There can be no assurance that a restructuring of the loans will be accomplished.

Marc Realty – During 2012 we sold six of the Marc Realty equity investments to our joint venture partner for aggregate proceeds of \$19,850,000. As of December 31, 2012 we held equity interests in four properties with Marc Realty which consist of an aggregate of approximately 665,000 rentable square feet of office and retail space which was 78% occupied at December 31, 2012 as compared to 79% occupied at December 31, 2011.

REIT Securities

During the fourth quarter of 2012 we sold a significant portion of our investment in common shares of other REITs, particularly in Cedar Realty Trust Inc. for net proceeds of approximately \$17,160,000. At December 31, 2012 we held 3,000,716 shares of common stock in Cedar Realty Trust.

During the year ended December 31, 2012 we invested \$5,655,000 in REIT securities. We sold REIT securities with an original cost of \$13,338,000 and received cash proceeds of \$21,774,000. As of December 31, 2012 our portfolio of REIT securities had a fair value of \$19,694,000 compared to an original acquisition cost basis of \$15,876,000.

Liquidity and Capital Resources

At December 31, 2012, we held \$97,682,000 in unrestricted cash and cash equivalents and \$19,694,000 in REIT securities. In addition, as of December 31, 2012 we had, subject to covenant compliance, \$50,000,000 available to draw on our revolving line of credit.

We believe that cash flow from operations will continue to provide adequate capital to fund our operating and administrative expenses, as well as debt service obligations in the short term. 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 investors

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to obtain funds with which to expand our business. Accordingly, we anticipate that capital with which to make future investment and financing activities will be provided from return of capital received from proceeds from loan maturities and prepayments, borrowings, the issuance of additional equity and debt securities as well as proceeds from sales of existing assets.

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;
- disposition of REIT securities;
- sale of existing assets;
- cash distributions from joint ventures;
- borrowings under our credit facility;
- asset specific borrowings; and
- the issuance of equity and debt securities.

Public Offerings

On March 23, 2012 we executed an underwritten public offering of 3,220,000 shares of our Series D Preferred Shares. The shares were issued at a price of \$25.0385 per share before underwriter's discount and we received net proceeds of approximately \$77,563,000 after underwriting discounts, commissions and expenses.

The Series D Preferred Shares rank senior to our Common Shares. Generally, we are not permitted to redeem the Series D Preferred Shares prior to November 28, 2016, except in limited circumstances. On or after November 28, 2016, we may, at our option, redeem the Series D Preferred Shares, in whole or in part, at any time or from time to time, for cash at a redemption price of \$25.00 per share, plus all accrued and unpaid dividends on such Series D Preferred Shares up to but excluding the redemption date.

In August 2012 we closed on an underwritten public offering of \$86,250,000 of our Senior Notes at an issue price of 100% par value. We received net proceeds, after deducting the underwriting discounts and commission and estimated offering expenses, of \$83,213,000. We are required to pay quarterly interest on the Senior Notes on each of February, May, August and November 15. In addition we may redeem the Senior Notes, in whole or in part, at any time or from time to time on or after August 15, 2015 at a redemption price in cash equal to 100% of the principal amount redeemed plus accrued and unpaid interest to, but not including, the redemption date.

Debt Maturities

At December 31, 2012, our balance sheet contains mortgage debt payable of \$280,576,000. We have \$15,225,000 of mortgage debt maturing in 2013, \$19,160,000 maturing in 2014 and \$8,700,000 maturing in 2015 with the remainder maturing in 2016 or later. With respect to our debt maturing in 2013, we anticipate seeking replacement financing upon execution of a lease extension we are currently negotiating with the current tenant at our Amherst, New York property. We have a \$50,000,000 revolving line of credit which matures in March 2014 with an option to extend to March 2015. On December 31, 2012, we had no amounts outstanding on the line of credit. We continually evaluate our debt maturities and except as noted above on our Sealy equity investments, based on our current assessment, we believe there are viable financing and refinancing alternatives for debts as they mature that will not materially adversely impact our liquidity or our expected financial results.

Net Loss Carry Forwards

At December 31, 2011, we had a net operating loss carry forward of approximately \$4,830,000 which expires in 2023. We do not anticipate having to utilize any of the net operating loss carry forward in 2012. The utilization of a majority of our net operating loss carry forward will limit our ability to shelter taxable income in the future which may require us to distribute funds and reduce cash available for reinvestment on a going forward basis. We had capital loss carry forwards of \$43,430,000 at December 31, 2011 which expire from 2014 through 2015. We anticipate utilizing \$12,266,000 of the capital loss carry forward in 2012.

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Cash Flows

Our liquidity based upon cash and cash equivalents increased by approximately \$56,730,000 from \$40,952,000 at December 31, 2011 to \$97,682,000 at December 31, 2012.

Our cash flow activities for the year ended December 31, 2012 are summarized as follows (in thousands):

Net cash flow provided by operating activities	\$ 46,435
Net cash flow used in investing activities	(109,447)
Net cash flow provided by financing activities	119,742
Increase in cash and cash equivalents	<u>\$ 56,730</u>

Operating Activities

For the year ended December 31, 2012, our operating activities generated consolidated net income of \$24,384,000 and positive cash flow of \$46,435,000. Our cash provided by operations reflects our net income adjusted by: (i) a decrease for non-cash items of \$13,285,000 representing primarily current period loan discount accretion and unrealized gains on loan securities offset by adding back depreciation and amortization expenses and \$3,260,000 for impairment charges; (ii) an increase of \$15,720,000 for discount accretion received in cash; (iii) an increase for \$21,690,000 of distributions from non-consolidated interests; and (iv) a net decrease due to changes in other operating assets and liabilities of \$2,074,000. See our discussion of Results of Operations below for additional details on our operations.

Investing Activities

Cash flow used in investing activities for the year ended December 31, 2012 was approximately \$109,447,000 as compared to cash flows used in investing activities of approximately \$105,350,000 for the comparable period in 2011. The change from 2011 of approximately \$4,097,000 resulted primarily from increased investments in loans receivable and real estate assets offset by decreased investment in equity investments and increased return of capital distributions from our equity investments.

Net cash used in investing activities of \$109,447,000 for the year ended December 31, 2012 was comprised primarily of the following:

- \$58,650,000 for the acquisition of our 1515 Market Street loan receivable;
- \$40,000,000 for the origination of our Queensridge Towers loan receivable;
- \$30,000,000 for the acquisition of our Broward loan receivable;
- \$29,025,000 for investment in our 701 7th Avenue joint venture;
- \$21,473,000 for the acquisition of our Memphis, Tennessee (Waterford) property;
- \$20,696,000 for the acquisition of four B-Notes;
- \$14,051,000 for investment in our WRT-Elad joint venture;
- \$12,305,000 for investment in capital and tenant improvements at our operating properties;
- \$11,933,000 for three new loan originations;
- \$10,915,000 for investment in our 10 Metrotech joint venture;
- \$8,036,000 for investment in our WRT-Stamford loan joint venture;
- \$7,522,000 for investment in our WRT-Fenway Wateridge joint venture;
- \$7,000,000 for the acquisition of Lexington Realty Trust's investment in Concord;
- \$6,817,000 for investment in our Vintage Housing Holding joint venture;
- \$5,655,000 for purchases of REIT securities carried at fair value;
- \$4,972,000 for investment in our Marc Realty equity investments;
- \$3,900,000 for the acquisition of our Greensboro, North Carolina (Lake Brandt) property; and
- \$2,521,000 for the acquisition of our Mentor loan receivable.

These uses of cash flow were offset primarily by:

- \$72,342,000 in return of capital distributions from our SoCal Office Portfolio Loan equity investment;
- \$68,824,000 in collection of loans receivable;

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- \$21,774,000 in proceeds from the sale of securities carried at fair value;
- \$7,800,000 in return of capital distributions from our ROIC-Riverside equity investment;
- \$7,024,000 in proceeds from the sale of our Churchill, Circle Tower and Kroger – Memphis real estate investments;
- \$6,359,000 in proceeds from the payoff of par of loan securities;
- \$4,297,000 in proceeds from the sale of two of our Marc Realty investments and our FII Co-invest investment; and
- \$3,524,000 in return of capital distributions from our Marc Realty equity investments.

Financing Activities

Cash flow provided by financing activities for the year ended December 31, 2012 was approximately \$119,742,000 as compared to cash flow provided by financing activities of approximately \$61,358,000 for the comparable period in 2011. This change of approximately \$58,384,000 resulted primarily from proceeds from new mortgage loans payable, proceeds from the issuance of our Senior Notes, proceeds from the issuance of Series D Preferred Shares and a decrease in principal payments on our mortgage loans payable.

Net cash provided by financing activities of \$119,742,000 for the year ended December 31, 2012 was comprised primarily of the following:

- \$86,250,000 in proceeds from the issuance of Senior Notes Payable;
- \$77,563,000 in proceeds from the issuance of Series D Preferred Shares;
- \$25,000,000 in proceeds from the secured financing of our Queensridge Tower loan;
- \$21,000,000 in proceeds from a new mortgage loan payable on our Meriden, Connecticut property;
- \$13,500,000 in proceeds from a new mortgage loan payable on our Memphis, Tennessee property;
- \$3,500,000 paid to us in exchange for an interest in our consolidated SoCal Office joint venture; and
- \$2,397,000 in advances on our 450 W 14th Street property mortgage loan payable.

These sources of cash flow were offset primarily by:

- \$40,000,000 for payments on our revolving line of credit;
- \$25,584,000 for mortgage loan repayments;
- \$21,488,000 for dividend payments on our Common Shares;
- \$9,285,000 for dividend payments on our Series D Preferred Shares;
- \$7,242,000 for distribution to non-controlling interests, primarily for our SoCal office joint venture;
- \$4,198,000 for deferred financing costs;
- \$1,650,000 for the acquisition of non-controlling interests in our Westheimer property;
- \$1,230,000 for payments on our secured financings; and
- \$400,000 for the acquisition of non-controlling interests on our Deer Valley property.

Future Cash Commitments

Future Funding Requirements

In addition to our initial purchase price of certain loans and operating properties, inclusive of purchases made through equity investment ventures, we have future funding requirements which total approximately \$39,104,000 at December 31, 2012. Of this amount, approximately \$39,029,000 represents our future commitment to our 701 Seventh Avenue venture.

Common and Preferred Share Dividends

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. While we intend to continue paying dividends each quarter, the amount of our dividend will depend on the actual cash flow, financial condition, capital requirements, utilization of available capital losses, distribution requirements for REITs under the Internal Revenue Code, and such other factors as our Board of Trustees deem relevant. Subject to the foregoing, we expect to continue distributing our current cash flow from operations after reserving normal and customary amounts to maintain adequate capital reserves. In addition, when deemed prudent or necessitated by applicable dividend requirements for REITs under the Internal Revenue Code, we may make one or more special dividends during any particular year. However, during a favorable investing environment, we expect that we will utilize our carry forward 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 may cause the dividends to increase or decrease depending on these various factors.

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During 2012 we paid a regular quarterly dividend of \$0.1625 per Common Share. We paid a regular quarterly dividend of \$0.578125 per Series D Preferred Share.

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, 2012 (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) (1)	\$350,823	\$35,907	\$ 66,238	\$214,823	\$ 33,855
Senior notes payable	150,587	6,684	13,369	13,369	117,165
Secured financings	56,850	16,259	40,591	—	—
Revolving line of credit (principal and interest) (1)	—	—	—	—	—
Ground lease obligations (2)	116,816	1,282	2,868	3,248	109,418
Advisors' fee (3)	45,950	9,190	18,380	18,380	—
	<u>\$721,026</u>	<u>\$69,322</u>	<u>\$141,446</u>	<u>\$249,820</u>	<u>\$260,438</u>

- (1) Does not reflect financing activity subsequent to December 31, 2012.
- (2) This obligation relates to the ground lease at our property located at 450 West 14th Street, New York, New York which expires May 31, 2053.
- (3) Advisor's fee based upon the terms of the Advisory Agreement with our external advisor, effective January 1, 2013, with no effect given to any equity that may be issued or repurchased after December 31, 2012. 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.

Comparability of Financial Data from Period to Period

The comparability of financial data from period to period is affected by several items including (i) the timing of our acquisitions and leasing activities; (ii) the purchases and sales of assets and investments; (iii) when material other-than-temporary impairment charges on assets in our portfolio are taken; and (iv) the reclassification of assets. In this regard, the comparability of financial results for the years presented were impacted by other-than-temporary impairment charges on our equity investments recognized in 2011, property impairments recognized in 2012 and 2011, the addition of three operating properties in 2012, the acquisition of several loan assets in 2012 and 2011, the divestiture of several REIT securities in 2012 and 2011, and the sale of several of our Marc Realty equity investments in 2012.

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Results of Operations

Our results of operations are discussed below by segment:

- Operating Properties – our wholly and partially owned operating properties;
- Loan Assets – our loans receivable, loan securities carried at fair value, and equity investments in loan assets;
- REIT Securities – our ownership of equity and debt securities in other real estate investment trusts; and
- Corporate – non-segment specific results which include interest on cash reserves, general and administrative expenses and other non-segment specific income and expense items.

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

	2012	2011
Operating properties	\$562,822	\$442,209
Loan assets	239,534	217,174
REIT securities	19,694	28,856
Corporate		
Cash and cash equivalents	97,682	40,952
Restricted cash	—	3,914
Accounts receivable and prepaids	336	504
Deferred financing costs	3,095	318
Discontinued Operations	—	6
Total Assets	<u>\$923,163</u>	<u>\$733,933</u>

The increase in operating property assets was due primarily to the acquisition of three wholly owned properties, investment in four new operating property joint ventures and an additional investment in our Vintage Housing portfolio which acquired the general partnership interest in two development projects. These additions were partially offset by the sale of our Indianapolis, Indiana office property and our Memphis, Tennessee retail property.

The increase in loan assets was due primarily to loan acquisitions of \$138,403,000 and loan originations of \$52,733,000. These additions were offset by \$84,026,000 in return of capital distributions received, primarily from our SoCal Office Loan equity investment, and \$82,889,000 in loan receivable collections, including the repayment in full of our Magazine, 160 Spear, Broward, 30 North Michigan and 29 East Madison loans receivable.

The decrease in REIT securities assets was primarily the result of the sale of 52% of our shares of Cedar Realty Trust in 2012. In total, we received proceeds of \$21,774,000 from the sale of securities in 2012. During 2012 we invested a total of \$5,655,000.

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

	2012	2011	2010
Operating properties	\$ 156	\$(15,012)	\$ 2,310
Loan assets	31,786	35,295	19,218
REIT securities	8,011	3,895	8,273
Corporate expenses	(15,502)	(13,086)	(10,695)
Consolidated income from continuing operations	<u>\$ 24,451</u>	<u>\$ 11,092</u>	<u>\$ 19,106</u>

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Comparison 2012 to 2011

Operating Properties

The following table summarizes our results from continuing operations for our operating properties segment for the years ended December 31, 2012 and 2011 (in thousands):

	2012	2011
Rents and reimbursements	\$ 51,375	\$ 42,789
Operating expenses	(15,666)	(14,387)
Real estate taxes	(4,765)	(4,427)
Equity in loss of Marc Realty investments	(132)	(982)
Equity in income (loss) of Sealy Northwest Atlanta	(388)	4,308
Equity in loss of Sealy Airpark Nashville	—	(1,034)
Equity in loss of Sealy Newmarket	(2,811)	(2,936)
Equity in income of Vintage Housing	4,603	113
Equity in income of WRT-Elad	903	—
Operating income	33,119	23,444
Depreciation and amortization expense	(17,666)	(13,234)
Interest expense	(13,011)	(12,815)
Impairment loss on investments in real estate	(2,562)	(7,600)
Impairment loss on Marc Realty equity investment	—	(15,764)
Gain on consolidation of property	—	818
Settlement income	—	5,868
Impairment loss on Sealy equity investments	—	(5,294)
Gain (loss) on extinguishment of debt	(121)	9,358
Gain on sale of equity investments	397	207
Operating properties net income (loss)	\$ 156	\$ (15,012)

Operating income from our operating properties, which we define for our consolidated operating properties as all items of income and expense directly derived from or incurred by this segment before depreciation, amortization, interest expense and other non-recurring non-operating items, and including our share of income or loss from equity investments, increased by \$9,675,000 compared to the prior year period.

The following table breaks out our operating results from same store properties (properties held throughout both the current and prior year reporting periods) and new store properties (in thousands):

Consolidated Operating Properties

	For the Year Ended December 31,	
	2012	2011
Rents and reimbursements		
Same store properties	\$ 41,748	\$ 41,868
New store properties	9,627	921
	51,375	42,789
Operating expenses		
Same store properties	10,231	14,060
New store properties	5,435	327
	15,666	14,387
Real estate taxes		
Same store properties	3,637	4,360
New store properties	1,128	67
	4,765	4,427
Consolidated operating properties operating income		
Same store properties	27,880	23,448
New store properties	3,064	527
	\$ 30,944	\$ 23,975

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The increase in operating income for our same store properties was primarily the result of a decrease in operating expenses of \$3,829,000 and a decrease in real estate taxes of \$723,000. The same store results were supplemented by positive results from our new store properties.

- Rental revenues increased by \$8,586,000 due to new store revenues of \$8,706,000, while there was a slight decrease in same store revenues of \$120,000. The decrease in same store revenue was the result of:
 - The sale of a portion of our Churchill, Pennsylvania property which occurred May 14, 2012;
 - An amendment to the lease terms for Spectra Energy at 5400 Westheimer located in Houston, Texas. The modified lease reduces the average annual contractual obligation but extends the term of the lease through April 30, 2026;
 - A decrease in average occupancy at 701 Arboretum located in Lisle, Illinois from 48% to 16%;
 - Parking revenue at our One East Erie property located in Chicago, Illinois resulting from spaces taken out of service due to a restoration project.

Which were partially offset by increases from:

- Lease termination income of \$785,000 from a 55,000 square foot tenant at our Chicago, Illinois property known as River City, which tenant terminated the lease effective August 2012;
- Increased average occupancy at our property located in Deer Valley, Arizona from 67% to 91%;
- Increased average occupancy at our property known as Crossroads II located in Englewood, Colorado from 51% to 82%;
- Increased average occupancy at our property known as 550/650 Corporetum located in Lisle, Illinois from 58% to 75%.
- Operating expenses increased by \$1,279,000 due to expenses at our new store properties of \$5,435,000. Same store operating expenses decreased by \$3,829,000 due primarily to a decrease in expenses of \$3,240,000 at our Churchill, Pennsylvania property, which had incurred \$1,423,000 of costs associated with pursuing a settlement in 2011, and \$599,000 at our Chicago, Illinois (River City) property;
- Real estate tax expense increased by \$338,000 as a result of our new store properties. Real estate tax of \$1,128,000 at our new store properties was offset by a decrease of \$723,000 at our same store properties. The reduction at our same store properties was primarily due to lower taxes at our Churchill, Pennsylvania and Chicago, Illinois (River City) properties while we experienced increased taxes due to a revaluation at our Meriden, Connecticut property.

Depreciation and amortization expense increased by \$4,432,000 in 2012 primarily as a result of our new store properties. Interest expenses related to our operating properties increased by \$196,000 primarily as a result of interest expense of \$1,594,000 at our new store property located in New York, New York. These decreases were partially offset by refinancing our Meriden, Connecticut property and our Lisle, Illinois properties which resulted in decreased interest expense of \$734,000.

During 2012 we recognized impairment charges of \$1,738,000 on our Atlanta, Georgia retail property and \$824,000 on our Denton, Texas property as a result of changes to the respective holding periods for these properties. During 2011 we recognized impairment charges of \$4,600,000 on our Churchill, Pennsylvania property and \$3,000,000 on one of our Lisle, Illinois properties. In addition, we recognized income of \$5,868,000 in connection with the settlement of the litigation at our Churchill, Pennsylvania property. We also recognized \$8,514,000 of gain on extinguishment of debt in connection with the early satisfaction of the debt on our Lisle, Illinois properties and \$844,000 of gain in connection with the satisfaction of the debt at our Connecticut multi-family property. As a result of a change in control at our 450 W 14th Street property effective November 1, 2011, we began consolidating this property in 2011, and we recognized a gain on consolidation of \$818,000 in 2011.

Non-Consolidated Operating Properties: Equity Investments

Net operating income from equity investments was \$2,175,000 for the year ended December 31, 2012 compared to a net loss of \$531,000 for the year ended December 31, 2011. The increase was due primarily to:

- Operating income from our Vintage portfolio increased by \$4,490,000 primarily due to recognizing a full year's income in 2012, a decrease in amortization expense and the addition of two properties. Our initial investment in the Vintage portfolio closed on June 24, 2011.

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- Operating loss from our Sealy Airpark Nashville investment decreased by \$1,034,000 as a result of having written this investment down to \$0 as of December 31, 2011.
- Operating income from our combined WRT-Elad investment which closed February 3, 2012 was \$903,000 for the year ended December 31, 2012.
- Operating loss from our Marc Realty investments decreased by \$850,000 primarily as a result of the sale of five investments during 2012. We recognized a gain of \$165,000 on these sales.

Partially offset by:

- Operating income from our Sealy Northwest Atlanta investment decreased by \$4,696,000 due primarily to the discounted payoff of the first mortgage loan in June 2011. The discounted payoff resulted in an allocation of cancellation of debt income to us of approximately \$5,502,000.

We recognized other-than-temporary impairment charges of \$15,764,000 on our Marc Realty equity investments in the fourth quarter of 2011 as a result of continued decline in operations particularly in the suburban Chicago, Illinois assets, together with increased capital needs both of which have resulted in an effort by us to divest of certain of these investments. We recognized \$5,294,000 of other-than-temporary impairment charges on our Sealy investments due primarily to overleverage concerns as well as continued market declines on these properties.

Loan Assets

The following table summarizes our results from our loan assets segment for the years ended December 31, 2012 and 2011 (in thousands):

	2012	2011
Interest	\$11,736	\$11,073
Discount accretion	8,333	13,401
Equity in earnings of preferred equity investment in Marc Realty	—	338
Earnings of Concord Debt Holdings	422	3,216
Earnings of CDH CDO	1,715	480
Earnings of Lex-Win Concord	—	258
Equity in earnings of ROIC-Riverside	706	936
Realized gain on sale of securities carried at fair value	614	—
Unrealized gain on loan securities carried at fair value	447	2,738
Equity in earnings (loss) of ROIC Lakeside Eagle	(42)	664
Equity in earnings of 46th Street Gotham	—	621
Equity in earnings of Sofitel	—	2,177
Equity in earnings of RE CDO Management	67	46
Equity in earnings of SoCal Office Loan Portfolio	9,706	272
Equity in loss of Concord Debt Holdings (1)	(456)	—
Equity in loss of CDH CDO (1)	(997)	—
Equity in earnings of WRT-Stamford	769	—
Equity in earnings of 10 Metrotech	335	—
Equity in Earnings of Mentor	46	—
Operating income	33,401	36,220
Interest expense	(1,494)	(850)
General and administrative expense	(121)	(75)
Loan assets net income	<u>\$31,786</u>	<u>\$35,295</u>

(1) Represents the interest acquired from Lexington Realty Trust on May 1, 2012.

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Operating income from loan assets, which we define as all items of income and expense directly derived from or incurred by this business segment before general and administrative and interest expense, decreased by \$2,819,000 as compared to the prior year period. The decrease was due primarily to:

- a \$5,068,000 decrease in discount accretion due primarily to the repayment of our Metropolitan Tower and Beverly Hilton loans in 2011 which was partially offset by an increase related to our 160 Spear and Magazine loans in May 2012;
- a \$3,270,000 decrease in earnings from our Concord investment primarily due to a loan loss reserve on Concord's Thanksgiving Tower loan in 2012; and
- a \$2,291,000 decrease in unrealized gain on loan securities carried at fair value.

Partially offset by:

- a \$6,871,000 increase in net earnings from our other equity investment loan assets primarily due to earnings of \$9,706,000 on our SoCal office portfolio loan investment which resulted from the payoff of the underlying loan asset at par.

Interest expense represents interest on (i) the \$15,150,000 senior participation held by Concord Real Estate CDO 2006-1, Ltd. ("CDO-1"), an unaffiliated third party, on our San Marbeya loan receivable, (ii) the \$14,000,000 senior participation held by CDO-1 on our Hotel Wales loan and (iii) on the \$23,770,000 recourse secured financing on our Queensridge Towers loan receivable. Both of the senior participations are treated as secured financings for financial statement purposes.

REIT Securities

The following table summarizes our results from our REIT securities segment for the years ended December 31, 2012 and 2011 (in thousands):

	2012	2011
Dividends	\$1,054	\$ 984
Gain on sale of securities carried at fair value	41	123
Unrealized gain on securities carried at fair value	6,916	2,788
Operating income	<u>\$8,011</u>	<u>\$3,895</u>

Operating income from REIT securities, which we define as all items of income and expense directly derived from or incurred by this business segment before interest expense, increased by \$4,116,000 as compared to the prior year period. The increase was primarily due to a \$4,128,000 increase in unrealized gain on securities carried at fair value primarily as a result of a change in the value of our shares of Cedar acquired subsequent to September 30, 2011.

Corporate

The following table summarizes our results from our corporate business segment for the years ended December 31, 2012 and 2011 (in thousands):

	2012	2011
Interest and other income	\$ 699	\$ 1,179
General and administrative	(12,393)	(11,173)
Transaction costs	(421)	(519)
Interest expense	(3,153)	(2,094)
Loss on redemption of Series B-1 Preferred Shares	—	(100)
State and local taxes	(325)	(379)
Operating loss	<u>\$(15,593)</u>	<u>\$(13,086)</u>

The increase in operating loss from corporate operations for the comparable periods was due primarily to a \$1,220,000 increase in general and administrative expense due primarily to an increase in the base management fee paid to our Advisor of \$1,263,000 and an increase of \$361,000 in accounting fees which was partially offset by a \$364,000 decrease in legal fees, and an increase in corporate interest expense of \$1,059,000 resulting from the issuance of our Senior Notes.

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Comparison 2011 to 2010

Operating Properties

The following table summarizes our results from continuing operations for our operating properties segment for the years ended December 31, 2011 and 2010. Certain balances have been reclassified as a result of discontinued operations (in thousands):

	2011	2010
Rents and reimbursements	\$ 42,789	\$ 36,274
Operating expenses	(14,387)	(7,758)
Real estate taxes	(4,427)	(2,412)
Equity in income (loss) of Marc Realty investments	(982)	1,776
Equity in income (loss) of Sealy Northwest Atlanta	4,308	(710)
Equity in loss of Sealy Airpark Nashville	(1,034)	(1,107)
Equity in loss of Sealy Newmarket	(2,936)	(1,193)
Equity in income of Vintage Housing	113	—
Operating income	23,444	24,870
Depreciation and amortization expense	(13,234)	(9,628)
Interest expense	(12,815)	(12,932)
Impairment loss on investments in real estate	(7,600)	—
Impairment loss on Marc Realty equity investment	(15,764)	—
Gain on consolidation of property	818	—
Settlement income	5,868	—
Impairment loss on Sealy equity investments	(5,294)	—
Gain on extinguishment of debt	9,358	—
Gain on sale of equity investments	207	—
Operating properties net income (loss)	<u>\$ (15,012)</u>	<u>\$ 2,310</u>

Operating income from our operating properties, which we define for our consolidated operating properties as all items of income and expense directly derived from or incurred by this segment before depreciation, amortization and interest expense and other non-recurring non-operating items and our share of income or loss from equity investments, decreased by \$1,426,000 compared to the prior year period.

The following table breaks out our operating results from same store properties (properties held throughout both the current and prior year reporting periods) and new store properties (in thousands):

Consolidated Operating Properties

	For the Year Ended December 31,	
	2011	2010
Rents and reimbursements		
Same store properties	\$ 34,668	\$ 35,443
New store properties	8,121	831
	<u>42,789</u>	<u>36,274</u>
Operating expenses		
Same store properties	11,145	7,212
New store properties	3,242	546
	<u>14,387</u>	<u>7,758</u>
Real estate taxes		
Same store properties	3,173	1,904
New store properties	1,254	508
	<u>4,427</u>	<u>2,412</u>
Consolidated operating properties operating income		
Same store properties	20,350	26,327
New store properties	3,625	(223)
	<u>\$ 23,975</u>	<u>\$ 26,104</u>

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The decrease in operating income for our same store properties was primarily the result of operating expenses and real estate taxes at our Churchill, Pennsylvania property and a decline in rents and reimbursements at our Lisle, Illinois properties. The decline in same store results was partially offset by positive results from our new store properties.

- Rental revenues increased by \$6,515,000 due to new store revenues of \$8,121,000, while same store revenues declined by \$775,000. The decrease in same store revenue was the result of declines at our Churchill, Pennsylvania property and our Lisle, Illinois property which were partially offset by increased revenue at our Andover, Massachusetts property and our One East Erie Chicago, Illinois property;
- Operating expenses increased by \$6,629,000 due to increased expenses at our same store properties of \$3,933,000 and at our new store properties of \$2,696,000. The increase in the same store operating expenses relates primarily to operating expenses of \$4,607,000 (including \$1,423,000 of costs associated with pursuing the settlement) at our Churchill, Pennsylvania property which in prior years was paid by the tenant under a net lease; and
- Real estate tax expense increased by \$2,015,000 due to increased expenses at our new store properties of \$746,000 and increases at our same store properties of \$1,269,000. The increase in the same store real estate tax expense was primarily due to real estate taxes of \$836,000 at our Churchill, Pennsylvania property and increased real estate taxes at the Lisle, Illinois, River City Chicago, Illinois, and One East Erie Chicago, Illinois properties as a result of tax abatements recorded in 2010.

Depreciation and amortization expense increased by \$3,606,000 in 2011 primarily as a result of our four property acquisitions in 2010. Interest expenses related to our operating properties remained relatively consistent but were affected by an increase of \$901,000 in interest expense on our Connecticut multi-family property acquired in the fourth quarter of 2010 and \$627,000 of interest expense on our Plantation, Florida property which was financed in March 2011. These increases were partially offset by reductions at our Lisle, Illinois; Andover, Massachusetts; and Burlington, Vermont properties as a result of our satisfying the loans.

During 2011 we recognized impairment charges of \$4,600,000 on our Churchill, Pennsylvania property and \$3,000,000 on one of our Lisle, Illinois properties. In addition, we recognized income of \$5,868,000 in connection with the settlement of the litigation at our Churchill, Pennsylvania property. We also recognized \$8,514,000 of gain on extinguishment of debt in connection with the early satisfaction of the debt on our Lisle, Illinois properties and \$844,000 of gain in connection with the satisfaction of the debt at our Connecticut multi-family property. As a result of a change in control at our 450 W 14th Street property effective November 1, 2011 we now consolidate this property and we recognized a gain on consolidation of \$818,000.

Non-Consolidated Operating Properties: Equity Investments

Net operating loss from equity investments was \$531,000 for the year ended December 31, 2011 compared to a net loss of \$1,234,000 for the year ended December 31, 2010.

- Operating income from our Sealy Northwest Atlanta investment increased by \$5,018,000 due primarily to the discounted payoff of the first mortgage loan in June 2011. The discounted payoff resulted in an allocation of cancellation of debt income to us of approximately \$5,502,000.
- Operating loss from our Sealy Newmarket investment increased by \$1,743,000 due primarily to \$1,275,000 of additional interest expense allocated to us in 2011 as a result of the first mortgage loan being in default while it is in special servicing. Rental revenues were also lower at this property during the current periods as a result of the loss of a significant tenant in April 2011.
- Operating income from our Marc Realty investments decreased by \$2,758,000 primarily as a result of the sale of three investments on June 1, 2011. We recognized a gain of \$207,000 on these sales.
- Operating income from our Vintage portfolio which closed June 24, 2011 was \$113,000 for 2011. We received cash distributions of \$1,561,000 from this investment in 2011.

We recognized other-than-temporary impairment charges of \$15,764,000 on our Marc Realty equity investments in the fourth quarter of 2011 as a result of continued decline in operations particularly in the suburban Chicago, Illinois assets, together with increased capital needs both of which have resulted in an effort by us to divest of certain of these investments. We recognized \$5,294,000 of other-than-temporary impairment charges on our Sealy investments due primarily to overleverage concerns as well as continued market declines on these properties.

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Loan Assets

The following table summarizes our results from our loan assets segment for the years ended December 31, 2011 and 2010 (in thousands):

	2011	2010
Interest	\$11,073	\$ 5,691
Discount accretion	13,401	8,782
Equity in earnings of preferred equity investment of Marc Realty	338	338
Equity in earnings of Lex-Win Concord	258	—
Unrealized gain on loan securities carried at fair value	2,738	5,011
Gain on sale of securities carried at fair value	—	469
Equity in loss of PSW NYC	—	(1,246)
Equity in earnings of ROIC Riverside	936	473
Equity in earnings of Concord Debt Holdings	3,216	—
Equity in earnings of CDH CDO	480	—
Equity in earnings of ROIC Lakeside Eagle	664	—
Equity in earnings of 46th Street Gotham	621	—
Equity in earnings of Sofitel	2,177	—
Equity in earnings of RE CDO Management	46	—
Equity in earnings of Socal Office Loan Portfolio	272	—
Operating income	36,220	19,518
General and administrative expense	(75)	(300)
Interest expense	(850)	—
Loan assets net income	<u>\$35,295</u>	<u>\$19,218</u>

Operating income from loan assets, which we define as all items of income and expense directly derived from or incurred by this business segment before general and administrative expense, increased by \$16,702,000 from \$19,518,000 in 2010 to \$36,220,000 in 2011. The increase was due primarily to:

- a \$5,382,000 increase in interest income due primarily to the acquisition of new loans throughout 2010 and 2011;
- a \$4,619,000 increase in discount accretion due primarily to the recognition of \$1,261,000 on our Magazine loan acquired in 2011, and increases on our 160 Spear loan and Metropolitan Tower loan of \$2,489,000 and \$1,036,000;
- a \$4,213,000 increase in equity in earnings recognized in 2011 on our loan assets held in joint ventures acquired subsequent to June 30, 2010; and
- \$3,954,000 in earnings from our Concord investment platform as a result of cash distributions received in 2011.

These increases were partially offset by a \$2,273,000 decrease in unrealized gain on loan securities in 2011 as compared to the same period in 2010.

Interest expense represents interest on the \$15,150,000 senior participation held by a third party on our San Marbeya loan receivable and on the \$14,000,000 senior participation held by a third party on our Hotel Wales loan. Both of the senior participations are treated as secured financings for financial statement purposes.

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REIT Securities

The following table summarizes our results from our REIT securities segment for the years ended December 31, 2011 and 2010 (in thousands):

	2011	2010
Dividends	\$ 984	\$2,655
Gain on sale of securities carried at fair value	123	558
Unrealized gain on securities carried at fair value	2,788	5,060
REIT securities net income	<u>\$3,895</u>	<u>\$8,273</u>

Operating income from REIT securities, which we define as all items of income and expense directly derived from or incurred by this business segment before interest expense, decreased by \$4,378,000 over the prior year period. The decrease was due primarily to:

- a \$2,272,000 decrease in unrealized gain on securities carried at fair value;
- a \$1,671,000 decrease in dividend income primarily as the result of the sale of various securities; and
- a \$435,000 decrease in realized gain on the sale of securities carried at fair value.

Corporate

The following table summarizes our results from our corporate business segment for the years ended December 31, 2011 and 2010 (in thousands):

	2011	2010
Interest and other income	\$ 1,179	\$ 139
General and administrative	(11,173)	(8,198)
Transaction costs	(519)	(321)
Interest expense	(2,094)	(2,182)
Loss on redemption of Series B-1 Preferred Shares	(100)	—
State and local taxes	(379)	(133)
Operating loss	<u>\$(13,086)</u>	<u>\$(10,695)</u>

The increase in operating loss from corporate operations for the comparable periods was due primarily to a \$2,975,000 increase in general and administrative expense due primarily to an increase in the base management fee paid to our Advisor of \$2,594,000, an increase of \$198,000 in transaction costs and an increase of \$268,000 in professional fees which was partially offset by a \$1,040,000 increase in corporate interest and other income which is primarily a forfeited deposit.

Discontinued Operations

Our properties in Athens, Georgia; Indianapolis, Indiana; Lafayette, Louisiana; St. Louis, Missouri; Knoxville, Tennessee; Memphis, Tennessee and Sherman, Texas are classified as discontinued operations.

In October 2009 a tenant of our retail net leased properties, The Kroger Company (“Kroger”), notified us of its intention not to exercise its lease renewal options on six buildings containing approximately 281,000 square feet of retail space. Concurrently, Kroger also notified us that it would be exercising its option to purchase one of these six properties, the Athens, Georgia property, resulting in our classifying that property in discontinued operations effective with the fourth quarter of 2009. Upon receipt of the notice, management actively marketed the remaining locations for lease or sale.

The Lafayette, Louisiana and Sherman, Texas locations were classified as discontinued operations as of September 30, 2010. During the quarter ended September 30, 2010, management determined that the potential market rents were not sufficient to cover prospective ground lease payments plus the costs to convert these properties to multi-tenant facilities. Therefore we decided to permit the ownership of the Sherman, Texas and Lafayette, Louisiana properties to revert back to the land owners as of November 1, 2010. We recorded a \$704,000 impairment charge related to these investments which is included in discontinued operations for the year ended December 31, 2010.

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The Knoxville, Tennessee location has also been classified as discontinued operations since September 30, 2010. During the quarter ended September 30, 2010, management determined that after having exercised its purchase option under its ground lease and acquiring the land in October 2010 the best course of action was to pursue a sale of the real estate. As a result, we recorded a \$626,000 impairment charge which is included in discontinued operations for the year ended December 31, 2010. In August 2011, we sold our Knoxville, Tennessee property for net proceeds of \$2,151,000.

With respect to Kroger's purchase of the Athens, Georgia property, in accordance with a three party agreement between us, Kroger and the land owner, an appraisal process was conducted to determine the fair market value of the property. As a result of the finalization of the appraisal process, we recorded an impairment charge of \$1,390,000 during the year ended December 31, 2010.

In January 2011 the St. Louis, Missouri property was reclassified into discontinued operations. In February 2011 we entered into an agreement to sell this property. In December 2011, we sold our St. Louis, Missouri property for net proceeds of \$1,485,000.

In September 2012 we classified our Indianapolis, Indiana property as discontinued operations upon entering into a purchase contract for, and the subsequent sale of this property. We also classified our Memphis, Tennessee property as discontinued operations in the third quarter of 2012. The Kroger Co. terminated its lease on this property and paid a cancellation fee of \$600,000. Concurrently, we sold the property to an independent third party for \$600,000. We recorded a \$698,000 impairment charge in connection with the sale of the property.

Funds From Operations

We have adopted the revised definition of Funds from Operations ("FFO"), adopted by the Board of Governors of the National Association of Real Estate Investment Trust ("NAREIT"). Management considers FFO to be an appropriate measure of performance of a REIT. We calculate FFO by adjusting net income (loss) (computed in accordance with GAAP, including non-recurring items), for gains (or losses) from sales of properties, real estate related depreciation and amortization, and adjustment for unconsolidated partnerships and ventures and impairments. Management believes that in order to facilitate a clear understanding of our historical operating results, FFO should be considered in conjunction with net income as presented in the consolidated financial statements included elsewhere herein. Management considers FFO to be a useful measurement for reviewing our comparative operating and financial performance because, by excluding gains and losses related to sales of previously depreciated operating real estate assets and excluding real estate asset depreciation and amortization (which can vary among owners of identical assets in similar condition based on historical cost accounting and useful life estimates), FFO can help one compare the operating performance of a company's real estate between periods or as compared to different companies.

Calculation of FFO may not be directly comparable to FFO reported by other REITs or similar real estate companies that have not adopted the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently. FFO is not a GAAP financial measure and should not be considered as an alternative to net income (loss), the most directly comparable financial measure of our performance calculated and presented in accordance with GAAP, as an indication of our performance. FFO does not represent cash generated from operating activities determined in accordance with GAAP and is not a measure of liquidity or an indicator of our ability to pay dividends. We believe that to further understand our performance, FFO should be compared with our reported net income and considered in addition to cash flows in accordance with GAAP, as presented in our consolidated financial statements.

Based on the October 31, 2011 and January 6, 2012 updated guidance on reporting FFO, we have excluded impairment losses on depreciable real estate as well as other-than-temporary impairment on real estate equity method joint ventures in the calculations of FFO and have restated prior period calculations to be consistent with this presentation. The other-than-temporary impairments have been excluded as they relate to decreases in the fair value of depreciable real estate held by the investee.

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The following presents a reconciliation of net income to funds from operations for the years ended December 31, 2012, 2011 and 2010 (in thousands, except per share amounts):

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Basic			
Net income attributable to Winthrop Realty Trust	\$24,631	\$10,933	\$16,477
Real estate depreciation	11,281	8,646	6,399
Amortization of capitalized leasing costs and intangibles	6,785	4,895	3,712
Gain on sale of real estate	(945)	(392)	—
Gain on sale of equity investments	(199)	(207)	—
Gain on property consolidation	—	(818)	—
Real estate depreciation and amortization of unconsolidated interests	13,752	11,466	8,959
Impairment loss on investments in real estate	3,260	7,600	2,720
Impairment loss on equity investments	—	21,058	—
Less: Non-controlling interest share of depreciation and amortization	(2,831)	(3,483)	(3,172)
Funds from operations	55,734	59,698	35,095
Preferred dividend of Series C Preferred Shares	—	(585)	(288)
Preferred dividend of Series D Preferred Shares	(9,285)	(339)	—
Allocation of earnings to Series B-1 Preferred Shares	—	(325)	(63)
Allocation of earnings to Series C Preferred Shares	—	(213)	(241)
FFO applicable to Common Shares - Basic	\$46,449	\$58,236	\$34,503
Weighted-average Common Shares	33,062	31,428	22,566
FFO Per Common Share - Basic	\$ 1.40	\$ 1.85	\$ 1.53
Diluted			
Funds from operations	\$55,734	\$59,698	\$35,095
Preferred dividend of Series C Preferred Shares	—	(585)	—
Preferred dividend of Series D Preferred Shares	(9,285)	(339)	—
Allocation of earnings to Series B-1 Preferred Shares	—	(325)	(63)
Allocation of earnings to Series C Preferred Shares	—	(213)	—
FFO applicable to Common Shares	\$46,449	\$58,236	\$35,032
Weighted-average Common Shares	33,062	31,428	22,566
Stock options	—	—	2
Convertible Series C Preferred Shares	—	—	388
Diluted weighted-average Common Shares	33,062	31,428	22,956
FFO Per Common Share - Diluted	\$ 1.40	\$ 1.85	\$ 1.53

Off-Balance Sheet Investments

We have six off-balance sheet investments in operating properties totaling \$84,235,000 and eight off-balance sheet investments in loan assets totaling \$50,624,000 at December 31, 2012. Our exposure to loss is limited to our investment balance. See Item 8 – Financial Statements, Note 8 for additional information on these investments.

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Critical Accounting Policies and Estimates

Below is a discussion of the accounting policies that management believes are critical to our operations. We consider these policies critical because they involve difficult management judgments and assumptions, require estimates about matters that are inherently uncertain and because they are important for understanding and evaluating our reported financial results. These judgments affect the reported amounts of assets and liabilities and our disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. With different estimates or assumptions, materially different amounts could be reported in our financial statements. Additionally, other companies may utilize different estimates that may impact the comparability of our results of operations to those of companies in similar businesses. Our most sensitive estimates involve the allocation of the purchase price of acquired properties and evaluating our real estate-related investments for impairment.

Investments in Real Estate

Upon the acquisition of real estate, we assess 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 we allocate purchase price based on these assessments. We assess fair value based on estimated cash flow projections and utilize 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.

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.

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.

Preferred equity investments – We have certain investments 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.

Equity investments – Equity investments are reviewed for impairment periodically. For equity investments in which the carrying value exceeds the fair value, we evaluate 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 and likelihood of 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

Consolidated Variable Interest Entities

Consolidated variable interest entities are those where we are the primary beneficiary of a variable interest entity. The primary beneficiary is the party that has a controlling financial interest in the VIE, which is defined by the entity having both

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of the following characteristics: 1) the power to direct the activities that, when taken together, most significantly impact the VIE's performance, and 2) the obligation to absorb losses and right to receive the returns from the VIE that would be significant to the VIE. We have no consolidated variable interest entities.

Variable Interest Entities Not Consolidated

Equity Method and Preferred Equity Investments – We have reviewed our various equity method and preferred equity investments and identified 11 investments for which we hold a variable interest in a VIE. Of these 11 interests, there are seven investments for which the underlying entities do not have sufficient equity at risk to permit them to finance their activities without additional subordinated financial support. There are four additional entities for which the VIE assessment was primarily based on the fact that the voting rights of the entity holders are not proportional to their obligations to absorb expected losses and rights to receive residual returns of the legal entities. These unconsolidated joint ventures are those where we are not the primary beneficiary of a VIE.

Loans Receivable and Loan Securities – We have reviewed our loans receivable and loan securities and certain of these assets have been identified as variable interests in a VIE because the equity investment at risk at the borrowing entity level is not considered sufficient for the entity to finance its activities without additional subordinated financial support.

Certain loans receivable and loan securities which have been determined to be VIEs are performing assets, meeting their debt service requirements, and the borrowers hold title to the collateral. In these cases the borrower holds legal title to the real estate collateral and has the power to direct the activities that most significantly impact the economic performance of the VIE, including management and leasing activities. In the event of default under these loans we only have protective rights and have the risk to absorb losses only to the extent of our loan investment. The borrower has been determined to be the primary beneficiary for these performing assets.

We have determined that we do not currently have the power to direct the activities of the ventures collateralizing any of its loans receivable and loan securities. For this reason, we believe that we do not control, nor are we the primary beneficiary of these ventures. Accordingly, we account for these investments under the guidance for loans receivable and real estate debt investments.

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.

The table below presents information about the Trust’s derivative financial instruments at December 31, 2012 (in thousands):

Type	Maturity	Strike Rate	Notional Amount of Hedge	Cost of Hedge	Estimated Fair Value of Cap
Cap	Oct-14	1.00%	\$ 5,753	\$ 174	\$ 1
Cap	May-13	1.25%	51,982	196	—
Cap	May-14	1.75%	51,982	434	—
Cap	Aug-14	0.50%	13,408	22	6

The fair value of our mortgage loans payable and secured financings, 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 \$9,319,000 and \$12,452,000 at December 31, 2012 and 2011 respectively. The fair value of our Senior Notes, based on quoted market price, was greater than its carrying value by \$2,933,000 at December 31, 2012.

The following table shows what the annual effect a change in the LIBOR rate would have on interest expense based upon our variable rate debt at December 31, 2012 (in thousands):

	Change in LIBOR (2)			
	-0.21%	1%	2%	3%
Change in consolidated interest expense	\$ (90)	\$392	\$ 605	\$ 872
Pro-rata share of change in interest expense of debt on non-consolidated entities (1)	(24)	464	2,179	3,959
(Increase) decrease in net income	<u>\$(114)</u>	<u>\$856</u>	<u>\$2,784</u>	<u>\$4,831</u>

- (1) Represents our pro-rata share of a change in interest expense in our Marc Realty and Sealy equity investments. 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, 2012 was 0.2087%.

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The Trust's equity investment in Vintage, which is reported on a 30 day lag, holds floating rate debt of approximately \$171,762,000 and bears interest at a rate indexed to the Securities Industry and Financial Markets Association Municipal Swap Index (SIFMA). The following table shows what the annual effect a change in the SIFMA rate would have on property level interest expense based upon the unhedged balances in variable rate debt at November 30, 2012 (in thousands):

	Change in SIFMA(1)			
	-0.12%	1%	2%	3%
Change in consolidated interest expense		\$ —		
	\$ —	—	\$ —	\$ —
Pro-rata share of change in interest expense on Vintage debt	(118)	871	1,710	2,515
(Increase) decrease in net income	<u>\$(118)</u>	<u>\$871</u>	<u>\$1,710</u>	<u>\$2,515</u>

(1) The one-month SIFMA rate at November 30, 2012 was 0.12%.

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.

The following table shows what the annual effect a change in the LIBOR rate would have on interest income based upon our variable rate loan assets at December 31, 2012 (in thousands):

	Change in LIBOR (1)			
	-0.21%	1%	2%	3%
Change in consolidated interest income	\$ (4)	\$293	\$705	\$1,183
Pro-rata share of change in interest income of loan assets in non-consolidated entities	(21)	100	200	300
Increase (decrease) in net income	<u>\$ (25)</u>	<u>\$393</u>	<u>\$905</u>	<u>\$1,483</u>

(1) The one month LIBOR rate at December 31, 2012 was 0.2087%.

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. We believe that there is a low likelihood that these counterparties will fail to meet their obligations. There can be no assurance that we will adequately protect against the foregoing risks.

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ITEM 8 – FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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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, 2012 and December 31, 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item 15(a)(2) present 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, 2012, 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 and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under ITEM 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedules and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the 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.

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 13, 2013

WINTHROP REALTY TRUST
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	December 31,	
	2012	2011
ASSETS		
Investments in real estate, at cost		
Land	\$ 43,252	\$ 36,495
Buildings and improvements	378,737	327,337
	421,989	363,832
Less: accumulated depreciation	(51,553)	(44,556)
Investments in real estate, net (variable interest entity \$21,423 and \$0, respectively)	370,436	319,276
Cash and cash equivalents	97,682	40,952
Restricted cash held in escrows	13,250	3,914
Loans receivable, net	211,250	114,333
Accounts receivable, net of allowances of \$374 and \$639, respectively	3,882	4,288
Accrued rental income	17,241	11,858
Securities carried at fair value	19,694	28,856
Loan securities carried at fair value	11	5,309
Preferred equity investments	12,250	5,520
Equity investments	134,859	162,142
Lease intangibles, net (variable interest entity \$3,485 and \$0, respectively)	37,744	36,305
Deferred financing costs, net	4,864	1,180
TOTAL ASSETS	\$ 923,163	\$ 733,933
LIABILITIES		
Mortgage loans payable (variable interest entity \$23,184 and \$0 respectively)	\$ 280,576	\$ 230,940
Senior notes payable	86,250	—
Notes payable (variable interest entity \$876 and \$0, respectively)	1,676	—
Secured financings	52,920	29,150
Revolving line of credit	—	40,000
Accounts payable and accrued liabilities	21,056	14,077
Related party fees payable	2,664	2,097
Dividends payable	5,366	5,369
Deferred income	1,136	502
Below market lease intangibles, net	2,255	2,962
TOTAL LIABILITIES	453,899	325,097
COMMITMENTS AND CONTINGENCIES		
EQUITY		
Winthrop Realty Trust Shareholders' Equity :		
Series D Cumulative Redeemable Preferred Shares, \$25 per share liquidation preference, 5,060,000 shares authorized and 4,820,000 shares outstanding at December 31, 2012 and 1,840,000 shares authorized and 1,600,000 shares outstanding at December 31, 2011	120,500	40,000
Common Shares, \$1 par, unlimited shares authorized; 33,018,711 and 33,041,034 issued and outstanding at December 31, 2012 and December 31, 2011, respectively	33,019	33,041
Additional paid-in capital	618,426	626,099
Accumulated distributions in excess of net income	(317,385)	(311,246)
Accumulated other comprehensive loss	(50)	(92)
Total Winthrop Realty Trust Shareholders' Equity	454,510	387,802
Non-controlling interests	14,754	21,034
Total Equity	469,264	408,836
TOTAL LIABILITIES AND EQUITY	\$ 923,163	\$ 733,933

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,		
	2012	2011	2010
Revenue			
Rents and reimbursements	\$51,375	\$ 42,789	\$36,274
Interest, dividends and discount accretion	21,123	25,458	17,128
	<u>72,498</u>	<u>68,247</u>	<u>53,402</u>
Expenses			
Property operating	15,666	14,387	7,758
Real estate taxes	4,765	4,427	2,412
Depreciation and amortization	17,666	13,234	9,628
Interest	17,658	15,759	15,114
Impairment loss on investment in real estate	2,562	7,600	—
General and administrative	3,561	3,558	3,402
Related party fees	8,953	7,690	5,096
Transaction costs	421	519	321
State and local taxes	234	379	133
	<u>71,486</u>	<u>67,553</u>	<u>43,864</u>
Other income (loss)			
Equity in income (loss) of equity investments (inclusive of impairments of \$0, \$21,058 and \$0)	14,843	(12,712)	(2,007)
Realized gain on sale of securities carried at fair value	41	123	558
Unrealized gain on securities carried at fair value	6,916	2,788	5,060
(Loss) gain on extinguishment of debt, net	(121)	9,258	—
Realized gain on loan securities carried at fair value	614	—	469
Unrealized gain on loan securities carried at fair value	447	2,738	5,011
Earnings from preferred equity investments	—	338	338
Settlement income	—	5,868	—
Gain on consolidation of property	—	818	—
Interest and other income	699	1,179	139
	<u>23,439</u>	<u>10,398</u>	<u>9,568</u>
Income from continuing operations	24,451	11,092	19,106
Discontinued operations			
Net (loss) income from discontinued operations	(67)	655	(1,741)
Consolidated net income	<u>24,384</u>	<u>11,747</u>	<u>17,365</u>
Net (income) loss attributable to non-controlling interest	247	(814)	(888)
Net income attributable to Winthrop Realty Trust	<u>24,631</u>	<u>10,933</u>	<u>16,477</u>
Preferred dividend of Series C Preferred Shares	—	(585)	(288)
Preferred dividend of Series D Preferred Shares	(9,285)	(339)	—
Net income attributable to Common Shares	<u>\$15,346</u>	<u>\$ 10,009</u>	<u>\$16,189</u>
Per Common Share data - Basic			
Income from continuing operations	\$ 0.46	\$ 0.30	\$ 0.80
(Loss) income from discontinued operations	—	0.02	(0.08)
Net income attributable to Winthrop Realty Trust	<u>\$ 0.46</u>	<u>\$ 0.32</u>	<u>\$ 0.72</u>
Per Common Share data - Diluted			
Income from continuing operations	\$ 0.46	\$ 0.30	\$ 0.80
(Loss) income from discontinued operations	—	0.02	(0.08)
Net income attributable to Winthrop Realty Trust	<u>\$ 0.46</u>	<u>\$ 0.32</u>	<u>\$ 0.72</u>
Basic Weighted-Average Common Shares	<u>33,062</u>	<u>31,428</u>	<u>22,566</u>
Diluted Weighted-Average Common Shares	<u>33,062</u>	<u>31,428</u>	<u>22,568</u>
Comprehensive income			
Consolidated net income	\$24,384	\$ 11,747	\$17,365
Change in unrealized gain on available for sale securities	—	—	2
Change in unrealized gain (loss) on interest rate derivative	42	(29)	22
Consolidated comprehensive income	24,426	11,718	17,389
Net (income) loss attributable to non-controlling interest	247	(814)	(888)
Other comprehensive income attributable to non-controlling interest	—	—	—
Comprehensive income attributable to non-controlling interest	247	(814)	(888)
Comprehensive income attributable to Winthrop Realty Trust	<u>\$24,673</u>	<u>\$ 10,904</u>	<u>\$16,501</u>

See Notes to Consolidated Financial Statements.

WINTHROP REALTY TRUST
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010
(In thousands except per share data)

	Preferred Shares of Beneficial Interest		Common Shares of Beneficial Interest		Additional Paid-In Capital	Accumulated Distributions in Excess of Net Income	Accumulated Other Comprehensive Income (Loss)	Non- Controlling Interests	Total
	Shares	Amount	Shares	Amount					
Balance, December 31, 2009	—	\$ —	20,375	\$20,375	\$ 498,118	\$ (301,317)	\$ (87)	\$ 12,111	\$229,200
Net income attributable to Winthrop Realty Trust	—	—	—	—	—	16,477	—	0	16,477
Net income attributable to non-controlling interests	—	—	—	—	—	—	—	888	888
Distributions to non-controlling interests	—	—	—	—	—	—	—	(354)	(354)
Contributions from non-controlling interests	—	—	—	—	—	—	—	1,431	1,431
Dividends paid or accrued on Common Shares of beneficial interest (\$0.65 per share)	—	—	—	—	—	(15,654)	—	—	(15,654)
Dividends paid or accrued on Series C Preferred Shares (\$1.625 per share)	—	—	—	—	—	(288)	—	—	(288)
Change in unrealized loss on available for sale securities, net of reclassification adjustments for amounts included in net income	—	—	—	—	—	—	2	—	2
Change in unrealized gain on interest rate derivatives	—	—	—	—	—	—	22	—	22
Conversion of Series C Preferred Shares to Common Shares	—	—	714	714	8,234	—	—	—	8,948
Net proceeds from Common Shares offering	—	—	5,750	5,750	61,024	—	—	—	66,774
Stock issued pursuant to dividend reinvestment plan	—	—	191	191	2,210	—	—	—	2,401
Balance, December 31, 2010	—	\$ —	27,030	\$27,030	\$ 569,586	\$ (300,782)	\$ (63)	\$ 14,076	\$309,847
Net income attributable to Winthrop Realty Trust	—	—	—	—	—	10,933	—	—	10,933
Net income attributable to non-controlling interests	—	—	—	—	—	—	—	814	814
Distributions to non-controlling interests	—	—	—	—	—	—	—	(356)	(356)
Contributions from non-controlling interests	—	—	—	—	—	—	—	6,526	6,526
Dividends paid or accrued on Common Shares of beneficial interest (\$0.65 per share)	—	—	—	—	—	(20,473)	—	—	(20,473)
Dividends paid or accrued on Series C Preferred Shares (\$1.43 per share)	—	—	—	—	—	(585)	—	—	(585)
Dividends paid or accrued on Series D Preferred Shares (\$0.212 per share)	—	—	—	—	—	(339)	—	—	(339)
Change in unrealized loss on interest rate derivatives	—	—	—	—	—	—	(29)	(26)	(55)
Net proceeds from Common Shares offering	—	—	5,750	5,750	55,636	—	—	—	61,386
Net proceeds from Series D Preferred Shares offering	1,600	40,000	—	—	(1,622)	—	—	—	38,378
Stock issued pursuant to dividend reinvestment plan	—	—	261	261	2,499	—	—	—	2,760
Balance, December 31, 2011	1,600	\$40,000	33,041	\$33,041	\$ 626,099	\$ (311,246)	\$ (92)	\$ 21,034	\$408,836

See Notes to Consolidated Financial Statements.

WINTHROP REALTY TRUST
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

(In thousands except per share data, continued)

	Preferred Shares of Beneficial Interest		Common Shares of Beneficial Interest		Additional Paid-In Capital	Accumulated Distributions in Excess of Net Income	Accumulated Other Comprehensive Income (Loss)	Non- Controlling Interests	Total
	Shares	Amount	Shares	Amount					
Balance, December 31, 2011	1,600	\$ 40,000	33,041	\$33,041	\$ 626,099	\$(311,246)	\$ (92)	\$ 21,034	\$408,836
Net income attributable to Winthrop Realty Trust	—	—	—	—	—	24,631	—	—	24,631
Net income attributable to non-controlling interests	—	—	—	—	—	—	—	(247)	(247)
Distributions to non-controlling interests	—	—	—	—	—	—	—	(7,242)	(7,242)
Contributions from non-controlling interests	—	—	—	—	—	—	—	4,576	4,576
Purchase of non-controlling interests	—	—	—	—	(4,533)	—	—	(3,367)	(7,900)
Dividends paid or accrued on Common Shares of Beneficial Interest (\$0.65 per share)	—	—	—	—	—	(21,485)	—	—	(21,485)
Dividends paid or accrued on Series D Preferred Shares (\$1.92628 per share)	—	—	—	—	—	(9,285)	—	—	(9,285)
Series D Preferred Share offering	3,220	80,500	—	—	(2,937)	—	—	—	77,563
Change in unrealized gain on interest rate derivatives	—	—	—	—	—	—	42	—	42
Stock issued pursuant to dividend reinvestment plan	—	—	48	48	469	—	—	—	517
Stock buyback	—	—	(70)	(70)	(672)	—	—	—	(742)
Balance, December 31, 2012	<u>4,820</u>	<u>\$ 120,500</u>	<u>33,019</u>	<u>\$33,019</u>	<u>\$ 618,426</u>	<u>\$(317,385)</u>	<u>\$ (50)</u>	<u>\$ 14,754</u>	<u>\$469,264</u>

See Notes to Consolidated Financial Statements.

WINTHROP REALTY TRUST
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Years Ended December 31,		
	2012	2011	2010
Cash flows from operating activities			
Net income	\$ 24,384	\$ 11,747	\$ 17,365
Adjustments to reconcile net income to net cash provided by operating activities:			
provided by operating activities:			
Depreciation and amortization (including amortization of deferred financing costs and fair value of debt)	11,824	9,412	6,988
Amortization of lease intangibles	6,746	4,472	3,033
Straight-line rental income	(5,415)	(1,907)	403
Loan discount accretion	(8,333)	(13,401)	(8,782)
Discount accretion received in cash	15,720	13,290	—
Earnings of preferred equity investments	—	(338)	(338)
Distributions of income from preferred equity investments	97	571	340
(Income) loss of equity investments	(14,678)	12,712	2,007
Distributions of income from equity investments	21,593	12,696	5,270
Restricted cash held in escrows	(3,477)	1,431	1,167
Gain on sale of securities carried at fair value	(41)	(123)	(558)
Unrealized gain on securities carried at fair value	(6,916)	(2,788)	(5,060)
Gain on sale of real estate investments	(945)	(392)	—
Gain on sale of loan securities carried at fair value	(614)	—	(469)
Unrealized gain on loan securities carried at fair value	(447)	(2,738)	(5,011)
Impairment loss on investments in real estate	3,260	7,600	2,720
Loss (gain) on extinguishment of debt	121	(9,258)	—
Gain on consolidation of property	—	(818)	—
Tenant leasing costs	(4,250)	(1,314)	(2,996)
Bad debt (recovery) expense	(265)	377	(643)
Net change in interest receivable	(516)	37	(361)
Net change in accounts receivable and other assets	726	(785)	2,172
Net change in accounts payable and accrued liabilities	7,861	(796)	2,365
Net cash provided by operating activities	46,435	39,687	19,612
Cash flows from investing activities			
Issuance and acquisition of loans receivable	(163,800)	(67,619)	(122,301)
Investments in real estate	(37,678)	(9,751)	(23,484)
Investment in equity investments	(78,679)	(151,219)	(25,632)
Investment in preferred equity investment	(10,750)	(7,564)	—
Return of capital distribution from equity investments	84,026	31,890	9,625
Return of capital distribution from securities carried at fair value	—	—	181
Purchase of securities carried at fair value	(5,655)	(19,321)	(13,222)
Proceeds from sale of investments in real estate	7,024	3,629	1,750
Proceeds from sale of equity investments	4,297	6,000	—
Proceeds from sale of securities carried at fair value	21,774	26,408	31,249
Proceeds from sale of available for sale securities	—	—	205
Proceeds from payoff of loan securities	6,359	8,748	2,272
Proceeds from sale of loans receivable	—	—	12,876
Restricted cash held in escrows	(5,600)	3,160	(1,508)
Collection of loans receivable	68,824	70,289	15,064
Cash from foreclosure on properties	411	—	275
Net cash used in investing activities	(109,447)	(105,350)	(112,650)

(Continued on next page)

See Notes to Consolidated Financial Statements.

WINTHROP REALTY TRUST
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands, continued)

	Years Ended December 31,		
	2012	2011	2010
Cash flows from financing activities			
Proceeds from mortgage loans payable	\$ 36,897	\$ 32,494	\$ —
Proceeds from notes payable	880	—	—
Payment of notes payable	(80)	—	—
Proceeds from revolving line of credit	—	67,324	25,450
Payment of revolving line of credit	(40,000)	(52,774)	—
Principal payments of mortgage loans payable	(25,584)	(72,574)	(10,199)
Proceeds from issuance of senior notes payable	86,250	—	—
Proceeds from secured financing	25,000	29,150	—
Payment of secured financing	(1,230)	—	—
Restricted cash held in escrows	(42)	89	1,520
Deferred financing costs	(4,198)	(788)	(252)
Purchase of non-controlling interests	(2,050)	—	—
Contribution from non-controlling interest	4,576	1,349	1,431
Distribution to non-controlling interest	(7,242)	(356)	(354)
Issuance of Common Shares under Dividend Reinvestment Plan	517	2,760	2,401
Issuance of Common Shares through offering	—	61,386	66,774
Buyback of Common Shares	(742)	—	—
Issuance of Series D Preferred Shares	77,563	38,378	—
Dividend paid on Common Shares	(21,488)	(19,496)	(14,573)
Dividend paid on Series C Preferred Shares	—	(624)	(396)
Dividend paid on Series D Preferred Shares	(9,285)	(339)	—
Redemption of Series B-1 Preferred Shares	—	(21,400)	—
Redemption of Series C Preferred Shares	—	(3,221)	—
Net cash provided by financing activities	<u>119,742</u>	<u>61,358</u>	<u>71,802</u>
Net increase (decrease) in cash and cash equivalents	56,730	(4,305)	(21,236)
Cash and cash equivalents at beginning of year	40,952	45,257	66,493
Cash and cash equivalents at end of year	<u>\$ 97,682</u>	<u>\$ 40,952</u>	<u>\$ 45,257</u>
Supplemental Disclosure of Cash Flow Information			
Interest paid	<u>\$ 16,467</u>	<u>\$ 16,246</u>	<u>\$ 14,240</u>
Taxes paid	<u>\$ 332</u>	<u>\$ 396</u>	<u>\$ 133</u>
Supplemental Disclosure on Non-Cash Investing and Financing Activities			
Dividends accrued on Common Shares	<u>\$ 5,366</u>	<u>\$ 5,396</u>	<u>\$ 4,392</u>
Dividends accrued on Series C Preferred Shares	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 39</u>
Capital expenditures accrued	<u>\$ 4,011</u>	<u>\$ 4,285</u>	<u>\$ 1,046</u>
Transfer from preferred equity investments	<u>\$ 3,923</u>	<u>\$ 7,843</u>	<u>\$ —</u>
Transfer from loans receivable	<u>\$ 2,938</u>	<u>\$ —</u>	<u>\$ —</u>
Transfer to equity investments	<u>\$ (6,861)</u>	<u>\$ (5,035)</u>	<u>\$ —</u>
Transfer from equity investments	<u>\$ 17,600</u>	<u>\$ 12,544</u>	<u>\$ —</u>
Transfer to loans receivable	<u>\$ (11,750)</u>	<u>\$ (6,534)</u>	<u>\$ —</u>
Transfer to additional paid-in capital	<u>\$ (5,487)</u>	<u>\$ —</u>	<u>\$ —</u>
Transfer to non-controlling interests	<u>\$ (363)</u>	<u>\$ —</u>	<u>\$ —</u>
Transfer to preferred equity investments	<u>\$ —</u>	<u>\$ (2,022)</u>	<u>\$ —</u>
Transfer to investments in lease intangibles	<u>\$ —</u>	<u>\$ (11,904)</u>	<u>\$ (3,204)</u>
Transfer to investments in real estate	<u>\$ —</u>	<u>\$ (52,778)</u>	<u>\$ (41,425)</u>
Transfer to below market lease intangibles	<u>\$ —</u>	<u>\$ 1,005</u>	<u>\$ 125</u>
Assumption of mortgage loan on investment in real estate	<u>\$ 13,600</u>	<u>\$ 49,091</u>	<u>\$ 23,875</u>
Transfer from loan securities	<u>\$ —</u>	<u>\$ 662</u>	<u>\$ —</u>

See Notes to Consolidated Financial Statements

WINTHROP REALTY TRUST
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Amounts related to number of buildings, square footage, occupancy 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 May 21, 2009, which has as its stated principal business activity the ownership and management of, and lending to, real estate and related investments.

Since January 1, 2005, WRT has conducted 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 segments: (i) ownership of investment properties including wholly owned properties and investments in joint ventures which own properties (“operating properties”); (ii) origination and acquisition of loans and debt securities collateralized directly or indirectly by commercial and multi-family real property, including collateral mortgage-backed securities and collateral debt obligation securities (collectively “loan assets”); 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 assets are its nominal ownership interest in the Operating Partnership and an indirect interest in CDH CDO LLC. 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.

Reclassifications

Certain prior year balances relating to gain on sale of equity investments have been reclassified to equity income, and certain prior year balances of accounts receivable have been reclassified to accrued rental income in order to conform to the current year presentation. Discontinued operations for the periods presented include the Trust’s properties in Athens, Georgia; Indianapolis, Indiana; Lafayette, Louisiana; St. Louis, Missouri; Knoxville, Tennessee; Memphis, Tennessee and Sherman, Texas.

Out of Period Adjustments

During the quarter ended June 30, 2010, the Trust identified an error in its year ended December 31, 2009 allocation of fair value attributable to the building component of its Athens, Georgia property which was assessed for impairment in connection with its reclassification as held for sale and its presentation in discontinued operations. As a result, net loss was understated by approximately \$700,000 for the year ended December 31, 2009. The Trust determined that this amount was not material to the years ended December 31, 2010 or 2009, or to the three and six months ended June 30, 2010. As such, a charge of approximately \$700,000 has been recorded in the consolidated statement of operations within discontinued operations as an out of period adjustment in the second quarter of 2010. There was no impact on cash flow from operations.

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During the quarter ended December 31, 2010, the Trust identified an error related to the capitalization of certain legal costs in its year ended December 31, 2009 financial statements. As a result, net loss was understated by approximately \$228,000 for the year ended December 31, 2009. The Trust determined that this amount was not material to the year or any quarter for the years ended December 31, 2010 or 2009. As such, a charge of \$228,000 has been recorded in the consolidated statement of operations as an out of period adjustment for the year ended December 31, 2010. There was no impact on cash flow from operations.

During the quarter ended December 31, 2011, the Trust identified an error related to lease termination fee income for its St. Louis, Missouri property, included in discontinued operations, which should have been in its December 31, 2010 financial statements. As a result, net income was understated by \$450,000 for the year ended December 31, 2010. This income was recorded by the Trust in the quarter ended December 31, 2011. The Trust determined that this amount was not material to the year or any quarter for the years ended December 31, 2011 or 2010. There was no impact on cash flow from operations.

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 carried 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. If the acquisition is determined to be a business combination, then the related acquisition costs will be expensed. If the acquisition is determined to be an asset acquisition, then the related acquisition costs will be capitalized.

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 real estate investments to be held and used is measured by a comparison of the carrying amount of an asset group to estimated undiscounted future cash flows expected to be generated from the use and eventual disposition of the asset group. If the carrying amount of an asset group exceeds its estimated undiscounted future cash flows, an impairment charge is recognized equal to the amount by which the carrying amount of the asset group exceeds the fair value of the asset group.

Assets to be disposed of that qualify as being held for sale 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.

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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 include cash reserves for tenant improvements, leasing commissions, real estate taxes and other expenses pursuant to the loan agreements. The classification of restricted cash within the Consolidated Statement of Cash Flows is determined by the nature of the escrow account.

Loans Receivable

The Trust's policy is to record loans receivable at cost, net of unamortized discounts 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 based upon an evaluation of prospective future cash flows. 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. Loan fees and direct costs associated with loans originated by the Trust are deferred and amortized over the life of the loan as interest income.

The Trust evaluates the collectability of the interest and principal of each of its loans to determine potential 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 equal to the amount by which the Trust's net investment in the loan exceeds its fair value. 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. The Trust charges uncollectible loans against its allowance for loan loss after it has exhausted all economically warranted legal rights and remedies to collect the receivables or upon successful foreclosure and taking of loan collateral.

Certain real estate operating properties are acquired through foreclosure or through deed-in-lieu of foreclosure in full or partial satisfaction of non-performing loans that the Trust intends to hold, operate or develop for a period of at least twelve months. Upon acquisition of a property, tangible and intangible assets and liabilities acquired are recorded at their estimated fair values and depreciation is computed in the same manners as described in "Investments in Real Estate" above.

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 are reviewed individually for collectability. 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 has the option to elect fair value for these financial assets. The Trust elected the fair value option for 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 and loan securities carried at fair value. The changes in the fair value of these instruments are recorded in unrealized gain (loss) on securities and loan securities carried at fair value in the Consolidated Statements of Operations.

Preferred Equity Investment

The Trust has certain investments in ventures which entitle it to priority returns ahead of the other members in the ventures. At the inception of each such investment, management must determine whether such investment should be accounted for as a loan, preferred equity, equity or as real estate. The Trust classifies these investments as preferred equity investments and they are accounted for using the equity method because the Trust has the ability to significantly

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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 of 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 entities 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 or managing member in situations where the Trust is not the general partner or managing member, and (ii) substantive participating rights of equity holders 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 at 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.

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 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 estimating the fair value of the identified intangible assets and liabilities of an acquired property, above-market and below-market 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 plus the term of any below-market fixed rate renewal options, if any. 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. In-place lease values are based upon the Trust's evaluation of the specific characteristics of each tenant lease. Factors considered include estimates of carrying costs during a hypothetical lease up period considering current market conditions and costs to execute similar leases. The in-place leases are recorded as intangible assets and amortized as a charge to amortization expense.

Deferred Financing Costs

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

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Financial Instruments

Financial instruments held by the Trust include cash and cash equivalents, restricted cash, real estate securities, loans receivable, interest rate hedge agreements, accounts receivable, revolving line of credit, accounts payable and long term debt. Cash and cash equivalents, restricted cash, real estate securities and interest rate hedge 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 and interest rate cap agreements are carried on the balance sheet at fair value. An interest rate swap is carried 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. For the Trust's interest rate contracts that are designated as "cash flow hedges," the change in the fair value of 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 the interest rate swap agreement, if any, is recognized in earnings.

Upon entering into hedging transactions, the Trust documents the relationship between the interest rate financial instrument 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 is no longer appropriate. The Trust utilizes its interest rate swap and interest rate cap 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 over the minimum non-cancellable term of the lease. The straight-line rent adjustment increased revenue by \$2,400,000 in 2012 and \$1,681,000 in 2011, and decreased revenue by \$730,000 in 2010. The accrued straight-line rent receivable amounts at December 31, 2012 and 2011 were \$17,241,000 and \$11,858,000, respectively.

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.

The Trust recognizes lease termination payments as a component of rental revenue in the period received, provided that the Trust has no further obligations under the lease; otherwise, the lease termination payment is amortized on a straight-line basis over the remaining obligation period.

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 dividend requirements.

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In order for the Trust to continue to qualify as a REIT, the value of the TRS stock cannot exceed 20% of the value of the Trust's total assets. The net income of 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 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 taxing 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.

Preferred Shares

On November 28, 2011 the Trust closed on a public offering of 1,600,000 9.25% Series D Cumulative Redeemable Preferred Shares of Beneficial Interest (the "Series D Preferred Shares") at a price of \$25.00 per share, par value of \$1 per share. The Trust received net proceeds, after underwriting discounts and expenses, of \$38,378,000.

On March 23, 2012 the Trust closed on a public offering of 3,220,000 Series D Preferred Shares at a price of \$25.0385 per share, par value of \$1 per share. The Trust received net proceeds, after underwriters discounts and expenses, of \$77,563,000. The Series D Preferred Shares rank senior to the Common Shares with respect to dividend rights and liquidation or dissolution rights. The Series D Preferred Shares have no stated maturity date and are not subject to mandatory redemption or any sinking fund. Holders of the Series D Preferred Shares will generally have no voting rights except for limited voting rights if we fail to pay dividends for six or more quarterly periods. The Series D Preferred Shares are classified as a component of permanent equity at December 31, 2012 and 2011.

Concurrent with the Series D Preferred Shares offering, the Trust entered into an agreement with the holders of the Series B-1 Cumulative Convertible Redeemable Preferred Shares ("Series B-1 Preferred Shares") and Series C Cumulative Convertible Redeemable Preferred Shares ("Series C Preferred Shares") to repurchase all the outstanding shares prior to the consummation of the Series D Preferred Shares closing and issuance. The Trust repurchased 100% of the Series B-1 Preferred Shares and the Series C Preferred Shares on November 18, 2011 at a price of \$25,000,000 plus accrued dividends. The Trust recognized a loss of \$100,000 on the repurchase of the Series B-1 Preferred Shares.

Earnings Per Share

The Trust determines basic earnings per share based on the weighted average number of Common Shares outstanding during the period and reflects the impact of participating securities. Prior to November 18, 2011, when the Trust repurchased 100% of the Series B-1 Preferred Shares and the Series C Preferred Shares, the holders of the Trust's Series B-1 Preferred Shares and the Series C Preferred Shares were entitled to receive cumulative preferential dividends on a quarterly basis 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 and Series C Preferred Shares (assuming for this purpose that the conversion price of the Series C Preferred Shares equals the conversion price of the Series B-1 Preferred Shares) were 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 Trust has calculated earnings per share in accordance with relevant accounting guidance for participating securities and the two class method. The reconciliation of earnings attributable to Common Shares outstanding for the basic and diluted earnings per share calculation is as follows (in thousands, except per share data):

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	2012	2011	2010
Basic			
Income from continuing operations	24,451	\$11,092	\$19,106
Income attributable to non-controlling interest	247	(814)	(888)
Preferred dividend of Series C Preferred Shares	—	(585)	(288)
Preferred dividend of Series D Preferred Shares	(9,285)	(339)	—
Income from continuing operations applicable to Common Shares	15,413	9,354	17,930
Income (loss) from discontinued operations	(67)	655	(1,741)
Net income applicable to Common Shares for earnings per share purposes	<u>15,346</u>	<u>\$10,009</u>	<u>\$16,189</u>
Basic weighted-average Common Shares	<u>33,062</u>	<u>31,428</u>	<u>22,566</u>
Income from continuing operations	\$ 0.46	\$ 0.30	\$ 0.80
Income (loss) from discontinued operations	—	0.02	(0.08)
Net income per Common Share	<u>\$ 0.46</u>	<u>\$ 0.32</u>	<u>\$ 0.72</u>
Diluted			
Income from continuing operations	\$24,451	\$11,092	\$19,106
Income attributable to non-controlling interest	247	(814)	(888)
Preferred dividend of Series C Preferred Shares	—	(585)	(288)
Preferred dividend of Series D Preferred Shares	(9,285)	(339)	—
Income from continuing operations applicable to Common Shares	15,413	9,354	17,930
Income (loss) from discontinued operations	(67)	655	(1,741)
Net income applicable to Common Shares for earnings per share purposes	<u>\$15,346</u>	<u>\$10,009</u>	<u>\$16,189</u>
Basic weighted-average Common Shares	<u>33,062</u>	<u>31,428</u>	<u>22,566</u>
Series B-1 Preferred Shares (1)	—	—	—
Series C Preferred Shares (2)	—	—	—
Stock options (3)	—	—	2
Diluted weighted-average Common Shares	<u>33,062</u>	<u>31,428</u>	<u>22,568</u>
Income from continuing operations	\$ 0.46	\$ 0.30	\$ 0.80
Income (loss) from discontinued operations	—	0.02	(0.08)
Net income per Common Share	<u>\$ 0.46</u>	<u>\$ 0.32</u>	<u>\$ 0.72</u>

- (1) The Series B-1 Preferred Shares are anti-dilutive for the years ended December 31, 2011 and 2010 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 anti-dilutive for the years ended December 31, 2011 and 2010 and are not included in the weighted-average shares outstanding for the calculation of diluted earnings per Common Share.
- (3) The Trust's stock options were dilutive for the years ended December 31, 2012 and 2010. The weighted-average stock options for the years ended December 31, 2012 were less than one thousand shares. The stock options were anti-dilutive for the year ended December 31, 2011 and are not included in the weighted-average shares outstanding for the calculation of diluted earnings per Common Share.

Recently Issued Accounting Standards

On February 5, 2013, FASB issued ASU No. 2013-02: Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, to improve the transparency of reporting the reclassifications of significant amounts out of accumulated other comprehensive income. This guidance requires entities to present the effects on the line items of net income of significant reclasses from accumulated other comprehensive income, either where net income is presented or in the notes, as well as cross-reference to other disclosures currently required under U.S. GAAP for other reclassification items (that are not required under U.S. GAAP) to be reclassified directly to net income in their entirety in the same reporting period. The new disclosure requirements will be effective for annual reporting periods beginning on or after January 1, 2013. The new disclosures will be required for both interim and annual reporting. The Trust has evaluated this new guidance and does not anticipate its adoption will have a material impact on its consolidated financial statements.

On December 16, 2011, FASB issued ASU No. 2011-11: *Balance Sheet (Topic 210)—Disclosures about Offsetting Assets and Liabilities* which requires entities to disclose both gross information and net information about both instruments and transactions eligible for offset in the financial statements particularly for transactions related to derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. The new disclosure requirements will be effective for annual reporting periods beginning on or after January 1, 2013. The new disclosures will be required for all prior comparative periods presented. The Trust has evaluated this new guidance and does not anticipate its adoption will have a material impact on its consolidated financial statements.

On December 14, 2011, FASB issued ASU No. 2011-10: *Property, Plant, and Equipment (Topic 360)—Derecognition of in Substance Real Estate—a Scope Clarification*, clarifying that a parent company should not deconsolidate an in substance real estate subsidiary in which the parent loses a controlling interest as a result of default on the subsidiary's non-recourse debt until title to the in substance real estate is transferred to legally satisfy the debt. This ASU resolves a diversity in practice of applying existing consolidation guidance. The amendments in ASU No. 2011-10 should be applied prospectively to deconsolidation events occurring after the effective date, though early adoption is permitted. Prior periods should not be adjusted. For public entities, the amendments are effective for periods beginning on or after June 15, 2012. The adoption did not have a material impact on the Trust's consolidated financial statements.

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 financial investments 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, investments in joint ventures and real estate investments.

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

Securities Carried at Fair Value

Securities carried at fair value are classified within Level 1 of the fair value hierarchy.

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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 judgment is utilized in the ultimate determination of fair value. The significant assumptions used in this analysis include market interest rates and interest rate spreads. This valuation methodology has been characterized as Level 3 in the fair value hierarchy.

Derivative Financial Instruments

The Trust uses interest rate swaps and interest rate caps 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 and interest rate caps 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, 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.

The table below presents the Trust's assets and liabilities measured at fair value on a recurring basis as of December 31, 2012, according to 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)	Total
<u>Recurring Basis</u>				
Assets				
Securities carried at fair value	\$ 19,694	\$ —	\$ —	\$19,694
Loan securities carried at fair value	—	—	11	11
Interest Rate Caps	—	8	—	8
	<u>\$ 19,694</u>	<u>\$ 8</u>	<u>\$ 11</u>	<u>\$19,713</u>

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The table below presents the Trust's assets and liabilities measured at fair value on a recurring basis as of December 31, 2011, 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	Significant Other	Significant Unobservable	Total
	and Liabilities (Level 1)	Observable Inputs (Level 2)	Inputs (Level 3)	
Assets				
Securities carried at fair value	\$ 28,856	\$ —	\$ —	\$28,856
Loan securities carried at fair value	—	—	5,309	5,309
Interest Rate Caps	—	85	—	85
	<u>\$ 28,856</u>	<u>\$ 85</u>	<u>\$ 5,309</u>	<u>\$34,250</u>

During the years ended December 31, 2012 and 2011 there were no transfers between Level 1 and Level 2 fair value assets and liabilities.

The table below includes a roll forward (in thousands) of the balance sheet amounts from January 1, 2010 to December 31, 2012, 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.

	Securities Carried	Loan Securities
	at Fair Value	Carried at Fair Value
Fair value, January 1, 2010	\$ 692	\$ 1,661
Purchases	—	7,112
Sale/repayment	(692)	(2,272)
Realized gain	—	469
Unrealized gain, net	—	5,011
Transfers in and/or out of Level 3	—	—
Fair value, January 1, 2011	—	11,981
Purchases	—	—
Sale/repayment	—	(662)
Payoff at par	—	(8,748)
Realized gain	—	—
Unrealized gain, net	—	2,738
Transfers in/and or out of Level 3	—	—
Fair value, January 1, 2012	—	5,309
Purchases	—	—
Sale/repayment	—	(6,359)
Realized gain	—	614
Unrealized gain, net	—	447
Transfers in and/or out of Level 3	—	—
Fair value, December 31, 2012	<u>\$ —</u>	<u>\$ 11</u>

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	Twelve Months Ended December 31, 2012	Twelve Months Ended December 31, 2011
The amount of total gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	\$ 23	\$ 659

Quantitative Information about Level 3 Fair Value Measurements

At December 31, 2012 the trust held only one loan security which is valued at \$11,000, or 1% of face value. The minimal valuation is based on the highly speculative probability of recovery.

Non-Recurring Measurements

Equity and Preferred Equity Investments

Equity and preferred equity investments are assessed for other-than-temporary impairment when the carrying value of the Trust's investment exceeds its fair value. The fair value of equity investments is determined using a discounted cash flow model which incorporates a residual value utilizing an 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 rental revenues, operating expenses, inflation rates, market absorption rates, tenanting costs, the discount rate and capitalization rates used in the income capitalization valuation. The Trust has determined that the significant inputs used to value its Marc Realty and Sealy equity investments fall within Level 3. The Trust recognized other-than-temporary impairment losses of \$0, \$21,058,000, and \$0 on these investments during the years ended December 31, 2012, 2011 and 2010, respectively.

The Trust has determined that the significant inputs used to value certain of its preferred equity investments fall within Level 3. There were no impairment losses recorded on these preferred equity investments during the years ended December 31, 2012, 2011 and 2010.

Investments in Real Estate and Assets Held For Sale

During 2012, 2011, and 2010 the Trust recognized impairment charges of \$3,260,000, \$7,600,000 and \$2,720,000, respectively, relative to investments in real estate and assets held for sale. The Trust assesses the assets in its portfolio for recoverability based upon a determination of the existence of impairment indicators including significant decreases in market pricing and market rents, a change in the extent or manner in which real estate assets are being used or a decline in their physical condition, current period losses combined with a history of losses or a projection of continuing losses, and a current expectation that real estate assets will be sold or otherwise disposed of before the end of their previously estimated useful lives. When such impairment indicators exists, management estimates the undiscounted cash flows from the expected use and disposition of the asset. Significant inputs for this recoverability analysis include the anticipated holding

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period for the asset as well as assumptions over rental revenues, operating expenses, inflation rates, market absorption rates, tenanting and other capital improvement costs and the asset's estimated residual value. For those assets not deemed to be fully recoverable, the Trust records an impairment charge equal to the difference between the carrying value and estimated fair value of the asset less costs to sell the asset. Management determines the fair value of those assets using an income valuation approach based on assumptions it believes a market participant would utilize. Significant assumptions include discount and capitalization rates used in the income valuation approach.

At December 31, 2012 the Trust re-evaluated its business plan and revised its holding period for two assets in the operating properties segment. As a result, it was determined that due to the shorter hold period, the carrying value of the Atlanta, Georgia and Denton, Texas properties were no longer fully recoverable. Impairment charges of \$1,738,000 and \$824,000 were recorded on the Atlanta, Georgia and Denton, Texas assets, respectively.

The Trust's Memphis, Tennessee property was placed into discontinued operations during the period ended September 30, 2012. The carrying value of the property exceeded the fair value less costs to sell resulting in a \$698,000 impairment charge.

The table below presents as of December 31, 2012 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):

	Quoted Prices in Active Markets for	Significant Other		Total
	Identical Assets and Liabilities (Level 1)	Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<u>Non-Recurring Basis</u>				
Investments in real estate	\$ —	\$ —	\$ 3,733	\$3,733
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3,733</u>	<u>\$3,733</u>

The table below presents as of December 31, 2011 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):

	Quoted Prices in Active Markets for	Significant Other		Total
	Identical Assets and Liabilities (Level 1)	Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<u>Non-Recurring Basis</u>				
Equity investments	\$ —	\$ —	\$ 28,135	\$28,135
Investments in real estate	—	—	10,794	10,794
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 38,929</u>	<u>\$38,929</u>

The following table provides quantitative information about the significant unobservable inputs used for non-recurring fair value measurements categorized within Level 3 at December 31, 2012. Refer to "Assets measured at fair value on a non-recurring basis" for a complete valuation hierarchy summary.

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	Assets Measured at Fair Value (in thousands)	Valuation Technique	Unobservable Input	Input Range	Weighted Average
Investments in real estate	\$ 1,958	Discounted cash flow	Discount Rate	6%-10%	9%
Investments in real estate	\$ 1,775	Indicative Bids ⁽¹⁾	Indicative Bids	N/A	N/A

⁽¹⁾ This fair value measurement was developed from a purchase contract currently in negotiation.

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 measurement attribute for certain financial assets and liabilities. Changes in fair value for assets and liabilities for which the election is made are 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 to be made on an instrument by instrument basis when it is initially recorded or upon an event that gives rise to a new basis of accounting for that asset or liability. The Trust has elected the fair value option for all loan securities and REIT securities.

The Trust recognized a net unrealized gain of \$7,363,000, \$5,526,000, and \$10,071,000 for the years ended December 31, 2012, 2011 and 2010 respectively, as a result of the change in fair value of the securities and loan securities carried at fair value, which is recorded as an unrealized gain in the Trust's Consolidated Statements of Operations. Income related to securities carried at fair value is recorded as interest and dividend income.

The following table presents as of December 31, 2012 and December 31, 2011 the Trust's financial assets for which the fair value option was elected (in thousands):

Financial Instruments at Fair Value	December 31, 2012	December 31, 2011
Assets		
Securities carried at fair value:		
REIT Preferred shares	\$ —	\$ 4,277
REIT Common shares	19,694	24,579
Loan securities carried at fair value	11	5,309
	<u>\$ 19,705</u>	<u>\$ 34,165</u>

The table below presents as of December 31, 2012 the difference between fair values and the aggregate contractual amounts due for which the fair value option has been elected (in thousands):

	Fair Value at December 31, 2012	Amount Due Upon Maturity	Difference
Assets			
Loan securities carried at fair value	\$ 11	\$ 1,130	\$ 1,119
	<u>\$ 11</u>	<u>\$ 1,130</u>	<u>\$ 1,119</u>

4. Acquisition, Disposition, Leasing and Financing Activities

Operating Properties

Operating Properties - Acquisition Activities

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Waterford Place Apartments – On April 17, 2012 the Trust acquired for a cash purchase price of approximately \$21,473,000 a 320 unit class A multi-family property situated on 27.9 acres in the Germantown/Collierville submarket of Memphis, Tennessee commonly referred to as Waterford Place. The property, which had been foreclosed on by the mortgage lender in May 2011, was constructed in 2001 and was 87% occupied at acquisition. Costs incurred to complete the acquisition have been expensed as incurred.

Cerritos – On October 4, 2012 the Trust purchased from an affiliate of FUR Advisors for \$75,000 (the affiliate's cost) a 100% membership interest in the entity that holds fee simple title to a nine story, 187,000 square foot, 53% occupied, Class B office building located 20 miles south of Los Angeles in Cerritos, California. In addition, the Trust funded a \$1,500,000 leasing reserve and a \$264,000 loan restructuring fee as part of the transaction. Concurrently with the acquisition of the property, the Trust entered into a modification agreement with the first mortgage lender pursuant to which the loan was split into a \$23,000,000 non-recourse A Note and a \$14,500,000 non-recourse B Note. The A Note bears interest at 5.0691% per annum and requires monthly payments of interest only. The B Note bears interest at 6.6996% per annum and requires monthly payments of approximately \$12,000 with the balance of the interest accruing. In connection with the modification, after payment of required monthly debt service on the A Note and the B Note, the Trust is entitled to receive from property cash flow a 9.0% return on any additional funding to the property (including the \$1,500,000 leasing reserve). With respect to a capital transaction, all net proceeds go first to satisfy the A Note, second to the Trust until it receives a return of its additional funding to the property plus its 9.0% return thereon, third 50-50 to the Trust and the first mortgage lender until the principal amount of the B Note and accrued interest thereon is fully satisfied and fourth to the Trust. The loan modification agreement provides for a participation feature whereby the B Note can be fully satisfied with proceeds from the sale of the property, after the Trust receives its 9.0% priority return of capital, during a specified time period as defined in the loan modification document. The property is currently 77% leased.

Lake Brandt - On November 2, 2012 a wholly-owned subsidiary of the Trust acquired for a purchase price of \$17,500,000 a 284 unit multi-family property located in Greensboro, North Carolina. The purchase price consisted of approximately \$3,900,000 of cash and the assumption of \$13,600,000 of indebtedness. The assumed debt is a non-recourse mortgage loan which bears interest at 6.22% per annum, matures on August 1, 2016 and requires payments of interest only.

The fair value of the assets and liabilities of the acquired properties was calculated by an independent third party valuation firm and reviewed by management. The methodology used by the Trust for purposes of allocating the fair value of the acquired properties to tangible and intangible assets and liabilities is discussed in Note 2.

The following table summarizes the allocation of the aggregate purchase price of Waterford Place, Cerritos and Lake Brandt at their respective dates of acquisition (in thousands):

	Waterford			
	Place	Cerritos	Lake Brandt	Total
Land	\$ 3,080	\$ 4,115	\$ 1,961	\$ 9,156
Building	15,085	14,944	15,368	45,397
Other improvements	2,121	427	828	3,376
Fixtures and equipment	279	—	286	565
Tenant improvements	—	894	—	894
Working capital assumed	—	1,688	—	1,688
Lease intangibles	908	2,913	664	4,485
Above market lease intangibles	—	641	—	641
Below market lease intangibles	—	(54)	—	(54)
Total fair value of asset acquired	21,473	25,568	19,107	66,148
Less indebtedness assumed	—	(23,000)	(13,600)	(36,600)
Above market debt adjustment assumed	—	(1,085)	(1,607)	(2,692)
Net assets acquired	<u>\$21,473</u>	<u>\$ 1,483</u>	<u>\$ 3,900</u>	<u>\$ 26,856</u>

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Intangible assets acquired and intangible liabilities assumed for Waterford Place, Cerritos and Lake Brandt consisted of the following (in thousands):

	Carrying Value	Weighted Average Amortization Period (years)
Intangible assets:		
In place lease intangibles	\$2,872	2.5
Above market lease intangibles	641	5.0
Tenant relationship value	1,260	10.0
Lease commissions, legal and marketing fees	353	5.0
Total	\$5,126	5.6
Intangible liabilities:		
Below market lease intangibles	\$ (54)	5.0

Waterford Place contributed approximately \$2,245,000 of revenue and a loss of approximately \$676,000 to the Trust for the period from April 17, 2012 through December 31, 2012. Cerritos contributed approximately \$576,000 of revenue and a loss of approximately \$420,000 to the Trust for the period from October 4, 2012 through December 31, 2012. Lake Brandt contributed approximately \$388,000 of revenue and a loss of approximately \$252,000 to the Trust for the period from November 2, 2012 through December 31, 2012.

The accompanying unaudited pro forma information for the years ended December 31, 2012 and 2011 is presented as if the acquisition of (i) Waterford Place on April 17, 2012, (ii) Cerritos on October 4, 2012 and (iii) Lake Brandt on November 2, 2012, had occurred on January 1, 2011. This unaudited pro forma information is based upon the historical consolidated financial statements and should be read in conjunction with the consolidated financial statements and notes thereto. This unaudited pro forma information does not purport to represent what the actual results of operations of the Trust would have been had the above occurred, nor do they purport to predict the results of operations of future periods.

Pro forma (unaudited) (In thousands, except for per share data)	For the year ended December 31,	
	2012	2011
Total revenue	\$77,091	\$76,049
Income from continuing operations	24,738	8,299
Net income attributable to Winthrop Realty Trust	24,918	8,140
Per common share data - basic	0.47	0.23
Per common share data - diluted	0.47	0.23

Deer Valley Operating Property – Non-Controlling Interest - On March 29, 2012 the Trust purchased the 3.5% non-controlling ownership interest of the consolidated joint venture, WRT-DV LLC, for \$400,000 paid in cash. The Trust now owns 100% of WRT-DV LLC which holds title to the operating property located in Deer Valley, Arizona. The Trust accounted for the purchase of the 3.5% interest as an equity transaction recording the differences in the carrying value of the acquired non-controlling interest and the purchase price as a reduction in paid-in capital.

One East Erie Operating Property – Non-Controlling Interest - On June 1, 2012 the Trust purchased from Marc Realty its 20% non-controlling interest in the consolidated joint venture, FT-Ontario Holdings LLC (“One East Erie”), for \$5,850,000. The property contains 126,000 square feet of retail and office space consisting of the first six floors in a mixed use building together with 208 parking spaces located at One East Erie, Chicago, Illinois. As a result of this transaction, the Trust now owns 100% of One East Erie. The Trust accounted for the purchase as an equity transaction recording the difference in the \$363,000 carrying value of the acquired non-controlling interest and the purchase price as a \$5,487,000 reduction in paid-in capital.

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Houston, Texas Operating Property – Non-Controlling Interest – During the fourth quarter of 2012, a wholly-owned subsidiary of the Trust conducted a tender offer to acquire additional limited partner units in 5400 Westheimer Holding LP (“Westheimer”). Westheimer is a consolidated entity which holds title to a 614,000 square foot office property located in Houston, Texas. In connection with the tender offer the Trust acquired an additional 5.5 limited partner units representing 22% of Westheimer for a purchase price of \$1,650,000 (\$300,000 per unit) paid in cash. The units were acquired effective November 30, 2012. As a result of this transaction, the Trust now owns 30% of Westheimer. The Trust accounted for the purchase as an equity transaction recording the difference in the carrying value of the acquired non-controlling interest as a \$1,162,000 increase in paid-in capital.

Operating Property Acquisitions through our Equity Investments

Sullivan Center – Equity Investment Operating Property – On February 3, 2012 the Trust entered into a joint venture arrangement with Elad Canada Inc. (“Elad”) pursuant to which two joint venture entities, WRT-Elad Lender LP and WRT-Elad Equity LP (collectively “WRT-Elad”), were formed to acquire for approximately \$128,000,000 an existing \$140,300,000 first mortgage loan and accrued interest of \$6,886,000 (the “Prior Mortgage Loan”). The Prior Mortgage Loan was secured by the 942,000 square foot, office and retail property located at One South State Street in downtown Chicago, Illinois (“Sullivan Center”). Concurrently, the loan was restructured into a \$100,000,000 non-recourse mortgage loan provided by a third party lender, a \$47,458,000 mezzanine loan made to One South State Street Investors, L.L.C. (“OSSS”) and held by WRT-Elad and a 65% future profits participation in favor of WRT-Elad in OSSS. The Trust contributed a total of \$24,201,000 for a 50% interest in WRT-Elad which consolidates the operations of OSSS.

Mentor Building – Equity Investment Operating Property - On May 10, 2012 the Trust acquired for \$300,000 a 20% interest in the entity which owns the Mentor Building located in Chicago, Illinois. The interest was purchased from a third party member and the Trust simultaneously made a \$200,000 capital contribution to acquire an additional interest in the entity which resulted in a 49.9% aggregate equity investment for \$500,000.

Vintage Housing Holdings LLC – Equity Investment and Preferred Equity Investment - On June 1, 2012 the Trust contributed an additional \$5,500,000 to the Vintage Housing Holdings LLC (“VHH”) equity investment platform consisting of \$1,500,000 in common equity and \$4,000,000 in preferred equity with a 12% return. In connection with the transaction, VHH acquired a general partner interest and development fees relating to a residential development project referred to as Vintage at Urban Center, a tax credit apartment community in Lynwood, Washington with a proposed village development of 395 multi-family rental units and 4,000 square feet of retail space.

On November 8, 2012 the Trust made an additional \$750,000 preferred equity investment in VHH which entitles it to a 12% return. The contribution was used by VHH to acquire the general partner interest in a residential development project referred to as Quilceda Creek, a tax credit apartment community in Marysville, Washington with a proposed development of 204 residential units.

701 Seventh Avenue – Equity Investment Operating Property – On October 16, 2012 the Trust entered into a joint venture to acquire and redevelop a 120,000 square foot property and associated air rights located at 701 Seventh Avenue in New York City. The property is on the northeast corner of Seventh Avenue and 47th Street in Times Square. The proposed redevelopment will include an expansion of the retail space to approximately 80,000 square feet, installation of an approximately 22,000 square foot state of the art LED sign, and potential development of a hotel. The Trust made an initial contribution of \$28,971,000 on a preferred equity basis to acquire a 60.9% interest in the venture. The Trust has committed to invest up to \$68,000,000 on a preferred equity basis. The Trust is entitled to a 12% preferred return of which 8% is to be paid currently with the remaining 4% accruing.

Wateridge Pavilion – Equity Investment Operating Property – On December 21, 2012 the Trust entered into a venture with a third party pursuant to which the venture acquired for \$9,200,000 a 62,152 square foot class B office building located in Sorrento Mesa (San Diego), California. The Trust contributed a total of \$7,522,000 of which \$6,000,000 is a preferred equity investment which entitles the Trust to a 12% priority return of which 8% is to be paid from operating cash flow and the remaining 4% will be accrued. The additional \$1,522,000 was contributed for a 50% common equity interest in the venture.

Operating Property Disposition Activity

Churchill – Operating Property - On May 14, 2012 the Trust sold the portion of the Churchill, Pennsylvania property that was not leased to Westinghouse for \$914,000. No gain or loss was recognized as a result of this transaction, and it

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resulted in a \$632,000 reduction of the basis in the Churchill property by the net proceeds received. The Trust agreed to provide financing to the buyer to cover property operating expenses. At closing, the Trust provided \$324,000 of financing to cover buyer's expenses and real estate taxes due. An additional \$179,000 was advanced in each of August 2012 and November 2012 directly to the taxing authority to cover real estate taxes due on the sold parcel. At December 31, 2012 the total loan outstanding was \$683,000. The loan is interest only and bears interest at LIBOR + 3.75%, matures on June 1, 2015 and is collateralized by the property.

Memphis (Kroger) - Operating Property – The Kroger Co., a tenant which net leased 100% of the space of the Trust's Memphis, Tennessee retail property, vacated the building in October 2011 but continued to pay rent as contractually required. On September 28, 2012, the Kroger Co. terminated its lease and paid a cancellation fee of \$600,000. On the same date, the Trust sold the Memphis property for \$600,000. The transaction resulted in a loss from discontinued operations of approximately \$50,000.

Indianapolis (Circle Tower) - Operating Property - On September 28, 2012 the Trust sold its Indianapolis, Indiana property referred to as Circle Tower for approximately \$6,300,000. Proceeds of the sale were used to satisfy the \$4,655,000 first mortgage on the property. The sale resulted in a gain to the Trust of approximately \$945,000. The Trust paid \$574,000 in defeasance costs in relation to the satisfaction of the debt in conjunction with the sale which has been recorded as interest expense.

Operating Property Dispositions through our Equity Investments

Marc Realty – Sale of Equity Investment Operating Properties – During 2012 the Trust sold its equity investments in six of its Marc Realty joint ventures to Marc Realty, the Trust's joint venture partner. Transactions are as follows:

- On March 1, 2012 the Trust sold its 50% interest in the property located at 3701 Algonquin Road, Rolling Meadow, Illinois for \$250,000, which approximated its carrying value.
- On May 31, 2012 the Trust sold its 50% equity interests in River Road LLC (Des Plaines, Illinois), Salt Creek LLC (Schaumburg, Illinois) and 900 Ridgebrook LLC (Northbrook, Illinois) for \$1,000,000, \$0 and \$1,100,000, respectively. The Trust recognized an aggregate \$16,000 gain on the transaction which is reflected in equity earnings.
- On May 31, 2012 the Trust sold its 50% equity interest in Michigan 30 LLC (Chicago, Illinois) for \$10,300,000. The purchase price was financed with a \$6,550,000 secured promissory note which bears interest at 10% per annum, requires payments of interest only and matures on May 31, 2015. This note was fully satisfied on August 3, 2012. The Trust recognized a loss of approximately \$95,000 on the transaction which is reflected in equity earnings.
- On January 1, 2012 the Trust restructured its investment in Michigan 180 LLC (Chicago, Illinois) and reclassified the investment from loans receivable and preferred equity to an equity investment. On November 30, 2012 the Trust sold this 70% equity investment for \$7,200,000. The purchase price was paid \$2,000,000 in cash and the remainder was financed with a \$5,200,000 secured promissory note which bears interest at 8.25% per annum, requires monthly payments of interest only and matures on December 1, 2015.

Operating Property Financing Activity

Waterford Place - Operating Property - On July 19, 2012 the Trust obtained a \$13,500,000 non-recourse first mortgage loan secured by its 320 Unit Class A multi-family Memphis, Tennessee (Waterford Place) property that was acquired on April 17, 2012. The loan bears interest at LIBOR plus 2.5% per annum with a LIBOR floor of 0.5%, requires monthly payments of principal and interest and matures on August 1, 2014, subject to two, one-year extensions. On the same date the Trust purchased an interest rate cap which caps LIBOR at 0.5%. The loan will have an outstanding balance at the initial maturity date of \$12,928,000.

Newbury Apartments – Operating Property – On October 2, 2012 the Trust refinanced the first mortgage debt on its 180 unit multi-family property located in Meriden, Connecticut. The new loan is non-recourse to the Trust, has a principal amount of \$21,000,000, bears interest at a fixed rate of 3.95% per annum and matures on October 2, 2022. The loan requires payments of interest only for the first 24 months and then payments of principal and interest for the remaining term. After repayments on the existing debt and settlement expenses the Trust received net proceeds of approximately \$7,308,000.

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701 Arboretum – Operating Property - On October 2, 2012 the Trust fully satisfied its mortgage loan payable of \$1,657,000 collateralized by its Lisle, Illinois property referred to as 701 Arboretum.

223 West Jackson - Equity Investment - On July 2, 2012 the Trust contributed \$3,524,000 to its unconsolidated joint venture investment property located at 223 West Jackson in Chicago, Illinois. The joint venture partner, Marc Realty, also made a contribution of \$3,524,000. The proceeds were used to pay off the existing first mortgage loan collateralized by the property. On September 25, 2012 the joint venture obtained a \$9,500,000 non-recourse first mortgage on the property. As a result of the financing the Trust and Marc Realty each received a return of capital cash distribution of \$3,524,000.

Operating Property Leasing Activity

Westheimer - On September 17, 2012, 5400 Westheimer Limited Partnership, a partially owned consolidated entity of the Trust, executed a lease amendment with the existing net lease tenant, Spectra Energy, which leases the entire 614,000 square foot premises. The initial lease was signed in 2004 and was scheduled to expire April 30, 2018. The new lease extends the lease through April 30, 2026. The Westheimer property is encumbered by a mortgage with a maturity date of April 2016. Negotiated annual lease payments on the modified lease remain unchanged (\$7,974,000 to \$8,255,000 annually) through the maturity date of the mortgage debt, then the base rate decreases to \$4,260,000 annually, subject to annual increases thereafter up to \$5,478,000 annually.

Crossroads I - On September 5, 2012 the Trust executed a lease with Hitachi Data Systems for 53,000 square feet of the Crossroads I office property located in Englewood, Colorado. The lease has a ten year term commencing in March 2013 at market rates. As a result of leasing activity the Crossroads I property is 90% leased at December 31, 2012.

Loans

Loan Asset Acquisition Activities

Mentor Building – Loan Asset - On March 6, 2012 the Trust acquired at par a first mortgage loan for \$2,521,000. The loan bore interest at 7.5% per annum, required monthly payments of principal and interest and matured on September 10, 2012. The loan is collateralized by a 6,571 square foot retail condominium building known as the Mentor Building located in Chicago, Illinois which is adjacent to the Sullivan Center property held by our WRT-Elad joint venture. On May 10, 2012, the Trust modified the terms of the loan increasing the interest rate to 10% per annum, required payments of interest only and extended the maturity date to September 10, 2017.

Broward Financial Center – Loan Asset - On May 23, 2012 the Trust acquired for approximately \$42,800,000 a matured first mortgage loan with a face value of \$42,098,000 collateralized by a 326,000 square-foot commercial building located at 500 East Broward Boulevard, Ft. Lauderdale, Florida, containing approximately 47,000 square feet of retail space and 279,000 square feet of office space. Following the acquisition of this loan, the Trust entered into a modification with the borrower pursuant to which the maturity date was extended until October 15, 2012, the interest rate was increased to 9.836% per annum and the borrower made a payment of approximately \$12,800,000, which reduced the outstanding principal balance of the loan to \$30,000,000. The loan was repaid in full on October 9, 2012.

B-Note Portfolio Acquisition - On September 27, 2012 the Trust acquired for approximately \$20,696,000 a portfolio of four performing B-Note loan assets with an aggregate par value of approximately \$25,725,000. The loans are collateralized by four separate office and retail assets located in California and Hawaii as follows:

- *Burbank Centre* - The Trust acquired for \$9,000,000 a performing B Note with a face value of \$10,000,000 collateralized by a 421,990 square foot Class A office building located in Burbank, California that is currently 100% leased to Walt Disney Company affiliates with leases expiring in 2014 and 2017. The loan bears interest at 5.897% per annum, requires monthly payments of interest only and matures in April 2017. The B Note is subordinate to \$135,000,000 of senior financing. On January 25, 2013 the Trust sold this loan to an affiliate of the borrower for \$9,000,000. No gain or loss was recognized in connection with this sale.

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- *Pinnacle II* – The Trust acquired for approximately \$4,631,000 a performing B Note with a face value of \$5,145,000 collateralized by a 230,000 square foot Class A office building located in Burbank, California that is currently 100% leased to Warner Brothers through 2021. The loan bears interest at 6.313% per annum, requires monthly payments of principal and interest, and matures in September 2016. This B Note is subordinate to \$84,701,000 of senior financing. The Trust is accreting the discount on the loan into income.
- *The Shops at Wailea* – The Trust acquired for approximately \$5,154,000 a performing B Note with a face value of \$7,719,000 collateralized by 166,000 square feet of premier shopping and dining establishments, with more than 70 boutiques, shops, restaurants and galleries located on the island of Maui, Hawaii. The property is 97% leased. The loan bears interest at 6.15% per annum, requires monthly payments of principal and interest, and matures in April 2017. This B Note is subordinate to \$108,055,000 of senior financing. The Trust is accreting the discount on the loan into income.
- *Poipu Shopping Village* – The Trust acquired for approximately \$1,911,000 a performing B Note with a face value of \$2,861,000 collateralized by 40,800 square feet of retail space on the island of Kauai, Hawaii. The property is 97% leased. The loan bears interest at 6.618% per annum, requires monthly payments of principal and interest and matures in January 2017. This B Note is subordinate to \$28,856,000 of senior financing. The Trust is accreting the discount on the loan into income.

1515 Market Street – Loan Asset – On December 12, 2012 the Trust acquired for \$58,650,000 a \$70,000,000 non-performing first mortgage loan collateralized by a 20 story, 514,000 square foot office building located in Philadelphia, Pennsylvania. The loan was in maturity default and was accruing interest at the default rate of 10.83% per annum.

On February 1, 2013 in lieu of foreclosing, the Trust restructured the loan to increase the outstanding principal balance to \$71,629,000 (which included accrued and unpaid interest and expenses and an additional advance of \$925,000), adjust the interest rate to be the greater of 7.5% per annum or LIBOR plus 6.5%, extend the maturity date to February 1, 2016 and provide for a 40% participation in all capital event proceeds. In addition, the Trust acquired for \$10,000 an indirect 49% interest in the property and became the general partner of the property owner. As a result of the restructuring, the Trust expects to consolidate the joint venture and is in the process of formulating the aggregate purchase price allocation.

Loan Asset Originations

Fenway Shea – Loan Asset - On April 5, 2012 the Trust originated a \$2,250,000 first mortgage loan which bears interest at 12% per annum and matures on April 5, 2014, with one, one-year extension right. An origination fee of 1% of the principal amount or \$22,500 was paid to the Trust at closing. The loan requires monthly payments of interest only with a balloon payment due at maturity. The loan is collateralized by a 45,655 square foot, two-story multi-tenant office building located at 4545 East Shea Boulevard, Phoenix, Arizona.

127 West 25th Street – Loan Asset - On May 14, 2012 the Trust originated a \$9,000,000 mezzanine loan collateralized by 100% of the member interests in the entity that holds title to the 104,000 square foot, 12-story building located at 127 West 25th Street, Manhattan, New York. An origination fee of 1% of the principal amount or \$90,000 and commitment fees totaling \$591,500 were paid to the Trust. The loan bears interest at a rate equal to the greater of 14% per annum or LIBOR plus 10%, requires payment of principal and interest and matures on April 30, 2015. The loan is subordinate to a mortgage loan of \$35,180,000 which bears interest at a rate of 4.5% per annum and requires payments of interest only. This loan was paid off at par on March 1, 2013.

Queensridge Towers – Loan Asset – On November 15, 2012 the Trust originated a \$40,000,000 first mortgage loan collateralized by 67 luxury condominium units at Queensridge Towers located in Las Vegas, Nevada. An origination fee of 1% of the principal amount or \$400,000 was paid to the Trust at closing. The loan bears interest at LIBOR plus 11.5% with a LIBOR floor of 0.5%, requires monthly payments of interest only and matures on November 15, 2014, subject to one twelve month extension. Principal payments are required to be made based on predetermined release prices upon the sale of the individual units. During 2012 the Trust received aggregate principal payments of \$1,230,000 on this loan.

Simultaneously with the loan origination, the Trust obtained a \$25,000,000 loan from KeyBank National Association (“KeyBank”) which is collateralized by the Queensridge Towers loan. The KeyBank loan bears interest at LIBOR plus 4%, requires monthly payments of interest only and is co-terminus with the Queensridge Towers loan. Principal payments are required to be made in accordance with principal payments received on the Queensridge Towers loan. As such, during 2012 the Trust made aggregate principal payments of \$1,230,000. In addition, the Trust paid KeyBank a \$250,000 origination fee. The KeyBank loan is recourse to the Trust and the Operating Partnership, and is classified as a secured financing on the Consolidated Balance Sheet.

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Loan Asset Repayment Activity

160 Spear Street – Loan Asset - On May 9, 2012 the Trust's 160 Spear loans receivable with a par value of \$19,645,000 were paid off at par by the borrower. The Trust's outstanding investment in these loans prior to payoff was \$8,054,000.

Magazine - Loan Asset - On May 9, 2012 the Trust's Magazine loan receivable with a par value of \$20,000,000 was paid off at par by the borrower. The Trust's outstanding investment in this loan prior to payoff was \$17,525,000.

Loan Asset Activity through our Equity Investments

Southern California Office Portfolio – Equity Investment Loan Asset– On January 6, 2012 the Trust's venture that holds the \$117,900,000 C Note in a \$798,000,000 first mortgage encumbering a 4,500,000 square foot 31 property office portfolio in southern California (the "SoCal Loan"), obtained a \$40,000,000 recourse repurchase facility (the "Facility") with an affiliate of Blackstone Real Estate Debt Strategies. The Facility bore interest at LIBOR plus 11% per annum with a LIBOR floor of 1%. The SoCal Loan venture received net proceeds of approximately \$38,100,000 after origination fees, interest reserves and closing expenses, which was distributed entirely to the Trust in partial redemption of its interest in the SoCal Loan venture resulting in a decrease in the Trust's ownership interest from approximately 73% to approximately 56%.

On April 6, 2012 WRT-SoCal Lender LLC ("SoCal Lender"), a consolidated joint venture that holds an interest in the SoCal Loan venture, amended and restated its operating agreement to allow for the admission of IX SoCal Holdings LP ("Starwood") as a member. Starwood contributed \$3,500,000 for a 10.2178% interest in SoCal Lender. The Trust received a special distribution from SoCal Lender equal to Starwood's contribution. As a result, the Trust owned a 50.2% effective interest in the SoCal Loan investment on a fully-diluted basis.

On September 28, 2012 SoCal Loan received a loan payoff at par by the borrower. After repayment of the related repurchase agreement, the Trust received \$38,407,000 in cash proceeds. The loan payoff generated \$20,927,000 in accretion income of which the Trust's allocable share was \$10,505,000.

Stamford Portfolio – Equity Investment Loan Asset – On February 17, 2012 the Trust invested \$8,036,000 and acquired a 20% interest in a venture with Mack-Cali Realty Corporation that acquired for \$40,000,000 a senior mezzanine loan with a face value of \$50,000,000. The venture's investment is subordinate to \$400,000,000 in senior debt. The loan provides for a credit to the borrower of up to \$3,000,000 of any principal proceeds above \$47,000,000. The loan bears interest at LIBOR plus 3.25% per annum and matures on August 6, 2013, subject to one one-year extension. The loan is collateralized by the equity interests in a seven building portfolio containing 1,670,000 square feet of Class A office space and 106 residential rental units totaling 70,500 square feet, all located in the Stamford, Connecticut Central Business District.

RE CDO Management - Additional Equity Investment – During March 2012 the Trust and its joint venture partner in RE CDO Management LLC ("RE CDO") each contributed \$550,000 to the joint venture. RE CDO acquired a 5.52% interest in (i) a first priority mortgage loan collateralized by land located in Las Vegas, Nevada (the "Land"), which loan bears interest at LIBOR plus 40% with a current pay rate of 7.5% and the balance accruing and compounding and which had an outstanding balance of \$18,218,000 at March 30, 2012, (ii) a second priority mortgage loan collateralized by the Land which bears interest at 10% per annum, all of which accrues, and which had an outstanding balance of \$32,177,000 at March 30, 2012 and (iii) a 5.52% membership interest in the entity that was formed to acquire the Land.

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10 Metrotech – Equity Investment Loan Asset - On April 18, 2012 the Trust funded \$75,000 for a 33.33% interest in a joint venture (“10 Metrotech JV”). A portion of these funds were used to acquire from Sorin Real Estate CDO IV Ltd. a \$21,000,000, B Participation in the whole loan secured by a 364,968 square foot, seven story, Class B/C office building on a 0.58 acre land parcel in Brooklyn, New York referred to as 10 Metrotech. On August 6, 2012 10 Metrotech JV acquired the \$39,300,000 senior participation in the loan secured by 10 Metrotech for \$32,500,000. As a result of these transactions, 10 Metrotech JV now holds the entire mortgage loan. Following consummation of the acquisition, 10 Metrotech JV entered into a forbearance agreement with the borrower pursuant to which, among other things, (i) the interest rate on the loan was increased to 9%, (ii) the principal amount of the loan was reset to \$40,000,000 and (iii) 10 Metrotech JV agreed to forbear from foreclosing on the property pursuant to the current maturity default for two years, subject to any further defaults by the borrower.

Concord - Additional Equity Investment - On May 1, 2012 the Trust acquired from Lexington Realty Trust its 33.33% interest in both Concord Debt Holdings LLC (“Concord”) and CDH CDO LLC (“CDH CDO”) and its 50% interest in the collateral manager of Concord Real Estate CDO 2006-1, Ltd. for an aggregate purchase price of \$7,000,000. As a result, the Trust now holds a 66.67% interest in both Concord and CDH CDO and 100% of the economics of the collateral manager. This transaction did not result in a change of control. In the event of a sale of our interest in CDH CDO or our interest in the collateral manager, additional proceeds may be payable to Lexington Realty Trust if the sales price exceeds the purchase price paid by the Trust.

Riverside – Equity Investment Loan Asset - On September 18, 2012 the Trust’s 50% owned joint venture WRT-ROIC Riverside LLC, which held an investment in a loan collateralized by Riverside Plaza retail property received a loan pay off at par by the borrower. The Trust received \$7,800,000 in cash proceeds from the loan which was originally purchased at par. No gain or loss was recognized by the Trust upon the repayment of the loan.

REIT Securities Activity

During the first half of 2012 the Trust acquired an additional 1,054,686 shares of common stock in Cedar Realty Trust, Inc. (“Cedar”) for an aggregate purchase price of approximately \$5,038,000. Accordingly, as of June 30, 2012 the Trust held 6,250,716 shares of common stock in Cedar representing 8.70% of Cedar’s total outstanding common stock. On October 18, 2012 the Trust sold approximately 52% of its holdings of Cedar in a block sale for net proceeds of approximately \$17,160,000. As of December 31, 2012 the Trust held 3,000,716 shares of common stock of Cedar.

Also during 2012 the Trust sold all of its remaining REIT preferred share holdings and received net proceeds of \$4,302,000.

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5. Loans Receivable

The Trust's loans receivable at December 31, 2012 and 2011 are as follows (in thousands):

Description	Loan Position	Stated Interest Rate		Carrying Amount		Contractual Maturity Date
				December 31, 2012	December 31, 2011	
Hotel Wales	Whole Loan	LIBOR + 4.0%	(2)	\$ 20,101	\$ 20,101	10/05/13
Renaissance Walk	Mezzanine	LIBOR + 12.0%	(3)	3,000	3,000	01/01/14
Fenway Shea (1)	Whole Loan	12.0%		2,273	—	04/05/14
The Shops at Wailea	B-Note	6.15%		5,376	—	10/06/14
Legacy Orchard (1)	Corporate Loan	15.0%		9,750	9,750	10/31/14
Queensridge	Whole Loan	LIBOR + 11.5%	(7)	39,170	—	11/15/14
San Marbeya	Whole Loan	5.88%		27,149	26,501	01/01/15
127 West 25th Street	Mezzanine	14.0%	(4)	8,687	—	04/30/15
Churchill (1)	Whole Loan	LIBOR + 3.75%		683	—	06/01/15
180 N. Michigan	Mezzanine	8.25%		5,237	—	12/01/15
1515 Market	Whole Loan	(8)		58,650	—	(8)
Rockwell	Mezzanine	12.0%		323	275	05/01/16
500-512 7th Ave	B-Note	7.19%		10,009	9,979	07/11/16
Pinnacle II	B-Note	6.31%		4,652	—	09/06/16
Popiu Shopping Village	B-Note	6.62%		1,948	—	01/06/17
The Disney Building	B-Note	5.90%		9,043	—	04/06/17
Wellington Tower	Mezzanine	6.79%		2,687	2,563	07/11/17
Mentor Building	Whole Loan	10.0%		2,512	—	09/10/17
180 N. Michigan	Mezzanine	—		—	2,930	(5)
160 Spear (6)	B-Note	—		—	11,555	(6)
160 Spear (6)	Mezzanine	—		—	4,846	(6)
Magazine (6)	Mezzanine	—		—	18,805	(6)
Marc Realty - 29 East Madison (6)	Mezzanine	—		—	4,028	(6)
				<u>\$ 211,250</u>	<u>\$ 114,333</u>	

- (1) The Trust determined that certain loans receivable are 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 have the power to direct the activities of the entity that most significantly impact the entity's economic performance and is not required to consolidate the underlying entity.
- (2) LIBOR floor of 3%.
- (3) LIBOR floor of 2%.
- (4) Interest rate is equal to the greater of 14.0% or LIBOR plus 10%.
- (5) Converted to equity investment during the three months ended March 31, 2012.
- (6) The loans were satisfied during the year ended December 31, 2012.
- (7) LIBOR floor of 0.5%.
- (8) This loan was in maturity default at the time of acquisition. The loan was modified on February 1, 2013. See Note 4 – Acquisition, Disposition, Leasing and Financing Activity for details on the modification.

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The carrying amount of loans receivable includes accrued interest of \$1,016,000 and \$500,000 at December 31, 2012 and December 31, 2011, respectively, and cumulative accretion of \$2,527,000 and \$9,914,000 at December 31, 2012 and December 31, 2011, respectively.

The Trust uses an independent third party service provider to estimate the fair value of its loans receivable. Fair value measurements, including unobservable inputs, are evaluated for reasonableness based on current transactions and experience in real estate and capital markets. The input used in determining the estimated fair value of the Trust's loans receivable are categorized as level 3 in the fair value hierarchy. The fair value of the Trust's loans receivable, exclusive of interest receivable was approximately \$222,246,000 and \$123,630,000 at December 31, 2012 and December 31, 2011, respectively.

At December 31, 2012, the Trust's loan receivables have accretable discount yet to be recognized as income totaling \$9,865,000.

The weighted average coupon on our loans receivable was 7.65% and the weighted average yield to maturity was 11.43% at December 31, 2012.

With the exception of the San Marbeya, Hotel Wales and Queensridge Tower loans receivable, none of the loans receivable are directly financed. On January 14, 2011, the Trust restructured the San Marbeya first mortgage loan to create a \$15,150,000 senior participation which bears interest at 4.85% and a \$15,744,000 junior participation which bears interest at 6.4%. The Trust issued the senior loan participation to CDO-1 at par and retained the junior participation. On October 7, 2011 the Trust restructured the Hotel Wales first mortgage loan to create a \$14,000,000 senior participation which bears interest at LIBOR + 1.25% with a 3% LIBOR floor, and a \$6,000,000 junior participation. The Trust issued the senior participation to CDO-1 at par and retained the junior participation. The Trust accounts for the senior loan participations on San Marbeya and Hotel Wales as non-recourse secured financings.

On November 15, 2012 the Trust obtained a \$25,000,000 loan from KeyBank collateralized by the Queensridge Towers loan. The loan bears interest at LIBOR plus 4%, requires monthly payments of interest only and is co-terminous with the Queensridge Towers loan with a maturity date of November 15, 2014, subject to one, twelve month extension. Principal payments are required to be made in accordance with principal payments received on the Queensridge Tower loan. The KeyBank loan payable is recourse to the Trust and the Operating Partnership. The Trust accounts for the loan as a recourse secured financing.

Loan Receivable Activity

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

	Year Ended December 31,	Year Ended December 31,
	2012	2011
Balance at beginning of year	\$ 114,333	\$ 110,395
Purchase and advances	175,550	67,619
Interest accrued (received), net	516	(37)
Repayments	(68,824)	(70,289)
Loan accretion	8,333	13,401
Discount accretion received in cash	(15,720)	(13,290)
Conversion of 180 North Michigan loan to equity investments	(2,938)	—
Transfer from loan securities	—	662
Transfer Marc Realty seller financing from equity investments	—	12,544
Transfer Sealy loan to equity investments	—	(4,650)
Transfer 450 W 14th St bridge loan to preferred equity investments	—	(2,022)
Balance at end of year	<u>\$ 211,250</u>	<u>\$ 114,333</u>

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The following table summarizes the Trust's interest and dividend income for the years ended December 31, 2012, 2011 and 2010 (in thousands):

	2012	2011	2010
Interest and dividends detail:			
Interest on loan assets	\$11,736	\$11,073	\$ 5,691
Accretion of loan discount	8,333	13,401	8,782
Interest and dividends on REIT securities	1,054	984	2,655
Total interest and dividends	<u>\$21,123</u>	<u>\$25,458</u>	<u>\$17,128</u>

The 160 Spear loan and the San Marbeya loan each representing more than 10% of interest income, contributed approximately 34% of interest income of the Trust for the year ended December 31, 2012. The 160 Spear loan and the Metropolitan Tower loan each representing more than 10% of interest income, contributed approximately 48% of interest income of the Trust for the year ended December 31, 2011. The same two loans, each of which represented more than 10% of interest income, contributed approximately 74% of interest income of the Trust for the year ended December 31, 2010.

Credit Quality of Loans Receivable and Loan Losses

The Trust evaluates impairment on its loan portfolio on an individual basis and has developed a loan grading system for all of its outstanding loans that are collateralized directly or indirectly by real estate. Grading categories include debt yield, debt service coverage ratio, length of loan, property type, loan type, and other more subjective variables that include property or collateral location, market conditions, industry conditions, and sponsor's financial stability. Management reviews each category and assigns an overall numeric grade for each loan to determine the loan's risk of loss and to provide a determination as to whether an individual loan is impaired and whether a specific loan loss allowance is necessary. A loan's grade of credit quality is determined quarterly.

All loans with a positive score do not require a loan loss allowance. Any loan graded with a neutral score or "zero" is subject to further review of the collectability of the interest and principal based on current conditions and qualitative factors to determine if impairment is warranted. Any loan with a negative score is deemed impaired and management then would measure the specific impairment of each loan separately using the fair value of the collateral less costs to sell. Management estimates the loan loss allowance by calculating the estimated fair value less costs to sell of the underlying collateral securing the loan based on the fair value of the underlying collateral, and comparing the fair value to the loan's net carrying value. If the fair value is less than the net carrying value of the loan, an allowance is created with a corresponding charge to the provision for loan losses. The allowance for each loan is maintained at a level the Trust believes is adequate to absorb losses.

The table below summarizes the Trust's loans receivable by internal credit rating at December 31, 2012 (in thousands, except for number of loans).

Internal Credit Quality	# of Loans	Carrying Value of Loans Receivable	# of Loans	Whole Loans	# of Loans	B-Notes	# of Loans	Mezzanine Loans
Greater than zero	18	\$211,250	8	\$160,288	5	\$31,028	5	\$19,934
Equal to zero	—	—	—	—	—	—	—	—
Less than zero	—	—	—	—	—	—	—	—
Subtotal	<u>18</u>	<u>\$211,250</u>	<u>8</u>	<u>\$160,288</u>	<u>5</u>	<u>\$31,028</u>	<u>5</u>	<u>\$19,934</u>

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The table below summarizes the Trust's loans receivable by internal credit rating at December 31, 2011 (in thousands, except for number of loans).

Internal Credit Quality	# of Loans	Carrying Value of Loans Receivable	# of Loans	Whole Loans	# of Loans	B-Notes	# of Loans	Mezzanine Loans
Greater than zero	12	\$114,333	3	\$56,352	2	\$21,534	7	\$36,447
Equal to zero	—	—	—	—	—	—	—	—
Less than zero	—	—	—	—	—	—	—	—
Subtotal	<u>12</u>	<u>\$114,333</u>	<u>3</u>	<u>\$56,352</u>	<u>2</u>	<u>\$21,534</u>	<u>7</u>	<u>\$36,447</u>

Non Performing Loans

The Trust considers a loan to be non-performing and places loans on non-accrual status at such time as management determines it is probable that it will be unable to collect all amounts due according to the contractual terms of the loan. While on non-accrual status, based on the Trust's judgment as to collectability of principal, loans are either accounted for on a cash basis, where interest income is recognized only upon actual receipt of cash, or on a cost-recovery basis, where all cash receipts reduce a loan's carrying value. If and when a loan is brought back into compliance with its contractual terms, the Trust will resume accrual of interest.

As of December 31, 2012 and 2011 there were no non-performing loans and no past due payments. There was no provision for loan loss recorded during the years ended December 31, 2012, 2011 and 2010.

6. Securities Carried at Fair Value

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

	2012		2011	
	Cost	Fair Value	Cost	Fair Value
REIT Preferred shares	\$ —	\$ —	\$ 2,067	\$ 4,277
REIT Common shares	15,876	19,694	21,492	24,579
	15,876	19,694	23,559	28,856
Loan securities	161	11	1,661	5,309
	<u>\$16,037</u>	<u>\$19,705</u>	<u>\$25,220</u>	<u>\$34,165</u>

During the years ended December 31, 2012, 2011 and 2010 available for sale securities, securities carried at fair value and loan securities carried at fair value were sold or paid off for total proceeds of approximately \$28,133,000, \$35,156,000 and \$33,726,000, respectively. The gross realized gains on these sales and payoffs totaled approximately \$655,000, \$123,000 and \$1,027,000 in 2012, 2011 and 2010, respectively. For purpose of determining gross realized gains, the cost of securities is based on specific identification.

For the years ended December 31, 2012, 2011 and 2010, the Trust recognized net unrealized gains on available for sale securities, securities carried at fair value and loan securities carried at fair value of \$7,363,000, \$5,526,000 and \$10,071,000, respectively, as the result of the change in fair value of the financial assets for which the fair value option was elected.

7. Preferred Equity Investments

On December 21, 2012 the Trust made a \$6,000,000 preferred equity contribution to its WRT-Fenway Wateridge joint venture. The Trust is entitled to a 12% priority return which is to be paid 8% currently from operating cash flow and the remaining 4% is deferred.

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During 2012 the Trust made contributions of \$4,750,000 to VHH in preferred equity with a 12% return.

During 2012 the Trust converted its loan of \$1,500,000 to its Vintage Housing venture to preferred equity with a 12% return. During 2011 the loan bore interest at 12% with no payments due until there is operating cash flow from the property. No income was recognized in 2012 or 2011 on this investment.

The Trust recognized earnings from its Marc Realty preferred equity investments of \$338,000 for each of the years ended December 31, 2011 and 2010, respectively. On January 2, 2012 the Trust restructured its 180 North Michigan preferred equity investment of \$3,923,000 and its loan receivable of \$2,938,000 to an equity investment.

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8. Equity Investments

The Trust's equity investments consist of the following at December 31, 2012 and December 31, 2011 (in thousands):

Venture Partner	Equity Investment	Nominal % Ownership at December 31, 2012	December 31, 2012	December 31, 2011
VHH LLC (1)	Vintage Housing LLC	75.0%	\$ 30,534	\$ 29,887
Elad Canada Ltd	WRT-Elad One South State Equity LP	50.0%	460	—
Elad Canada Ltd	WRT-Elad One South State Lender LP	50.0%	24,644	10,150
Mack-Cali	WRT-Stamford LLC	20.0%	8,501	—
Atrium/Northstar	10 Metrotech Loan LLC	33.3%	10,845	—
Atrium Holding	RE CDO Management LLC	50.0%	1,779	1,296
Freed	Mentor Retail LLC	49.9%	551	—
Inland/Lexington	Concord Debt Holdings LLC	33.3%	—	—
Inland/Lexington	CDH CDO LLC	33.3%	—	—
Inland (5)	Concord Debt Holdings LLC	33.3%	3,974	—
Inland (5)	CDH CDO LLC	33.3%	322	—
Sealy (1)	Northwest Atlanta Partners LP	60.0%	8,104	8,537
Sealy (1)	Newmarket GP LLC	68.0%	—	2,811
Sealy (1)	Airpark Nashville GP	50.0%	—	—
Marc Realty (1)	Brooks Building LLC	50.0%	7,983	7,679
Marc Realty (1)	High Point Plaza LLC	50.0%	2,241	2,441
Marc Realty (1)	1701 Woodfield LLC	50.0%	1,977	2,047
Marc Realty (1)	Enterprise Center LLC	50.0%	2,679	2,679
Marc Realty (2)	Michigan 30 LLC	N/A	—	10,049
Marc Realty (2)	Salt Creek LLC	N/A	—	—
Marc Realty (2)	River Road LLC	N/A	—	1,000
Marc Realty (3)	3701 Algonquin Road LLC	N/A	—	250
Marc Realty (2)	900 Ridgebrook LLC	N/A	—	1,000
ROIC	WRT-ROIC Lakeside Eagle LLC	50.0%	—	7
ROIC (6)	WRT-ROIC Riverside LLC	50.0%	—	7,883
New Valley/Starwood (6)	Socal Office Portfolio Loan LLC	73.0%	8	72,626
Broadway Partners (4)	FII Co-Invest LLC	27.9%	—	1,800
New Valley/Witkoff	701 7th WRT Investors LLC	60.9%	28,735	—
Fenway	WRT-Fenway Wateridge LLC	50.0%	1,522	—
			<u>\$ 134,859</u>	<u>\$ 162,142</u>

- (1) The Trust has determined that these equity investments are investments in VIEs. The Trust has determined that it is not the primary beneficiary of these VIEs since the Trust does not have the power to direct the activities that most significantly impact the VIEs economic performance.
- (2) Interest sold to Marc Realty on May 31, 2012.
- (3) Interest sold to Marc Realty on March 1, 2012.
- (4) Interest was redeemed on April 12, 2012.
- (5) Represents the interests acquired from Lexington Realty Trust on May 1, 2012.
- (6) The underlying loan investments was satisfied at par in September 2012.

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The following table reflects the activity of the Trust's equity investments for the year ended December 31, 2012 (in thousands):

Investment	Balance at December 31,	Contributions	Equity Income (loss)	Distributions	Sales Price	Balance at December 31,
	2011					2012
Vintage Housing LLC	\$ 29,887	\$ 2,067	\$ 4,603	\$ (6,023)	\$ —	\$ 30,534
WRT-Elad One South State Equity LP	—	2,838	(2,378)	—	—	460
WRT-Elad One South State Lender LP	10,150	11,213	3,281	—	—	24,644
WRT-Stamford LLC	—	8,036	769	(304)	—	8,501
10 Metrotech LLC	—	10,915	335	(405)	—	10,845
RE CDO Management LLC	1,296	550	67	(134)	—	1,779
Mentor Retail LLC	—	505	46	—	—	551
Concord Debt Holdings LLC	—	—	422	(422)	—	—
CDH CDO LLC	—	—	1,715	(1,715)	—	—
701 7th WRT Investors LLC	—	29,025	—	(290)	—	28,735
WRT-Fenway Wateridge LLC	—	1,522	—	—	—	1,522
CDH CDO LLC (1)	—	2,500	(997)	(1,181)	—	322
Sealy	11,348	—	(3,199)	(45)	—	8,104
Marc Realty	27,145	11,833	33	(4,116)	(20,015)	14,880
WRT-ROIC Lakeside Eagle LLC	7	35	(42)	—	—	—
WRT-ROIC Riverside LLC	7,883	—	706	(8,589)	—	—
SoCal Office Portfolio Loan LLC	72,626	—	9,706	(82,324)	—	8
FII Co-invest LLC	1,800	—	232	—	(2,032)	—
Concord Debt Holdings LLC (1)	—	4,501	(456)	(71)	—	3,974
Total	<u>\$ 162,142</u>	<u>\$ 85,540</u>	<u>\$14,843</u>	<u>\$(105,619)</u>	<u>\$(22,047)</u>	<u>\$ 134,859</u>

(1) Represents the interests acquired from Lexington Realty Trust on May 1, 2012.

The following table reflects the activity of the Trust's equity investments for the year ended December 31, 2011 (in thousands):

Investment	Balance at December 31,	Contributions	Equity Income (loss)	Distributions	Sales Price	Balance at December 31,
	2010					2011
Vintage Housing LLC	\$ —	\$ 31,335	\$ 113	\$ (1,561)	\$ —	\$ 29,887
WRT-Elad One South State Lender LP	—	10,150	—	—	—	10,150
RE CDO Management LLC	—	1,250	46	—	—	1,296
Concord Debt Holdings LLC	—	—	3,474	(3,474)	—	—
CDH CDO LLC	—	—	480	(480)	—	—
Sealy	11,904	4,650	(4,956)	(250)	—	11,348
Marc Realty	62,150	2,440	(16,539)	(2,540)	(18,366)	27,145
WRT-ROIC Lakeside Eagle LLC	—	18,093	664	(18,750)	—	7
WRT-ROIC Riverside LLC	7,883	—	936	(936)	—	7,883
SoCal Office Portfolio Loan LLC	—	72,354	272	—	—	72,626
FII Co-invest LLC	—	1,800	—	—	—	1,800
WRT-46th Street Gotham LLC	—	8,037	621	(8,658)	—	—
LW-SOFI	—	5,760	2,177	(7,937)	—	—
Total	<u>\$ 81,937</u>	<u>\$ 155,869</u>	<u>\$(12,712)</u>	<u>\$ (44,586)</u>	<u>\$(18,366)</u>	<u>\$ 162,142</u>

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WRT-Elad - The Trust holds its mezzanine loan interest in Sullivan Center through WRT-Elad Lender LP and its profits participation interest through WRT-Elad Equity LP ("Equity LP"). The Trust has determined that One South State Street LLC is a variable interest entity for which Equity LP is the primary beneficiary. Equity LP has consolidated Sullivan Center as of February 3, 2012, the date it acquired the profits participation interest, and has completed purchase accounting pursuant to the guidance for business combinations based on available information obtained from the managing member of Sullivan Center.

In relation to its investment in Sullivan Center, the Trust has elected a one-month lag period in which it recognizes its share of the equity earnings of One South State Street LLC in arrears. The lag period is allowed under the provisions of ASC 810-10 and is necessary in order for the Trust to consistently meet its regulatory filing deadlines.

Marc Realty - On January 1, 2012, the Trust restructured one of its investments (180 North Michigan) and converted its investment from loans receivable (\$2,938,000) and preferred equity (\$3,923,000) to equity investments (\$6,861,000) which is included in contributions in the above table.

On March 1, 2012, the Trust sold to Marc Realty its interest in 3701 Algonquin for \$250,000. On May 31, 2012, the Trust sold to Marc Realty its interests in Salt Creek, River Road and Ridgebrook for \$0, \$1,000,000 and \$1,100,000, respectively.

On May 31, 2012, the Trust sold to Marc Realty its interest in the 30 North Michigan property for \$10,300,000. The purchase was financed with a \$6,550,000 secured promissory note. The note was fully satisfied on August 3, 2012.

SoCal Office Portfolio Loan - On September 28, 2012, the loan held by SoCal Office Portfolio Loan ("SoCal") was paid off at par. Our joint venture WRT-SoCal Lender LLC ("SoCal Lender") which held the equity investment on SoCal received a return of capital distribution of \$44,224,000 on its investment from this transaction. The Trust's allocable share of the distribution was \$38,407,000. SoCal acquired the loan on November 4, 2011. Earlier in 2012, SoCal obtained a recourse repurchase facility and received net proceeds of approximately \$38,100,000 which was distributed entirely to the Trust in partial redemption of its interest. The SoCal balance sheet consisted of total assets of \$13,000 and \$97,989,000 at December 31, 2012 and 2011, respectively and total liabilities of \$0 and \$269,000 as of December 31, 2012 and 2011, respectively. SoCal had net income of \$16,892,000 and \$366,000 for the years ended December 31, 2012 and 2011, respectively. A majority of the proceeds from the payoff of the loan were distributed in 2012. Any remaining funds will be utilized to wind up and dissolve SoCal or be distributed upon dissolution.

ROIC - Riverside Loan - On September 18, 2012, the loan was paid off at par. The joint venture received a return of capital distribution of \$15,600,000 on its investment. The Trust's allocable share of the distribution was \$7,800,000.

Northwest Atlanta Partners LP

The Trust owns, 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. 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%. In November 2010, the venture elected to stop making debt service payments and the loan was placed into special servicing.

In June 2011 the Trust made a \$20,641,000 bridge loan to the venture. The bridge loan enabled the venture to satisfy its first mortgage loan at a discounted payoff amount of \$20,500,000. As a result of the discounted payoff, the venture recognized gain on extinguishment of debt of approximately \$9,170,000, inclusive of accrued interest and penalties totaling \$2,410,000, of which the Trust's share was \$5,502,000.

In September 2011 the venture obtained replacement financing in the amount of \$14,000,000, bearing interest at LIBOR + 5.35% and maturing on September 29, 2015. In connection with the financing, the venture purchased an interest rate cap which caps LIBOR at 1% through October 1, 2013. Net proceeds from the new loan plus additional capital contributions of \$4,650,000 from the Trust and \$3,100,000 from Sealy were used to pay off the Trust's bridge loan.

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Newmarket GP LLC

The Trust owns, 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, which matures in November 2016 and is non-recourse to the Trust.

In November 2010, the venture elected to stop making debt service payments and the loan has been placed into special servicing. The venture is attempting to negotiate a restructuring of the debt with the special servicer. In addition, the venture continues to aggressively market available space at the property for lease. There are no assurances that a restructuring or discounted repayment of the debt will be accomplished.

Airpark Nashville GP

The Trust owns, through a venture with Sealy, a 50% non-controlling ownership interest in 13 light distribution and service center properties in Nashville, Tennessee. Both Sealy and the Trust contributed \$9,308,000 for their 50% ownership in the venture. The balance of the \$87,200,000 property purchase price 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 that matured in May 2012. The loan has been transferred to special servicing and the Trust is seeking an extension of the first mortgage loan as well as other concessions from the lender. There are no assurances that a restructuring or discounted repayment will be accomplished. The loan is non-recourse to the Trust.

Sealy Impairments

During 2011 the Trust determined that, as a result of current market conditions, including current occupancy levels, current rental rates and an increase in terminal capitalization rates, the fair value of its equity investments in Sealy were below the carrying values. Accordingly, the Trust assessed whether this decline in value was other-than-temporary. In making this determination, the Trust considered the length of time which the decline has occurred, the length of time before an expected recovery and the lack of any comparables in the market. The Trust determined the fair value of its investments utilizing an unleveraged cash flow methodology and an estimated terminal capitalization rate. The cash flows were then discounted using an estimated market rate. Based on the foregoing, all of which requires significant judgment, the Trust concluded that the declines in value were other-than-temporary, and during 2011 the Trust recorded other-than-temporary impairment charges of \$2,900,000, \$900,000 and \$1,494,000 on its investments in Sealy Northwest Atlanta, Sealy Newmarket, and Sealy Nashville, respectively.

The Trust has determined that the fair value of certain of its equity investments each marginally exceed their carrying values. While the ventures continue to aggressively market available space for lease and work with existing tenants for lease renewal, declines in occupancy could cause impairment of these ventures that could be material to the Trusts's future results of operations.

Concord Debt Holdings and CDH CDO

During the years ended December 31, 2012 and 2011, the Trust received cash distributions from Concord Debt Holdings LLC of \$422,000 and \$3,474,000, respectively. The Trust recognized equity income for the full amount of the distributions. The Trust has suspended losses of \$40,557,000 to offset against future equity income from Concord at December 31, 2012.

During the years ended December 31, 2012 and 2011, the Trust received \$1,715,000 and \$480,000, respectively. The Trust recognized equity income for the full amount of the distribution. The Trust has suspended losses of \$32,984,000 to offset against future equity income from CDH CDO LLC at December 31, 2012.

On May 1, 2012, the Trust acquired from Lexington Realty Trust its 33.33% interest in Concord Debt Holdings LLC and CDH CDO LLC for an aggregate price of \$7,000,000. This acquisition will be accounted for using the equity method of accounting and will be separate from the on-going investment in Concord. This acquisition does not represent a funding of prior losses. The Trust will recognize its pro-rata share of income or loss in the new investment.

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Vintage Housing Holdings

The Trust has made additional investments in the aggregate of \$6,779,000 to the Vintage platform during 2012. The venture's new investments included a \$5,500,000 contribution to a planned 345 unit multi-family project in Lynnwood, Washington, a \$750,000 contribution to a planned 204-unit multi-family property in Marysville, Washington and \$529,000 contribution to complete the acquisition of interests in the general partners of two multifamily properties comprising approximately 490 units located in California and Nevada.

In relation to its investment in Vintage Housing Holdings, the Trust has elected a one-month lag period. The lag period is allowed under the provisions of ASC 810-10 and is necessary in order for the Trust to consistently meet its regulatory filing deadlines.

New Joint Venture Investments

The Trust has made significant new investments during the quarter ended December 31, 2012 in 701 7th WRT Investors and WRT-Fenway Wateridge that are discussed in detail in Note 4.

Separate Financial Statements for Unconsolidated Subsidiaries

The Trust has determined that for the periods presented in the Trust's financial statements, certain of its unconsolidated subsidiaries have met the conditions of a significant subsidiary under Rule 1-02(w) of Regulation S-X for which the Trust is required, pursuant to Rule 3-09 of Regulation S-X, to attach separate financial statements as exhibits to its Annual Report on Form 10-K as follows:

Entity	Year(s) determined significant	Exhibit
Concord Debt Holdings LLC	2011	99.1
Sealy Northwest Atlanta Partners LP	2011	99.2
Sealy Newmarket General Partnership	2011	99.3

The Trust was granted a waiver of the requirements to provide S-X 3-09 financial statements for its equity method joint venture investee SoCal by the U.S. Securities and Exchange Commission. SoCal met the conditions of a significant subsidiary under Rule 1-02(w) of Regulation S-X for 2012 solely due to the early payoff of its sole investment in a loan asset. The proceeds from the loan payoff have been distributed, and SoCal is expected to be dissolved in 2013.

The balance sheets of SoCal are as follows (in thousands):

	December 31, 2012	December 31, 2011
ASSETS		
Cash and cash equivalents	\$ 11	\$ 365
Real estate debt investments	—	96,970
Receivables and other assets	2	654
Total Assets	<u>\$ 13</u>	<u>\$ 97,989</u>
LIABILITIES AND MEMBERS' CAPITAL		
Other current liabilities	\$ —	\$ 269
Members' Capital	13	97,720
Total Liabilities and Members' Capital	<u>\$ 13</u>	<u>\$ 97,989</u>
Carrying value of the Trust's investments in the equity investments	<u>\$ 8</u>	<u>\$ 72,626</u>

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The statements of operations for SoCal are as follows (in thousands):

	For the Year Ended	For the Year Ended
	December 31, 2012	December 31, 2011
Interest, dividends and discount accretion	\$ 25,122	\$ 635
Expenses		
Interest	7,794	—
General and administrative	424	269
Other expenses	12	—
Total expenses	8,230	269
Net income	\$ 16,892	\$ 366
Trust's share of net income	\$ 9,706	\$ 272

Combined Financial Statements for Unconsolidated Subsidiaries

Pursuant to Rule 4-08(g), the following summarized financial data for unconsolidated subsidiaries excludes information for the entities listed above:

The combined summarized statements of operations of real estate equity investments are as follows (in thousands):

	December 31, 2012	December 31, 2011
ASSETS		
Real estate, net	\$ 627,362	\$ 503,228
Cash and cash equivalents	19,230	6,136
Receivables and other assets	52,680	38,996
Other assets	55,974	31,800
Total Assets	\$ 755,246	\$ 580,160
LIABILITIES AND MEMBERS' CAPITAL		
Mortgage and notes payable	\$ 512,698	\$ 340,638
Other current liabilities	21,093	17,274
Other liabilities	65,145	50,970
Non-controlling interests	29,979	13,779
Members' Capital	126,331	157,499
Total Liabilities and Members' Capital	\$ 755,246	\$ 580,160
Carrying value of the Trust's investments in the equity investments	\$ 71,069	\$ 57,032

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The combined summarized statements of operations of real estate equity investments are as follows (in thousands):

	For the Year Ended December 31, 2012	For the Year Ended December 31, 2011	For the Year Ended December 31, 2010
Total revenue	\$ 89,595	\$ 54,600	\$ 49,071
Expenses			
Operating	31,053	22,340	20,342
Real estate taxes	7,274	5,978	5,873
Interest	22,101	13,330	9,033
Depreciation and amortization	21,724	16,068	13,616
Other expenses	5,895	929	486
Total expenses	88,047	58,645	49,350
Other income			
Gain from extinguishment of debt	—	—	2,207
Net income (loss)	\$ 1,548	\$ (4,045)	\$ 1,928
Trust's share of net income (loss) ⁽¹⁾	\$ 5,606	\$ (1,635)	\$ 1,109

- (1) The Trust records its investments in WRT-Elad and Vintage Housing LLC on a one month lag, therefore, amounts in the Trust's financial statements for the year ended December 31, 2012 are based on balances and results from WRT-Elad and Vintage Housing LLC for the 12 month period ended November 30, 2012.

The combined summarized balance sheets of the loan and other equity investments are as follows (in thousands):

	December 31, 2012	December 31, 2011
ASSETS		
Cash and cash equivalents	\$ 2,201	\$ 796
Real estate debt investments	260,652	223,902
Securities available for sale	95,994	103,518
Receivables and other assets	2,223	3,512
Other assets	27,790	27,988
Total Assets	388,860	\$ 359,716
LIABILITIES AND MEMBERS' CAPITAL		
Non-recourse secured financings	\$ 275,880	\$ 306,634
Other current liabilities	3,233	1,645
Other liabilities	33,905	36,788
Members' Capital	75,842	14,649
Total Liabilities and Members' Capital	\$ 388,860	\$ 359,716
Carrying value of the Trust's investments in the equity investments	\$ 21,447	\$ 9,187

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The combined summarized statements of operations of loan and other equity investments are as follows (in thousands):

	For the Year Ended December 31, 2012	For the Year Ended December 31, 2011	For the Years Ended December 31, 2010
Interest, dividends and discount accretion	\$ 28,565	\$ 24,251	\$ 6,917
Expenses			
Interest	8,411	9,127	3,258
Loan loss provision	10,745	3,889	—
General and administrative	6,956	7,216	840
Other expenses	130	67	—
Total expenses	26,242	20,299	4,098
Other income:			
Gain on debt extinguishment	—	8,252	17,000
Gain (loss) on sale of investment	285	(1,258)	(7,129)
Other income	618	324	—
Total other income	903	7,318	9,871
Net income	\$ 3,226	\$ 11,270	\$ 12,690
Trust's share of net income	\$ 2,554	\$ 2,126	\$ 472

9. Debt

Mortgage Loans Payable

The Trust had outstanding mortgage loans payable of \$280,576,000 and \$230,940,000 at December 31, 2012 and 2011, 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, 2012 and 2011 are summarized as follows (in thousands):

Location of Collateral	Maturity	Spread Over LIBOR/Prime	Interest Rate at December 31, 2012	December 31, 2012	December 31, 2011
Amherst, NY	Oct 2013	—	5.65%	\$ 15,225	\$ 15,682
Memphis, TN	Aug 2014	Libor + 2.5% (5)	3.00%	13,408	—
Chicago, IL	Apr 2015	—	6.25%	8,700	8,900
Lisle, IL (3)	Oct 2014	Libor + 2.5% (1)	2.71%	5,752	21,000
Chicago, IL	Mar 2016	—	5.75%	20,200	20,522
Houston, TX	Apr 2016	—	6.15%	52,052	56,423
New York, NY	May 2016	Libor + 2.5% (2)	3.50%	51,982	49,585
Greensboro, NC	Aug 2016	—	6.22%	15,139	—
Cerritos, CA	Jan 2017	—	5.07%	23,184	—
Lisle, IL	Mar 2017	—	5.55%	5,543	5,600
Orlando, FL	Jul 2017	—	6.40%	37,580	38,132
Plantation, FL	Apr 2018	—	6.48%	10,811	10,927
Meriden, CT	Oct 2022	—	3.95%	21,000	—
Indianapolis, IN	N/A	—	N/A	— (4)	4,169
				<u>\$ 280,576</u>	<u>\$ 230,940</u>

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- (1) The loan has an interest rate cap which caps LIBOR at 1%.
- (2) The loan has a LIBOR floor of 1%.
- (3) The loan was previously collateralized by three properties. Two of the properties were released from the mortgage upon partial repayment in October 2012.
- (4) Mortgage loan was satisfied September 2012 upon sale of Circle Tower operating property.
- (5) The loan has a LIBOR floor of 0.5% and an interest rate cap which caps LIBOR at 0.5%.

The Trust determines the fair value of its mortgage loans payable using discounted cash flow analyses by discounting future cash payments at interest rates the Trust believes approximate the current market. In determining the current market rates, the Trust adds its estimate of market spreads to the quoted yields on federal government treasury securities. The inputs used in determining the estimated fair value of the Trust's mortgage loans payable are categorized as level 3 in the fair value hierarchy. The estimated fair value of the Trust's mortgage loans payable and revolving line of credit are less than their current carrying value by \$9,653,000 and \$12,604,000 at December 31, 2012 and 2011, respectively.

Non-Recourse Secured Financings

The Trust's non-recourse secured financings at December 31, 2012 and December 31, 2011 are summarized as follows (in thousands):

<u>Collateral</u>	<u>Maturity</u>	<u>Spread Over LIBOR/Prime</u>	<u>Interest Rate at December 31, 2012</u>	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Hotel Wales Loan		LIBOR plus			
		(1)			
	Oct 2013	1.25%	4.25%	\$ 14,000	\$ 14,000
San Marbeya Loan	Jan 2015	—	4.85%	15,150	15,150
				<u>\$ 29,150</u>	<u>\$ 29,150</u>

- (1) The loan has a LIBOR floor of 3%.

The Trust determines the fair value of its secured financing using a discounted cash flow analyses by discounting future cash payments at interest rates that the Trust believes approximate the current market. In determining the current market rates, the Trust adds its estimate of market spreads to the quoted rates for recent market transactions. The inputs used in determining the estimated fair value of the Trust's secured financings are categorized as level 3 in the fair value hierarchy. The estimated fair value of the Trust's secured financings are greater than their carrying value by \$333,000 and \$152,000 at December 31, 2012 and 2011, respectively.

Recourse Secured Financings

In November 2012, the Trust obtained a \$25,000,000 loan which is secured by the Queensridge loan receivable. As of December 31, 2012, the recourse secured financing has a carrying value of \$23,770,000, bears interest at a rate of LIBOR plus 4.0% and matures on November 15, 2014. The inputs used in determining the estimated fair value of the Trust's secured financings are categorized as level 3 in the fair value hierarchy. The fair value of the loan approximates its carrying value at December 31, 2012.

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Notes Payable

In conjunction with the loan modification on the property located in Cerritos, California the Trust assumed a \$14,500,000 B Note that bears interest at 6.6996% per annum and requires monthly payments of approximately \$12,000 with the balance of the interest accruing. The loan modification agreement provides for a participation feature whereby the B Note can be fully satisfied with proceeds from the sale of the property after the Trust receives its 9.0% priority return of capital, during a specified time period as defined in the loan modification document. As of December 31, 2012, the carrying value of the participating B Note was \$876,000 which approximates fair value. The inputs used in determining the estimated fair value of the Trust's notes payable are categorized as level 3 in the fair value hierarchy.

On October 15, 2012, an entity in which the Trust holds an indirect interest executed a note payable in the amount of \$1,600,000. The note bears interest at 15% per annum and matures on October 15, 2022. In the consolidation of the Trust, \$800,000 of the note payable is eliminated for accounting purposes. The balance of the note as of December 31, 2012 was \$800,000 which approximates fair value.

10. Revolving Line of Credit

The Trust has a revolving line of credit in the principal amount of \$50,000,000 which bears interest at LIBOR plus 3% and has a maturity date of March 3, 2014 with a one year option to extend the maturity date to March 3, 2015. The Trust must comply with financial covenants on an ongoing basis. The covenants are tested as of the end of each quarter based upon results for the most recently ended quarter. The Trust was in compliance with its financial covenants under its revolving line of credit as of December 31, 2012.

The revolving credit line is recourse and as such is effectively collateralized by all of the Trust's assets. The Trust has directly pledged certain unencumbered consolidated operating properties and loans receivable as the borrowing base for the revolving line of credit. 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.

The outstanding balance under the facility was \$0 and \$40,000,000 at December 31, 2012 and 2011, respectively. The Trust is required to pay a commitment fee on the unused portion of the line, which amounted to approximately \$150,000 and \$119,000 for years ended December 31, 2012 and 2011, respectively.

11. Senior Notes Payable

In August 2012 the Trust issued a total \$86,250,000 of its 7.75% Senior Notes due August 2022 (the "Senior Notes") at an issue price of 100% of par value. The Trust received net proceeds of approximately \$83,228,000, after deducting the underwriting discounts, commissions and offering expenses of \$3,022,000.

The Senior Notes mature on August 15, 2022 and bear interest at the rate of 7.75% per year, payable quarterly in arrears commencing November 15, 2012. The Trust may redeem the Senior Notes, in whole or in part, at any time or from time to time on or after August 15, 2015 at a redemption price in cash equal to 100% of the principal amount redeemed plus accrued and unpaid interest.

The Senior Notes rank senior to all of the Trust's future indebtedness that by its terms is expressly subordinate to the Notes; except as discussed below, pari passu to all of the existing and future liabilities of the Trust's subsidiaries, including the Operating Partnership. However, the Notes will have priority with respect to a security interest in a promissory note issued by the Operating Partnership with a principal balance equal to the outstanding balance of the Senior Notes, which will be pari passu with all existing and future unsecured senior indebtedness of the Operating Partnership.

The indenture relating to the Senior Notes contains certain financial restrictions and requirements, including but not limited to cross-collateralization requirements on certain of its consolidated operating properties. At December 31, 2012, the Trust was in compliance with the financial restrictions and requirements.

The Trust determines the fair value of its Senior Notes using the quoted market price. The inputs used in determining the estimated fair value of the Trust's Senior Notes are categorized as level 1 in the fair value hierarchy. The estimated fair value of the Trust's Senior Note is greater than its carrying value by \$2,933,000 at December 31, 2012.

The following table summarizes future principal repayments of mortgage loans payable, senior notes payable, notes payable and secured financings (not including fair market value adjustments) as of December 31, 2012 (in thousands):

<u>Year</u>	<u>Amount</u>
2013	\$ 35,628
2014	49,471
2015	31,134
2016	121,913
2017	63,730
Thereafter	116,948
	<u>\$418,824</u>

12. 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.

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 caps and interest rate swaps as part of its interest rate risk management strategy relating to certain of its variable rate debt instruments.

The effective portion of changes in fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change, if any, in fair value of the derivatives is recognized directly in earnings. During the twelve months ended December 31, 2012, interest rate caps were used to hedge the variable cash flows associated with existing variable-rate debt. The Trust also assesses, both at its inception and on an ongoing basis, whether the hedging 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 hedges designated and qualifying as cash flow hedges totaling \$42,000 and (\$29,000) of comprehensive loss (income) for the twelve months ended December 31, 2012 and December 31, 2011, respectively.

The table below presents information about the Trust's interest rate caps that are included on the consolidated balance sheet that were designated as cash flow hedges of interest rate risk at December 31, 2012 (dollars in thousands):

	Strike	Notional Amount of Hedge	Cost of Hedge	Estimated Fair Value of Cap in Other Comprehensive Income	Unrealized Gain on Settled Cap in Other Comprehensive Income	Change in Cap Valuations Included in Other Comprehensive Income for the Year Ended December 31,
<u>Maturity</u>	<u>Rate</u>					
Aug 2014	0.5%	\$13,408	\$ 22	\$ (4)	\$ —	\$ (4)

The table below presents information about the Trust's interest rate caps that were not designated as cash flow hedges at December 31, 2012 (in thousands):

	Strike Rate	Notional Amount of Hedge	Cost of Hedge	Estimated Fair Value	Change in Cap Valuations Included in Interest Expense for the Year Ended December 31, 2012
<u>Maturity</u>					
Oct 2014	1.00%	\$ 5,753	\$ 174	\$ 1	\$ 121
May 2013	1.25%	51,982	196	—	19
May 2014	1.75%	51,982	434	—	49

13. Non-controlling Interests

Deer Valley Operating Property – On March 29, 2012 the Trust purchased the 3.5% non-controlling ownership interest of its consolidated joint venture, WRT-DV LLC, for \$400,000. The Trust accounted for this purchase as an equity transaction recording the difference in the \$192,000 carrying value of the acquired non-controlling interest and the purchase price as a \$208,000 reduction in paid-in capital.

One East Erie/Ontario Operating Property – On June 1, 2012, the Trust purchased from Marc Realty its 20% non-controlling interest in FT-Ontario Holdings LLC ("Ontario") for \$5,850,000. The Trust accounted for this purchase as an equity transaction recording the difference in the \$363,000 carrying value of the acquired non-controlling interest and the purchase price as a \$5,487,000 reduction in paid-in capital.

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Houston, Texas Operating Property – During the fourth quarter of 2012, a wholly-owned subsidiary of the Trust conducted a tender offer to acquire additional limited partner units in 5400 Westheimer Holding LP. The Trust acquired an additional 5.5 limited partnership units resulting from the offer, representing 22% of Westheimer for a purchase price of \$1,650,000. The Trust now owns 30% of Westheimer. The Trust accounted for this purchase as an equity transaction recording the difference in the \$2,812,000 carrying value of the acquired non-controlling interest and the purchase price as a \$1,162,000 increase in paid-in capital.

The changes in the Trust's ownership interest in the subsidiaries impacted consolidated equity during the period shown as follows:

	For the Years Ended December 31,		
	2012	2011	2010
Net income attributable to Winthrop Realty Trust	\$24,631	\$10,933	\$16,477
Decrease in Winthrop Realty Trust paid in capital adjustments from non-controlling interests	(4,533)	—	—
Changes from net income attributable to Winthrop Realty Trust and transfers from non-controlling interests	<u>\$20,098</u>	<u>\$10,933</u>	<u>\$16,477</u>

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14. Common Shares

The following table sets forth information relating to sales of Common Shares during the years ended December 31, 2009, 2010, 2011 and 2012:

Date of Issuance / Repurchase	Number of Shares Issued /		
	Repurchased	Price per Share	Type of Offering
January 15, 2009	61,292	\$ 10.85	DRIP (1)
April 15, 2009	7,462	\$ 8.27	DRIP
July 15, 2009	37,982	\$ 8.72	DRIP
October 15, 2009	63,471	\$ 8.96	DRIP
November 27, 2009	4,450,781	\$ 9.05	Rights Offering (2)
January 15, 2010	47,385	\$ 12.73	DRIP
April 15, 2010	44,181	\$ 13.75	DRIP
July 15, 2010	50,439	\$ 12.15	DRIP
September 27, 2010	5,750,000	\$ 12.25 (3)	Public Offering
October 15, 2010	48,398	\$ 12.53	DRIP
January 15, 2011	58,161	\$ 11.70	DRIP
April 6, 2011	5,750,000	\$ 11.25 (3)	Public Offering
April 15, 2011	59,207	\$ 11.63	DRIP
July 15, 2011	61,224	\$ 11.35	DRIP
October 17, 2011	82,256	\$ 8.46	DRIP
January 17, 2012	12,468	\$ 10.67	DRIP
April 16, 2012	12,778	\$ 10.60	DRIP
July 16, 2012	10,767	\$ 11.96	DRIP
October 15, 2012	11,704	\$ 10.24	DRIP
December 1, 2012	(70,040)	\$ 10.60	Share Repurchase

- (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 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.
- (3) Before underwriting discount.

15. Common 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, 2012, 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. To date no options have been exercised. There were no other options granted, cancelled or expired and in March 2005 the plan terminated.

16. Discontinued Operations

The Trust's properties in Athens, Georgia; Indianapolis, Indiana; Lafayette, Louisiana; St. Louis, Missouri; Knoxville, Tennessee; Memphis, Tennessee and Sherman, Texas are classified as discontinued operations.

In October 2009 a tenant of the Trust's retail net leased properties, The Kroger Company ("Kroger"), notified the Trust of its intention not to exercise its lease renewal options on six buildings containing approximately 281,000 square feet of retail space. Concurrently, Kroger also notified the Trust that it would be exercising its option to purchase one of these six properties, the Athens, Georgia property, resulting in the Trust classifying that property in discontinued operations effective with the fourth quarter of 2009. Upon receipt of the notice, management actively marketed the remaining locations for lease or sale.

The Lafayette, Louisiana and Sherman, Texas locations were classified as discontinued operations as of September 30, 2010. During the quarter ended September 30, 2010, management determined that the potential market rents were not sufficient to cover prospective ground lease payments plus the costs to convert these properties to multi-tenant facilities. Therefore the Trust decided to permit the ownership of the Sherman, Texas and Lafayette, Louisiana properties to revert back to the land owners as of November 1, 2010. The Trust recorded a \$704,000 impairment charge related to these investments which is included in discontinued operations for the year ended December 31, 2010.

The Knoxville, Tennessee location was classified as discontinued operations as of September 30, 2010. During the quarter ended September 30, 2010, management determined that after having exercised its purchase option under its ground lease and acquiring the land in October 2010 the best course of action was to pursue a sale of the real estate. As a result, the Trust recorded a \$626,000 impairment charge which is included in discontinued operations for the year ended December 31, 2010. In August 2011 the Trust sold its Knoxville, Tennessee property for net proceeds of \$2,151,000.

With respect to Kroger's purchase of the Athens, Georgia property, in accordance with a three party agreement between the Trust, Kroger and the land owner, an appraisal process was conducted to determine the fair market value of the property. As a result of the finalization of the appraisal process, the Trust recorded an impairment charge of \$1,390,000 during the year ended December 31, 2010.

In January 2011 the Trust classified the St. Louis, Missouri property into discontinued operations. In February 2011 the Trust entered into an agreement to sell this property. In December 2011 the Trust sold its St. Louis, Missouri property for net proceeds of \$1,485,000.

In September 2012, the Indianapolis, Indiana and Memphis, Tennessee properties were classified as discontinued operations and sold. The Indianapolis, Indiana property was sold for net proceeds of \$945,000. The Memphis, Tennessee property was sold, and the Trust recorded a \$698,000 impairment charge, offset by \$592,000 of settlement income which is included in discontinued operations for the year ended December 31, 2012.

Results for discontinued operations for the years ended December 31, 2012, 2011 and 2010 are as follows (in thousands):

	2012	2011	2010
Revenues	\$1,059	\$ 265	\$ 1,082
Gain on sale of investments in real estate	945	392	—
Settlement income	592	—	—
Operating expenses	(765)	(227)	(109)
Depreciation and amortization	(400)	(2)	(155)
Impairment loss	(698)	—	(2,720)
Interest expense	(800)	—	—
Income (loss) from discontinued operations	<u>\$ (67)</u>	<u>\$ 428</u>	<u>\$ (1,902)</u>

17. 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 dividend requirements. As of December 31, 2011, the Trust has net operating loss carryforwards of approximately \$4,830,000 which will expire in 2023. The Trust does not expect to utilize any of the net operating loss carryforwards to offset 2012 taxable income. The Trust treats certain items of income and expense differently in determining net income reported for financial and tax purposes.

The Trust's capital loss carryforwards of \$43,430,000 are not available in certain states and localities where the Trust has an obligation to pay income taxes. The Trust's capital loss carryforwards will expire from 2014 through 2015. 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 \$234,000, \$379,000 and \$134,000 in state and local taxes for the years ended December 31, 2012, 2011 and 2010, respectively.

Both of the Series B-1 Preferred and Series C Preferred Shares were fully redeemed in 2011.

The 2011 and 2010 cash dividends per Series B-1 Preferred Share for an individual shareholder's income tax purposes were as follows:

		Capital Gains	Nontaxable	Total Dividends
	Ordinary Dividends	15% Rate	Distribution	Paid
2011	\$ 1.30	\$ —	\$ —	\$ 1.30
2010	2.03	—	—	1.22

The 2011 and 2010 cash dividends per Series C Preferred Share for an individual shareholder's income tax purposes were as follows:

		Capital Gains	Nontaxable	Total Dividends
	Ordinary Dividends	15% Rate	Distribution	Paid
2011	\$ 1.30	\$ —	\$ —	\$ 1.30
2010	2.03	—	—	2.03

The 2012 and 2011 cash dividends per Series D Preferred Share for an individual shareholder's income tax purposes were as follows:

		Capital Gains	Nontaxable	Total Dividends
	Ordinary Dividends	15% Rate	Distribution	Paid
2012	\$ 2.31	\$ —	\$ —	\$ 2.31
2011	0.21	—	—	0.21

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The 2012, 2011 and 2010 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
2012	\$ 0.49	\$ —	\$ —	\$ 0.49
2011	0.69	—	—	0.69
2010	0.77	—	—	0.77

The following table reconciles GAAP net income attributable to the Trust to taxable income (in thousands):

	For the Years Ended December 31,		
	2012	2011	2010
Net income(loss) attributable to Winthrop Realty Trust	\$24,631	\$ 10,933	\$ 16,477
Book/Tax differences from depreciation and amortization expense	5,297	4,588	189
Book/Tax differences of accretion of discount	(8,333)	(13,401)	(8,782)
Book/Tax differences of unrealized gains	(6,923)	(2,788)	(10,080)
Book/Tax differences on gains/losses from capital transactions	(1,876)	(5,842)	1,655
Book/Tax differences on Preferred Shares	—	1,428	1,563
Book/Tax differences for impairment losses	3,260	7,600	2,720
Book/Tax differences on investments in unconsolidated joint ventures	4,131	31,634	15,661
Other book/tax differences, net	(8,781)	(766)	(134)
Book/Tax differences on dividend income	(452)	(371)	93
Book/Tax differences of market discount	14,065	13,250	—
Taxable income	<u>\$25,019</u>	<u>\$ 46,265</u>	<u>\$ 19,362</u>

18. 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 result of any particular lawsuit cannot be predicted because of the very nature of litigation, the litigation process and its adversarial nature, and the jury system. 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 its financial condition or results of operations.

In addition to the initial purchase price of certain loans and operating properties and initial investments in equity investments, the Trust has future funding commitments which total approximately \$39,104,000 at December 31, 2012. The Trust also has ground lease commitments of \$1,282,000, \$1,405,000, \$1,463,000, \$1,592,000, \$1,656,000 and \$109,418,000 for the years ended December 31, 2013, 2014, 2015, 2016, 2017 and thereafter, respectively.

In 2011 the Trust was conveyed title to the land underlying the Churchill, Pennsylvania property. Prior to the conveyance of the land, a Phase II environmental study was performed. The study found that there were certain contaminants at the property all of which were within permitted ranges. In addition, given the nature and use of the property currently and in the past, it is possible that additional contamination could occur which could require remediation. The Trust believes that based on applicable law and existing agreements any such remediation costs would be the responsibility of a prior owner or tenant.

19. Related-Party Transactions

FUR Advisors

The activities of the Trust are administered by FUR Advisors LLC (“FUR Advisors”) pursuant to the terms of the Advisory Agreement between the Trust and FUR Advisors. Effective January 1, 2013, the Advisory Agreement was amended and restated which revised terms including a description of the incentive fee are set forth in Note 24 – Subsequent Events.

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. Under the Advisory Agreement in effect during 2010, 2011 and 2012, FUR Advisors was entitled to receive a base management fee and an incentive fee in accordance with the terms of the Advisory Agreement. The base management fee, which is paid on a quarterly basis, equals to 1.5% of (i) the issuance price of our outstanding equity securities plus (ii) 0.25% of any equity contribution by an unaffiliated third party to a venture managed by the Trust. Pursuant to the terms of the Advisory Agreement, no incentive fee was payable during the years ended 2010, 2011 or 2012. In addition, FUR Advisors or its affiliate is also entitled to receive property management fees and construction management fees at commercially reasonable rates.

The following table sets forth the fees and reimbursements paid by the Trust for the years ended December 31, 2012, 2011 and 2010 to FUR Advisors and Winthrop Management (in thousands):

	December 31, 2012	For the Years Ended	
		December 31, 2011	December 31, 2010
Base Asset Management Fee (1)	\$ 8,953	\$ 7,690	\$ 5,225
WRP Sub-Management LLC Credit	—	—	(129)
Property Management Fee	724	537	248
Construction Management Fee	128	1	24
	<u>\$ 9,805</u>	<u>\$ 8,228</u>	<u>\$ 5,368</u>

- (1) The base asset management fee attributable to third party equity contributions amounted to \$139,000, \$49,000 and \$10,000 for the years ended December 31, 2012, 2011 and 2010, respectively.

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 individual property management agreements.

Credits

WRP Sub-Management LLC (“WRP Sub-Management”), an affiliate of FUR Advisors provided accounting, collateral management and loan brokerage services to CDO-1 and its subsidiaries. WRP Sub-Management received reimbursement of direct and indirect expenses totaling \$716,000 for the year ended December 31, 2010, in accordance with the terms of the agreement. Of this amount, \$259,000 was paid to reimburse it for costs associated with providing accounting and other “back-office” services for the benefit of Concord and CDO-1 (the “Affiliate Amount”). Because the Trust pays an advisory fee to FUR Advisors whereas the Trust’s partners in Concord do not, the advisory fee payable to FUR Advisors by the Trust was reduced by 50% of the Affiliate Amount to ensure equal treatment of the Trust and its partners with respect to the reimbursements paid by Concord. For the year ended December 31, 2010, the Trust received and utilized a credit of \$129,000 against the base management fee.

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Other Transactions

On October 4, 2012 the Trust purchased from an affiliate of FUR Advisors for \$75,000 a 100% membership interest in the entity that holds fee simple title to a Class B office building located in Cerritos, California. See Note 4 for a detailed description of this transaction and for additional activity between the Trust and Concord or CDH CDO.

20. Future Minimum Lease Payments

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

Year	Amount
2013	41,017
2014	39,594
2015	36,988
2016	32,869
2017	30,380
Thereafter	122,346
	<u>\$303,194</u>

Spectra Energy represented more than 10% of the base rental revenues of the Trust for the year ended December 31, 2012 contributing approximately 19.7%. This tenant represented approximately 17.5% of the total rentable square footage of the consolidated operating portfolio.

Spectra Energy represented more than 10% of the base rental revenues of the Trust for the year ended December 31, 2011 contributing approximately 21.8%. This tenant represented approximately 14.5% of the total rentable square footage of the consolidated operating portfolio.

Spectra Energy, Siemens Real Estate and Viacom, each of which represented more than 10% of revenues, contributed approximately 44% of the base rental revenues of the Trust for the year ended December 31, 2010. These tenants represented approximately 43% of the total rentable square footage of the consolidated operating property portfolio for the year ended December 31, 2010.

These revenues are reported in the operating properties business segment.

21. Reportable Segments

The Financial Accounting Standards Board ("FASB") guidance on segment reporting establishes standards for the way that public business enterprises report information about reportable segments in financial statements and requires that those enterprises report selected financial information about reportable segments in financial reports issued to shareholders.

Based on the Trust's method of internal reporting, management determined that it has three reportable 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. The loan assets segment includes all of the Trust's activities related to real estate loans including loans receivable, loan securities and equity investments in loan related entities. 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).

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The following table summarizes the Trust's assets by reportable segment and capital expenditures incurred for the Trust's operating properties for the years ended December 31, 2012 and 2011 (in thousands):

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Assets		
Operating properties	\$ 562,822	\$ 442,209
Loan assets	239,534	217,174
REIT securities	19,694	28,856
Corporate		
Cash and cash equivalents	97,682	40,952
Restricted cash	—	3,914
Accounts receivable and prepaids	336	504
Deferred financing costs	3,095	318
Discontinued operations	—	6
Total Assets	<u><u>\$ 923,163</u></u>	<u><u>\$ 733,933</u></u>
Capital Expenditures		
Operating Properties	<u><u>\$ 12,417</u></u>	<u><u>\$ 11,962</u></u>

The Trust defines net operating income for each segment presented as all items of income and expense directly derived from or incurred by each business segment before depreciation, amortization and interest expense. Interest on cash reserves, general and administrative expenses and other non-segment specific income and expense items are reported under corporate income (expense). The following table presents a summary of revenues from operating properties, loan assets and REIT securities and expenses incurred by each segment for the years ended December 31, 2012, 2011, and 2010 (in thousands):

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	2012	2011	2010
Operating Properties			
Rents and reimbursements	\$ 51,375	\$ 42,789	\$ 36,274
Operating expenses	(15,666)	(14,387)	(7,758)
Real estate taxes	(4,765)	(4,427)	(2,412)
Equity in (loss) income of Marc Realty investments	(132)	(982)	1,776
Equity in (loss) income of Sealy Northwest Atlanta	(388)	4,308	(710)
Equity in loss of Sealy Airpark Nashville	—	(1,034)	(1,107)
Equity in loss of Sealy Newmarket	(2,811)	(2,936)	(1,193)
Equity in income of Vintage	4,603	113	—
Equity in income of WRT-Elad	903	—	—
Operating income	33,119	23,444	24,870
Depreciation and amortization expense	(17,666)	(13,234)	(9,628)
Interest expense	(13,011)	(12,815)	(12,932)
Impairment loss on investments in real estate	(2,562)	(7,600)	—
Impairment loss on Marc Realty equity investments	—	(15,764)	—
Impairment loss on Sealy equity investments	—	(5,294)	—
(Loss) gain on extinguishment of debt	(121)	9,358	—
Gain on sale of equity investments	397	207	—
Settlement income	—	5,868	—
Gain on consolidation of property	—	818	—
Operating properties net income (loss)	156	(15,012)	2,310
Loan Assets			
Interest	11,736	11,073	5,691
Discount accretion	8,333	13,401	8,782
Equity in earnings of preferred equity investment in Marc Realty	—	338	338
Equity in earnings of Lex-Win Concord	—	258	—
Equity in earnings of Concord Debt Holdings	422	3,216	—
Equity in earnings of CDH CDO	1,715	480	—
Equity in loss of Concord Debt Holdings (1)	(456)	—	—
Equity in loss of CDH CDO (1)	(997)	—	—
Equity in earnings of ROIC Riverside	706	936	473
Equity in (loss) earnings of ROIC Lakeside Eagle	(42)	664	—
Equity in earnings of 46th Street Gotham	—	621	—
Equity in earnings of Sofitel	—	2,177	—
Equity in earnings of RE CDO Management	67	46	—
Equity in earnings of Socal Office Loan Portfolio	9,706	272	—
Equity in loss of PSW NYC	—	—	(1,246)
Equity in earnings of WRT-Stamford	769	—	—
Equity in earnings of 10 Metrotech	335	—	—
Equity in earnings of Mentor	46	—	—
Gain on sale of securities carried at fair value	614	—	469
Unrealized gain on loan securities carried at fair value	447	2,738	5,011
Operating income	33,401	36,220	19,518
General and administrative expense	(121)	(75)	(300)
Interest expense	(1,494)	(850)	—
Impairment loss on preferred equity investments	—	—	—
Impairment loss on investment in Lex-Win Concord	—	—	—
Provision for loss on loans receivable	—	—	—
Loan assets net income	31,786	35,295	19,218
REIT Securities			
Dividends	1,054	984	2,655
Gain on sale of securities carried at fair value	41	123	558
Unrealized gain on securities carried at fair value	6,916	2,788	5,060
REIT securities net income	8,011	3,895	8,273
Net Income	39,953	24,178	29,801
Reconciliations to GAAP Net Income:			
Corporate Income (Expense)			
Interest and other income	699	1,179	139
General and administrative	(12,393)	(11,173)	(8,198)
Transaction costs	(421)	(519)	(321)
Interest expense	(3,153)	(2,094)	(2,182)
Loss on redemption of Series B-1 Preferred Shares	—	(100)	—
State and local taxes	(234)	(379)	(133)

Income from continuing operations before non-controlling interest	24,451	11,092	19,106
Non-controlling interest	247	(814)	(888)
Income from continuing operations attributable to Winthrop Realty Trust	<u>\$ 24,698</u>	<u>\$ 10,278</u>	<u>\$ 18,218</u>

22. Variable Interest Entities**Consolidated Variable Interest Entities**

Consolidated variable interest entities are those where the Trust is the primary beneficiary of a variable interest entity. The primary beneficiary is the party that has a controlling financial interest in the VIE, which is defined by the entity having both of the following characteristics: 1) the power to direct the activities that, when taken together, most significantly impact the VIE's economic performance, and 2) the obligation to absorb losses or the right to receive the returns from the VIE that could potentially be significant to the VIE.

The Trust has determined that the entity that holds title to the Cerritos office property, is a variable interest entity. Although the Trust holds 100% of the equity interests in this entity, the B-Note collateralized by the property enables the senior lender to participate in the entity's expected residual returns. In addition, the Trust will need to fund expected losses and infuse additional capital to lease and stabilize property operations. Through its equity interests in the property, the Trust has both the right to the returns of the entity and power to direct the activities of Cerritos. Accordingly, the Trust is the primary beneficiary and has consolidated Cerritos since its acquisition on October 5, 2012.

The fair value of assets and acquired and liabilities assumed upon the acquisition and consolidation of Cerritos are discussed in Note 4. No gain or loss was recognized in connection with the acquisition and consolidation of the property. At December 31, 2012, the carrying value of the Cerritos assets and liabilities included land and building of \$21,423,000 net of accumulated depreciation of \$157,000, mortgage debt comprised of an A-Note totalling \$23,184,000 and participating B-Note totalling \$876,000. The outstanding mortgage debt collateralized by the property is non-recourse to the Trust. The balance of lease intangibles net of accumulated amortization did not materially differ from the balances recognized upon acquisition and consolidation.

Variable Interest Entities Not Consolidated

Equity Method and Preferred Equity Investments - The Trust has reviewed its various equity method and preferred equity investments and identified 11 investments for which the Trust holds a variable interest in a VIE. Of these 11 interests there are seven investments for which the underlying entities do not have sufficient equity at risk to permit them to finance their activities without additional subordinated financial support. There are four additional entities for which the VIE assessment was primarily based on the fact that the voting rights of the entity holders are not proportional to their obligations to absorb expected losses and rights to receive residual returns of the legal entities. These unconsolidated joint ventures are those where the Trust is not the primary beneficiary of a VIE.

Loans Receivable and Loan Securities - The Trust has reviewed its loans receivable and loan securities and six of these assets have been identified as variable interests in a VIE because the equity investment at risk at the borrowing entity level is not considered sufficient for the entity to finance its activities without additional subordinated financial support.

Certain loans receivable and loan securities which have been determined to be VIEs are performing assets, meeting their debt service requirements, and the borrowers hold title to the collateral. In these cases the borrower holds legal title to the real estate collateral and has the power to direct the activities that most significantly impact the economic performance of the VIE, including management and leasing activities. In the event of default under these loans the Trust only has protective rights and has the risk to absorb losses only to the extent of its loan investment. The borrower has been determined to be the primary beneficiary for these performing assets.

The Trust has determined that it does not currently have the power to direct the activities of the ventures collateralizing any of its loans receivable and loan securities. For this reason, management believes that it does not control, nor is it the primary beneficiary of these ventures. Accordingly, the Trust accounts for these investments under the guidance for loans receivable and real estate debt investments.

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23. 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, 2012 and 2011. 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.

(In thousands, except per-share data)

	Quarters Ended			
	March 31	June 30	September 30	December 31
2012				
Revenues	\$17,598	\$18,588	\$ 17,057	\$ 19,255
Net income (loss) attributable to Winthrop Realty Trust	\$ 8,253	\$ 3,358	\$ 15,108	\$ (2,088)
Net income (loss) applicable to Common Shares	\$ 7,328	\$ 571	\$ 12,322	\$ (4,875)
Per share				
Net income (loss) applicable to Common Shares, basic	\$ 0.22	\$ 0.02	\$ 0.37	\$ (0.15)
Net income (loss) applicable to Common Shares, diluted	\$ 0.22	\$ 0.02	\$ 0.37	\$ (0.15)
2011				
Revenues	\$20,213	\$15,879	\$ 15,873	\$ 16,282
Net income (loss) attributable to Winthrop Realty Trust	\$ 7,198	\$ 3,728	\$ 9,846	\$ (9,839)
Net income (loss) applicable to Common Shares	\$ 7,139	\$ 3,670	\$ 9,787	\$ (10,587)
Per share				
Net income (loss) applicable to Common Shares, basic	\$ 0.26	\$ 0.11	\$ 0.30	\$ (0.32)
Net income (loss) applicable to Common Shares, diluted	\$ 0.26	\$ 0.11	\$ 0.30	\$ (0.32)

24. Subsequent Events

All relevant events or transactions that occurred after the balance sheet date not otherwise disclosed and incorporated in the Notes to the Consolidated Financial Statements are described below.

Playa Vista Mezzanine Loan – On January 24, 2013 the Trust originated a \$20,500,000 mezzanine loan collateralized indirectly by a 260,000 square foot, two building, Class A office campus commonly referred to as Water's Edge at Playa Vista which is located three miles from Los Angeles International Airport. The loan, which is subordinate to an \$80,300,000 mortgage loan, matures January 23, 2015, bears interest at a rate of LIBOR plus 14.25% per annum, with a 0.50% LIBOR floor, and requires monthly payments of interest only at a rate of 8.25% per annum with the remaining accrued interest being added to principal. In addition, at maturity the Trust is entitled to a participation interest equal to 25% of net equity value or sales proceeds of the property or, alternatively, if the property is not sold, the borrower can issue to the Trust a 25% ownership interest in the property. On March 1, 2013 the Trust sold at par a 50% pari passu participation interest in the loan.

RE CDO Management – On February 20, 2013 the collateral management agreement and subordinated interests related to a collateralized debt obligation entity were sold for \$2,750,000. The Trust received net proceeds from the sale of approximately \$1,296,000. On March 8, 2013 the C Notes in another collateralized debt obligation entity were sold for \$6,240,000. The Trust received net proceeds from the sale of approximately \$3,120,000.

Queensridge Loan/Recourse Secured Financing – Subsequent to December 31, 2012 the Trust has received principal repayments totaling \$5,987,000 resulting from the sale of several of the condominium units collateralizing the loan. Concurrently with the receipts, the Trust made aggregate principal payments of \$5,987,000 on its recourse secured financing collateralized by the Queensridge loan.

Advisory Agreement – The Trust modified its advisory agreement with FUR Advisors effective January 1, 2013 to, among other things, extended the term for five years (subject to earlier termination by the Trust for both cause (as defined) and without cause), modified the required return on the threshold amount for which the incentive fee is payable and provided for a supplemental fee payable to FUR Advisors in the event of an early termination of the Advisory Agreement under certain circumstance or on the liquidation or disposition of the Trust.

As modified, the calculation of the base asset management fee is unchanged but the Advisory Agreement now provides that any dividends paid on account of Common Shares that result in a reduction of the threshold amount (as described below) at the date of the Trust's liquidation or disposition are deemed a reduction in the aggregate issuance price of the Common Shares, thereby resulting in a reduction of the base management fee.

The growth factor on the incentive fee was modified from 7% per annum to the greater of (x) 4% or (y) the 5 year U.S. Treasury Yield plus 2.5% (such return, the "Growth Factor"). The incentive fee still equals to 20% of any amounts available for distribution in excess of the threshold amount and is only payable at such time, if at all, (x) when holders of the Common Shares receive aggregate dividends above the threshold amount or (y) upon termination of the Advisory Agreement, if the net value of the Trust's assets exceeds 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 common shareholders have received dividends in excess of the threshold amount. The threshold amount is equal to \$534,224,000 (the threshold amount at December 31, 2012) plus the issuance price for any equity interests in the Trust issued from and after January 1, 2013 plus an annual return thereon equal to the Growth Factor less any dividends paid from and after January 1, 2013. The incentive fee will also be payable if the Advisory Agreement is terminated, other than for cause (as defined) by the Trust or with cause by FUR Advisors, and if on the date of termination the net value of the Trust's assets exceeds the threshold amount.

With respect to the supplemental fee, it is only payable if there is (i) a termination of the Advisory Agreement for any reason other than for cause

(as defined) by the Trust or with cause by FUR Advisors, (ii) a disposition of all or substantially all of the Trust's assets, or (iii) an election by the Trust to orderly liquidate its assets. The supplemental fee, if payable, is equal to the lesser of (i) the base management fee paid to FUR Advisors for the prior twelve month period or (ii) either (x) in the case of a termination of the Advisory Agreement, 20% of the positive difference, if any between (A) the appraised net asset value of the Trust's assets at the date of termination and (B) the threshold amount less \$104,980,000, or (y) in the case of a disposition or liquidation, 20% of any dividends paid on account of Common Shares at such time as the threshold amount is reduced to \$104,980,000, which will be achieved at such time as aggregate distributions of approximately \$13.00 in excess of the Growth Factor have been paid. For example, if the Trust had been liquidated at January 1, 2013, the supplemental fee would only have been payable if total dividends of approximately \$13.00 per Common Share had been paid, and then only until the total supplemental fee paid would have equaled \$8,953,000 (the base asset management fee for calendar 2012), which amount would be achieved when total dividends paid per Common Share equaled approximately \$14.36.

In the event that the supplemental fee is payable in connection with a disposition, the entire fee is payable upon such disposition. In all other cases where the supplemental fee is payable, the Trust is permitted to defer payment of the first \$3,000,000 of the supplemental fee for 30 days and the balance, if any, for a period of six months. If it is determined that the supplemental fee is less than \$3,000,000, FUR Advisors is obligated to promptly return to the Trust the difference between the \$3,000,000 paid to it and the actual supplemental fee.

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, 2012. 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, 2012 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, 2012.

The effectiveness of the Trust's internal control over financial reporting as of December 31, 2012 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 ended December 31, 2012 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 2013, 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:

Report of Independent Registered Public Accounting Firm on page 60 of Item 8.

Management’s Report on Internal Controls over Financial Reporting on page 115 of Item 9A.

Consolidated Balance Sheets - December 31, 2012 and 2011 on page 61 of Item 8.

Consolidated Statements of Operations and Comprehensive Income - For the Years Ended December 31, 2012, 2011 and 2010 on page 62 of Item 8.

Consolidated Statements of Shareholders’ Equity - For the Years Ended December 31, 2012, 2011 and 2010 on page 63 of Item 8.

Consolidated Statements of Cash Flows - For the Years Ended December 31, 2012, 2011 and 2010 on pages 65 and 66 of Item 8.

Notes to Consolidated Financial Statements on pages 67 through 114 of Item 8.

(2) Financial Statement Schedules:

Schedule III - Real Estate and Accumulated Depreciation.

Schedule IV – Mortgage Loans on Real Estate

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

(b) Exhibits.

The exhibits listed on the Exhibit Index on page 122 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 13, 2013

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

Dated: March 13, 2013

By: /s/ John A. Garilli
John A. Garilli
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
<u>/s/ Michael L. Ashner</u>	Trustee	March 13, 2013
<u>/s/ Carolyn Tiffany</u>	Trustee	March 13, 2013
Arthur Blasberg, Jr. Howard Goldberg Thomas McWilliams Scott Rudolph Lee Seidler Steven Zalkind	Trustee	March 13, 2013
By: <u>/s/ Carolyn Tiffany</u> Carolyn Tiffany, as attorney-in fact		

WINTHROP REALTY TRUST
SCHEDULE III
REAL ESTATE AND ACCUMULATED DEPRECIATION
At December 31, 2012
(amounts in thousands)

						Cost capitalized/ (impaired) subsequent to acquisition	As of December 31, 2012					
			Initial Cost to Registrant				Accumulated					
Description	Location	Location	Mortgage Encumbrances	Land	Building and Improvements	Land/Building and Improvements	Land	Building and Improvements	Total	Depreciation	Date Acquired	Life
Continuing Operations:												
Office	Orlando	FL	\$ 37,580	\$ —	\$ 17,248	\$ 42	\$ —	\$ 17,290	\$ 17,290	\$ 3,512	11/2004	40 yrs
Office	Plantation	FL	10,811	—	8,915	4,020	4,000	8,935	12,935	1,815	11/2004	40 yrs
Office	Chicago	IL	20,200	—	23,635	2,388	—	26,023	26,023	4,986	10/2005	40 yrs
Office	Amherst	NY	15,225	1,591	18,027	7	1,591	18,034	19,625	3,436	5/2005	40 yrs
Office	Andover	MA	—	—	7,611	718	1,200	7,129	8,329	1,417	12/2005	40 yrs
Office	South Burlington	VT	—	—	3,099	309	—	3,408	3,408	578	12/2005	40 yrs
Office	Chicago	IL	8,700	1,149	9,989	5,619	1,149	15,608	16,757	2,037	10/2007	40 yrs
Office	Houston	TX	52,052	7,075	62,468	—	7,075	62,468	69,543	12,624	1/2005	40 yrs
Office	Lisle	IL	5,752	3,774	16,371	2,406	3,774	18,777	22,551	3,167	2/2006	40 yrs
Office	Lisle	IL	—	2,361	6,298	(2,366)	2,361	3,932	6,293	1,007	2/2006	40 yrs
Office	Lisle	IL	5,543	780	2,803	673	780	3,476	4,256	540	2/2006	40 yrs
Office	Phoenix	AZ	—	801	7,387	3,858	801	11,245	12,046	1,446	8/2010	40 yrs
Office	Englewood	CO	—	2,580	5,403	3,242	2,580	8,645	11,225	806	11/2010	40 yrs
Office	Englewood	CO	—	1,829	5,612	692	1,829	6,304	8,133	579	12/2010	40 yrs
Office	New York	NY	51,982	—	52,778	7,598	—	60,376	60,376	1,937	11/2011	40 yrs
Office	Cerritos	CA	23,184	4,114	16,190	1,276	4,114	17,466	21,580	157	10/2012	40 yrs
			231,029	26,054	263,834	30,482	31,254	289,116	320,370	40,044		
Retail	Atlanta	GA	—	—	4,633	(1,733)	—	2,900	2,900	942	11/2004	40 yrs
Retail	Louisville	KY	—	—	2,722	376	373	2,725	3,098	554	11/2004	40 yrs
Retail	Greensboro	NC	—	—	3,797	4	—	3,801	3,801	772	11/2004	40 yrs
Retail	Denton	TX	—	—	1,574	546	915	1,205	2,120	344	11/2004	40 yrs
Retail	Seabrook	TX	—	—	1,393	619	616	1,396	2,012	283	11/2004	40 yrs
			—	—	14,119	(188)	1,904	12,027	13,931	2,895		
Warehouse	Jacksonville	FL	—	2,166	8,684	1,771	2,166	10,455	12,621	2,195	11/2004	40 yrs
Mixed use	Churchill	PA	—	—	23,834	(14,129)	—	9,705	9,705	3,960	11/2004	40 yrs
Multi-family	Meriden	CT	21,000	2,887	22,367	299	2,887	22,666	25,553	1,880	10/2010	40 yrs
Multi-family	Memphis	TN	13,408	3,080	17,485	801	3,080	18,286	21,366	470	4/2012	40 yrs
Multi-family	Greensboro	NC	15,139	1,961	16,482	—	1,961	16,482	18,443	109	11/2012	40 yrs
			49,547	10,094	88,852	(11,258)	10,094	77,594	87,688	8,614		
Total from Continuing Operations			\$ 280,576	\$36,148	\$ 366,805	\$ 19,036	\$43,252	\$ 378,737	\$421,989	\$ 51,553		

The aggregate cost in the properties for federal income tax purposes was approximately \$381,998.

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,		
	2012	2011	2010
Real Estate			
Balance at beginning of period	\$363,832	\$308,499	\$249,078
Additions during the period:			
Land	—	—	9,408
Buildings and improvements	12,417	11,962	6,121
Consolidation of 450 West 14th Street	(26)	52,778	—
Consolidation of Deer Valley	—	—	8,188
Consolidation of Newbury Apartments	—	—	25,254
Consolidation of Crossroads II	—	—	7,983
Purchase of Waterford	20,565	—	—
Purchase of Lake Brandt	18,443	—	—
Purchase of Cerritos	20,304	—	—
Proceeds from sale of Churchill	(629)	—	—
Purchase of Crossroads I	—	—	7,441
Transfer (to) from discontinued operations	(10,058)	(1,639)	(3,970)
Impairments during the period	(2,562)	(7,600)	—
Disposal of fully amortized assets	(297)	(168)	(1,004)
Balance at end of period	<u>\$421,989</u>	<u>\$363,832</u>	<u>\$308,499</u>
Accumulated Depreciation			
Balance at beginning of period	\$ 44,556	\$ 36,232	\$ 31,269
Additions charged to operating expenses	11,207	8,644	6,399
Transfer (to) from discontinued operations, net (1)	(3,913)	(152)	(432)
Disposal of fully amortized assets	(297)	(168)	(1,004)
Balance at end of period	<u>\$ 51,553</u>	<u>\$ 44,556</u>	<u>\$ 36,232</u>

- (1) In 2012, the Indianapolis, Indiana and Memphis, Tennessee properties were placed into discontinued operations. In 2011, the St. Louis, Missouri property was placed into discontinued operations. In 2010, the Lafayette, Louisiana; Knoxville, Tennessee; and Sherman, Texas properties were placed into discontinued operations. In 2009, the Athens, Georgia property was placed into discontinued operations and the Kansas City, Kansas property was foreclosed.

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Schedule IV Mortgage Loans on Real Estate December 31, 2012 (Amounts in thousands)

Type of Loan	Location	Interest Rate	Contractual Maturity Date	Periodic Payment Terms	Senior Liens	Face Value	Outstanding Principal	Carrying Amount (1)
LIBOR +								
Whole Loan	New York, NY	4.0%	10/5/2013	Interest Only	\$ —	\$ 20,000	\$ 20,000	\$ 20,101
LIBOR +								
Whole Loan	Las Vegas, NV	11.5%	11/15/2014	Interest Only	—	38,771	38,771	39,170
Whole Loan	Tempe, AZ	5.88%	1/1/2015	Amortizing	—	29,903	27,003	27,149
Whole Loan	Philadelphia, PA	(5)	(5)	Interest Only	—	70,000	58,650	58,650
Whole Loan Other (2)	Various	Various	Various	Interest Only	—	5,430	5,430	5,468
B-Note	New York, NY	7.19%	7/11/2016	Amortizing	237,473	11,146	9,962	10,009
B-Note	Burbank, CA	5.90%	4/6/2017	Interest Only	135,000	10,000	9,000	9,043
B-Note Other (3)	Various	Various	Various	Amortizing	221,612	15,677	11,906	11,976
Mezzanine	New York, NY	14.00%	4/30/2015	Amortizing	35,180	8,583	8,583	8,687
Mezzanine Other (4)	Various	Various	Various	Interest Only	60,150	13,191	11,181	11,247
Corporate Loan	n/a	15.00%	10/31/2014	Interest Only	—	9,750	9,750	9,750
						<u>\$232,451</u>	<u>\$210,236</u>	<u>\$211,250</u>

- (1) Carrying amount of loans receivable includes accrued interest of \$1,014 at December 31, 2012.
- (2) Line item includes three whole loans each of which represent less than 3% of the total Loan Assets.
- (3) Line item includes three B-Notes each of which represent less than 3% of the total Loan Assets.
- (4) Line item includes four mezzanine loans each of which represent less than 3% of the total Loan Assets.
- (5) This loan was in maturity default at the time of acquisition. The loan was modified on February 1, 2013 to adjust the interest rate to 7.5% and to extend the maturity date to February 1, 2016.

Reconciliation of Mortgage Loans on Real Estate:

The following table reconciles Mortgage Loans for the years ended December 31, 2012, 2011, and 2010.

	2012	2011	2010
Balance at January 1	\$114,333	\$110,395	\$ 26,101
Purchase and advances	177,550	67,619	122,301
Proceeds from sale	(25,735)	—	(12,876)
Interest (received) accrued, net	516	(37)	361
Repayments	(45,089)	(70,289)	(15,064)
Loan accretion	8,333	13,401	8,782
Discount accretion received in cash	(15,720)	(13,290)	—
Reclass to investment in real estate	—	—	(19,210)
Reclass from loan securities	—	662	—
Reclass from equity investments	—	12,544	—
Reclass to equity investments	(2,938)	(4,650)	—
Reclass to preferred investments	—	(2,022)	—
Balance at December 31	<u>\$211,250</u>	<u>\$114,333</u>	<u>\$110,395</u>

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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	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 Current Report on Form 8-K filed January 4, 2005.	—
4.3	Amendment No. 1 to Agreement of Limited Partnership of WRT Realty, L.P., dated as of December 1, 2005 incorporated by reference to Exhibit 4.4 to the Trust's Form 10-K filed March 15, 2012.	—
4.4	Amendment No. 2 to Agreement of Limited Partnership of WRT Realty, L.P., dated as of November 28, 2011 – Incorporated by reference to the Trust's Current Report on Form 8-K filed November 28, 2011.	—
4.5	Amendment No. 3 to Agreement of Limited Partnership of WRT Realty, L.P., dated as of March 23, 2012 – Incorporated by reference to the Trust's Current Report on Form 8-K filed March 23, 2012.	—
4.6	Amended and Restated Certificate of Designations of 9.25% Series D Cumulative Redeemable Preferred Shares of Beneficial Interest - Incorporated by reference to the Trust's Current Report on Form 8-K filed March 23, 2012.	—
4.7	Form of Specimen Certificate for the 9.25% Series D Cumulative Redeemable Preferred Shares of Beneficial Interest - Incorporated by reference to Exhibit 4.2 to Trust's Form 8-A filed with the Securities and Exchange Commission on November 23, 2011.	—
4.8	Indenture, dated August 6, 2012 between the Trust and The Bank of New York Mellon, as trustee – Incorporated by reference to the Exhibit 4.1 to the Trust's Current Report on Form 8-K filed August 9, 2012.	—
4.9	First Supplemental Indenture, dated August 15, 2012, between the Trust and the Bank of New York Mellon, as trustee and collateral agent – Incorporated by reference to Exhibit 4.1 of the Trust's Current Report on Form 8-K filed August 15, 2012.	—
10.1	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 Current Report on Form 8-K filed December 1, 2003.	—

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10.2	Third Amended and Restated Advisory Agreement dated February 1, 2013, between the Trust, WRT Realty L.P. and FUR Advisors LLC - Incorporated by reference to Exhibit 10.1 to the Trust's Current Report on Form 8-K filed February 4, 2013.	—
10.3	Exclusivity Services Agreement between the Trust and Michael L. Ashner - Incorporated by reference to Exhibit 10.4 to the Trust's Current Report on Form 8-K filed December 1, 2003.	—
10.4	Amendment No. 1 to Exclusivity Agreement, dated November 7, 2005 - Incorporated by reference to Exhibit 10.7 to the Trust's Current Report on Form 8-K filed November 10, 2005.	—
10.5	Amendment No. 2 to Exclusivity Agreement, dated February 1, 2013 - Incorporated by reference to Exhibit 10.2 to the Trust's Current Report on Form 8-K filed February 4, 2013.	—
10.6	Covenant Agreement between the Trust and FUR Investors, LLC - Incorporated by reference to Exhibit 10.5 to the Trust's Current Report on Form 8-K filed December 1, 2003.	—
10.7	Amendment No. 1 to Covenant Agreement, dated February 4, 2013 - Incorporated by reference to Exhibit 10.3 to the Trust's Current Report on Form 8-K filed February 4, 2013.	—
10.8	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.	—
10.9	Agreement, dated as of July 1, 2009, among Gerald Nudo, Laurence Weiner and WRT Realty L.P. Incorporated by reference to Exhibit 10.14 to the Trust's Form 10-Q for the period ended June 30, 2009 filed August 10, 2009.	—
10.10	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.	—
10.11	Amended and Restated Loan Agreement, dated as of March 3, 2011, between WRT Realty L.P. and KeyBank, National Association. Incorporated by reference to Exhibit 10.19 to the Trust's Annual Report on Form 10-K for the year ended December 31, 2011.	—
10.12	Guaranty from Winthrop Realty Trust and certain of its Subsidiaries in favor of KeyBank, National Association. Incorporated by reference to Exhibit 10.20 to the Trust's Annual Report on Form 10-K for the year ended December 31, 2011.	—
10.13	Restricted Share Award Agreement, dated February 1, 2013, between Winthrop Realty Trust and Michael L. Ashner - Incorporated by reference to Exhibit 10.4 to the Trust's Current Report on Form 8-K filed February 4, 2013.	—
10.14	Restricted Share Award Agreement, dated February 1, 2013, between Winthrop Realty Trust and Carolyn Tiffany - Incorporated by reference to Exhibit 10.4 to the Trust's Current Report on Form 8-K filed February 4, 2013.	—
21	List of Subsidiaries	*
23.1	Consent of Independent Registered Accounting Firm – PricewaterhouseCoopers LLP	*

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23.2	Consent of Independent Registered Accounting Firm – KPMG LLP (Concord Debt Holdings LLC financials)	*
23.3	Consent of Independent Registered Accounting Firm – Frazier & Deeter, LLC (Sealy Northwest Atlanta Partners LP financials)	*
23.4	Consent of Independent Registered Accounting Firm – Frazier & Deeter, LLC (Sealy Newmarket General Partnership financials)	*
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 Concord Debt Holdings LLC	*
99.2	Consolidated Financial Statements of Sealy Northwest Atlanta Partners LP	*
99.3	Consolidated Financial Statements of Sealy Newmarket General Partnership	*
101.INS	XBRL Report Instance Document	—
101.SCH	XBRL Taxonomy Extension Schema Document	—
101.CAL	XBRL Taxonomy Calculation Linkbase Document	—
101.LAB	XBRL Taxonomy Label Linkbase Document	—
101.PRE	XBRL Presentation Linkbase Document	—
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	—

* filed herewith

— indicates furnished herewith

<u>Name of Entity</u>	<u>State of Formation</u>
10 Metrotech Loan LLC	Delaware
5400 Westheimer Court LLC	Delaware
5400 Westheimer Holding L.P.	Delaware
5400 Westheimer Limited Partnership	Delaware
CDH CDO 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 Lender LLC	Delaware
FT-Churchill Property L.P.	Delaware
FT-FIN Acquisition LLC	Delaware
FT-FIN GP LLC	Delaware
FT-Florida Property LLC	Delaware
FT-Florida Property Manager LLC	Delaware
FT-KRG (Atlanta) LLC	Delaware
FT-KRG (Denton) LLC	Delaware
FT-KRG (Greensboro) LLC	Delaware
FT-KRG (Louisville) LLC	Delaware
FT-KRG (Seabrook) LLC	Delaware
FT-KRG Property L.P.	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
Newbury Apartments LLC	Delaware
Newbury Properties DE LLC	Delaware
RE CDO Management LLC	Delaware
Sealy Airpark Nashville General Partnership	Delaware
Sealy Newmarket General Partnership	Delaware
Sealy Northwest Atlanta Partners L.P.	Delaware
SoCal Office Loan Portfolio LLC	Delaware
SoCal OLP Holdings 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-701 Seventh LLC	Delaware
WRT-1515 MS L.P.	Delaware
WRT-1515 Property GP LLC	Delaware
WRT-1515 MSA GP LLC	Delaware
WRT-1515 Limited Partnership	Delaware
WRT-Andover Property LLC	Delaware
WRT-Andover Property Manager LLC	Delaware
WRT-Atlanta LLC	Delaware
WRT-CDH II LLC	Delaware
WRT-CDO LLC	Delaware
WRT-Concord LLC	Delaware
WRT-Crossroads LLC	Delaware
WRT-Crossroads One LLC	Delaware
WRT-DV LLC	Delaware
WRT-Elad One South State Lender L.P.	Delaware
WRT-Elad One South State Equity L.P.	Delaware
WRT-Fenway Wateridge LLC	Delaware
WRT-High Line LLC	Delaware
WRT-Lake Brandt Property LLC	Delaware
WRT-Lender LLC	Delaware
WRT-Lender (Poipu) LLC	Delaware
WRT-Lender (Disney) LLC	Delaware
WRT-Lender (Wailea) LLC	Delaware
WRT-Lender (Pinnacle) LLC	Delaware
WRT-LP LLC	Delaware
WRT-Marc RC Holding LLC	Delaware
WRT-Marc RC LLC	Illinois
WRT-Mentor Equity LLC	Delaware
WRT-Nashville Airpark LLC	Delaware
WRT-Property Holdings LLC	Delaware
WRT-PV Lender LLC	Delaware
WRT-Queensridge Lender LLC	Delaware
WRT Realty L.P.	Delaware
WRT-Rockwell LLC	Delaware
WRT-ROIC Lakeside Eagle LLC	Delaware
WRT-ROIC Riverside LLC	Delaware
WRT-SoCal Lender LLC	Delaware
WRT-South Burlington Property LLC	Delaware
WRT-South Burlington Property Manager LLC	Delaware
WRT-Springing Member LLC	Delaware
WRT-Stamford LLC	Delaware
WRT-State Street Lender LLC	Delaware

WRT TRS Management Corp.
WRT-VHH LLC
WRT-Waterford Place LLC

Delaware
Delaware
Delaware

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-183927) and Form S-3D (No. 333-161664) of Winthrop Realty Trust and subsidiaries of our report dated March 13, 2013, relating to the consolidated financial statements, financial statement schedules, and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
Boston, Massachusetts
March 13, 2013

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-183927) and Form S-3D (No. 333-161664) of Winthrop Realty Trust and subsidiaries of our report dated March 7, 2012, with respect to the consolidated balance sheet of Concord Debt Holdings LLC and subsidiaries as of December 31, 2011 and the related consolidated statements of operations, changes in members' capital, and cash flows for the year then ended, which report appears in the December 31, 2012 annual report on Form 10-K of Winthrop Realty Trust.

/s/ KPMG LLP
Boston, Massachusetts
March 13, 2013

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-183927), and Form S-3D (No. 333-161664) of Winthrop Realty Trust and subsidiaries of our report dated March 9, 2012, relating to the financial statements of Sealy Northwest Atlanta Partners, LP which appears in this Form 10-K.

/s/ Frazier & Deeter, LLC
Atlanta, Georgia
March 11, 2013

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-183927) and Form S-3D (No. 333-161664) of Winthrop Realty Trust and subsidiaries of our report dated March 11, 2013, relating to the financial statements of Sealy Newmarket General Partnership which appears in this Form 10-K.

/s/ Frazier & Deeter, LLC
Atlanta, Georgia
March 11, 2013

**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, 2012**

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, 2012 (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 5th day March, 2013.

/s/ Arthur Blasberg, Jr.

Arthur Blasberg, Jr.

/s/ Howard Goldberg

Howard Goldberg

/s/ Thomas McWilliams

Thomas McWilliams

/s/ Scott Rudolph

Scott Rudolph

/s/ Lee Seidler

Lee Seidler

/s/ Steven Zalkind

Steven Zalkind

WINTHROP REALTY TRUST
FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2012

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 13, 2013

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

WINTHROP REALTY TRUST
FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2012

CERTIFICATIONS

I, John A. Garilli, 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 13, 2013

/s/ John A. Garilli
John A. Garilli
Chief Financial Officer

**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, 2012, 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 13, 2013

/s/ Michael L. Ashner

Michael L. Ashner
Chief Executive Officer

Date: March 13, 2013

/s/ John A. Garilli

John A. Garilli
Chief Financial Officer

CONCORD DEBT HOLDINGS LLC
Consolidated Financial Statements
December 31, 2012 (unaudited) and 2011
(With Independent Auditors' Report Thereon)

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CONCORD DEBT HOLDINGS LLC

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Independent Auditors' Report

The Members

Concord Debt Holdings LLC:

We have audited the accompanying consolidated balance sheet of Concord Debt Holdings LLC and subsidiaries as of December 31, 2011, and the related consolidated statements of operations, changes in members' capital, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Concord Debt Holdings LLC and subsidiaries as of December 31, 2011, and the results of their operations and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

The accompanying consolidated balance sheet as of December 31, 2012 and 2010, and the consolidated statements of operations, members' capital and cash flows for the year ended December 31, 2012, and for the period from August 26, 2010 (Inception) through December 31, 2010 were not audited by us and accordingly, we do not express an opinion on them.

/s/ KPMG LLP

March 7, 2012

[Table of Contents](#)**CONCORD DEBT HOLDINGS LLC**

Consolidated Balance Sheets

December 31, 2012 (unaudited) and 2011

(In thousands)

Assets	2012 (unaudited)	2011
Cash and cash equivalents	\$ 741	2,978
Restricted cash	1,000	—
Real estate debt investments carried at fair value	23,492	23,627
Securities carried at fair value	30	581
Interest and other receivables	103	101
Other assets	29	107
Total assets	<u>\$ 25,395</u>	<u>27,394</u>
Liabilities and Capital		
Liabilities:		
Other liabilities	\$ 43	150
Total liabilities	43	150
Members' capital	25,352	27,244
Total liabilities and capital	<u>\$ 25,395</u>	<u>27,394</u>

See accompanying notes to consolidated financial statements.

CONCORD DEBT HOLDINGS LLC

Consolidated Statements of Operations

Years ended December 31, 2012 (unaudited), 2011 and
the period from August 26, 2010 (Inception) through December 31, 2010 (unaudited)

(In thousands)

			Period from August 26, 2010 (inception) through December 31,
	2012 (unaudited)	2011	2010 (unaudited)
Income:			
Interest income	\$ 1,748	3,472	2,108
Fees received from related party	48	57	20
Total income	<u>1,796</u>	<u>3,529</u>	<u>2,128</u>
Expenses:			
Interest	—	726	668
General and administrative	623	448	356
Total expenses	<u>623</u>	<u>1,174</u>	<u>1,024</u>
Net investment income	<u>1,173</u>	<u>2,355</u>	<u>1,104</u>
Realized and unrealized gain (loss) from investments:			
Realized gain on sale of securities carried at fair value	—	370	237
Realized loss on sale of securities carried at fair value	(7)	(1,127)	—
Realized gain on sale of real estate debt investments carried at fair value	—	8,634	—
Realized loss on sale of real estate debt investments carried at fair value	—	(1,532)	—
Realized loss on repurchase agreement carried at fair value	—	(1,850)	—
Realized loss on revolving credit facility carried at fair value	—	(845)	—
Total realized (loss) gain from investments, net	<u>(7)</u>	<u>3,650</u>	<u>237</u>
Unrealized (loss) gain on real estate debt investment carried at fair value	(1,404)	3,666	5,753
Unrealized loss on securities carried at fair value	(544)	(273)	(925)
Unrealized loss on repurchase agreement carried at fair value	—	—	(588)
Unrealized loss on revolving credit facility carried at fair value	—	—	(132)
Total unrealized (loss) gain from investments, net	<u>(1,948)</u>	<u>3,393</u>	<u>4,108</u>
Total realized and unrealized (loss) gain from investments	<u>(1,955)</u>	<u>7,043</u>	<u>4,345</u>
Net (loss) income from continuing operations	<u>(782)</u>	<u>9,398</u>	<u>5,449</u>
Discontinued operations:			
Income from discontinued operations	13	36	104
Total income from discontinued operations	<u>13</u>	<u>36</u>	<u>104</u>
Net (loss) income	<u>\$ (769)</u>	<u>9,434</u>	<u>5,553</u>

See accompanying notes to consolidated financial statements.

CONCORD DEBT HOLDINGS LLC

Consolidated Statements of Changes in Members' Capital

Years ended December 31, 2012 (unaudited), 2011 and
the period from August 26, 2010 (Inception) through December 31, 2010 (unaudited)

(In thousands)

	WRT Concord LLC	Lexington CDH I LLC	Inland American Concord Sub LLC	Total
Balance at August 26, 2010 (unaudited)	\$ 7,196	7,196	7,197	21,589
Net income	1,894	1,894	1,765	5,553
Balance at December 31, 2010 (unaudited)	9,090	9,090	8,962	27,142
Net income	3,145	3,145	3,144	9,434
Distribution	(3,216)	(3,216)	(2,900)	(9,332)
Balance at December 31, 2011	9,019	9,019	9,206	27,244
Net loss	(512)	—	(257)	(769)
Transfer of equity	8,668	(8,668)	—	—
Distribution	(492)	(351)	(280)	(1,123)
Balance at December 31, 2012 (unaudited)	<u>\$16,683</u>	<u>—</u>	<u>8,669</u>	<u>25,352</u>

See accompanying notes to consolidated financial statements.

CONCORD DEBT HOLDINGS LLC

Consolidated Statements of Cash Flows

Years ended December 31, 2012 (unaudited), 2011 and
the period from August 26, 2010 (Inception) through December 31, 2010 (unaudited)

(In thousands)

	2012 (unaudited)	2011	Period from August 26, 2010 (inception) through December 31, 2010 (unaudited)
Cash flows from operating activities:			
Net (loss) income	\$ (769)	9,434	5,553
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Unrealized loss (gain) on real estate debt investment carried at fair value	1,404	(3,666)	(5,753)
Realized gain on sale of securities carried at fair value	—	(370)	(237)
Realized loss on sale of securities carried at fair value	7	1,127	—
Realized loss on sale of real estate debt investments carried at fair value	—	1,532	—
Realized gain on sale of real estate debt investment carried at fair value	—	(8,634)	—
Realized loss on repurchase agreement carried at fair value	—	1,850	—
Realized loss on credit facility carried at fair value	—	845	—
Unrealized loss on securities carried at fair value	544	273	925
Unrealized loss on repurchase agreement carried at fair value	—	—	588
Unrealized loss on credit facility carried at fair value	—	—	132
Changes in operating assets and liabilities:			
Interest receivable	(2)	288	160
Other assets	78	15	(43)
Other liabilities	(107)	(185)	85
Net cash provided by operating activities	<u>1,155</u>	<u>2,509</u>	<u>1,410</u>
Cash flows from investing activities:			
Proceeds from sale of securities carried at fair value	—	370	1,682
Repayment of real estate debt investments	3	—	645
Proceeds from sale of real estate debt investments	—	56,672	771
Advances on real estate debt investments	(1,272)	—	10
Purchase of real estate debt investments	—	(11,000)	—
Change in restricted cash	(1,000)	2,214	(80)
Net cash (used in) provided by investing activities	<u>(2,269)</u>	<u>48,256</u>	<u>3,028</u>
Cash flows from financing activities:			
Cash proceeds from reorganization	—	—	2,765
Repayments on repurchase agreements	—	(6,137)	(1,064)
Repayment of revolving credit facility	—	(35,599)	(2,450)
Distribution to members	(1,123)	(9,332)	(408)
Net cash used in financing activities	<u>(1,123)</u>	<u>(51,068)</u>	<u>(1,157)</u>
Net decrease in cash and cash equivalents	<u>(2,237)</u>	<u>(303)</u>	<u>3,281</u>
Cash and cash equivalents at beginning of year	2,978	3,281	—
Cash and cash equivalents at end of year	<u>\$ 741</u>	<u>2,978</u>	<u>3,281</u>

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CONCORD DEBT HOLDINGS LLC

Consolidated Statements of Cash Flows

Years ended December 31, 2012 (unaudited), 2011 and
the period from August 26, 2010 (Inception) through December 31, 2010 (unaudited)

(In thousands)

	<u>2012</u>	<u>2011</u>	<u>Period from</u>
	(unaudited)		August 26,
			2010
			(inception)
			through
			December 31,
			2010
			(unaudited)
Supplemental cash flow information:			
Interest paid	\$ —	691	686
Supplement disclosure of noncash investing and financing activities:			
Debt assumed on sale of real estate investment at fair market value	\$ —	56,090	—
Noncash investing activity:			
The following represents the increase in certain assets and liabilities in connection with the Company's reorganization:			
Restricted cash	\$ —	—	2,134
Real estate debt investments	—	—	109,649
Securities	—	—	9,088
Interest receivable	—	—	549
Other assets	—	—	79
Repurchase agreements	—	—	60,853
Revolving credit facility	—	—	37,072
Sub-participation obligation	—	—	4,500
Other liabilities	—	—	250
Member capital	—	—	21,589

See accompanying notes to consolidated financial statements.

CONCORD DEBT HOLDINGS LLC

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(1) Description of Business and Basis of Presentation

(a) Formation and Ownership

Concord Debt Holdings LLC (the Company) is a Delaware limited liability company (LLC) that was originally formed on March 31, 2006 (Formation Date). At its Formation Date, the Company was owned 50% each by Winthrop Realty Trust (Winthrop) and Lexington Master Limited Partnership (Lexington).

On August 2, 2008 (Recapitalization Date), the Company was recapitalized and amended and restated its LLC agreement to admit Inland American Concord Sub, LLC (Inland). Inland received a redeemable preferred membership interest in exchange for new capital invested in the Company. Concurrently with the admission of Inland as a preferred member, Lexington and Winthrop contributed all of their interest in the Company to Lex-Win Concord, LLC (Lex-Win), which was owned 50% by Winthrop and 50% by Lexington and Lex-Win was designated as the Company's managing member.

Winthrop and Lexington funded 100% of their capital commitments of \$162,500,000 prior to the Company's admission of Inland as a preferred member and Inland invested \$76,000,000 in the Company as a result of the Company's recapitalization.

On August 26, 2010 (Reorganization Date or Inception), the Company was reorganized and its LLC agreement was amended and restated to admit two new Lexington and Winthrop affiliates as members, Lexington CDH I LLC and WRT-Concord LLC. Concurrently, Inland's existing preferred member interest was eliminated and Lex-Win was dissolved after it distributed its 100% common member interest in the Company to the newly admitted members and Inland equally, resulting in each member having an equal 33.3% common member interest with Inland designated as the Company's managing member.

As of the Reorganization Date, Winthrop and Lexington effectively reduced their 50%/50% common member interests and Inland exchanged its preferred member interest for a common member interest. As a result of the Reorganization, each held an equal one-third common member interest in the Company. Income is divided equally among members and distributions of operating cash flow, capital proceeds, and quarterly guarantees are made in accordance with the LLC agreement. The Company's members are not required to make any future capital contributions to the Company. On May 1, 2012, WRT-Concord LLC purchased the equity of Lexington CDH I LLC and now owns two-thirds of the common member interest in the Company.

(b) Business Purpose and Opening Balance Sheet at Inception

Through its subsidiaries, the Company was originally formed in 2006 to acquire real estate whole loans and subordinate real estate debt investments such as B-notes and mezzanine loans and commercial real estate securities including collateralized debt obligations (CDO's) and collateralized mortgage-backed securities (CMBS), which are further characterized as either pool bonds or rake bonds. A rake bond is a junior interest in a securitized mortgage loan, which has been structured in one or more classes of CMBS and issued in a transaction that solely relates to one particular mortgage loan.

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On the Reorganization Date, the Company divested its CDO subsidiary. Therefore, the opening balance sheet of the Company at Inception consists of the remaining non-CDO assets accounted for on a fair value basis of accounting.

(2) **Summary of Significant Accounting Policies**

(a) ***Principles of Consolidation***

The consolidated financial statements include the accounts of the Company, and its subsidiaries, which are either wholly 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) through the analysis as set forth in ASC 810 *Consolidation of Variable Interest Entities* 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.

(b) ***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.

(c) ***Concentration of Credit Risk***

The Company maintains cash deposits and restricted cash deposits, which balances 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.

(d) ***Cash and Cash Equivalents***

All highly liquid investments with maturities of three months or less at time of acquisition and as of the balance sheets date are considered to be cash equivalents. The Company places its cash and cash equivalents in major financial institutions.

(e) ***Restricted Cash***

The Company had \$1,000,000 of restricted cash of at December 31, 2012, which is being held in the attorney escrow fund (see commitments and contingencies). At December 31, 2011, the Company had no restricted funds.

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Notes to Consolidated Financial Statements

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(f) Fair Value Measurements

The Company has elected the fair value option to measure the Company's financial instruments including real estate debt investments, securities, and debt outstanding. The fair value of these financial instruments is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., the exit price) and changes in the fair value are recorded in earnings as unrealized gain or loss in the consolidated statements of operations.

(g) Real Estate Debt Investments

Loans are stated at the estimated fair value. Interest income is recorded on the accrual basis in accordance with the terms of the respective loan. Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans.

The Company recognizes interest income on certain nonperforming real estate debt investments using the cash-basis method. The accrual of interest on loans is discontinued when principal or interest payments are past due 90 days or when, in the opinion of management, it is probable it will be unable to collect contractual principal and interest in the normal course of business. When loans are placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Income on nonaccrual loans is subsequently recognized only to the extent that cash is received and the loan's principal balance is deemed collectible.

(h) Members' Capital

Capital contributions, distributions, and profits and losses are allocated in accordance with the terms of the Company's LLC Agreement.

(i) Gain on Sale of Loans

All loans sold to date have been sold without recourse. When loans are sold, a gain or loss is recognized to the extent that the sales proceeds plus unamortized fees and costs exceed or are less than the carrying value of the loans. Gains and losses are determined using the specific-identification method.

(j) Income Taxes

The Company is an LLC and is treated as a partnership for U.S. Federal income tax purposes. Accordingly, no provision or benefit for income taxes is made in the consolidated financial statements since taxable income or loss passes through to, and is reportable by its members on their respective income tax returns. However, the Company is required to pay certain state and local entity level taxes which are expensed as incurred and included in general and administrative expenses in the consolidated statements of operations.

(k) Recently Issued Accounting Standards

On May 12, 2011 the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04: *Fair Value Measurement (Topic 820) — Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*, which results in changes to common fair value measurement and disclosure requirements. Consequently, the amendments change the wording used to describe many of the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements. Certain amendments in this update clarify the FASB's intent about the application of existing fair value measurement requirements. Other amendments change requirements for measuring fair value or for disclosing information about fair value measurements. The requirements of the ASU have been included in note 3.

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(3) Fair Value Measurement

Accounting guidance establishes a fair value measurement framework, provides a single definition of fair value based on the assumptions that market participants would use in pricing an asset or liability and requires expanded disclosure summarizing fair value measurements.

The accounting guidance establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable input be used when available. Observable inputs are inputs that the market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is measured in three levels based on the reliability of inputs:

Level 1 — Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 — Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 — Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Valuations derived from other valuation methodologies, including pricing models, discounted cash flow models, and similar techniques, and not based on market, exchange, dealer, or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections that are not observable in the market and significant professional judgment in determining the fair value assigned to such assets or liabilities.

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.

(a) Fair Value Option

The fair value option election allows companies to irrevocably elect fair value measurement attributed for certain financial assets and liabilities. The fair value option election is permitted on an instrument-by-instrument basis at initial recognition for real estate debt investments, securities, and debt outstanding at the Company's inception and ongoing. The Company elects the fair value option to mitigate a divergence between accounting and economic exposure. Changes in fair value for assets and liabilities for which the election is made will be recognized in earnings as they occur.

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

(b) Cash, Cash Equivalents, and Restricted Cash

The Company's cash, cash equivalents, and restricted cash are generally classified within Level 1 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 with original maturities less than 90 days and most money market securities.

(c) Real Estate Debt Investments

Real estate debt investments are nonpublic investments in loan assets collateralized by real estate. Determining the fair value of nonpublic investments involves a significant degree of management judgment as no quoted prices exist and such investments are generally very illiquid. Due to the unique nature of the individual properties collateralizing the Company's loans, the Company uses the income or market approach, as deemed appropriate. Fair value determination through the income approach is estimated through the use of a discounted cash flow model. In addition to the characteristics of the underlying loans (including principal, contractual interest rate, and contractual fees), key inputs to the model include interest rates, prepayment rates, and credit spreads. Fair value estimates from internal valuation techniques are then verified, where possible, to prices obtained from independent valuation specialists that use primarily a discounted cash flow model using similar inputs for valuation. Real estate debt investments are classified as Level 3 of the fair value hierarchy since valuation models are based on significant inputs that are unobservable in the market.

(d) Securities

The securities portfolio comprises commercial mortgage-backed securities. The Company considers the availability of quoted market prices. If quoted market prices are not available for the specific security, the Company may estimate the value of such instruments using a combination of observed transaction prices, independent pricing services, and relevant broker quotes. Consideration is given to the nature of the quotes (e.g., indicative or firm) and the relationship of recently evidenced market activity. 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. Because significant judgment and unobservable market inputs are used in the estimation of these metrics and the ultimate determination of fair value, this valuation methodology has been characterized as Level 3 in the fair value hierarchy.

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(e) **Items Measured at Fair Value on a Recurring Basis**

The following tables present for each of the fair value hierarchy levels the Company's assets and liabilities that are measured at fair value on a recurring basis at December 31, 2012 and 2011 (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 2012
			(unaudited)	
Assets:				
Cash and cash equivalents	\$ 741	—	—	741
Restricted cash	1,000	—	—	1,000
Real estate debt investments	—	—	23,492	23,492
Securities	—	—	30	30

	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 2011
Assets:				
Cash and cash equivalents	\$ 2,978	—	—	2,978
Real estate debt investments	—	—	23,627	23,627
Securities	—	—	581	581

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Changes in Level 3 Fair Value Measurements

The following is a reconciliation of the beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the years ended December 31, 2012, 2011 and for the period from August 26, 2010 (Inception) through December 31, 2010 (in thousands):

	Real estate debt investments	Securities	Repurchase agreements	Credit facility	Sub- participation obligation
Fair value, August 26, 2010 (unaudited) (Inception)	\$109,649	9,088	60,853	37,072	4,500
Total realized and unrealized gains and losses included in statement of operations	5,753	(925)	588	132	(237)
Repayments of securities, investments and loans	(10)	(645)	(1,064)	(2,450)	(408)
Sale of investments and securities	(771)	(1,682)	—	—	—
Fair value, December 31, 2010 (unaudited)	114,621	5,836	60,377	34,754	3,855
Total realized and unrealized gains and losses included in statements of operations	10,768	(1,030)	1,850	845	—
Repayments of securities, investments, and loans	—	(370)	(6,137)	(35,599)	(3,855)
Purchase of investments	11,000	—	—	—	—
Debt assumed on sale of investment	(56,090)	—	(56,090)	—	—
Sale of investments and securities	(56,672)	(3,855)	—	—	—
Fair value, December 31, 2011	23,627	581	—	—	—
Total realized and unrealized gains and losses included in statements of operations	(1,404)	(551)	—	—	—
Repayments of securities, investments, and loans	(3)	—	—	—	—
Advance on real estate debt investments	1,272	—	—	—	—
Debt assumed on sale of investment	—	—	—	—	—
Sale of investments and securities	—	—	—	—	—
Fair value, December 31, 2012 (unaudited)	<u>\$ 23,492</u>	<u>30</u>	<u>—</u>	<u>—</u>	<u>—</u>

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	<u>Real estate debt investments</u>	<u>Securities</u>	<u>Repurchase agreements</u>	<u>Credit facility</u>	<u>Sub- participation obligation</u>
Change in unrealized loss included in earnings related to the investments still held at December 31, 2012 (unaudited)	\$ (1,013)	(544)	—	—	—
Change in unrealized gain (loss) included in earnings related to the investments still held at December 31, 2011	\$ 3,666	(273)	—	—	—

The following table presents additional quantitative information about assets measured at fair value as of December 31, 2012 (unaudited) on a recurring and nonrecurring basis for which the Company has utilized Level 3 inputs to determine fair value (dollars in thousands).

<u>Financial instruments</u>	<u>Fair value</u>	<u>Valuation technique</u>	<u>Unobservable input</u>	<u>Unobservable input value or range</u>	<u>Weighted average</u>
Real estate debt investments	\$23,492	Discounted cash flow	Discount rate	7.1% – 8.6%	7.88%

(f) Transfers between Level 1, Level 2, and Level 3 of the Fair Value Hierarchy

There were no transfers of assets or liabilities between Levels 1, 2, or 3 of the fair value hierarchy during the years ended December 31, 2012 and 2011 and period from August 26, 2010 to December 31, 2010.

(4) Real Estate Debt Investments

Real estate debt investments, consisting of whole loans, B-Note participation interests, and mezzanine loans, are held for investment and are carried at fair value. 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.

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The Company's methodology to fair value these investments considers amongst others, the collateral value of the underlying assets. The following table is a summary of the Company's real estate debt investments at December 31, 2012 and 2011 (in thousands):

		2012 (unaudited)	
		Real estate debt investments	
		at fair value	Loan count
B-notes		\$ 10,622	3
Mezzanine loans		12,870	2
Total loans		<u>\$ 23,492</u>	<u>5</u>
		2011	
		Real estate debt investments	
		at fair value	Loan count
B-notes		\$ 10,990	3
Mezzanine loans		12,637	2
Total loans		<u>\$ 23,627</u>	<u>5</u>

The following table sets forth the maturity dates for the Company's real estate debt investments at December 31, 2012 and 2011 (in thousands):

December 31, 2012 (unaudited)				
Year of maturity (1)	Number of	Principal balance	Fair value	Percentage of total
	loan assets maturing			
2013	3	\$11,897	10,622	45%
2014	—	—	—	—
2015	—	—	—	—
2016	2	12,896	12,870	55
2017 and thereafter	—	—	—	—
Total real estate debt investments	<u>5</u>	<u>\$24,793</u>	<u>23,492</u>	<u>100%</u>

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- (1) Weighted average maturity is 2.28 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.

December 31, 2011				
Year of maturity (1)	Number of	Principal balance	Fair value	Percentage of total
	loan assets maturing			
2012	3	\$11,016	10,990	47%
2013	—	—	—	—
2014	—	—	—	—
2015	—	—	—	—
2016 and thereafter	2	12,900	12,637	53
Total real estate debt investments	5	\$23,916	23,627	100%

- (1) Weighted average maturity is 2.83 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 3.34 years.

The Company considers a loan to be nonperforming and places loans on nonaccrual status at such time as management determines it is probable that it will be unable to collect all amounts due according to the contractual terms of the loan. While on nonaccrual status, based on the Company's judgment as to collectibility of principal, loans are either accounted for on a cash basis, where interest income is recognized only upon actual receipt of cash, or on a cost-recovery basis, where all cash receipts reduce a loan's carrying value. As of December 31, 2012, there were two nonaccrual loans.

Credit Risk Concentrations

Concentrations of credit risk arise 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 debt investments collateralized with office buildings, and represent 100% of the unpaid principal balance and fair value of real estate debt investments as of December 31, 2012 and 2011.

As of December 31, 2012, two loans exceeded 10% of the Company's assets and for the year ended December 31, 2012, there were three loans that generated more than 10% of the Company's income.

As of December 31, 2011, two loans exceeded 10% of the Company's assets and for the year ended December 31, 2011, there were no loans that generated more than 10% of the Company's income.

During the year ended December 31, 2012, the Company did not sell any loans.

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During the year ended December 31, 2011, the Company sold eight loans for total proceeds of \$56.7 million. The Company recognized a net realized gain of \$7.1 million from the sale in 2011. The Company had recognized an accumulated unrealized gain of \$4.7 million at the beginning of 2011.

(5) Securities Carried at Fair Value

The Company has a portfolio of loan securities that includes three investments at December 31, 2012 and 2011. These bonds are marked to fair value on a recurring basis.

The cost and fair value of securities at fair value were as follows (in thousands):

			2012 (unaudited)		
	Par	Cost basis	Unrealized gains	Unrealized (losses)	
CMBS:					
Pool Bonds	\$15,393	1,122	—	(1,092)	30
Total securities at fair value	<u>\$15,393</u>	<u>1,122</u>	<u>—</u>	<u>(1,092)</u>	<u>30</u>
			2011		
	Par	Cost basis	Unrealized gains	Unrealized (losses)	
CMBS:					
Pool Bonds	\$15,400	1,122	—	(541)	581
Total securities at fair value	<u>\$15,400</u>	<u>1,122</u>	<u>—</u>	<u>(541)</u>	<u>581</u>

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 at December 31, 2012 and 2011 (in thousands):

	Less than 12 months		2012 (unaudited)		Total	
	Gross unrealized		12 months or longer		Gross unrealized	
	Fair value	losses	Fair value	losses	Fair value	losses
CMBS:						
Pool Bonds	\$ —	—	30	1,092	30	1,092
Total securities	<u>\$ —</u>	<u>—</u>	<u>30</u>	<u>1,092</u>	<u>30</u>	<u>1,092</u>

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	2011					
	Less than 12 months		12 months or longer		Total	
	Gross unrealized		Gross unrealized		Gross unrealized	
	Fair value	losses	Fair value	losses	Fair value	losses
CMBS:						
Pool Bonds	\$ —	—	581	(541)	581	(541)
Total securities	<u>\$ —</u>	<u>—</u>	<u>581</u>	<u>(541)</u>	<u>581</u>	<u>(541)</u>

	2010 (unaudited)					
	Less than 12 months		12 months or longer		Total	
	Gross unrealized		Gross unrealized		Gross unrealized	
	Fair value	losses	Fair value	losses	Fair value	losses
CMBS:						
Rake Bonds	\$ 3,855	—	—	—	3,855	—
Pool Bonds	1,981	(925)	—	—	1,981	(925)
Total securities	<u>\$ 5,836</u>	<u>(925)</u>	<u>—</u>	<u>—</u>	<u>5,836</u>	<u>(925)</u>

The following table presents the amortized cost and fair value of debt securities available for sale by contractual maturity dates as of December 31, 2012 and 2011 (in thousands).

	2012 (unaudited)	
	Cost	Fair value
CMBS-Pool Bonds:		
Due within 1 year	\$ —	—
After 1 but within 5 years	1,122	30
Total CMBS — Pool Bonds	<u>\$1,122</u>	<u>30</u>

	2011	
	Cost	Fair value
CMBS-Pool Bonds:		
Due within 1 year	\$ —	—
After 1 but within 5 years	1,122	581
Total CMBS — Pool Bonds	<u>\$1,122</u>	<u>581</u>

Changes in fair value of securities are reflected in the statements of operations as unrealized gain or losses on securities. During the year ended December 31, 2012, the Company did not sell any securities.

Changes in fair value of securities are reflected in the statements of operations as unrealized gain or losses on securities. During the year ended December 31, 2011, the Company sold four securities for a total proceed of \$370 thousand. The Company recognized a net realized loss of \$757 thousand from the sale in 2011. The Company had recognized an accumulated unrealized loss of \$659 thousand at the beginning of 2011.

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(6) Variable Interest Entities

A reporting entity is required to perform an analysis to determine if its variable interests give it a controlling financial interest in a variable interest entity (VIE). The analysis required under ASC 810 identifies the primary beneficiary of a VIE as the entity having both of the following: (1) the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (2) the obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE. FASB's accounting guidance on consolidation requires a VIE to be consolidated by its primary beneficiary.

In addition, a reporting entity must assess whether it has an implicit financial responsibility to ensure that a VIE operates as designed when determining if it has the power to direct the activities of the VIE that most significantly affect the entity's economic performance. FASB requires ongoing reassessments of whether a reporting entity is the primary beneficiary of a VIE. Specifically, the list of reconsideration events includes a change in facts and circumstances where the holders of an equity investment at risk as a group lose the power to direct the activities of the entity that most significantly affect the entity's economic performance. In addition, a troubled debt-restructuring is now defined as a reconsideration event.

At December 31, 2012 and 2011, the Company had no real estate debt investments that were deemed a VIE.

(7) Discontinued Operations

The Company received expense reimbursements for insurance and real estate taxes of approximately \$13,000, \$36,000 and \$104,000 for the years ended December 31, 2012 and 2011 and period ended December 31, 2010, respectively, related to an operating property held for sale and subsequently sold by the Company's predecessor prior to the Company's inception. The property was collateral on a loan that the Company's predecessor obtained through foreclosure and was included in discontinued operations of Company's predecessor. Therefore the Company included this reimbursement as income of discontinued operations.

(8) Commitment and Contingencies

In December 2011, Concord Real Estate CDO 2006-1, Ltd. (the CDO), Cedarwoods CRE CDO II, Ltd., Resource Real Estate Funding CDO 2006-1 Ltd., and TCG Holdings I LLC (collectively, the Plaintiffs), brought an action in New York Supreme Court (the trial court in New York) against Galante Holdings, Inc., Trimont Real Estate Advisors, Hotspur Resorts Nevada, Ltd. Aberdeen Realty Holdings, Ltd., Keycorp Real Estate Capital Markets, Inc., and Douglas S. Rohrer (collectively, the Defendants). The action sought to enjoin the sale of the mortgage loan relating to the JW Marriott Hotel in Las Vegas, Nevada (the JW Loan). Both Concord and CDO hold CMBS bonds for which the JW Loan is underlying asset.

CONCORD DEBT HOLDINGS LLC

Notes to Consolidated Financial Statements

December 31, 2012 (unaudited), 2011, and the period from August 26, 2010 (inception)
through December 31, 2010 (unaudited)

As a condition to obtaining the injunction, in January 2012, the New York Appellate Court required that the Plaintiffs post a \$2,000,000 surety bond. In this regard, one of the Plaintiffs (the Guaranteeing Plaintiff) agreed to guaranty the obligations under the surety bond. The CDO and each of the other Plaintiffs entered into an agreement with the Guaranteeing Plaintiff pursuant to which the CDO agreed to pay its pro rata share (25%) of any payments required to be made by the Guaranteeing-Plaintiff to the surety bond issuer as well as 50% of any amounts that the two other co-Plaintiffs were obligated to the extent they breached their obligations. Concord, which also holds a bond in the CMBS that contains the JW Loan, agreed to provide cash collateral for the CDO's obligations to the guaranteeing Plaintiff. Accordingly, such amount is characterized as restricted funds. Management believes that the likelihood of a claim on such amounts is remote. As of December 31, 2012, this litigation has not been resolved.

(9) Related-Party Transactions

For the years ended December 31, 2012 and 2011, the Company received advancing agent fees from Concord CDO in the amount of \$48,000 and \$57,000, respectively.

CDH-CDO LLC, a related party to the Company, assumed the equity interest in the property secured by a \$10 million real estate debt investments held by the Company. The investments are scheduled to mature in July 2013.

For the year ended December 31, 2011 and period beginning August 26, 2010 and ending December 31, 2010, the Company sold real estate debt investments and securities to an affiliate of Winthrop for net proceeds of \$29,000,000 and \$2,453,000, respectively, which was also the carrying value at the time of sale.

(10) Subsequent Events

In connection with the preparation of the consolidated financial statements, the Company evaluated subsequent events after the consolidated balance sheets date of December 31, 2012 through March 12, 2013, which was the date the consolidated financial statements were available to be issued.

On February 4, 2013, the Thanksgiving loan with a face value of \$1,053,085 and a fair market value of \$0 went into foreclosure. The loan was carried at \$0 at December 31, 2012.

SEALY NORTHWEST ATLANTA PARTNERS, L.P.
CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31,
2012 (UNAUDITED), 2011 AND 2010 (UNAUDITED)

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Partners of
Sealy Northwest Atlanta Partners, L.P.
Shreveport, Louisiana

We have audited the accompanying consolidated balance sheet of Sealy Northwest Atlanta Partners, L.P. (the “Partnership”) as of December 31, 2011, and the related consolidated statements of operations, partners’ capital, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Partnership’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Partnership is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Partnership as of December 31, 2011, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Frazier & Deeter, LLC

March 9, 2012
Atlanta, Georgia

**SEALY NORTHWEST ATLANTA PARTNERS, L.P.
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2012 (UNAUDITED) AND 2011**

<u>ASSETS</u>		
	2012 (UNAUDITED)	2011
PROPERTY AND EQUIPMENT		
Buildings and improvements	\$22,600,496	\$22,600,496
Land	8,048,579	8,048,579
Land improvements	3,967,043	3,967,043
Tenant improvements	2,639,925	2,450,694
Total property and equipment, at cost	37,256,043	37,066,812
Less accumulated depreciation	7,290,673	6,162,386
Total property and equipment, net	29,965,370	30,904,426
CASH AND CASH EQUIVALENTS	274,847	610,563
RESTRICTED CASH	436,738	144,952
OTHER ASSETS		
Deferred rent receivable	534,872	534,286
Deferred financing costs, net of accumulated amortization of \$189,925 and \$39,310 for 2012 and 2011	408,344	558,959
Prepaid expenses and other assets	37,391	82,354
Other receivables	—	37,826
Tenant rent receivable, net	96,311	—
Due from related parties	4,450	3,950
Deferred leasing costs, net of accumulated amortization of \$570,058 and \$452,763 for 2012 and 2011	354,609	427,311
Total other assets	1,435,977	1,644,686
TOTAL ASSETS	<u>\$32,112,932</u>	<u>\$33,304,627</u>
<u>LIABILITIES AND PARTNERS' CAPITAL</u>		
LIABILITIES		
Note payable, less holdback of \$700,000	\$13,773,007	\$13,969,883
Accrued interest payable	—	67,828
Due to related parties	—	386
Accounts payable and accrued expenses	38,286	133,421
Unearned revenues	117,911	123,985
Tenant security deposits	156,563	161,266
Total liabilities	14,085,767	14,456,769
PARTNERS' CAPITAL	<u>\$18,027,165</u>	<u>\$18,847,858</u>
TOTAL LIABILITIES AND PARTNERS' CAPITAL	<u>\$32,112,932</u>	<u>\$33,304,627</u>

See accompanying notes to the consolidated financial statements.

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SEALY NORTHWEST ATLANTA PARTNERS, L.P.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED
DECEMBER 31, 2012 (UNAUDITED), 2011, AND 2010 (UNAUDITED)

	2012 (UNAUDITED)	2011	2010 (UNAUDITED)
REVENUES			
Minimum rent	\$ 2,236,500	\$ 2,516,602	\$ 2,559,908
Tenant Reimbursements	412,146	444,610	486,025
Total revenues	<u>\$ 2,648,646</u>	<u>\$ 2,961,212</u>	<u>\$ 3,045,933</u>
OPERATING EXPENSES			
Depreciation and amortization	1,245,585	1,133,838	1,085,769
Repairs and maintenance	358,578	432,170	407,331
Property taxes	346,471	330,234	376,815
General and administrative	190,058	146,133	216,165
Utilities	153,964	144,031	171,549
Management fees	94,331	106,154	102,853
Insurance	62,845	66,672	65,777
Bad debt	—	23,536	30,727
Total operating expenses	<u>2,451,832</u>	<u>2,382,768</u>	<u>2,456,986</u>
OPERATING INCOME	<u>196,814</u>	<u>578,444</u>	<u>588,947</u>
OTHER INCOME (EXPENSE)			
Gain on extinguishment of debt and accrued interest	—	9,158,571	—
Other income	13,706	16,292	9,583
Interest expense	(956,213)	(2,188,044)	(2,051,810)
Total other income (expense)	<u>(942,507)</u>	<u>6,986,819</u>	<u>(2,042,227)</u>
NET INCOME (LOSS)	<u>\$ (745,693)</u>	<u>\$ 7,565,263</u>	<u>\$ (1,453,280)</u>

See accompanying notes to the consolidated financial statements.

SEALY NORTHWEST ATLANTA PARTNERS, L.P.
CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL
FOR THE YEARS ENDED
DECEMBER 31, 2012 (UNAUDITED), 2011, AND 2010 (UNAUDITED)

	Sealy Northwest Atlanta Ventures, L.P.	WRT-Atlanta, L.L.C.	Total
BALANCE, DECEMBER 31, 2009 (UNAUDITED)	\$ 1,994,350	\$ 2,991,525	\$ 4,985,875
Net Loss	(581,312)	(871,968)	(1,453,280)
BALANCE, DECEMBER 31, 2010 (UNAUDITED)	1,413,038	2,119,557	3,532,595
Contribution	3,100,000	4,650,000	7,750,000
Net Income	3,026,105	4,539,158	7,565,263
BALANCE, DECEMBER 31, 2011	7,539,143	11,308,715	18,847,858
Distribution	(30,000)	(45,000)	(75,000)
Net Loss	(298,277)	(447,416)	(745,693)
BALANCE, DECEMBER 31, 2012 (UNAUDITED)	<u>\$ 7,210,866</u>	<u>\$10,816,299</u>	<u>\$18,027,165</u>

See accompanying notes to the consolidated financial statements.

SEALY NORTHWEST ATLANTA, L.P.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED
DECEMBER 31, 2012 (UNAUDITED), 2011 AND 2010 (UNAUDITED)

	2012 (UNAUDITED)	2011	2010 (UNAUDITED)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	\$ (745,693)	\$ 7,565,263	\$ (1,453,280)
Adjustments to reconcile net income(loss) to net cash provided by operating activities:			
Depreciation expense	1,128,287	1,019,138	986,410
Bad Debt Expense	—	23,536	30,727
Amortization of acquired intangibles	—	—	—
Amortization of deferred financing costs	150,615	54,112	9,984
Amortization of deferred leasing costs	117,295	114,700	99,360
Gain on extinguishment of debt and accrued interest	—	(9,158,571)	—
Changes in assets and liabilities:			
Restricted cash	(291,786)	254,350	126,073
Deferred rent receivable	(586)	(84,245)	(124,202)
Prepaid expenses and other assets	44,963	17,600	(34,259)
Tenant rent receivable	(96,311)	43,869	(70,524)
Other receivables	37,826	(37,826)	—
Due from related parties	(500)	7,450	(11,400)
Deferred leasing costs paid	(44,593)	(152,359)	(151,514)
Accrued interest	(67,828)	1,290,730	935,669
Accounts payable and accrued expenses	(95,135)	108,148	(13,234)
Due to related parties	(386)	386	—
Unearned revenues	(6,074)	(51,668)	15,549
Tenant security deposits	(4,703)	4,370	(3,533)
Net cash provided by operating activities	<u>125,391</u>	<u>1,018,983</u>	<u>341,826</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	(189,231)	(221,761)	(237,743)
Net cash used in investing activities	<u>(189,231)</u>	<u>(221,761)</u>	<u>(237,743)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Contributions from partners	—	3,100,000	—
Deferred financing costs paid	—	(602,463)	—
Payments on note payable	(196,876)	(3,130,117)	—
Distributions to partners	(75,000)	—	—
Net cash used in financing activities	<u>(271,876)</u>	<u>(632,580)</u>	<u>—</u>
Change in cash and cash equivalents	(335,716)	164,642	104,083
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>610,563</u>	<u>445,921</u>	<u>341,838</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 274,847</u>	<u>\$ 610,563</u>	<u>\$ 445,921</u>
Cash paid during the year for interest	<u>\$ 805,598</u>	<u>\$ 843,192</u>	<u>\$ 1,106,157</u>

See accompanying notes to the consolidated financial statements.

SEALY NORTHWEST ATLANTA, L.P.
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED
DECEMBER 31, 2012 (UNAUDITED), 2011 AND 2010 (UNAUDITED)

Supplemental Disclosure of Noncash Investing and Financing Transactions:

During the year ended December 31, 2011, the Partnership entered into a discounted payoff option with a lender, whereby, the Lender reduced the amount of note payable outstanding by \$7,000,000 and reduced the amount of accrued interest outstanding by \$2,158,571.

During the year ended December 31, 2011, a related party converted \$4,650,000 of a note payable to Partners' capital.

See accompanying notes to the consolidated financial statements.

**SEALY NORTHWEST ATLANTA PARTNERS, L.P.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2012 (UNAUDITED), 2011, AND 2010 (UNAUDITED)**

1. **ORGANIZATION**

Sealy Northwest Atlanta Partners, L.P. (the “Partnership”), a Delaware limited partnership, was organized in December 2006 (expires December 31, 2056) by Sealy Northwest Atlanta Ventures, L.P. (“Sealy”) and WRT-Atlanta, L.L.C. (the “WRT”) (collectively, the “Partners”) to acquire, own, operate, maintain, and lease certain commercial properties located in Marietta, Georgia (the “Property”). The Partnership acquired the Property on December 12, 2006 and began operations.

(a) *Profits (Losses) Allocation*

Net profits and losses shall be allocated to the Partners in accordance with the terms of the Partnership Agreement. Profits are allocated as follows:

- (i) First, to the Partners, in proportion to and to the extent of the amounts necessary to cause their Capital Accounts to equal the balance of their Additional Capital Contributions Preferred Return Accounts; and
- (ii) Second, to the Partners, in proportion to and to the extent of the amounts necessary to cause their Capital Accounts to equal the sum of the amount referred to in tier (i) above, plus the balance of their respective Additional Capital Contribution Accounts; and
- (iii) Third, to the Partners, in proportion to and to the extent of the amounts necessary to cause their Capital Accounts to equal the sum of the amount referred to in tier (ii) above, plus the balance of their respective Initial Capital Preferred Return Account Balances; and
- (iv) Fourth, to the Partners, in proportion to and to the extent of the amounts necessary to cause their Capital Accounts to equal the sum of the amount referred to in tier (iii) above, plus the balance of their respective Initial Capital Contribution Account Balances; and
- (v) Fifth, to the Partners, in proportion to and to the extent of the amounts necessary to cause their Capital Accounts to equal the sum of the amount referred to in tier (iv) to be in the same proportions as their respective Residual Percentages; and
- (vi) Sixth, any remainder allocated to the Partners in proportion to their respective Residual Percentage Interests.

SEALY NORTHWEST ATLANTA PARTNERS, L.P.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2012 (UNAUDITED), 2011, AND 2010 (UNAUDITED)

1. ORGANIZATION (CONTINUED)

Losses are allocated to the Partners as follows:

- (i) First, to the Partners in proportion to and to the extent of the amounts necessary to cause the amounts by which such Partners' Capital Accounts exceed the sum referred to in tier (iv) of the profit allocation shown above to be in the same proportions as their respective Residual Percentages; and
- (ii) Second, to the Partners in proportion to and to the extent of the amounts necessary to reduce each Partners' Capital Accounts to the sum referred to in tier (iv) of the profit allocation shown above; and
- (iii) Third, to the Partners in proportion to and to the extent of the amounts necessary to reduce each Partners' Capital Accounts to the sum referred to in tier (iii) of the profit allocation shown above; and
- (iv) Fourth, to the Partners in proportion to and to the extent of the amounts necessary to reduce each Partners' Capital Accounts to the sum referred to in tier (ii) of the profit allocation shown above; and
- (v) Fifth, to the Partners in proportion to and to the extent of the amounts necessary to reduce each Partners' Capital Accounts to the sum referred to in tier (i) of the profit allocation shown above; and
- (vi) Sixth, to the Partners in proportion to, and to the extent of the amounts necessary to cause their respective Capital Accounts to equal zero.

(b) *Distribution of cash flows*

The Partnership's distributable cash from operations, as defined, shall be distributed as follows:

- (i) First, to the Partners in proportion to their respective Additional Capital Preferred Return Account balances until such balances are reduced to zero;
- (ii) Second, to the Partners in proportion to their respective Initial Capital Preferred Return Account balances until such balances are reduced to zero; and
- (iii) Third, any balance to the Partners in proportion to their respective Residual Percentages.

SEALY NORTHWEST ATLANTA PARTNERS, L.P.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2012 (UNAUDITED), 2011, AND 2010 (UNAUDITED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation—The Partnership has adopted Financial Accounting Standards Board (FASB) Codification. The Codification is the single official source of authoritative accounting principles generally accepted in the United States of America (GAAP) recognized by the FASB to be applied by non-governmental entities and all of the Codification's content carries the same level of authority.

Principles of consolidation—The Partnership's consolidated financial statements include its accounts and the accounts of Sealy Northwest Atlanta, L.P., which holds the Property and Sealy Northwest Atlanta General Partner, L.L.C. All intercompany profits, balances and transactions are eliminated in consolidation.

Cash and cash equivalents— All highly-liquid debt instruments with original maturities of three months or less are considered to be cash equivalents.

Use of estimates—The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

Property and equipment— Property and equipment, including property improvements, are recorded at cost. Major renewals and purchases of property and equipment are capitalized. Repairs and maintenance are charged to operations as incurred.

Property and equipment are depreciated over their estimated useful lives using the straight-line method. Estimated useful lives are 5 to 39 years for buildings and improvements, and 15 years for land improvements. Depreciation of tenant improvements is computed using the straight-line method over the life of the respective lease. Depreciation expense for the years ended December 31, 2012, 2011, and 2010 was \$1,128,287, \$1,019,138, and \$986,410, respectively.

Restricted cash— Restricted cash represents amounts escrowed for property taxes, insurance, tenant improvements and commissions, and repairs and improvements.

Deferred charges— Deferred charges consist of financing costs and leasing costs. Deferred financing costs are related to the Partnership's note payable. Financing costs are amortized, as a component of interest expense, over the term of the loan using a method that approximates the effective-interest method.

SEALY NORTHWEST ATLANTA PARTNERS, L.P.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2012 (UNAUDITED), 2011, AND 2010 (UNAUDITED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tenant rent receivable— The Partnership's estimate for the allowance for uncollectible accounts represents the probable incurred losses within its tenant receivables as of December 31, 2012 and

2011. The Partnership estimates probable incurred losses based upon an evaluation of delinquent accounts along with the Partnership's own experience with collections and charge-offs. The allowance for doubtful accounts as of December 31, 2012 and 2011 was \$-0- and \$12,687, respectively. Bad debt expense for the years ended December 31, 2012, 2011, and 2010 was \$-0-, \$23,536, and \$30,727, respectively.

Revenue recognition— Minimum rent revenue is recognized on a straight-line basis over the term of the lease agreements regardless of when payments are due. Differences between rents billed in accordance with the lease terms and the minimum rent revenue recognized on a straight-line basis are reported as deferred rent receivable in the accompanying consolidated financial statements. Tenant reimbursements are recognized as revenue in the same period the related expenses are incurred by the Partnership.

Income taxes— No federal or state income taxes are payable by the Partnership, and none have been provided for in the accompanying consolidated financial statements. The Partners are to include their respective shares of Partnership income or losses, determined on an income tax basis, in their individual tax returns.

The Partnership recognizes the tax benefit from an uncertain tax position only if it is more likely than not the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. Tax years that remain subject to examination by major tax jurisdictions date back to the year ended December 31, 2009. Federal and state income tax positions taken or anticipated to be taken in the income tax returns are attributable to the Partners and not to the entity. As of December 31, 2012, and 2011, there are no known items which would result in a material accrual attributable to uncertain tax positions.

Impairment of long-lived assets and long-lived assets to be disposed of— The Partnership reviews long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset 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 future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. There was no impairment charge recognized during the years ended December 31, 2012, 2011, and 2010.

Subsequent events—Management has evaluated subsequent events through March 8, 2013.

SEALY NORTHWEST ATLANTA PARTNERS, L.P.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2012 (UNAUDITED), 2011, AND 2010 (UNAUDITED)

3. DEFERRED FINANCING AND LEASING COSTS

For the year ended December 31, 2011, the Partnership paid \$602,463 of financing costs related to the new note payable. For the year ended December 31, 2011, the Partnership wrote off \$49,918 of financing costs related to the previous loan paid off in 2011 (See Note 5). Amortization of deferred financing costs was \$150,617, \$54,112, and \$9,984 for the years ended December 31, 2012, 2011, and 2010.

The following is a schedule by year of future amortization of deferred financing costs, which are being amortized over the life of the note payable:

Year Ending December 31,	
2013	\$150,616
2014	150,616
2015	107,112
	<u>\$408,344</u>

Amortization of deferred leasing costs was \$117,295, \$114,700, and \$99,360 for the years ended December, 2012, 2011, and 2010, respectively. An additional \$31,646, \$18,090, and \$77,360 of commissions was expensed in 2012, 2011, and 2010, respectively, due to the related leases having a life of less than one year or a total commission amount of less than \$1,000. The following is a schedule by year of future amortization of deferred leasing costs, which are being amortized over the respective life of the lease:

Year Ending December 31,	
2013	\$109,103
2014	72,157
2015	59,057
2016	37,601
2017	16,822
Thereafter	59,869
	<u>\$354,609</u>

SEALY NORTHWEST ATLANTA PARTNERS, L.P.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2012 (UNAUDITED), 2011, AND 2010 (UNAUDITED)

4. RELATED PARTY TRANSACTIONS

The Partnership has entered into a management agreement with a property management company related to Sealy, and will pay a monthly management fee of 3.5% of gross receipts from the Properties, less any third-party management fees, 50% of all late payments and returned checks collected, and an accounting fee of \$2,480 per month. Management fees paid to related parties for the years ended December 31, 2012, 2011 and 2010 were \$94,331, \$106,154, and \$102,853, respectively. As of December 31, 2012 and 2011, there were \$-0- and \$12,088 of accrued management fees, respectively. The management agreement also states that the related party may receive leasing commissions of 4.00% to 6.00%. Leasing commissions paid to related parties for the years ended December 31, 2012, 2011 and 2010 were \$25,855, \$49,418, and \$53,887, respectively. All employees are currently employed by Sealy Operating Company III, Inc., a related party, and the Partnership periodically reimburses the management company for the salaries of the onsite staff. The Partnership also reimburses Sealy & Company, L.L.C., a related party, for miscellaneous postage, copier charges and bank statement fees incurred.

During 2010 the Partnership paid \$10,000 on behalf of Sealy Acquisitions, L.L.C., a related party, for costs incurred related to the loan renegotiation. All amounts were collected in 2011. The remaining related party receivables represent amounts paid by the Partnership on behalf of the Partners for tax preparation and annual registration fees that are expected to be reimbursed at some time in the future. No interest is due and there are no set repayment terms on any of the related party receivables.

5. NOTE PAYABLE

On December 12, 2006, the Partnership entered into an acquisition loan (the "Loan") in the amount of \$28,750,000 with an unrelated third party to obtain the Property. The Loan matured January 1, 2012, bore interest at a fixed rate of 5.7% per annum and required interest only payments until the loan matured.

On June 23, 2011, WRT made a \$20,641,000 bridge loan to the Partnership which enabled the Partnership to satisfy its \$28,750,000 first mortgage loan at a discounted payoff amount of \$20,500,000, resulting in \$9,158,571 of cancellation of debt that was reported as a gain on extinguishment of debt and accrued interest in the consolidated statement of operations for the year ended December 31, 2011.

SEALY NORTHWEST ATLANTA PARTNERS, L.P.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2012 (UNAUDITED), 2011, AND 2010 (UNAUDITED)

5. NOTE PAYABLE (CONTINUED)

On September 29, 2011, the Partnership obtained replacement financing in the amount of \$14,000,000 bearing interest at Libor plus 5.35% and maturing on September 29, 2015. In connection with the financing, the Partnership purchased an interest rate cap which caps Libor at 1% through October 1, 2013.

Net proceeds from the new loan plus additional capital contributions of \$4,650,000 from WRT and \$3,100,000 from Sealy were utilized to pay off the bridge loan. The loan bears interest at the USD LIBOR - BBA (one month) as normally published by Bloomberg Professional Service, which was 0.21% at December 31, 2012, plus a LIBOR margin rate of 5.35%, with a floor on the LIBOR rate of no less than 0.25%. The maturity date of the loan is September 29, 2015, with monthly principal and interest payments being made on the loan based on a 30-year amortization schedule.

A total of \$700,000 of the loan was not funded on the closing date. It has been retained by the lender as an unfunded reserve for leasing costs. No funds have been disbursed as of December 31, 2012. The loan is collateralized by a security interest in the Property and an assignment of rents and leases. The note is personally guaranteed by related parties of the Partnership.

Future scheduled principal maturities are as follows at December 31, 2012:

<u>Year Ending December 31,</u>	
2013	185,906
2014	196,741
2015	13,390,360
	<u>\$13,773,007</u>

6. OPERATING LEASES

The Partnership leases the Property to tenants under operating leases with expiration dates extending to 2020. The leases typically provide for minimum rent and other charges to cover certain operating expenses. Minimum future rentals on non-cancellable leases at December 31, 2012 are as follows:

<u>Years Ending December 31,</u>	
2013	1,926,798
2014	1,418,827
2015	1,144,479
2016	846,131
2017	632,702
Thereafter	<u>1,134,542</u>
	<u>\$7,103,479</u>

SEALY NORTHWEST ATLANTA PARTNERS, L.P.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2012 (UNAUDITED), 2011, AND 2010 (UNAUDITED)

7. CONCENTRATION OF CREDIT RISK

The Company maintains its cash in bank deposits, which at times may exceed federally insured limits. The Company has not experienced any losses in such accounts.

SEALY NEWMARKET GENERAL PARTNERSHIP
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 (UNAUDITED), 2011 AND 2010 (UNAUDITED)

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Partners of
Sealy Newmarket General Partnership
Shreveport, Louisiana

We have audited the accompanying consolidated balance sheet of Sealy Newmarket General Partnership (the "Partnership") as of December 31, 2011, and the related consolidated statements of operations, partners' capital, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Partnership is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Partnership as of December 31, 2011, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Partnership will continue as a going concern. As discussed in Note 8 to the consolidated financial statements, the Partnership has suffered a significant decline in operating cash flow from operations and recurring net losses that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 8. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Frazier & Deeter, LLC

March 11, 2013
Atlanta, Georgia

SEALY NEWMARKET GENERAL PARTNERSHIP
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2012 (UNAUDITED) AND 2011

<u>ASSETS</u>		
	2012 (UNAUDITED)	2011
PROPERTY AND EQUIPMENT		
Buildings and improvements	\$36,640,265	\$36,640,265
Land	6,286,507	6,286,506
Tenant improvements	2,359,003	2,348,102
Total property and equipment, at cost	45,285,775	45,274,873
Less accumulated depreciation	6,629,128	5,271,688
Total property and equipment, net	<u>38,656,647</u>	<u>40,003,185</u>
CASH AND CASH EQUIVALENTS	<u>482,182</u>	<u>436,588</u>
RESTRICTED CASH	<u>6,406,939</u>	<u>5,358,244</u>
OTHER ASSETS		
Acquired intangible assets, net	419,806	534,280
Deferred rent receivable	458,288	517,685
Deferred financing costs, net of accumulated amortization of \$125,758 and \$96,737 for 2012 and 2011	116,075	145,096
Prepaid expenses and other assets	36,234	37,226
Tenant rent receivable	22,448	7,582
Due from related parties	39,100	84,044
Deferred leasing costs, net of accumulated amortization of \$317,750 and \$206,145 for 2012 and 2011	291,161	393,489
Total other assets	<u>1,383,112</u>	<u>1,719,402</u>
TOTAL ASSETS	<u>\$46,928,880</u>	<u>\$47,517,419</u>
<u>LIABILITIES AND PARTNERS' CAPITAL</u>		
LIABILITIES		
Note payable	\$37,000,000	\$37,000,000
Accrued interest payable	9,099,095	4,805,641
Accounts payable and accrued expenses	57,010	378,925
Unearned revenues	110,471	120,449
Tenant security deposits	108,049	103,049
Acquired intangible obligations, net	305	1,129
Total liabilities	<u>\$46,374,930</u>	<u>\$42,409,193</u>
PARTNERS' CAPITAL	<u>\$ 553,950</u>	<u>\$ 5,108,226</u>
TOTAL LIABILITIES AND PARTNERS' CAPITAL	<u>\$46,928,880</u>	<u>\$47,517,419</u>

See accompanying notes to consolidated financial statements

SEALY NEWMARKET GENERAL PARTNERSHIP
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED
DECEMBER 31, 2012 (UNAUDITED), 2011, AND 2010 (UNAUDITED)

	2012 (UNAUDITED)	2011	2010 (UNAUDITED)
REVENUES			
Minimum rent	\$ 2,305,484	\$ 2,628,897	\$ 3,386,610
Tenant Reimbursements	302,387	379,433	785,326
Total revenues	<u>\$ 2,607,871</u>	<u>\$ 3,008,330</u>	<u>\$ 4,171,936</u>
OPERATING EXPENSES			
Depreciation and amortization	1,502,975	1,648,561	1,781,988
Repairs and maintenance	549,622	644,250	1,048,712
Property taxes	323,182	336,181	392,875
General and administrative	298,659	244,936	261,787
Management fees	97,354	104,399	144,646
Bad Debt	—	22,648	—
Insurance	74,157	75,722	75,533
Total operating expenses	<u>2,845,949</u>	<u>3,076,697</u>	<u>3,705,541</u>
OPERATING INCOME (LOSS)	<u>(238,078)</u>	<u>(68,367)</u>	<u>466,395</u>
OTHER INCOME (EXPENSE)			
Other income	6,278	18,563	18,998
Interest expense	(4,322,476)	(4,353,339)	(2,422,504)
Total other expense	<u>(4,316,198)</u>	<u>(4,334,776)</u>	<u>(2,403,506)</u>
NET LOSS	<u><u>\$ (4,554,276)</u></u>	<u><u>\$(4,403,143)</u></u>	<u><u>\$ (1,937,111)</u></u>

See accompanying notes to consolidated financial statements.

SEALY NEWMARKET GENERAL PARTNERSHIP
CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL
FOR THE YEARS ENDED
DECEMBER 31, 2012 (UNAUDITED), 2011, AND 2010 (UNAUDITED)

	Sealy Newmarket		
	Ventures, L.P.	WRT-Atlanta, L.L.C.	Total
BALANCE, DECEMBER 31, 2009 (UNAUDITED)	<u>\$ 3,663,513</u>	<u>\$ 7,784,967</u>	<u>\$11,448,480</u>
Net Loss	<u>(619,876)</u>	<u>(1,317,235)</u>	<u>(1,937,111)</u>
BALANCE, DECEMBER 31, 2010 (UNAUDITED)	<u>3,043,637</u>	<u>6,467,732</u>	<u>9,511,369</u>
Net Loss	<u>(1,409,006)</u>	<u>(2,994,137)</u>	<u>(4,403,143)</u>
BALANCE, DECEMBER 31, 2011	<u>1,634,631</u>	<u>3,473,595</u>	<u>5,108,226</u>
Net Loss	<u>(1,457,368)</u>	<u>(3,096,908)</u>	<u>(4,554,276)</u>
BALANCE, DECEMBER 31, 2012 (UNAUDITED)	<u><u>\$ 177,263</u></u>	<u><u>\$ 376,687</u></u>	<u><u>\$ 553,950</u></u>

See accompanying notes to consolidated financial statements.

SEALY NEWMARKET GENERAL PARTNERSHIP
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED
DECEMBER 31, 2012 (UNAUDITED), 2011, AND 2010 (UNAUDITED)

	2012 (UNAUDITED)	2011	2010 (UNAUDITED)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	\$(4,554,276)	\$(4,403,143)	\$(1,937,111)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation expense	1,357,440	1,494,515	1,594,340
Amortization of acquired intangibles	113,650	199,183	472,151
Amortization of deferred financing costs	29,021	29,021	29,021
Amortization of deferred leasing costs	111,605	96,348	64,070
(Increase) decrease in:			
Restricted cash	(1,048,695)	(1,216,698)	203,009
Deferred rent receivable	59,397	(121,393)	(219,966)
Prepaid expenses and other assets	992	382	811
Tenant rent receivable	(14,866)	12,168	43,498
Due from related parties	44,944	(70,744)	(13,300)
Deferred leasing costs paid	(9,277)	(180,819)	(186,442)
Increase (decrease) in:			
Accrued interest	4,293,454	4,305,474	500,168
Accounts payable and accrued expenses	(321,915)	77,644	(229,582)
Unearned revenues	(9,978)	(77,083)	(107,099)
Tenant security deposits	5,000	(34,072)	219
Net cash provided by operating activities	<u>56,496</u>	<u>110,783</u>	<u>213,787</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	<u>(10,902)</u>	<u>(652,445)</u>	<u>(788,832)</u>
Net cash used in investing activities	<u>(10,902)</u>	<u>(652,445)</u>	<u>(788,832)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Distributions to partners	<u>—</u>	<u>—</u>	<u>—</u>
Net cash used in financing activities	<u>—</u>	<u>—</u>	<u>—</u>
Change in cash and cash equivalents	45,594	(541,662)	(575,045)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	436,588	978,250	1,553,295
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 482,182</u></u>	<u><u>\$ 436,588</u></u>	<u><u>\$ 978,250</u></u>
Cash paid during the year for interest	<u>—</u>	<u>\$ 18,845</u>	<u>\$ 1,893,315</u>

See accompanying notes to consolidated financial statements.

**SEALY NEWMARKET GENERAL PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2012 (UNAUDITED), 2011, AND 2010 (UNAUDITED)**

1. **ORGANIZATION**

Sealy Newmarket General Partnership (“the Partnership”), a Delaware partnership, was organized May 2, 2008 (expires December 31, 2056) by Sealy Newmarket Ventures, L.P. (“Sealy”) and WRT-Atlanta, L.L.C. (“WRT”) (collectively, the “Partners”) to acquire, own, hold, manage, operate, mortgage, pledge, sell, assign, transfer and lease certain commercial properties located in Cobb County, Georgia, (the “Property”). The Partnership acquired the Property on August 20, 2008 and began operations.

(a) *Profits (Losses) Allocation*

Profits and losses are allocated to the Partners in accordance with the terms of the Partnership agreement. Capital contributions of the Partners do not earn preferred returns. Profits are allocated as follows:

- (i) First, to the Partners, in proportion to and to the extent of the amounts necessary to cause their Capital Accounts to equal the balance of their Additional Capital Contributions Preferred Return Accounts; and
- (ii) Second, to the Partners, in proportion to and to the extent of the amounts necessary to cause their Capital Accounts to equal the sum of the amount referred to in tier (i) above, plus the balance of their respective Additional Capital Contribution Accounts; and
- (iii) Third, to the Partners, in proportion to and to the extent of the amounts necessary to cause their Capital Accounts to equal the sum of the amount referred to in tier (ii) above, plus the balance of their respective Initial Capital Contribution Account Balances; and
- (iv) Fourth, to the Partners, in proportion to and to the extent of the amounts necessary to cause their Capital Accounts to equal the sum of the amount referred to in tier (iii) above, plus the balance of their respective Initial Capital Contribution Account Balances; and
- (v) Fifth, to the Partners, in proportion to and to the extent of the amounts necessary to cause their Capital Accounts to equal the sum of the amount referred to in tier (iv) to be in the same proportions as their respective Residual Percentages; and
- (vi) Sixth, any remainder allocated to the Partners in proportion to their respective Residual Percentage Interests.

SEALY NEWMARKET GENERAL PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2012 (UNAUDITED), 2011, AND 2010 (UNAUDITED)

1. ORGANIZATION (CONTINUED)

Losses are allocated to the Partners as follows:

- (i) First, to the Partners in proportion to and to the extent of the amounts necessary to cause the amounts by which such Partners' Capital Accounts exceed the sum referred to in tier (iv) of the profit allocation shown above to be in the same proportions as their respective Residual Percentages; and
- (ii) Second, to the Partners in proportion to and to the extent of the amounts necessary to reduce each Partners' Capital Accounts to the sum referred to in tier (iv) of the profit allocation shown above; and
- (iii) Third, to the Partners in proportion to and to the extent of the amounts necessary to reduce each Partners' Capital Accounts to the sum referred to in tier (iii) of the profit allocation shown above; and
- (iv) Fourth, to the Partners in proportion to and to the extent of the amounts necessary to reduce each Partners' Capital Accounts to the sum referred to in tier (ii) of the profit allocation shown above; and
- (v) Fifth, to the Partners in proportion to and to the extent of the amounts necessary to reduce each Partners' Capital Accounts to the sum referred to in tier (i) of the profit allocation shown above; and
- (vi) Sixth, to the Partners in proportion to, and to the extent of the amounts necessary to cause their respective Capital Accounts to equal zero.

(b) *Distribution of cash flows*

The Partnership's distributable cash, as defined, shall be distributed as follows:

- (i) First, to the Partners in proportion to their respective Additional Capital Contributions Account balances until such balances are reduced to zero; and
- (ii) Second, to the Partners in proportion to their respective Initial Capital Preferred Return Account balances until their respective Additional Capital Preferred Return Account balances are reduced to zero; and
- (iii) Third, any balance to the Partners in proportion to their respective Residual Percentage.

SEALY NEWMARKET GENERAL PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2012 (UNAUDITED), 2011, AND 2010 (UNAUDITED)

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of presentation and principles of consolidation — The Partnership presents its consolidated financial statements in accordance with accounting principles generally accepted in the United States (“GAAP”) as provided in the Financial Accounting Standard Board’s Accounting Standards Codification (the “Codification” or “ASC”). The Codification is the single source of authoritative accounting principles applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP.

The Partnership’s consolidated financial statements include its accounts and the accounts of Sealy Newmarket, L.P., which holds the Property, and Sealy Newmarket General Partner, L.P. All intercompany profits, balances and transactions are eliminated in consolidation.

Use of estimates — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

Property and equipment — Property and equipment, including property improvements are recorded at cost. Major renewals and purchases of equipment are capitalized. Repairs and maintenance are charged to operations as incurred.

Property and equipment are depreciated over their estimated useful lives using the straight-line method. Estimated useful lives are 5 to 39 years for buildings and improvements, and 15 years for land improvements. Depreciation of tenant improvements is computed using the straight-line method over the life of the respective lease. Depreciation expense for the years ended December 31, 2012, 2011 and 2010 was \$1,357,440, \$1,494,515, and \$1,594,430, respectively.

Cash and cash equivalents — All highly-liquid debt investments with original maturities of three months or less are considered to be cash equivalents.

Restricted cash — Restricted cash represents amounts escrowed for property taxes, tenant improvements, commissions, repairs and improvements, and debt service.

**SEALY NEWMARKET GENERAL PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2012 (UNAUDITED), 2011, AND 2010 (UNAUDITED)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tenant rent receivable— The Partnership's estimate for the allowance for uncollectible accounts represents the probable incurred losses within its tenant receivables as of December 31, 2012 and 2011. The Partnership estimates probable incurred losses based upon an evaluation of delinquent accounts along with the Partnership's own experience with collections and charge-offs. There was no allowance for doubtful accounts as of December 31, 2012 and 2011. There was bad debt expense recorded for one tenant in the amount of \$22,648 for the year ended December 31, 2011. There was no bad debt expense for the years ended December 31, 2012 and 2010.

Deferred financing costs— Deferred financing costs are related to the Partnership's note payable. Financing costs are amortized, as a component of interest expense, over the term of the loan using a method that approximates the effective-interest method.

Deferred leasing costs— Deferred leasing costs are related to commissions paid for certain tenant leases. Leasing costs are capitalized and amortized over the life of the respective tenant lease.

Accounting for intangible assets and liabilities— Accounting guidance for acquisitions of a business prior to revised guidance effective for the first annual reporting period beginning on or after December 15, 2008, required that upon acquisition, the purchase price is to be allocated to the components of the acquisition based on the Partnership's estimates and assumptions of each component's fair value. These estimates and assumptions impact the amount of costs allocated between components. They also impact depreciation expense and gains or losses recorded on future sales of property. First, the Partnership determines the value of the physical property including land, buildings, and improvements utilizing an "as-if vacant" methodology. Factors considered by management in their analysis of the "as-if vacant" value include lost rentals at market rates during an expected lease-up period and costs to execute similar leases including incremental tenant improvements, leasing commissions, and other related expenses. The Partnership also considers information obtained about the property as a result of its pre-acquisition due diligence.

The balance of the purchase price is allocated to tenant improvements and acquired intangible assets or liabilities. Tenant improvements represent the tangible assets associated with the acquired leases and are valued at estimated fair market value on the acquisition date considering the remaining lease terms. They are classified as a component of property and equipment on the consolidated financial statements and are depreciated over the remaining lease terms. Expiration dates of acquired non-cancellable leases extend to 2018. Acquired intangible assets and liabilities relate to the value of acquiring a property with existing in-place operating leases and come in three forms: (i) acquired lease origination values, (ii) acquired above and below market in place leases, and (iii) acquired tenant relationships.

Acquired lease origination values are costs the Partnership estimates, based on terms generally experienced in the local market, it would incur to execute leases with terms similar to the remaining lease terms of the in-place leases, including commissions and other related expenses. They are recorded as a component of acquired intangible assets in the accompanying consolidated financial statements and are amortized over the remaining terms of the respective non-cancellable leases.

SEALY NEWMARKET GENERAL PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2012 (UNAUDITED), 2011, AND 2010 (UNAUDITED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Acquired above and below market in place leases are recorded based on the present value (using a discount rate that reflects the risks associated with the property acquired and the respective tenants) of the difference between (i) the contractual amount to be paid pursuant to the in place lease and (ii) management's estimate of the fair market lease rate for a comparable in place lease on the acquisition date, measured over a period equal to the remaining non-cancellable term of the lease. Above market in place leases are classified as a component of acquired intangible assets in the accompanying consolidated financial statements and are amortized as a reduction of rental income over the remaining terms of the respective leases. Below market in place leases are classified as a component of acquired intangible liabilities in the accompanying consolidated financial statements and are amortized as an increase to rental income over the remaining terms of the respective leases.

Prepaid expenses and other assets — Prepaid expenses and other assets include such items as prepaid insurance and vendor deposits.

Revenue recognition — Minimum rent revenue is recognized on a straight-line basis over the term of the lease agreements regardless of when payments are due. Differences between rents billed in accordance with the lease terms and the minimum rent revenue recognized on a straight-line basis are reported as deferred rent receivable in the consolidated accompanying financial statements. Tenant reimbursements are accrued as revenue in the same period the related expenses are incurred by the Partnership. For the years ended December 31, 2012, 2011, and 2010 the Partnership incurred \$10,902, \$18,389, and \$297,764 of costs related to tenant improvements on behalf of a tenant, which are reimbursable to the Partnership per the terms of the lease agreement. These direct tenant costs are presented as a component of repairs and maintenance and tenant reimbursement revenue on the accompanying consolidated statements of operations.

Income taxes — No federal or state income taxes are payable by the Partnership, and none have been provided for in the accompanying consolidated financial statements. The Partners are to include their respective shares of Partnership income or losses, determined on an income tax basis, in their individual tax returns. The Partnership's tax return and the amount of allocable Partnership profits or losses are subject to examination by federal and state taxing authorities. If such examinations result in changes to Partnership profits or losses, then the tax liability of the Partners would be changed accordingly.

SEALY NEWMARKET GENERAL PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2012 (UNAUDITED), 2011, AND 2010 (UNAUDITED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Partnership recognizes the tax benefit from an uncertain tax position only if it is more likely than not the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. Tax years that remain subject to examination by major tax jurisdictions date back to the year ended December 31, 2009. Federal and state income tax positions taken or anticipated to be taken in the income tax returns are attributable to the Partners and not to the entity. As of December 31, 2012, 2011, and 2010, there are no known items which would result in a material accrual attributable to uncertain tax positions.

Impairment of long-lived assets and long-lived assets to be disposed of — The Partnership reviews long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset 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 future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. There was no impairment charge recognized during the years ended December 31, 2012, 2011, and 2010.

Subsequent events — Management has evaluated subsequent events through March 8, 2013, the date which the consolidated financial statements were available to be issued.

3. DEFERRED FINANCING AND LEASING COSTS

Amortization of deferred financing costs for the years ended December 31, 2012, 2011 and 2010 was \$29,021 for each year. The following is a schedule by year of future amortization of deferred financing costs:

Year Ending December 31,	
2013	29,021
2014	29,021
2015	29,021
2016	29,012
	<u>\$116,075</u>

SEALY NEWMARKET GENERAL PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2012 (UNAUDITED), 2011, AND 2010 (UNAUDITED)

3. DEFERRED FINANCING AND LEASING COSTS (CONTINUED)

Deferred leasing costs are related to commissions paid for certain tenant leases. Leasing costs are capitalized and are amortized over the life of the respective tenant leases. Amortization of deferred leasing costs was \$111,605, \$96,348 and \$64,070 for the years ended December 31, 2012 and 2011 and 2010, respectively. An additional \$-0-, \$365, and \$-0- of commissions was expensed in the years ended December 31, 2012, 2011, and 2010, respectively, due to the related leases having a life of less than one year or a total commission amount of less than \$1,000. The following is a schedule by year of future amortization of deferred leasing costs:

Year Ending December 31,	
2013	\$104,865
2014	77,173
2015	45,774
2016	17,704
2017	13,974
Thereafter	31,671
	<u>\$291,161</u>

SEALY NEWMARKET GENERAL PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2012 (UNAUDITED), 2011, AND 2010 (UNAUDITED)

4. ACQUIRED INTANGIBLE ASSETS AND OBLIGATIONS

The Partnership's acquired intangible assets and obligations as of December 31, 2012 are:

	2012	2011
<u>Acquired lease origination values</u>		
Original allocated values	\$ 570,713	\$ 570,713
Less: accumulated amortization	(480,246)	(446,314)
	<u>90,467</u>	<u>124,399</u>
<u>Acquired above market in place leases</u>		
Original allocated values	\$ 1,522,851	\$ 1,522,851
Less: accumulated amortization	(1,193,512)	(1,112,970)
	<u>329,339</u>	<u>409,881</u>
Net book value of total acquired intangible assets	<u>\$ 419,805</u>	<u>\$ 534,280</u>
<u>Acquired below market in place lease</u>		
Original allocated values	\$ 16,132	\$ 16,132
Less: accumulated amortization	(15,827)	(15,003)
Net book value of total acquired intangible obligations	<u>\$ 305</u>	<u>\$ 1,129</u>

For the years ended December 31, 2012, 2011 and 2010, net amortization of acquired intangible assets was \$113,650, \$199,183, and \$472,151, respectively. Of that amount, \$79,719, \$141,483, and \$348,574 of net amortization resulting from acquired above and below market in place leases was reported in minimum rent revenue for the years ended December 31, 2012, 2011, and 2010, respectively.

**SEALY NEWMARKET GENERAL PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2012 (UNAUDITED), 2011, AND 2010 (UNAUDITED)**

5. RELATED PARTY TRANSACTIONS

The Partnership has entered into a management agreement with a property management company related to Sealy, and will pay a monthly management fee of 3.5% of gross receipts from the Property less any third-party management fees, 50% of all late payments and returned checks collected, and an accounting fee of \$2,025 per month. Management fees paid to related parties for the years ended December 31, 2012, 2011 and 2010 were \$97,354, \$104,399, and \$144,646, respectively. The management agreement also states that the related party may receive leasing commissions of 3.00% to 6.75%. Leasing commissions paid to the related party for the years ended December 31, 2012, 2011 and 2010 were \$9,276, \$34,570, and \$54,896, respectively. All employees are currently employed by Sealy Operating Company III, Inc., a related party, and the Partnership periodically reimburses the management company for the salaries of the onsite staff. The Partnership also reimburses Sealy & Company, L.L.C., a related party, for miscellaneous postage, copier charges, and bank statement fees incurred.

During the years ended December 31, 2012, 2011, and 2010, the Partnership paid \$0, \$22,500, and \$10,000, respectively, on behalf of Sealy Acquisitions, LLC, a related party, for costs incurred related to the loan renegotiation. The remaining related party receivables represent amounts paid by the Partnership on behalf of the Partners for tax preparation and annual registration fees that are expected to be reimbursed at some time in the future. No interest is due and there are no set repayment terms on any of the related party receivables. All amounts are expected to be collected.

6. NOTE PAYABLE

On August 20, 2008, in connection with the acquisition of the Property, the Partnership assumed a \$37,000,000 note payable (the "Note") from the seller. The Note bears interest at a fixed rate of 6.12% per annum and matures on November 10, 2016, at which time any unpaid principal and interest are due. From December 2006 until November 2011, monthly interest only payments are due. From December 2011 until the maturity date, monthly principal and interest payments of \$224,696 are due. The Note is collateralized by the Property, an assignment of rents and leases, all deposits held by lender, all account receivables and personal guarantees from two affiliates of Sealy. The Note had an outstanding balance of \$37,000,000 at December 31, 2012, 2011, and 2010. Interest expense on the Note, exclusive of amortization of deferred financing costs, was \$4,293,456 \$4,324,318, and \$2,393,483 for the years ended December 31, 2012, 2011, and 2010, respectively.

The terms of the Note require the Partnership to direct all tenants of all leases to pay their rent directly into a clearing account ("Rent Account") to provide additional collateral to the lender. The Partnership must deposit any and all other receipts into the Rent Account within two days of receipt. All funds deposited in the Rent Account will be transferred not less than weekly to the Partnership's account. The balance of the Rent Account will be distributed in accordance with the agreement.

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6. NOTE PAYABLE (CONTINUED)

Principal maturities of the Note after December 31, 2012 are as follows:

<u>Years ending December 31,</u>	
2013	844,288
2014	466,401
2015	496,179
2016	<u>35,193,132</u>
	<u>\$37,000,000</u>

Upon closing of the loan, the seller was required to set aside certain amounts of the loan proceeds into escrow accounts to pay future costs such as insurance, repairs, taxes and leasing commissions. These escrow accounts were transferred to the Partnership upon assumption of the loan. The Partnership is required to make monthly payments into these escrow accounts to pay future costs such as insurance, repairs, taxes and leasing commissions. The balances in these escrow accounts will be distributed in accordance with the terms of the Note.

In 2010, the Partnership stopped paying interest on the Loan after its November payment in order to expedite the process of negotiating a debt restructuring of the Loan with the special servicer. This was done to make available the needed cash flows for capital expenditures and leasing commissions to re-lease the Property. Restricted cash for debt repayment consist of excess cash paid to the lender monthly and held in a suspense account until renegotiation of the Note is reached. The restricted cash will be used to reduce the principal balance of the Note. See Note 8.

The Partnership has submitted its proposal for a loan modification to the special servicer and is currently in negotiations with the special servicer on restructuring the Note. As of the date of the consolidated financial statements, no final agreement has been reached. The accompanying consolidated financial statements do not include any adjustments that might be necessary should the Partnership be unable to restructure the debt and continue in existence as a going concern.

Since the Note is in default, the Note is subject to the default interest rate as described in the Note of 5.00% per annum in addition to the fixed rate of 6.12% per annum, for a total of 11.12% per annum. The default interest accrued for the year ended December 31, 2012

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6. NOTE PAYABLE (CONTINUED)

and 2011 was \$1,850,000 and \$1,850,000, respectively. Late fees are charged equal to 5.00% of the payment amount due. For the year ended December 31, 2012, 2011, and 2010, late fees of \$154,823, \$178,468 and \$13,469 were included in accrued interest.

7. OPERATING LEASES

The Partnership leases the Property to tenants under operating leases with expiration dates extending to 2020. The leases typically provide for minimum rent and other charges to cover certain operating expenses. Minimum future rentals on non-cancellable leases at December 31, 2012 are as follows:

Years ending December 31	
2013	2,111,084
2014	1,825,584
2015	1,230,141
2016	667,455
Thereafter	762,161
	<u>\$7,225,515</u>

8. GOING CONCERN

The Property has experienced a significant decline in operating cash flow stemming from a decline in occupancy levels, lower market rents and increased concessions to compete in the weakened industrial real estate market in Atlanta, Georgia. Management of the Partnership believes that a restructuring of the terms of the Loan is necessary to ensure adequate cash flow to make necessary capital expenditures to the Property and to pay needed concessions for re-tenanting.

Management's proposal to the special servicer consists of a modification of the Loan. Negotiations are still in progress with the special servicer and no agreements have been finalized as of the date of the consolidated financial statements. Management, however, believes that a restructuring arrangement will eventually be reached. The partners are willing to invest additional equity to ensure that the Partnership can continue its operations. The accompanying consolidated financial statements do not include any adjustments that might be necessary should the Partnership be unable to restructure the debt and continue in existence as a going concern.

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9. CONCENTRATION OF CREDIT RISK

The Company maintains its cash in bank deposits, which at times may exceed federally insured limits. The Company has not experienced any losses in such accounts.